

Buy EUR 47.60 (EUR 47.90) Price EUR 23.72 Upside 100.7 %	Value Indicators: EUR DCF: 47.56 FCF-Value Potential 21e: 44.70	Share data: Bloomberg: DRI GR Reuters: DRIG ISIN: DE0005545503	Description: Drillisch distributes fixed-line and mobile services to residential customers in Germany
	Market Snapshot: EUR m Market cap: 4,193 No. of shares (m): 177 EV: 4,038 Freefloat MC: 1,044 Ø Trad. Vol. (30d): 14.89 m	Shareholders: Freefloat 24.9 % United Internet 75.1 %	Risk Profile (WRe): 2019e Beta: 1.1 Price / Book: 0.9 x Equity Ratio: 75 %

Loss of first price review triggers excessive sell-off; Buy reiterated

Following the unexpected unfavourable outcome for 1&1 Drillisch of the first price review (reference date September 2017) in the context of the mobile wholesale access terms in its remedy contract with Telefónica Deutschland (O2D), the company reduced its EBITDA guidance for FY 2019 by EUR 85m. Some further headwind arose from O2D's open claim concerning spectrum payments from the 2015 frequency auction (WRe: potential neg. impact of at least EUR 60m), which will also be resolved in FY 2020.

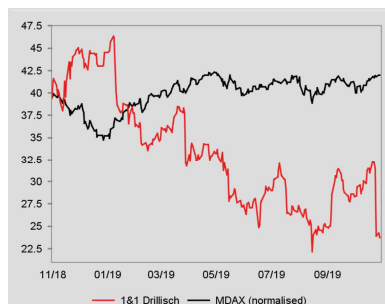
In the aftermath of this announcement, DRI's share price declined by 25% / EUR 8 per DRI share. Based on fundamentals, this sell-off is overblown. As outlined in our recent publication "*Network endeavour creates time arbitrage opportunity*", a maximum discount of EUR 6 per DRI share would be justified in a worst-case scenario, which assumes unfavourable outcomes for DRI of all price reviews to come until the company fully internalises mobile wholesale costs. After examining the mechanics of the price review, we now attribute a greater likelihood to a more favourable outcome for DRI in price review three and four based on the following observations:

- **Market environment:** Germany's networks authority, Bundesnetzagentur, reported a 44% increase in mobile data traffic in FY 2018. However, competition remained challenging in the lower-end mobile market implying lower costs per unit for the incumbents.
- **Expiry of bilateral discounts:** DRI's bilateral discount granted by O2D expired at the end of FY 2018 and was not renewed despite lower market prices.
- **O2D's improved cost structure:** By FY 2018, O2D had realised capex, opex, and revenue synergies of EUR 820m (cumulated) in the context of the continued E-Plus network integration process. Furthermore, the increase in O2D's mobile postpaid customer base and the declining trend in its cost of goods sold (adjusted for mobile handset sales) should, in our view, emphasise the operating leverage generated, which should, at least partially, be passed on to O2D's wholesale partners.

We consequently adjusted our FY 2019 EBITDA estimates to account for temporarily higher mobile wholesale costs of EUR 85m and derive a slightly lower PT of EUR 47.60. Buy is reiterated as the current high level of uncertainty should gradually ease in FY 2020 revealing an attractive investment opportunity.

continued on next page

Changes in Estimates:						Comment on Changes:	
FY End: 31.12. in EUR m	2019e (old)	+ / -	2020e (old)	+ / -	2021e (old)	+ / -	
Sales	3,708	0.0 %	3,738	0.0 %	3,830	0.0 %	▪ Top-line estimates remain unchanged
EBITDA	787	-11.7 %	838	-0.4 %	818	-0.5 %	▪ EBITDA forecasts adjusted for the assumption of temporarily unfavourable wholesale costs, which should reverse in FY 2020
EBIT	594	-15.6 %	639	-0.6 %	607	-0.6 %	
EPS	2.26	-15.5 %	2.44	-0.8 %	2.31	-0.9 %	



Rel. Performance vs MDAX:	
1 month:	-18.9 %
6 months:	-28.0 %
Year to date:	-66.0 %
Trailing 12 months:	-46.5 %

Company events:	
12.11.19	Q3

FY End: 31.12. in EUR m	CAGR (18-21e)	2015	2016	2017	2018	2019e	2020e	2021e
Sales	1.5 %	630	710	2,812	3,662	3,708	3,738	3,830
Change Sales yoy		117.3 %	12.8 %	296.1 %	30.2 %	1.3 %	0.8 %	2.5 %
Service Revenues	2.5 %	n.a.	n.a.	2,662	2,882	2,975	3,035	3,106
EBITDA	4.1 %	105	120	504	722	695	834	814
Margin		16.7 %	16.9 %	17.9 %	19.7 %	18.7 %	22.3 %	21.3 %
EBIT	2.1 %	69	59	440	567	502	636	603
Margin		11.0 %	8.3 %	15.6 %	15.5 %	13.5 %	17.0 %	15.7 %
Net income	-0.1 %	46	26	465	406	337	428	405
EPS	-0.1 %	0.84	0.48	2.63	2.30	1.91	2.42	2.29
EPS adj.	-0.1 %	0.84	0.48	2.63	2.30	1.91	2.42	2.29
DPS	171.4 %	1.70	1.70	1.60	0.05	0.80	1.90	1.00
Dividend Yield		4.2 %	4.5 %	3.0 %	0.1 %	3.4 %	8.0 %	4.2 %
FCF	-1.58	1.36	1.58	0.79	1.15	2.72	1.45	
FCF / Market cap	-4.0 %	3.2 %	2.8 %	1.2 %	4.9 %	11.5 %	6.1 %	
EV / Sales		3.6 x	3.1 x	3.4 x	2.5 x	1.1 x	1.0 x	1.0 x
EV / EBITDA		21.3 x	18.1 x	19.1 x	12.8 x	5.8 x	4.6 x	4.8 x
EV / EBIT		32.4 x	37.0 x	21.9 x	16.3 x	8.0 x	6.0 x	6.5 x
P / E		47.7 x	79.3 x	20.4 x	23.0 x	12.4 x	9.8 x	10.4 x
P / E adj.		47.7 x	79.3 x	20.4 x	23.0 x	12.4 x	9.8 x	10.4 x
FCF Potential Yield		3.3 %	3.5 %	5.6 %	5.7 %	12.3 %	15.5 %	14.9 %
Net Debt		45	86	124	165	-30	-369	-289
ROCE (NOPAT)		19.1 %	7.3 %	14.7 %	9.8 %	7.6 %	9.5 %	8.9 %
Guidance:	Service revenue growth of 3%, EBITDA of EUR 690m							

Loss of EUR 85m EBITDA in FY 2019 could still be reversed

Mechanics of price review tool

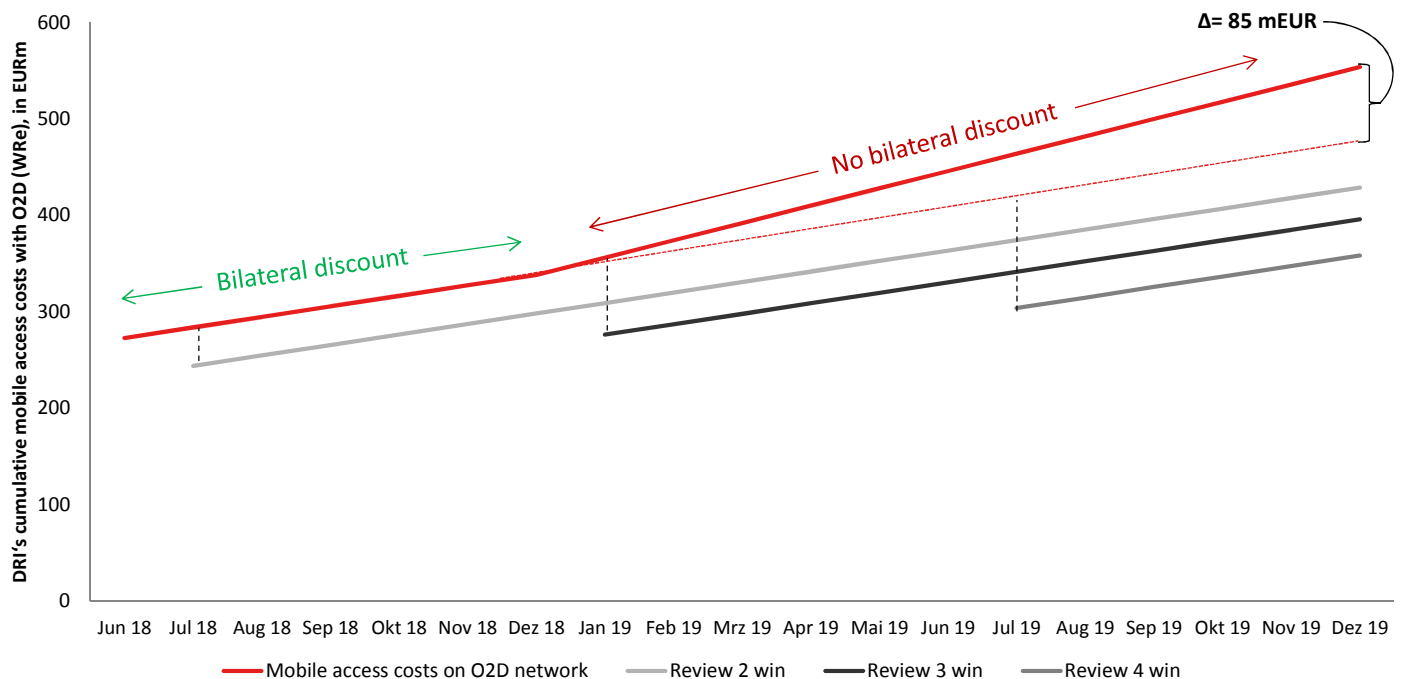
Based on unforeseen price and market developments, DRI's remedy contract with O2D allows for semi-annual price reviews to sustain competitiveness of the MBA MVNO. The first review was initiated in September 2017 but several circumstances including the lengthy German 5G auction delayed a final determination by the independent expert beyond the planned three-month deadline. Three subsequent reviews in July 2018 (2), January 2019 (3), and July 2019 (4) were already initiated by DRI and an individual and independent assessment of each can be expected in FY 2020.

Relevant factors for examination by the independent expert include O2D's mechanism to calculate DRI's wholesale prices, O2D's cost structure, and the competitive environment in DRI's end-market (lower end of the German mobile market) on a specific reference date.

DRI has now adjusted its FY 2019 EBITDA guidance by EUR 85m following the unfavourable outcome of its first price review (with reference date September 2017). However the actual "miss" can be assumed to be significantly higher as the retrospective adjustment of prices dating back to September 2017 would logically exceed the isolated missing EUR 85m EBITDA delta in FY 2019 following the expiry of a bilateral discount with O2D at the end of FY 2018.

Following this logic, a more favourable outcome of the third price review (January 2019) for DRI should, in our view, be sufficient to restore its temporary EUR 85m EBITDA miss in FY 2019 and restore the company's competitiveness.

Remaining three price reviews and potential improvement in DRI's price function



Source: Company data, Warburg Research

Separate spectrum contribution claim too opaque to call

Further spectrum claims by O2D

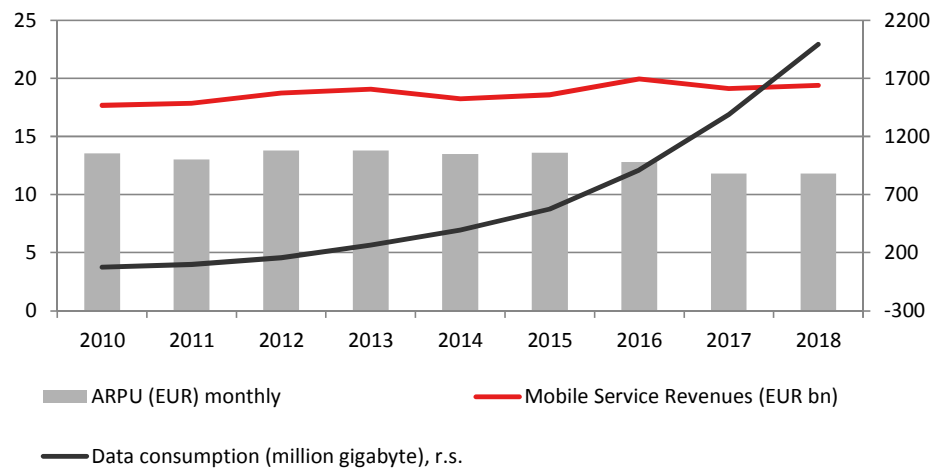
Together with O2D's announcement of the favourable outcome to the first price review, the incumbent announced that it would pursue claims against DRI for at least EUR 60m regarding contributions to spectrum payments (2015 frequency auction). This claim could also apply to the recent 5G spectrum auction if DRI decides to purchase future 5G services within its remedy contract with O2D. The claim is part of the confidential remedy contract between both parties and therefore does not allow for a conclusive assessment of its likelihood of success. The magnitude, however, is rather marginal as a loss for DRI in FY 2020 implies a neg. NPV of EUR 55.7m or a neg. EUR 0.31 per DRI share.

Greater likelihood of more favourable outcome for DRI in review 3+4

Implications for the following reviews

Based on the review mechanism outlined above and considering the bilateral wholesale access discount between the two parties, which was valid until the end of FY 2018, we attribute a greater likelihood of a more favourable outcome for DRI in the third and fourth price reviews. Both reviews examine reference dates in periods beyond the expiry of DRI's favourable mobile access terms with O2D and in periods of lower mobile market prices in Germany. The reference date for the second price review in July 2018 still included discounted wholesale access terms and came before the finalisation of O2D's portfolio restructuring measures (accompanied by rather aggressive Blau.de promotions in the lower end market).

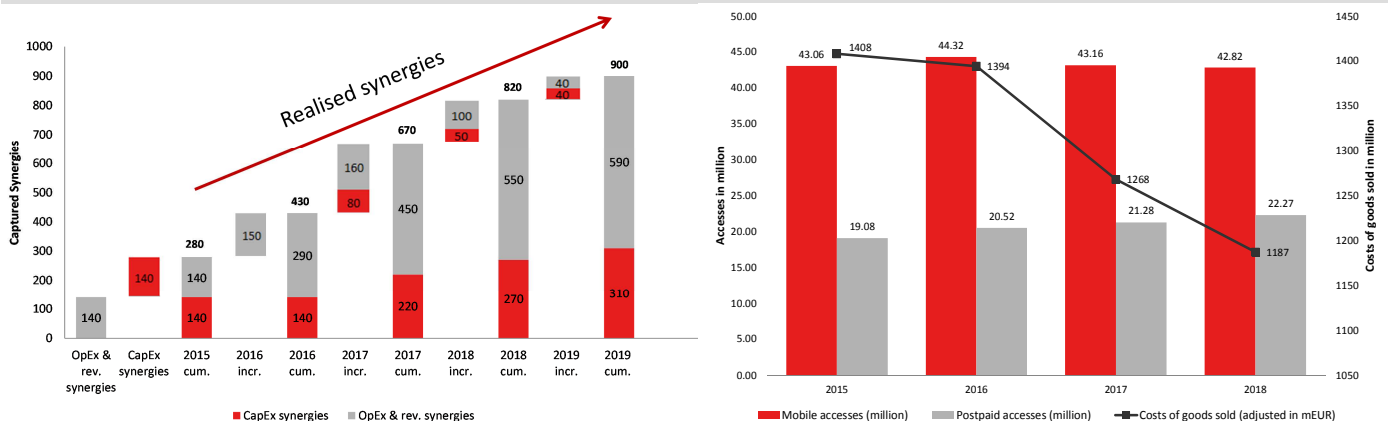
Decreasing costs per unit in the German mobile market



Source: Bundesnetzagentur, Warburg Research

The assumption is further strengthened by O2D's improved cost structure as a result of the realisation of merger synergies amounting to EUR 900m (cumulated) until FY 2019 and the increase in valuable mobile postpaid customers (O2D: +1.0m postpaid net adds in FY 2018). The increased customer base logically allows the incumbent to unlock operating leverage potential on a network asset, which is constantly being depreciated. This effect becomes partly visible, when adjusting O2D's cost of goods sold for its low-margin handset business.

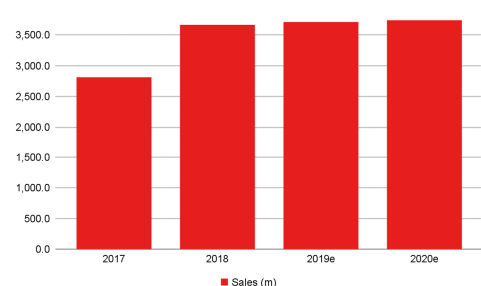
O2D's improved cost structure resulting from a larger customer base and realised synergies



Source: Company data, Warburg Research

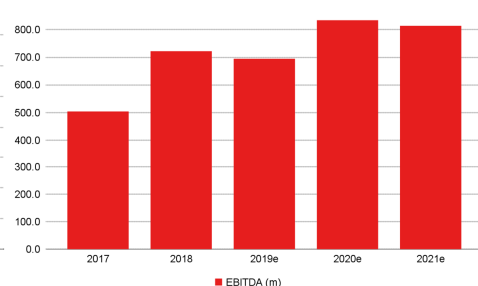
Overall, we remain optimistic that the third and fourth price reviews will result in a more favourable outcome for DRI which would render the current unfavourable access terms as a temporary situation.

Sales development
in EUR m



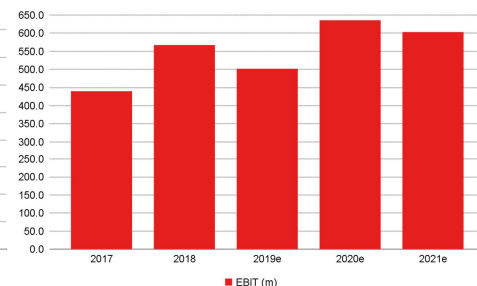
Source: Warburg Research

EBITDA development
in EUR m



Source: Warburg Research

EBIT development
in EUR m



Source: Warburg Research

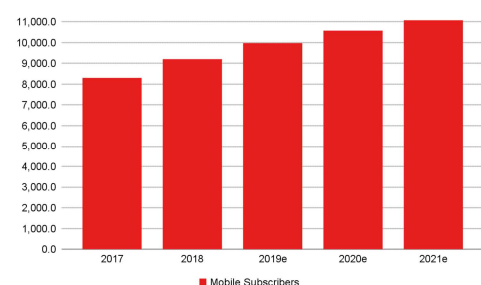
Company Background

- Drillisch sells mobile, fixed-line and value-added services to residential customers in Germany. Its core brands are 1&1 and Smartmobil. Drillisch has more than 13m subscribers.
- Drillisch has a broad network operator contract portfolio: Deutsche Telekom, Versatel, Telefonica Deutschland, Vodafone, among others.
- The MBA-MVNO contract with Telefonica Deutschland is based on monthly fixed-mobile data volumes which Drillisch must purchase. Hence, Drillisch bears a so-called inventory risk.
- The successful participation in the recent German spectrum auction enables Drillisch to build its own network infrastructure and therefore internalise mobile wholesale costs.

Competitive Quality

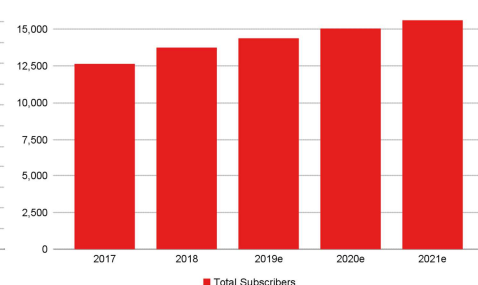
- Drillisch's MBA-MVNO contract with Telefonica Deutschland secures access to sufficient mobile data capacities until 2030 and to all future technologies at attractive network costs.
- Strategic flexibility: huge customer base in mobile and fixed-line in combination with favourable network operator contracts gives Drillisch the flexibility to react to changing market conditions.
- Strong brand portfolio includes well-known German telecommunication services brands such as smartmobil, yourfone and especially 1&1
- With its current spectrum portfolio and attractive cash flow profile, Drillisch is in the driver's seat to actively steer its future business model.

Mobile Subscribers
in m



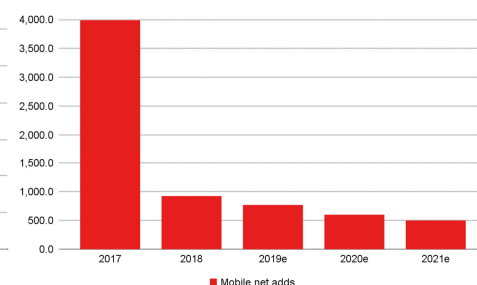
Source: Warburg Research

Total Subscribers
in m



Source: Warburg Research

Mobile net adds
in k



Source: Warburg Research

DCF model

Figures in EUR m	Detailed forecast period			Transitional period										Term. Value
	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	
Sales	3,708	3,738	3,830	3,979	4,124	4,260	4,387	4,510	4,631	4,749	4,865	4,975	5,069	1.0 %
Sales change	1.3 %	0.8 %	2.5 %	3.9 %	3.6 %	3.3 %	3.0 %	2.8 %	2.7 %	2.5 %	2.4 %	2.3 %	1.9 %	
EBIT	502	636	603	593	624	622	696	728	785	850	911	971	1,053	1.0 %
EBIT-margin	13.5 %	17.0 %	15.7 %	14.9 %	15.1 %	14.6 %	15.9 %	16.1 %	16.9 %	17.9 %	18.7 %	19.5 %	20.8 %	
Tax rate (EBT)	32.0 %	32.0 %	32.0 %	32.0 %	32.0 %	32.0 %	32.0 %	32.0 %	32.0 %	32.0 %	32.0 %	32.0 %	32.0 %	1.0 %
NOPAT	341	432	410	403	425	423	473	495	534	578	620	660	716	
Depreciation	193	198	211	228	248	314	317	361	381	401	421	441	461	1.0 %
in % of Sales	5.2 %	5.3 %	5.5 %	5.7 %	6.0 %	7.4 %	7.2 %	8.0 %	8.2 %	8.4 %	8.7 %	8.9 %	9.1 %	
Changes in provisions	0	0	0	0	0	0	0	0	0	0	0	0	0	1.0 %
Change in Liquidity from														
- Working Capital	95	13	2	6	2	2	2	2	2	2	2	2	2	1.0 %
- Capex	106	133	358	410	411	1,325	480	481	482	483	484	419	358	
Capex in % of Sales	2.9 %	3.6 %	9.4 %	10.3 %	10.0 %	31.1 %	10.9 %	10.7 %	10.4 %	10.2 %	10.0 %	8.4 %	7.1 %	1.0 %
Other	150	0	0	0	0	0	0	0	0	0	0	0	0	
Free Cash Flow (WACC Model)	183	485	261	215	260	-590	309	373	431	494	555	681	817	1.0 %
PV of FCF	180	445	222	170	191	-403	196	220	236	251	262	299	333	
share of PVs	9.88 %			53.98 %										36.13 %

Model parameter

Derivation of WACC:		Derivation of Beta:	
Debt ratio	0.00 %	Financial Strength	1.00
Cost of debt (after tax)	1.4 %	Liquidity (share)	1.00
Market return	7.00 %	Cyclicality	1.00
Risk free rate	1.50 %	Transparency	1.40
		Others	1.20
WACC	7.66 %	Beta	1.12

Valuation (m)

Present values 2031e	5,475		
Terminal Value	3,097		
Financial liabilities	169		
Pension liabilities	0		
Hybrid capital	0		
Minority interest	0		
Market val. of investments	0		
Liquidity	4	No. of shares (m)	176.8
Equity Value	8,407	Value per share (EUR)	47.56

Sensitivity Value per Share (EUR)

Beta WACC		Terminal Growth							Beta WACC		Delta EBIT-margin						
		0.25 %	0.50 %	0.75 %	1.00 %	1.25 %	1.50 %	1.75 %			-1.5 pp	-1.0 pp	-0.5 pp	+0.0 pp	+0.5 pp	+1.0 pp	+1.5 pp
1.30	8.7 %	38.15	38.50	38.87	39.27	39.69	40.14	40.63	1.30	8.7 %	35.83	36.98	38.12	39.27	40.42	41.56	42.71
1.21	8.2 %	41.70	42.14	42.61	43.10	43.64	44.21	44.83	1.21	8.2 %	39.42	40.65	41.88	43.10	44.33	45.56	46.78
1.17	7.9 %	43.67	44.16	44.69	45.25	45.85	46.50	47.21	1.17	7.9 %	41.43	42.71	43.98	45.25	46.52	47.79	49.06
1.12	7.7 %	45.79	46.34	46.93	47.56	48.25	48.99	49.79	1.12	7.7 %	43.61	44.92	46.24	47.56	48.88	50.20	51.52
1.07	7.4 %	48.07	48.69	49.35	50.07	50.85	51.69	52.61	1.07	7.4 %	45.96	47.33	48.70	50.07	51.44	52.81	54.19
1.03	7.2 %	50.53	51.23	51.98	52.80	53.68	54.65	55.70	1.03	7.2 %	48.52	49.94	51.37	52.80	54.23	55.65	57.08
0.94	6.7 %	56.07	56.97	57.95	59.01	60.17	61.45	62.85	0.94	6.7 %	54.35	55.90	57.46	59.01	60.57	62.12	63.68

- Base case scenario: Drillisch acquires infrastructure and utilises a third party for national roaming
- Base case assumption: Absence of irrational movements from competitors by initiating price wars.
- D&A > Capex due to PP&A resulting from the Drillisch acquisition

Free Cash Flow Value Potential

Warburg Research's valuation tool "FCF Value Potential" reflects the ability of the company to generate sustainable free cash flows. It is based on the "FCF potential" - a FCF "ex growth" figure - which assumes unchanged working capital and pure maintenance capex. A value indication is derived via the perpetuity of a given year's "FCF potential" with consideration of the weighted costs of capital. The fluctuating value indications over time add a timing element to the DCF model (our preferred valuation tool).

in EUR m	2015	2016	2017	2018	2019e	2020e	2021e	
Net Income before minorities	46	26	481	406	337	428	405	
+ Depreciation + Amortisation	36	61	64	155	193	198	211	
- Net Interest Income	-3	-3	-9	-5	-6	-6	-7	
- Maintenance Capex	12	14	18	40	40	40	40	
+ Other	0	0	0	0	0	0	0	
= Free Cash Flow Potential	74	77	536	525	496	593	583	
FCF Potential Yield (on market EV)	3.3 %	3.5 %	5.6 %	5.7 %	12.3 %	15.5 %	14.9 %	
WACC	7.66 %	7.66 %	7.66 %	7.66 %	7.66 %	7.66 %	7.66 %	
= Enterprise Value (EV)	2,241	2,171	9,617	9,273	4,038	3,824	3,904	
= Fair Enterprise Value	962	1,006	6,997	6,859	6,475	7,739	7,612	
- Net Debt (Cash)	165	165	165	165	-30	-369	-289	
- Pension Liabilities	0	0	0	0	0	0	0	
- Other	0	0	0	-240	-125	0	0	
- Market value of minorities	0	0	0	0	0	0	0	
+ Market value of investments	0	0	0	0	0	0	0	
= Fair Market Capitalisation	797	841	6,832	6,934	6,630	8,107	7,902	
Number of shares, average	55	55	177	177	177	177	177	
= Fair value per share (EUR)	14.56	15.36	38.65	39.23	37.51	45.87	44.70	
premium (-) / discount (+) in %					58.1 %	93.4 %	88.5 %	
Sensitivity Fair value per Share (EUR)								
WACC	10.66 %	2.98	3.16	27.51	28.31	27.20	33.54	32.58
	9.66 %	3.38	3.58	30.46	31.19	29.92	36.80	35.79
	8.66 %	3.88	4.10	34.08	34.75	33.28	40.81	39.73
	7.66 %	4.51	4.76	38.65	39.23	37.51	45.87	44.70
	6.66 %	5.33	5.61	44.59	45.05	43.01	52.44	51.17
	5.66 %	6.43	6.77	52.64	52.94	50.45	61.33	59.92
	4.66 %	8.01	8.42	64.13	64.21	61.09	74.05	72.43

- Maintenance capex assumed to equal EUR 40m
- Other includes non-cash effective IFRS 15 adjustment factor

Valuation	2015	2016	2017	2018	2019e	2020e	2021e
Price / Book	6.2 x	7.4 x	2.5 x	2.2 x	0.9 x	0.9 x	0.8 x
Book value per share ex intangibles	-0.46	-1.29	-0.17	3.40	1.98	4.50	5.82
EV / Sales	3.6 x	3.1 x	3.4 x	2.5 x	1.1 x	1.0 x	1.0 x
EV / EBITDA	21.3 x	18.1 x	19.1 x	12.8 x	5.8 x	4.6 x	4.8 x
EV / EBIT	32.4 x	37.0 x	21.9 x	16.3 x	8.0 x	6.0 x	6.5 x
EV / EBIT adj.*	32.4 x	37.0 x	20.5 x	16.3 x	8.0 x	6.0 x	6.5 x
P / FCF	n.a.	31.3 x	35.4 x	84.6 x	20.6 x	8.7 x	16.4 x
P / E	47.7 x	79.3 x	20.4 x	23.0 x	12.4 x	9.8 x	10.4 x
P / E adj.*	47.7 x	79.3 x	20.4 x	23.0 x	12.4 x	9.8 x	10.4 x
Dividend Yield	4.2 %	4.5 %	3.0 %	0.1 %	3.4 %	8.0 %	4.2 %
FCF Potential Yield (on market EV)	3.3 %	3.5 %	5.6 %	5.7 %	12.3 %	15.5 %	14.9 %
*Adjustments made for: -							

Company Specific Items	2015	2016	2017	2018	2019e	2020e	2021e
Total Subscribers	3,430	8,540	12,640	13,740	14,370	15,030	15,590
Mobile Subscribers	1,923	4,310	8,300	9,200	9,970	10,570	11,070
Mobile net adds	712	2,387	3,990	925	770	600	500
Service Revenues	n.a.	n.a.	2,662	2,882	2,975	3,035	3,106

Consolidated profit and loss

In EUR m	2015	2016	2017	2018	2019e	2020e	2021e
Sales	630	710	2,812	3,662	3,708	3,738	3,830
Change Sales yoy	117.3 %	12.8 %	296.1 %	30.2 %	1.3 %	0.8 %	2.5 %
COGS	n.a.	n.a.	1,888	2,556	2,655	2,557	2,669
Gross profit	n.a.	n.a.	925	1,107	1,054	1,180	1,161
<i>Gross margin</i>	<i>n.a.</i>	<i>n.a.</i>	<i>32.9 %</i>	<i>30.2 %</i>	<i>28.4 %</i>	<i>31.6 %</i>	<i>30.3 %</i>
Research and development	0	0	0	0	0	0	0
Sales and marketing	0	0	394	399	399	401	405
Administration expenses	0	0	74	105	108	105	113
Other operating expenses	0	0	45	2	12	2	2
Other operating income	0	0	28	51	52	52	54
Unfrequent items	0	0	0	0	0	0	0
EBITDA	105	120	504	722	695	834	814
<i>Margin</i>	<i>16.7 %</i>	<i>16.9 %</i>	<i>17.9 %</i>	<i>19.7 %</i>	<i>18.7 %</i>	<i>22.3 %</i>	<i>21.3 %</i>
Depreciation of fixed assets	5	4	15	16	17	17	26
EBITA	101	117	489	706	678	817	788
Amortisation of intangible assets	32	58	49	53	91	92	93
Goodwill amortisation	0	0	0	85	85	90	92
EBIT	69	59	440	567	502	636	603
<i>Margin</i>	<i>11.0 %</i>	<i>8.3 %</i>	<i>15.6 %</i>	<i>15.5 %</i>	<i>13.5 %</i>	<i>17.0 %</i>	<i>15.7 %</i>
EBIT adj.	69	59	468	567	502	636	603
Interest income	1	1	1	1	0	0	0
Interest expenses	4	4	10	5	6	6	7
Other financial income (loss)	0	0	0	0	0	0	0
EBT	66	56	431	563	496	629	596
<i>Margin</i>	<i>10.5 %</i>	<i>7.8 %</i>	<i>15.3 %</i>	<i>15.4 %</i>	<i>13.4 %</i>	<i>16.8 %</i>	<i>15.6 %</i>
Total taxes	20	29	121	157	159	201	191
Net income from continuing operations	46	26	310	406	337	428	405
Income from discontinued operations (net of tax)	0	0	171	0	0	0	0
Net income before minorities	46	26	481	406	337	428	405
Minority interest	0	0	17	0	0	0	0
Net income	46	26	465	406	337	428	405
<i>Margin</i>	<i>7.3 %</i>	<i>3.7 %</i>	<i>16.5 %</i>	<i>11.1 %</i>	<i>9.1 %</i>	<i>11.5 %</i>	<i>10.6 %</i>
Number of shares, average	55	55	177	177	177	177	177
EPS	0.84	0.48	2.63	2.30	1.91	2.42	2.29
EPS adj.	0.84	0.48	2.63	2.30	1.91	2.42	2.29

*Adjustments made for:

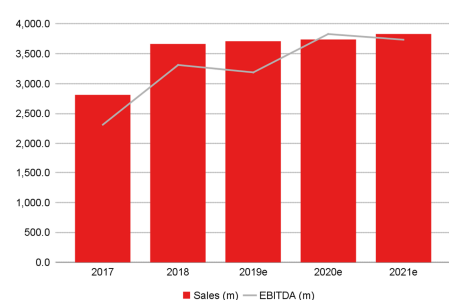
Guidance: Service revenue growth of 3%, EBITDA of EUR 690m

Financial Ratios

	2015	2016	2017	2018	2019e	2020e	2021e
Total Operating Costs / Sales	83.6 %	83.3 %	17.2 %	12.4 %	12.6 %	12.2 %	12.2 %
Operating Leverage	-0.1 x	-1.2 x	2.2 x	1.0 x	-9.2 x	34.0 x	-2.1 x
EBITDA / Interest expenses	26.1 x	27.8 x	52.9 x	136.8 x	126.3 x	132.4 x	116.3 x
Tax rate (EBT)	30.4 %	52.4 %	28.0 %	27.8 %	32.0 %	32.0 %	32.0 %
Dividend Payout Ratio	203.2 %	352.2 %	91.1 %	2.2 %	41.9 %	78.5 %	43.6 %
Sales per Employee	1,798,703	209,011	983,326	1,165,646	1,166,151	1,167,970	1,181,979

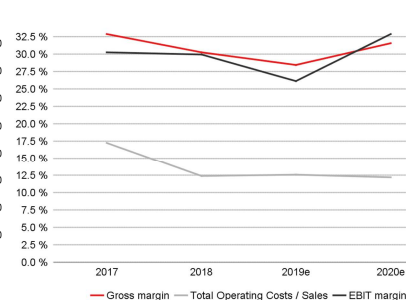
Sales, EBITDA

in EUR m

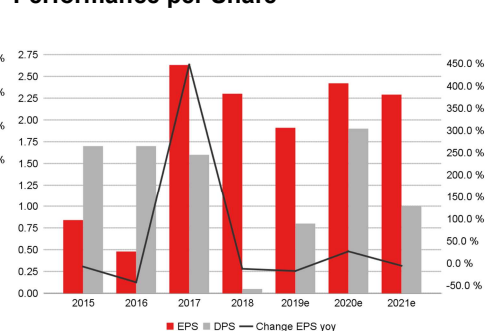


Operating Performance

in %



Performance per Share



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

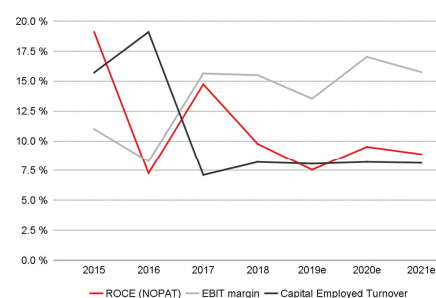
Consolidated balance sheet

In EUR m	2015	2016	2017	2018	2019e	2020e	2021e
Assets							
Goodwill and other intangible assets	378	354	3,834	3,680	4,259	4,099	3,937
thereof other intangible assets	271	255	901	747	1,411	1,341	1,271
thereof Goodwill	107	99	2,933	2,933	2,848	2,758	2,666
Property, plant and equipment	11	11	15	14	22	55	304
Financial assets	0	1	86	47	47	47	47
Other long-term assets	0	0	0	304	350	360	365
Fixed assets	390	365	3,935	4,045	4,678	4,561	4,653
Inventories	32	10	46	90	53	68	70
Accounts receivable	89	93	183	230	254	256	262
Liquid assets	123	93	150	4	200	544	464
Other short-term assets	55	35	422	878	963	993	992
Current assets	299	230	800	1,201	1,470	1,860	1,789
Total Assets	689	595	4,736	5,247	6,148	6,422	6,441
Liabilities and shareholders' equity							
Subscribed capital	60	60	194	194	194	194	194
Capital reserve	296	296	2,447	2,434	2,434	2,434	2,434
Retained earnings	31	31	1,164	1,653	1,644	1,840	1,932
Other equity components	-34	-104	0	-1	337	428	405
Shareholders' equity	353	283	3,805	4,280	4,609	4,895	4,965
Minority interest	0	0	0	0	0	0	0
Total equity	353	283	3,805	4,280	4,609	4,895	4,965
Provisions	19	24	104	114	126	146	144
thereof provisions for pensions and similar obligations	1	2	0	0	0	0	0
Financial liabilities (total)	167	178	274	169	170	175	175
thereof short-term financial liabilities	0	50	0	0	0	0	0
Accounts payable	81	45	230	365	254	256	262
Other liabilities	69	66	324	319	990	950	895
Liabilities	336	312	931	967	1,540	1,526	1,476
Total liabilities and shareholders' equity	689	595	4,736	5,247	6,148	6,422	6,441

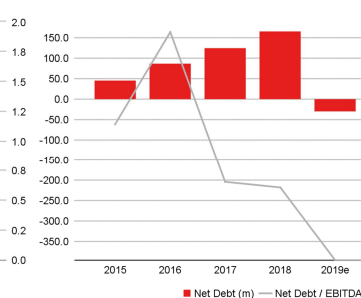
Financial Ratios

	2015	2016	2017	2018	2019e	2020e	2021e
Efficiency of Capital Employment							
Operating Assets Turnover	13.7 x	11.1 x	340.3 x	-96.0 x	56.8 x	33.6 x	10.6 x
Capital Employed Turnover	1.6 x	1.9 x	0.7 x	0.8 x	0.8 x	0.8 x	0.8 x
ROA	11.9 %	7.2 %	11.8 %	10.0 %	7.2 %	9.4 %	8.7 %
Return on Capital							
ROCE (NOPAT)	19.1 %	7.3 %	14.7 %	9.8 %	7.6 %	9.5 %	8.9 %
ROE	13.5 %	8.3 %	22.7 %	10.0 %	7.6 %	9.0 %	8.2 %
Adj. ROE	13.5 %	8.3 %	22.7 %	10.0 %	7.6 %	9.0 %	8.2 %
Balance sheet quality							
Net Debt	45	86	124	165	-30	-369	-289
Net Financial Debt	44	85	124	165	-30	-369	-289
Net Gearing	12.8 %	30.5 %	3.3 %	3.9 %	-0.6 %	-7.5 %	-5.8 %
Net Fin. Debt / EBITDA	41.6 %	70.5 %	24.7 %	22.9 %	n.a.	n.a.	n.a.
Book Value / Share	6.4	5.2	21.5	24.2	26.1	27.7	28.1
Book value per share ex intangibles	-0.5	-1.3	-0.2	3.4	2.0	4.5	5.8

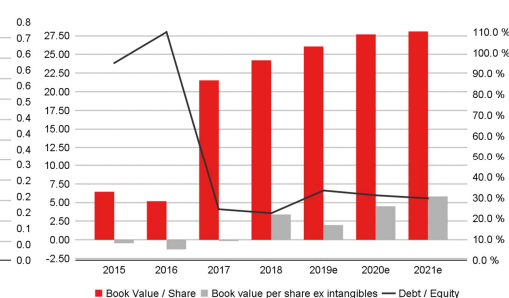
ROCE Development



Net debt in EUR m



Book Value per Share in EUR



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

Consolidated cash flow statement

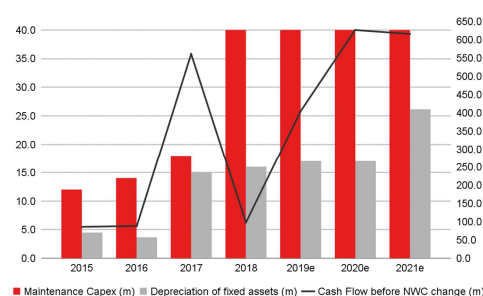
In EUR m	2015	2016	2017	2018	2019e	2020e	2021e
Net income	46	26	481	406	337	428	405
Depreciation of fixed assets	5	4	15	16	17	17	26
Amortisation of goodwill	0	0	0	85	85	90	92
Amortisation of intangible assets	32	58	64	53	91	92	93
Increase/decrease in long-term provisions	0	0	0	0	0	0	0
Other non-cash income and expenses	4	0	0	-462	-125	0	0
Cash Flow before NWC change	86	88	560	98	405	626	616
Increase / decrease in inventory	-27	22	0	-43	37	-15	-2
Increase / decrease in accounts receivable	-41	-4	-71	-44	-24	-2	-6
Increase / decrease in accounts payable	58	-37	-75	144	-108	4	6
Increase / decrease in other working capital positions	0	11	0	0	0	0	0
Increase / decrease in working capital (total)	-9	-8	-146	57	-95	-13	-2
Net cash provided by operating activities [1]	76	81	294	156	310	613	615
Investments in intangible assets	-160	-9	-10	-20	-81	-83	-83
Investments in property, plant and equipment	-4	-5	-16	-25	-25	-50	-275
Payments for acquisitions	-7	-20	0	0	0	0	0
Financial investments	1	0	0	-8	0	0	0
Income from asset disposals	0	1	0	3	0	0	0
Net cash provided by investing activities [2]	-169	-25	-49	-21	-106	-133	-358
Change in financial liabilities	0	10	96	-105	1	5	0
Dividends paid	-90	-93	0	-283	-9	-141	-336
Purchase of own shares	0	0	0	-15	0	0	0
Capital measures	0	0	0	0	0	0	0
Other	-10	-4	-250	123	0	0	0
Net cash provided by financing activities [3]	-101	-86	-153	-280	-8	-136	-336
Change in liquid funds [1]+[2]+[3]	-194	-30	92	-146	196	344	-80
Effects of exchange-rate changes on cash	0	0	0	0	0	0	0
Cash and cash equivalent at end of period	123	93	184	4	200	544	464

Financial Ratios

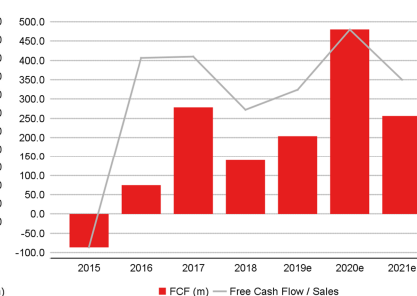
	2015	2016	2017	2018	2019e	2020e	2021e
Cash Flow							
FCF	-87	75	279	140	204	480	256
Free Cash Flow / Sales	-13.9 %	9.4 %	9.5 %	3.0 %	5.5 %	12.8 %	6.7 %
Free Cash Flow Potential	74	77	536	525	496	593	583
Free Cash Flow / Net Profit	-189.9 %	251.7 %	57.7 %	27.2 %	60.4 %	112.2 %	63.2 %
Interest Received / Avg. Cash	0.3 %	1.1 %	0.8 %	0.8 %	0.0 %	0.0 %	0.0 %
Interest Paid / Avg. Debt	3.1 %	2.5 %	4.2 %	2.4 %	3.2 %	3.7 %	4.0 %
Management of Funds							
Investment ratio	26.1 %	2.0 %	0.9 %	1.2 %	2.9 %	3.6 %	9.4 %
Maint. Capex / Sales	1.9 %	2.0 %	0.6 %	1.1 %	1.1 %	1.1 %	1.0 %
Capex / Dep	454.7 %	22.8 %	40.6 %	29.1 %	55.0 %	67.1 %	169.9 %
Avg. Working Capital / Sales	4.8 %	6.2 %	0.8 %	-0.8 %	-0.1 %	1.3 %	1.5 %
Trade Debtors / Trade Creditors	109.4 %	206.2 %	79.6 %	63.0 %	100.0 %	100.0 %	100.0 %
Inventory Turnover	n.a.	n.a.	40.6 x	28.5 x	50.1 x	37.6 x	38.3 x
Receivables collection period (days)	51	48	24	23	25	25	25
Payables payment period (days)	n.a.	n.a.	44	52	35	37	36
Cash conversion cycle (Days)	n.a.	n.a.	-13	-17	-4	-4	-3

CAPEX and Cash Flow

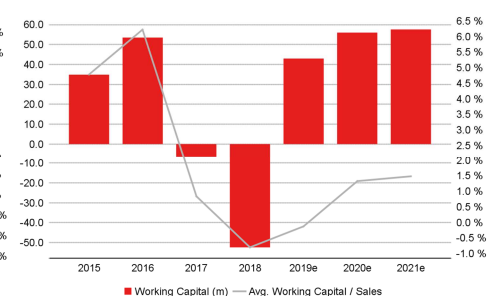
in EUR m



Free Cash Flow Generation



Working Capital



Source: Warburg Research

Source: Warburg Research

Source: Warburg Research

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-B-	Buy:	The price of the analysed financial instrument is expected to rise over the next 12 months.
-H-	Hold:	The price of the analysed financial instrument is expected to remain mostly flat over the next 12 months.
-S-	Sell:	The price of the analysed financial instrument is expected to fall over the next 12 months.
“-“	Rating suspended:	The available information currently does not permit an evaluation of the company.

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Rating	Number of stocks	% of Universe
Buy	119	60
Hold	70	35
Sell	7	4
Rating suspended	4	2
Total	200	100

WARBURG RESEARCH GMBH – ANALYSED RESEARCH UNIVERSE BY RATING ...

... taking into account only those companies which were provided with major investment services in the last twelve months.

Rating	Number of stocks	% of Universe
Buy	33	79
Hold	7	17
Sell	0	0
Rating suspended	2	5
Total	42	100

PRICE AND RATING HISTORY 1&1 DRILLISCH AS OF 30.10.2019


Markings in the chart show rating changes by Warburg Research GmbH in the last 12 months. Every marking details the date and closing price on the day of the rating change.

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