

**Buy** (Initiation)

**Price target: EUR 10.00**

<b>Price:</b>	EUR 6.01	<b>Next result:</b>	Q1 2011: 11.05.11
<b>Bloomberg:</b>	ADN1 GR	<b>Market cap:</b>	EUR 34.3 m
<b>Reuters:</b>	ADNGk.DE	<b>Enterprise Value:</b>	EUR 22.9 m

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**Tim Wunderlich**  
Analyst

tim.wunderlich@ha-research.de  
Tel.: +49 40 4143885 81

### Initiate with BUY: The sector specialist

A tight **focus** on chosen industries paired with **profound sector expertise** has supplied adesso with the reputation of an industry specialist – rather than a simple IT service provider – effectively **differentiating** the company from a mass of smaller and bigger rivals such as 7Principles, Atos Origin, GFT and Allgeier.

No wonder adesso is the preferred partner of a **Blue Chip clientele** valuing its bespoke software solutions aimed at solving sector-specific challenges, evidenced by adesso earning **returns of 15%+** when adjusted for cash.

As a further penetration of the target industries should hence come naturally, adesso is expected to **grow sales by 7% p.a.** between 2010-13E, backed by c. 4% annual growth of the IT service market, the recent entry into the new sectors Public Authorities and Energy & Water Utilities as well as the take-over of *evu.it*.

What's more, with prospects of the IT service market clearly improving, both daily rates AND utilisation should pick up in 2011E at stable wages, **reversing the unfavourable trend seen in the past two years**. Coupled with declining PPA amortisation, this should not only trigger **soaring EBIT growth of 36% p.a.** (2010-13E) but also **improve sentiment** which has suffered under the challenging market environment in 2009 and 2010.

To play it safe, **adesso has a precious ace up its sleeve**: small but mighty subsidiary *e-Spirit* is not only the technology leader in the high-growth web content management space but also a **"gem" offering plain value**: the take-over multiple of rival Day Software would yield a fair value of € 3.2 for e-Spirit, alone **explaining c. 50% of the group's current market cap**.

A wider coverage should make more investors familiar with the equity story, possibly triggering a **re-rating of the shares** which is long overdue: trading at only 2.6x EBITDA 2012E, the stock is dirt cheap. Coverage initiated with **BUY** and a **DCF-based PT of € 10**, supported by a 16% FCFY and c. 4% dividend yield (2012E).



Source: Company data, Hauck & Aufhäuser

**High/low 52 weeks:** 6.94 / 4.64  
**Price/Book Ratio:** 1.0  
**Relative performance (SDAX):**  
3 months -1.1 %  
6 months 12.2 %  
12 months -45.1 %

#### Changes in estimates

		Sales	EBIT	EPS
2011	old:	93.8	4.1	0.59
	Δ	-	-	-
2012	old:	100.6	5.3	0.81
	Δ	-	-	-
2013	old:	105.4	6.7	0.97
	Δ	-	-	-

#### Key share data:

Number of shares: (in m pcs) 5.7  
Authorised capital: (in € m) 2.9  
Book value per share: (in €) 5.8  
Ø trading volume: (12 months) 2,500

#### Major shareholders:

Free Float 38.1 %  
Setanta GmbH 29.9 %  
Rainer Rudolf 19.6 %  
Ludwig Fresenius 7.2 %  
MIH GmbH 5.2 %

#### Company description:

IT service provider focused on selected sectors where it offers bespoke solutions for industry-specific challenges.

Y/E 31.12 (EUR m)	2007	2008	2009	2010	2011E	2012E	2013E
Sales	45.6	66.8	71.3	85.7	93.8	100.6	105.4
Sales growth	66 %	46 %	7 %	20 %	9 %	7 %	5 %
EBITDA	5.3	8.1	5.8	5.6	6.3	7.5	8.2
EBIT	3.2	4.5	3.0	2.7	4.1	5.3	6.7
Net income	2.4	4.2	3.5	2.4	3.4	4.6	5.6
Net debt	-7.6	-15.4	-8.8	-9.4	-11.9	-15.6	-19.4
Net gearing	-36.4 %	-60.7 %	-30.4 %	-30.5 %	-36.0 %	-42.4 %	-47.7 %
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EPS fully diluted	0.49	0.99	0.61	0.42	0.59	0.81	0.97
CPS	0.92	1.36	0.28	0.45	0.65	0.86	0.98
DPS	0.00	0.00	0.15	0.15	0.19	0.26	0.32
Dividend yield	0.0 %	0.0 %	2.5 %	2.5 %	3.1 %	4.3 %	5.4 %
Gross profit margin	92.0 %	90.4 %	88.8 %	89.0 %	88.9 %	88.8 %	88.6 %
EBITDA margin	11.6 %	12.1 %	8.1 %	6.5 %	6.7 %	7.5 %	7.8 %
EBIT margin	7.0 %	6.7 %	4.2 %	3.1 %	4.4 %	5.3 %	6.3 %
ROCE	12.9 %	12.3 %	7.8 %	6.5 %	9.9 %	12.5 %	14.7 %
EV/sales	0.6	0.3	0.4	0.3	0.2	0.2	0.1
EV/EBITDA	5.1	2.4	4.5	4.6	3.6	2.6	1.9
EV/EBIT	8.5	4.3	8.7	9.6	5.6	3.6	2.3
PER	14.4	8.1	9.8	14.4	10.2	7.4	6.2
Adjusted FCF yield	13.8 %	32.3 %	19.2 %	18.3 %	20.8 %	29.7 %	38.3 %

Source: Company data, Hauck & Aufhäuser Close price as of: 27.04.2011

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## Introducing adesso AG

As an IT service provider, **adesso is out of the ordinary**: the company serves only selected industries where it offers bespoke consulting services and software solutions to help customers tackle sector-specific challenges.



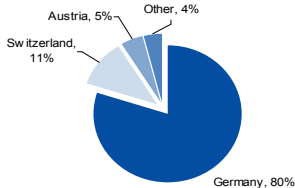
In its **focus industries** Insurance, Healthcare, Banks, Lottery, Public Authorities and Energy & Water Utilities, adesso caters a **Blue Chip client base** including such established names as Allianz, Deutsche Bank, Munich Re, DAK, Commerzbank and SwissLife.

This service business is represented by adesso's **IT-Services** segment, where the company generated revenues of c. € 74m (87% of sales) and an EBITDA of c. € 4m (5.3% margin) in 2010 with 610 full-time employees.

The second segment **IT-Solutions** (c. € 12m sales / € 1.7m EBITDA / 119 full-time employees) consists mainly of the high-growth and high-margin product subsidiaries **e-Spirit** and **adesso mobile solutions**:

- **e-Spirit** sells the leading web content management software *FirstSpirit* for easy and convenient editing, managing and updating of websites.
- **adesso mobile solutions** ensures that websites are optimally displayed on the screen of any handheld device with its *in|MOTION* software solution.

Upholding nine offices in Germany, adesso generates the majority of sales (80%) in its domestic market. Next in line is Switzerland (11% of sales) followed by Austria (5%). However, given the project nature of the business, a part of sales comes from all over the world (4%), especially pertaining to the IT Solutions segment.

	IT Services	IT Solutions	Group
			
			
	IT Service Provider focusing on selected industries offering consulting services (Business Consulting, IT Consulting, IT Management) and bespoke software solutions for sector-specific challenges.		The two product subsidiaries <b>e-Spirit</b> (100%) and <b>adesso mobile solutions</b> (100%) are leaders in the fields of Web Content Management and Mobile Internet Solutions, respectively.
<b>Sales 10 (€ m)</b>	74.2	12.7	<b>85.7</b>
<b>Sales share</b>	87%	13%	<b>100%</b>
<b>End markets</b>	* <b>Insurances</b> 27% of sales * <b>Healthcare</b> 16% * <b>Banks</b> 15% * <b>Energy &amp; Water Utilities</b> 10% * <b>Public Authorities</b> 9% * <b>Lottery</b> 2%		
<b>Customers</b>	Allianz, SwissLife, Munich Re, Generali, AXA, KKH Allianz, Deutsche BKK, DAK, Commerzbank, Deutsche Bank, BayernLB, HypoVereinsbank, LBBW, SCHUFA, GEZ, Leipzig University and many more.	<b>e-Spirit</b> has >150 customers from various sectors such as Airbus, Bosch, BASF and Schaeffler. <b>adesso mobile solutions'</b> clients include Bayer, Union Investment, ZEIT ONLINE and Daimler, among many others.	
<b>Competitors</b>	<b>Highly competitive market.</b> Rivals include GFT, Allgeier, 7Principles, CapGemini, Atoss, CSC, Accenture and IBM.	<b>e-Spirit:</b> Moderate competition. Rivals include CoreMedia (Germany), Day (Switzerland), Tridion (Netherlands). <b>adesso mobile solutions:</b> Little competition. Contenders are YOC AG and NetBiscuits.	
<b>Distribution</b>	Distribution is mainly direct and organised according to sectors Insurance, Healthcare, Banking, Public, Lottery and Cross Industries. Group overhead is c. 110 employees, which includes sales.	Both e-Spirit and adesso mobile solutions have small own sales team and a large number of mainly non-exclusive distribution partners but also benefit from adesso AG cross-selling their solutions.	
<b>Sales distribution by region (10)</b>			
<b>Offices</b>	Headquartered in Dortmund, Germany, adesso has nine offices in Germany and one each in Austria, Switzerland and the UK.		<b>12</b>
<b>EBITDA 10 (€ m)</b>	3.9	1.7	<b>5.6</b>
<b>EBITDA-margin</b>	5%	13%	<b>6.5%</b>
<b>ROCE 10</b>	5%	13%	<b>6.5%</b>

Source: Company data, Hauck & Aufhäuser

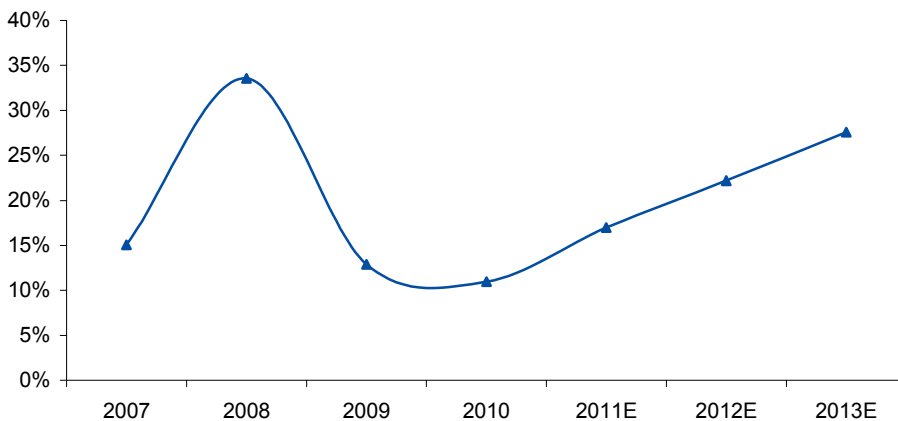
**Quality**

In a virtually **commoditised** IT market, adesso competes with a large number of smaller and bigger IT service providers, including Allgeier, CSC, GFT, CapGemini and Atos Origin, suggesting that **entry barriers are low**. In this challenging environment, adesso's **solid competitive quality** is based on:

- **Focus** on selected industries such as Insurances, Banks and Healthcare, making best use of adesso's limited resources regarding distribution and consulting.
- **Differentiation** by combining IT know-how with profound expertise of the target markets based on long-term experience and consultants which are industry veterans. Key value-add comes from adesso helping clients solve industry-specific challenges with the aid of bespoke software solutions.
- **Reputation** among the target clientele as a dedicated industry specialist rather than a simple IT provider deriving from adesso's focus and long-standing track record.

Despite declining IT service prices due to customer bargaining clout and competition from foreign low-wage countries, **adesso achieves returns (ROCE) of above 10%** when adjusted for cash, suggesting some value and perception by clients.

**Trend in ROCE adjusted for cash**



Source: Company data, Hauck & Aufhäuser

**Competitive quality is even more convincing** for adesso's two product subsidiaries e-Spirit and adesso mobile solutions which contribute 13% to group sales but already 30% to EBITDA, a share that is expected to rise further driven by the subsidiaries' disproportionate growth.

**Subsidiary e-Spirit (10% of group sales)**

*FirstSpirit* is one of the few high-end web content management solutions providing exceptional value-add in situations with:

- Extremely high data volumes.
- Frequently changing content.
- The need to integrate third-party-systems, e.g. SAP Portals.

These requirements cannot be met by the large number of low-end (c. 500)

and mid-end providers (c. 50) **limiting competition** to high-end rivals CoreMedia, Day Software and Tridion.

**Differentiation** is based on **technology leadership** reflected in:

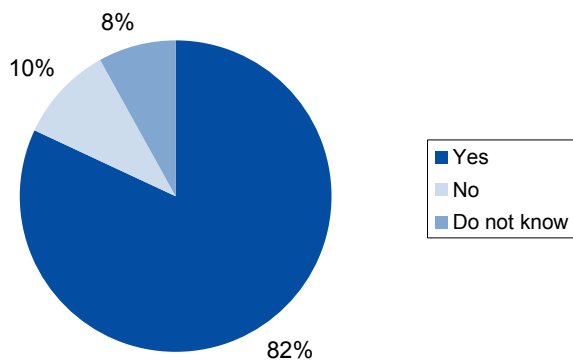
- **Market leading portal integration** (e.g. SAP) unrivalled by any competitor's product.
- **Ease of use** – High user-friendliness minimises training needs.
- The proprietary **“AppCenter”** offering customers the possibility to implement web applications into *FirstSpirit*.

All of this is **very much appreciated by customers** evidenced by a recent independent survey where c. 80% of customers declared they would buy *FirstSpirit* again and 94% that they will recommend the product, both of which are exceptional metrics.

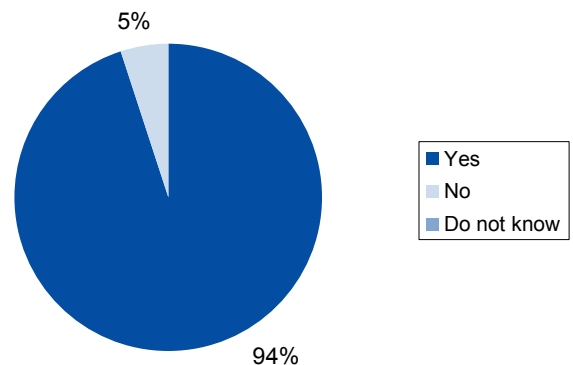
### Value and perception: Survey amongst FirstSpirit customers

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Would you buy Firstspirit again?



Would you recommend FirstSpirit?



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Source: Company data, Hauck & Aufhäuser

As the market is offering high growth and sound returns (ROCE e-Spirit >10%; likely higher for market rivals as e-Spirit is heavily investing in growth), there are however **risks** reflected in:

- Consolidation, e.g. Adobe snapped up Day and SDL acquired Tridion. These have deep pockets and may try to attack e-Spirit's technology lead.
- US rivals such as FatWire (c. \$ 40m sales in 2009; privately held) which may be eyeing an entry into the European market, intensifying competition.

However, market growth is seen to be strong enough to **subdue competitive pressure** and, in light of the above mentioned trends, e-Spirit itself may be an attractive take-over target for companies looking to enter the industry.

### Subsidiary adesso mobile solutions (3% of group sales)

With its focus on optimising the display of websites on mobile devices, adesso mobile solutions (AMS) is targeting a classical **niche** market.

In this niche, it faces **limited competition**, opposing mainly YOC AG and NetBiscuits. **Quality** rests on:

- **Focus** – While AMS is a technology expert with a pure focus on mobile display solutions, its rival YOC AG is more of a marketing expert offering

mobile solutions in a package with mobile marketing campaigns where it competes with several big “off-line” marketers.

- **Customisation** – NetBiscuits sells “copy-and-paste” standard software rendering it unable to satisfy specific customer requirements to the same extent as AMS, which banks on a made-to-measure approach.

**Growth**

**Sales growth**

Group sales are expected to grow at a **CAGR of c. 7%** between 2010 and 2013E. Looking at segments, **IT Solutions** looks set to post disproportionate growth of 10% (CAGR 2010-13E) while sales of the **IT Services** segment are seen to rise by an average of 6% p.a. in the same time frame.

**Guidance:** for 2011E, adesso guides for sales of € 92m to € 95m and EBITDA of € 6.2m to € 6.5m.

adesso AG: Sales growth trend 2007-2013E							
in € m	2007	2008	2009	2010	2011E	2012E	2013E
<b>adesso AG</b>	45.6	66.8	71.3	85.7	93.8	100.6	105.4
yoy	66%	46%	7%	20%	9%	7%	5%
<b>IT-Services</b>	36.9	57.5	62.0	74.2	79.8	85.2	88.6
yoy	na	56%	8%	20%	8%	7%	4%
in % of sales	81%	86%	87%	87%	85%	85%	84%
<b>IT Solutions</b>	8.9	10.1	12.0	12.7	14.0	15.4	16.8
yoy	na	13%	19%	6%	10%	10%	9%
in % of sales	20%	15%	17%	15%	15%	15%	16%

Source: Company data, Hauck & Aufhäuser

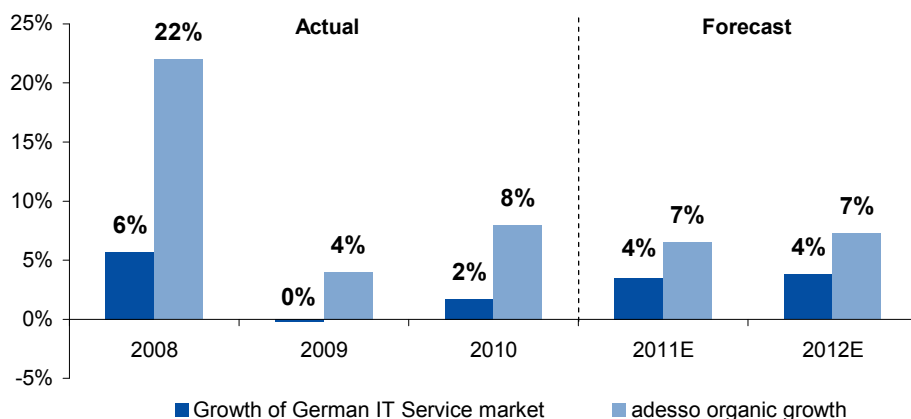
**(1) Market growth**

Outlook for the German IT Service market is very positive: research firm BITKOM expects growth of 3.5% for 2011E and 3.8% in 2012E driven by the very sound economic growth and innovations such as Cloud Computing.

Sentiment could also hardly be better: In Q4 '10, the BITKOM Index reached the highest level ever recorded. A bit like an Ifo-Index for the IT market, this indicator signals how many IT companies expect rising revenues in 2011E.

With growth conditions for adesso's IT-Service segment looking very favourable, **the company has the stated goal of growing twice as fast as the market** which it has clearly achieved in past years through market share gains.

**Growth of the German market for IT Services**



Source: Company data, BITKOM (March 2011)

While no specific market growth estimates are available for the target markets

in the IT Solutions segment (Web Content Management / Mobile Internet Solutions), there are conclusive drivers which should suffice for **market growth rates of 10% and above**, in our view:

- Internet will be mainly mobile by 2020 supported by the rapidly rising penetration of high-end smartphones.
- The ever-rising use of the internet for displaying information requires solutions allowing for easy managing of high loads of dynamically changing content.

**(2) IT Services: Penetrating existing and entering new industries**

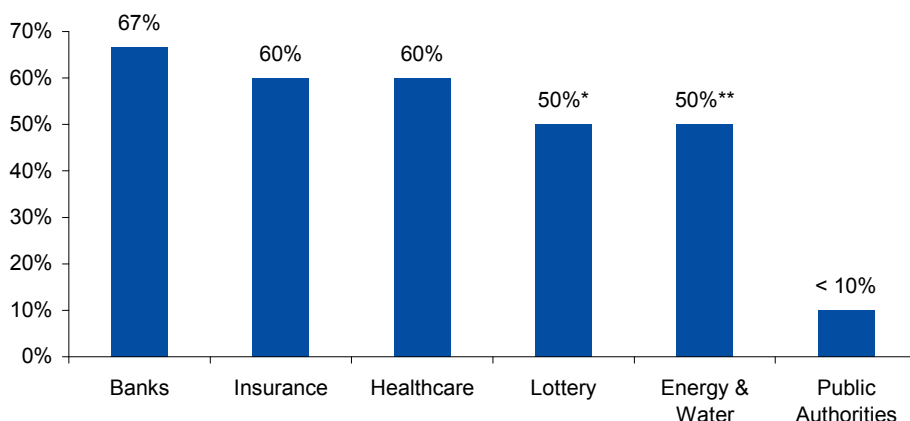
adesso's goal is to serve 15 of the Top-25 companies in each target industry. This the company has achieved in all of its long-standing markets, i.e. Banks, Insurances, Healthcare and Lottery.

However, **there is still room for growth here** based on new customers and a steadily rising propensity of existing clients to invest in IT helped by adesso's **reputation as an industry specialist** dedicated to solving sector-specific challenges.

For example, bigger projects are currently underway in:

- **Insurances** – adesso has entered the highly specific life insurance market with its *PSLife* solution. The company has already won a project with Barmenia worth a high single-digit million € amount. On top, a further penetration of Allianz is planned. From a regional perspective, Austria will first contribute to industry revenues in 2011E as adesso has set-up the needed infrastructure.
- **Healthcare** – Projects with DAK and Barmer are underway and set to contribute to revenue growth this year.
- **Public Authorities** – Two-year project worth 1,300 man-days with the German *Federal Bureau of Statistics* concerning the design of certain IT components for the EU-wide census in 2011.

**adesso: Estimated penetration of industries addressed (target = 60%)**



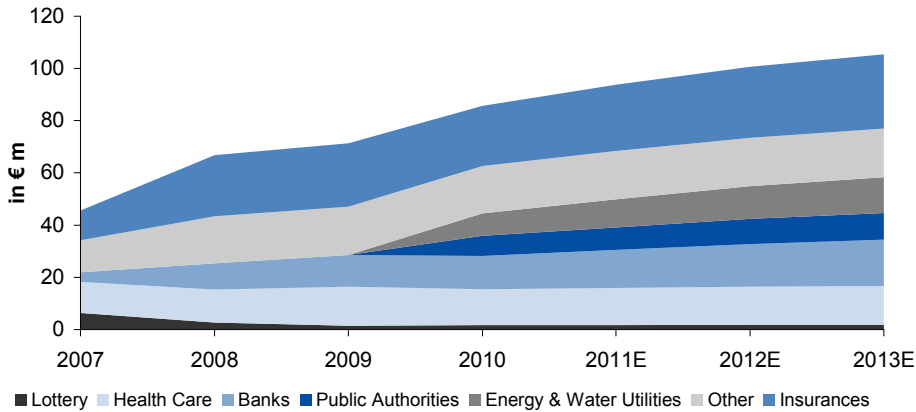
Source: Company data, H&A. \*Only state-regulated gaming; no activities in private gaming. \*\*50% of leading utilities.

adesso established the Public Authorities sector at the end of 2009 and is hence still in the early stages of penetration. The usual approach when entering a new industry is to **hire industry veterans** with sector-specific expertise for Business Development, Consulting, Sales and Software Design

and push marketing.

Given that this sector is coming from a low base, it is expected to show strong growth of 10% (CAGR 2010-13E) just as Energy & Water Utilities (17% CAGR 2010-13E), which the company established in 2010 through the take-over of *evu.it*. The dominating sectors Insurances (27% of sales) and Banks (15% of sales) are seen to grow by 7% and 11%, respectively (CAGR 2010-13E).

**Sales trend according to industry 2007-13E**



Source: Company data, Hauck & Aufhäuser

**(3) IT Solutions: Expanding internationally and winning new customers**

Key growth drivers of the IT Solutions segment include:

**International expansion** – e-Spirit generated c. 20% of sales outside Germany in 2010, mainly in Switzerland, France and the Netherlands, where the company won a big tender with the Dutch Government.

Its European expansion is fully underway: key target markets are Nordics, Italy and France. In Italy and the Nordics, the company will rely on strategic distribution partners in a first step, hence limiting capex needs and risk.

Within three years, e-Spirit may establish a sales office in the USA given visible demand (country with the second largest number of customer leads) and the necessity for a local presence to conduct business.

adesso mobile solutions is currently only active in the DACH region (i.e. Germany, Austria, Switzerland) and may also look to expand internationally within the next three years, without citing specific target locations.

**Customer wins** – Both subsidiaries are seeing strong momentum with regard to client wins thanks to their technologically leading solutions. Hence, e-Spirit is winning almost every pitch against key rival CoreMedia and adding customers at a rate of 30 per year. That demand is strong is also shown by a crowded CEBIT: e-Spirit had 179 client meetings in only three days.

Major client wins e-Spirit		Major client wins AMS	
Customer	Date	Customer	Date
Deutsche Messe	Apr-11	Lauer-Fischer	Mar-11
Leuze electronic	Mar-11	ZEIT ONLINE	Sep-10
WAGO	Feb-11	WestLotto	Aug-10
Görtz	Feb-11	Lloyd Shoes	Jul-10
Hamburg Süd	Jan-11	Ticket Online	Feb-10
Olympus	Jan-11	Sparkasse BS	Jan-10
Actebis	Nov-10	GAD eG	Jan-10
Degussa Bank	Nov-10		
Gruner + Jahr	Oct-10		
Dutch Government	Sep-10		
Friendscout24	Aug-10		
Rittal	Aug-10		
TÜV Rheinland	Feb-10		
E.ON	Feb-10		
Speedo	Jan-10		

Source: Company data

**(4) Acquisitions**

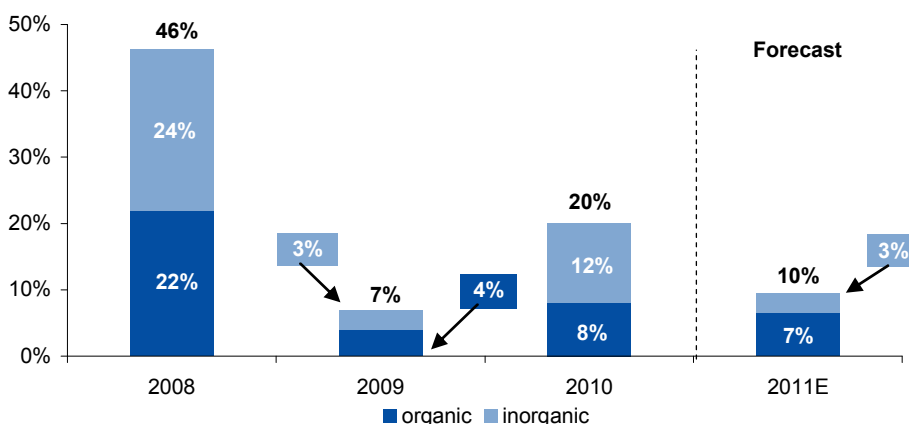
adesso targets growth through take-overs on top of organic growth. While cost synergies are usually negligible, there are still several reasons for adesso to be an active acquirer:

- **Expand its IT know-how;** e.g. the acquisition of *evu.it* supplied adesso with SAP expertise.
- **Extend the regional footprint.** Currently not in focus as adesso is already active in all German-speaking countries.
- **Enter a new industry.** For example, the take-over of *evu.it* provided adesso with an entry to Water & Energy Utilities.

Financing is made easy by a gross cash base of € 17m.

In 2011E, acquisition target *evu.it* will contribute an estimated € 2.5m (3.0pp) to group sales growth as consolidation in 2010 was limited to nine months. Beyond that, **the model assumes no impact from acquisitions.**

**Organic versus inorganic growth 2008 to 2011E**



Source: Company data, Hauck & Aufhäuser

**Earnings growth**

Reversing a two-year trend which was characterised by pricing pressure and wage inflation, EBITDA is expected to grow disproportionately to sales by 14% (CAGR 2010-13E) while the EBITDA-margin looks set to rise 1.3pp to 7.8%.

adesso AG: Bottom-line trend 2007-13E							
in € m	2007	2008	2009	2010	2011E	2012E	2013E
<b>Gross Profit</b>	42.0	60.4	63.4	76.3	83.4	89.3	93.4
Gross margin	92.0%	90.4%	88.8%	89.0%	88.9%	88.8%	88.6%
<b>Personnel expenses</b>	26.7	40.1	45.4	56.2	61.2	65.2	68.0
in % of sales	58.5%	60.1%	63.6%	65.6%	65.2%	64.8%	64.5%
<b>Other operating expenses</b>	12.2	14.4	14.4	17.4	18.9	19.7	20.4
in % of sales	26.8%	21.6%	20.1%	20.3%	20.1%	19.6%	19.4%
<b>Other operating income</b>	2.2	2.3	2.1	3.0	3.0	3.1	3.2
in % of sales	4.9%	3.5%	3.0%	3.5%	3.2%	3.1%	3.0%
<b>EBITDA</b>	5.3	8.1	5.8	5.6	6.3	7.5	8.2
EBITDA-margin	11.6%	12.1%	8.1%	6.5%	6.7%	7.5%	7.8%
<b>IT-Services</b>	4.2	6.8	4.5	3.9	4.4	5.2	5.6
EBITDA-margin	11.5%	11.8%	7.3%	5.3%	5.5%	6.1%	6.3%
<b>IT-Solutions</b>	1.1	1.3	1.2	1.7	1.9	2.3	2.6
EBITDA-margin	12.1%	12.6%	10.0%	13.1%	13.6%	14.9%	15.5%
<b>EBIT</b>	3.2	4.5	3.0	2.7	4.1	5.3	6.7
EBIT-margin	7.0%	6.7%	4.2%	3.1%	4.4%	5.3%	6.3%
<b>Net income</b>	2.4	4.2	3.5	2.4	3.4	4.6	5.6
in % of sales	5.2%	6.3%	4.9%	2.8%	3.6%	4.6%	5.3%

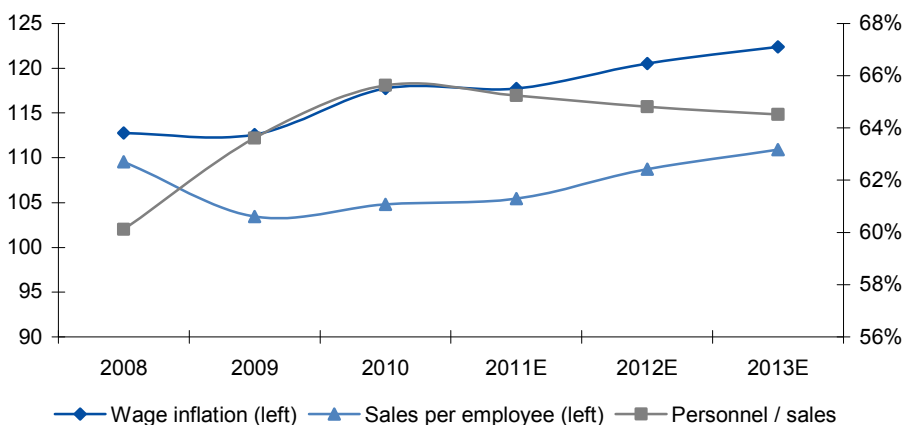
Source: Company data; Hauck & Aufhäuser

**(1) Improvements in utilisation and prices expected**

Clearly, as the IT Services segment (87% of sales / 70% of EBITDA) is the bigger division, group profitability will be very much driven by the trends in utilisation, daily rates and wages, **all of which are seen to be highly positive for adesso**:

- **Utilisation** – Driven by the economic upswing, utilisation of adesso’s consultants is expected to rise by 0.5pp to 1pp to an average of 96% to 96.5% in 2011E (eH&A) which alone would explain an increase in EBITDA of € 0.25m to € 0.5m.
- **Daily rates** – Having fallen by 3% in total since 2008, adesso has succeeded in pushing through price increases with its Top-5 client base for the first time in 2 to 3 years on the back of better bargaining clout given rising utilisation.
- **Wages** – In 2010, adesso introduced a new compensation scheme for its consultants, capping peaks while letting a broader base of employees participate in the company success. This is expected to detain wage inflation in 2011E: salary per employee is seen down 0.1% y-o-y.

**adesso: Trend in key profitability determinants**



Source: Company data, Hauck & Aufhäuser. Note: 2007 = 100

Overall, the expected significant improvement in sales per employee should NOT be diluted by wage inflation and hence **give rise to a lower personnel expense ratio**, which should turn out the **key profitability driver**.

## (2) Favourable mix shift a further boost to profitability

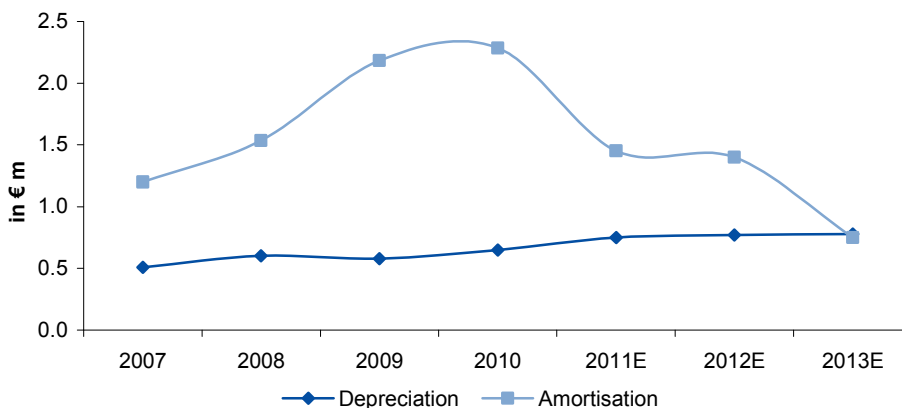
Next to these for an IT service provider typical profitability determinants, in the case of adesso there is another **more appealing bottom-line driver at work**, namely a slight yet **favourable mix shift**:

The high-margin IT Solutions segment (c. 8pp higher EBITDA-margin than IT Services) **is expected to raise its sales share by c. 1pp to 16%** between 2010 and 2013E. **This mix shift is expected to explain c. € 0.2m or 8% of the rise in EBITDA by 2013E**. As growth in this segment should come mainly from software sales, the mix shift should be favourable for ALL of adesso's expense ratios.

## (3) Lower PPA to drive disproportionate EBIT growth

**EBIT is expected to grow even stronger than EBITDA by 36% (CAGR 2010-13E)** as amortisation of purchase price allocation is set to decline significantly in the next three years (in the absence of further acquisitions) after having peaked in 2010. In 2011E, the lower PPA alone should explain € 0.8m higher EBIT or roughly two-thirds of the c. 50% growth in EBIT.

### Trend in depreciation and amortisation 2007-13E



Source: Company data, Hauck & Aufhäuser

## Valuation

To value adesso AG, we have used three different approaches:

- A DCF model
- An adjusted FCF valuation
- A peer group comparison

### DCF model

**We have used a DCF model to value adesso.** It assumes a CAGR of 7.1% for the forecast period (2010-13E), a medium-term growth rate of 3.0% (2013E-18E) and a long-term growth rate of 2.0%. The terminal EBIT-margin is modelled at 5.0%.

The discount factor (WACC) is set at 9.5%, made up of a risk-free rate of 3.25% (current yield on 10-year government bonds), a 5.0% equity risk premium and a beta of 1.2.

**The DCF model results in a price target of € 10.3 for adesso AG.**

DCF (EUR m) (except per share data and beta)	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Terminal value
NOPAT	3.8	4.8	5.7	5.7	5.4	5.7	5.9	6.0	4.4
Depreciation	2.2	2.2	1.5	1.2	1.1	0.9	0.9	0.9	0.9
Increase/decrease in working capital	-1.5	-1.3	-0.9	-0.7	-0.7	-0.7	-0.7	-0.5	-0.5
Increase/decrease in long-term provisions and accruals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capex	-0.8	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash flow</b>	<b>3.7</b>	<b>4.8</b>	<b>5.4</b>	<b>5.3</b>	<b>4.8</b>	<b>5.0</b>	<b>5.2</b>	<b>5.6</b>	<b>3.9</b>
Present value	3.5	4.1	4.2	3.8	3.2	3.1	2.9	2.8	24.0
WACC	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.5%

#### DCF per share derived from

Total present value	52
thereof terminal value	47%
Net debt (net cash) at start of year	-9
Financial assets	1
Provisions and off balance sheet debt	3
Equity value	59
No. of shares outstanding	5.7
<b>Discounted cash flow per share</b>	<b>10.3</b>
<b>upside/(downside)</b>	<b>71%</b>

**Share price 6.01**

#### Sensitivity analysis DCF

		Long term growth				
		0%	1.0%	2.0%	2.5%	3.0%
WACC	11.5%	8.4	8.6	8.9	9.1	9.3
	10.5%	8.8	9.1	9.5	9.7	10.0
	9.5%	9.3	9.7	<b>10.3</b>	10.6	11.0
	8.5%	10.0	10.6	11.3	11.8	12.3
	7.5%	10.9	11.7	12.8	13.5	14.4

#### DCF avg. growth and earnings assumptions

Short term growth (2010-2013)	7.1%
Medium term growth (2013 - 2018)	3.0%
Long term growth (2018 - infinity)	2.0%
Terminal year EBIT margin	5.0%

#### WACC derived from

Cost of borrowings before taxes	4.5%
Tax rate	30.0%
Cost of borrowings after taxes	4.5%
Required return on invested capital	9.3%
Risk premium	5.0%
Risk-free rate	3.3%
Beta	1.2

#### Sensitivity analysis DCF

		EBIT margin terminal year				
		3.0%	4.0%	5.0%	6.0%	7.0%
WACC	11.5%	7.6	8.3	8.9	9.5	10.2
	10.5%	7.9	8.7	9.5	10.3	11.0
	9.5%	8.4	9.3	<b>10.3</b>	11.2	12.2
	8.5%	9.0	10.1	11.3	12.5	13.7
	7.5%	9.8	11.3	12.8	14.3	15.8

Source: Company data, Hauck & Aufhäuser

## Free Cash Flow Yield

As smaller companies rarely bear sufficient resemblance to peers in terms of geographical exposure, size or competitive strength and due to the fact that long-term returns often are flawed by the lack of sufficient visibility, an Adjusted Free Cash Flow analysis (Adjusted FCF) has been conducted.

Main driver of this model is the level of return available to a *controlling* investor, influenced by the cost of that investors' capital (opportunity costs) and the purchase price – in this case the enterprise value of the company.

Here, the adjusted FCF yield is used as a proxy for the required return and is defined as EBITDA less minority interest, taxes and investments required to maintain existing assets (maintenance capex).

Simply put, the model assumes that investors require companies to generate a minimum return on the investor's purchase price. The required after tax return equals the model's hurdle rate of 8.5% (higher than normal by 1pp due to small size and illiquidity). Anything less suggests the stock is expensive; anything more suggests the stock is cheap.

**The adjusted FCF Yield suggests a PT of € 14.8 for adesso AG based on 2012E with further upside on 2013E figures (€ 15.8).**

The high FCF valuation results not only from low maintenance needs but also from a sustainable tax rate of below 15% due to tax loss carry forwards.

FCF yield, year end Dec. 31	2010	2011E	2012E	2013E	
<b>EBITDA</b>	<b>5.6</b>	<b>6.3</b>	<b>7.5</b>	<b>8.2</b>	
- Maintenance capex	0.7	0.8	0.9	0.9	
- Minorities	0.1	0.2	0.1	0.2	
- tax expenses	0.0	0.3	0.5	1.0	
<b>= Adjusted Free Cash Flow</b>	<b>4.8</b>	<b>5.0</b>	<b>6.0</b>	<b>6.1</b>	
<b>Actual Market Cap</b>	<b>34.3</b>	<b>34.3</b>	<b>34.3</b>	<b>34.3</b>	
+ Net debt (cash)	-9.4	-11.9	-15.6	-19.4	
+ Pension provisions	0.5	0.5	0.5	0.5	
+ Off balance sheet financing	0.0	0.0	0.0	0.0	
+ Adjustments prepayments	2.2	2.4	2.6	2.7	
- Financial assets	-0.6	-0.6	-0.6	-0.6	
- Dividend payment	-0.9	-0.9	-1.2	-1.5	
<i>EV Reconciliations</i>	-8.2	-10.5	-14.2	-18.3	
<b>= Actual EV'</b>	<b>26.2</b>	<b>23.8</b>	<b>20.2</b>	<b>16.0</b>	
<b>Adjusted Free Cash Flow yield</b>	<b>18.3%</b>	<b>20.8%</b>	<b>29.7%</b>	<b>38.3%</b>	
<b>Sales</b>	<b>85.7</b>	<b>93.8</b>	<b>100.6</b>	<b>105.4</b>	
Actual EV/sales	0.3x	0.3x	0.2x	0.2x	
Hurdle rate	8.5%	8.5%	8.5%	8.5%	
FCF margin	5.6%	5.3%	5.9%	5.8%	
Fair EV/sales	0.7x	0.6x	0.7x	0.7x	
<b>Fair EV</b>	<b>56.4</b>	<b>58.3</b>	<b>70.4</b>	<b>72.2</b>	
- <i>EV Reconciliations</i>	-8.2	-10.5	-14.2	-18.3	
<b>Fair Market Cap</b>	<b>64.6</b>	<b>68.8</b>	<b>84.6</b>	<b>90.5</b>	
No. of shares (million)	5.7	5.7	5.7	5.7	
<b>Fair value per share</b>	<b>11.3</b>	<b>12.0</b>	<b>14.8</b>	<b>15.8</b>	
<b>Premium (-) / discount (+) in %</b>	<b>87.9%</b>	<b>100.3%</b>	<b>146.2%</b>	<b>163.7%</b>	
<b>Sensitivity analysis fair value</b>					
	8.5%	11.3	12.0	14.8	15.8
<b>Hurdle rate</b>	11.0%	9.1	9.7	12.0	13.0
	13.5%	7.6	8.3	10.2	11.2
	16.0%	6.7	7.3	9.0	9.9

Source: Company data, Hauck & Aufhäuser

## Sum of the Parts

adesso AG: Sum of the parts valuation	
<b>e-Spirit</b>	
EV/EBITDA Day Software transaction	13.7
Fair EV (in € m)	18.2
Total net debt & pensions (in € m)	0.0
Fair Mcap (in € m)	18.2
No. of shares (in m)	5.7
<b>Fair Value per share e-Spirit</b>	<b>3.2</b>
<b>adesso mobile solutions</b>	
EV/EBITDA YOC AG	15.5
Fair EV (in € m)	6.8
Total net debt & pensions (in € m)	0.0
Fair Mcap (in € m)	6.8
No. of shares (in m)	5.7
<b>Fair Value per share AMS</b>	<b>1.2</b>
<b>adesso AG</b>	
EV/EBITDA peer group	5.1
Fair EV (in € m)	23.1
Total net debt & pensions (in € m)	-9.2
Fair Mcap (in € m)	32.3
No. of shares (in m)	5.7
<b>Fair Value per share adesso AG</b>	<b>5.7</b>
<b>Group Fair Value per share</b>	<b>10.0</b>

Source: Market Map, Hauck & Aufhäuser

A **sum of the parts valuation** has been conducted to highlight the value hidden in the “gem” e-Spirit:

In October 2010, e-Spirit’s competitor *Day Software* was acquired by Adobe for an EV of CHF 228m (60% premium) valuing the company at 3.1x sales and 13.7x EBITDA 2011E according to H&A estimates.

Overview of Day Software metrics						
	Price paid	EV	Sales 2011E*	EBITDA 2011E*	EV/Sales	EV/EBITDA
<b>Day Software</b>	CHF 255m	CHF 228m	CHF 74.7m	CHF 16.6m	3.1	13.7

Source: Company data, Hauck & Aufhäuser. \*Given a lack of information, these reflect H&A estimates

For e-Spirit, which is expected to generate sales of € 9.6m and an EBITDA of € 1.3m in 2011E, this would imply a **fair value of € 18m** based on EV/EBITDA **which alone explains half of adesso’s current market cap.**

adesso mobile solutions was valued using YOC AG as a peer. The peer group used in determining the fair value of adesso AG includes GFT, Allgeier, Atos Origin and 7Principles.

**The Sum of the Parts valuation results in a fair value of € 10.0 for adesso,** nicely supporting the DCF-based price target of € 10.0.

**Peer Group**

**7Principles** is an IT focused consulting firm offering not only consulting services but also proprietary solutions for processes & organisation, product & project management, Enterprise Application Integration and SAP consulting. Active in Germany, Switzerland and Great Britain, the company generated sales of € 59m and EBIT of € 0.2m in 2010.

**Allgeier** offers Management & IT consulting, bespoke software design, outsourcing, Business Intelligence and SAP consulting. In the most recent FY 2009, the company had sales of € 224m and EBIT of € 8.8m.

**Atos Origin** is a global leader for IT services offering the full IT service spectrum including system integration, outsourcing, electronic payments & solutions and managed services. Sales in 2010 reached € 5bn and EBIT € 331.

**GFT** is an IT service provider focused on the Financial industry. The company operates 19 offices in seven countries. In 2010, sales stood at € 248m and EBIT reached € 11m.

The following table highlights the multiples of the peer group.

ADESSO AG	EV/Sales 11E (x)	EV/Sales 12E (x)	EV/Sales 13E (x)	EV/EBITDA 11E (x)	EV/EBITDA 12E (x)	EV/EBITDA 13E (x)	EV/EBIT 11E (x)	EV/EBIT 12E (x)	EV/EBIT 13E (x)	PER 11E (x)	PER 12E (x)	PER 13E (x)
ALLGEIER HOLDING AG	0.2	0.2	0.2	4.1	3.7	na	5.4	4.5	na	11.9	6.9	na
GFT TECHNOLOGIES AG	0.3	0.3	0.3	6.3	4.7	na	6.8	5.2	5.9	11.8	9.6	7.6
SEVEN PRINCIPLES AG	0.4	0.3	na	5.5	4.7	na	6.5	5.5	na	10.1	8.5	na
ATOS ORIGIN ORD	0.4	0.3	0.3	4.5	3.6	3.2	7.4	5.7	4.7	12.8	10.4	8.7
<b>ADESSO AG</b>	<b>0.3</b>	<b>0.3</b>	<b>0.2</b>	<b>4.1</b>	<b>3.5</b>	<b>3.2</b>	<b>6.4</b>	<b>4.9</b>	<b>3.9</b>	<b>10.2</b>	<b>7.4</b>	<b>6.2</b>
Average (peer group)	0.3	0.3	0.3	5.1	4.2	na	6.5	5.2	5.3	11.7	8.9	8.2
Premium+/discount- in (%)	-18%	-12%	-2%	-19%	-17%	na	-3%	-7%	-27%	-12%	-17%	-24%

Source: MarketMap, Hauck & Aufhäuser

**Both EV/EBIT and the PER yield slight upside of 7% to 12% on 2013E figures.** The metrics should not be used for 2011E and 2012E given adesso's high amortisation of PPA in both years. While EBITDA is more suited for a comparison, a lack of estimates for peer profitability in 2013E renders this impossible.

**Overall, valuation of the peer group is very low** which may be due to the very challenging IT service market environment in 2009 and 2010. As daily rates and utilisation are expected to improve for the industry as a whole in 2011E, **the industry could undergo a re-rating soon.**

Further, **a sum of the parts analysis seems to be more appropriate for adesso AG** as a peer group comparison does not account for the value hidden in the subsidiary e-Spirit.

Implied FV	EV/EBITDA 11E	EV/EBITDA 12E	EV/EBITDA 13E	EV/EBIT 11E	EV/EBIT 12E	EV/EBIT 13E	PER 11E	PER 12E	PER 13E
Fair EV	28.5	26.3	na	17.4	21.4	28.3			
Net debt	-8.8	-8.8	-8.8	-8.8	-8.8	-8.8			
Pensions	0.5	0.5	0.5	0.5	0.5	0.5			
Market Cap	36.7	34.6	na	25.7	29.7	36.6			
Nosh	5.7	5.7	5.7	5.7	5.7	5.7			
<b>implied FV</b>	<b>6.4</b>	<b>6.1</b>	<b>na</b>	<b>4.5</b>	<b>5.2</b>	<b>6.4</b>	<b>4.8</b>	<b>5.2</b>	<b>6.7</b>

Source: MarketMap, Hauck & Aufhäuser

## Theme

**IT service providers are unloved by many investors** in light of multiyear price pressure and frequent variations in utilisation posing a drag on profitability. **This explains why the stock is still so cheap.**

**But sentiment could be at an inflection point** as overcapacities in this **late-cyclical** industry have been reduced by the economic upswing. **Result:** adesso has been able to enforce the first price hike in 2-3 years with its Top-5 customer base and sees rising utilisation throughout 2011E.

There are other promising news flow items as well:

### (1) e-Spirit: The hidden gem

Transaction multiples of Day Software put a fair value on e-Spirit of € 18m which alone would explain **roughly half of adesso's current valuation** leaving the **differentiated** core service business valued **at only 1.1x EBITDA** 2011E. In effect, **investors seem yet unaware of the gem hidden in the adesso Group** and the stock is in for a re-valuation, in our view, once the investment case becomes more well-known.

### (2) Project win announcements

Both e-Spirit and adesso mobile solutions have signed loads of new customers in recent months in virtue of their technologically leading solutions and secular market drivers. That demand is booming became very evident at the CEBIT, where e-Spirit had 179 meetings with potential clients in just three days. The strong momentum regarding customer wins is hence expected to continue and boost sentiment for the stock.

### (3) Acquisitions

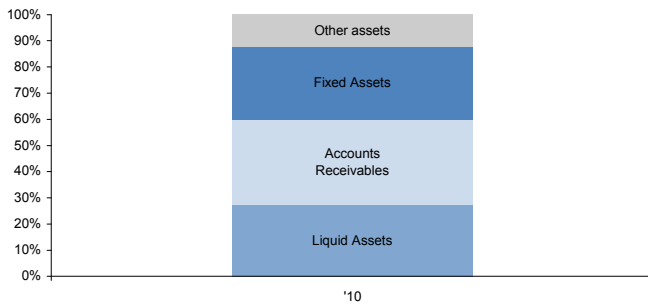
Aiming at 8-10pp external growth per year, adesso's rationale for take-overs can be stripped down to three main goals:

- (1) Grow the consulting portfolio (e.g. SAP know-how) in the focus industries.
- (2) Expand regionally. At the moment this is not high on the agenda.
- (3) Acquire know-how about new industries sufficient to turn adesso into a sector specialist.

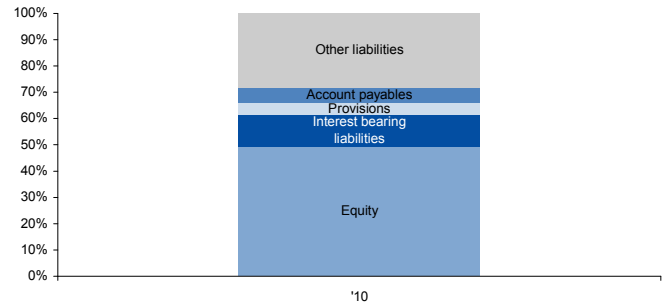
The recent take-over target *evu.it* fulfilled two of the three goals, namely supplying adesso with fresh know-how (SAP) and granting access to the Waters & Energy Utilities industry. In 2011E, **there should be additional acquisitions** yet none are reflected in the estimates.

## Returns analysis

Balance sheet - Assets



Balance sheet - Liabilities



Source: Company data, Hauck & Aufhäuser

### Balance sheet structure

**Fixed Assets account for € 17m or 28% of Total Assets (TA).** As the business does not require much capital, it is no surprise that this accrues mainly to intangibles of € 16m or 90% of Fixed Assets. These reflect customer lists of € 3m and Goodwill to the tune of € 13m from the merger with BOV AG in 2006 and the take-overs of belT Consulting and CFC in 2009.

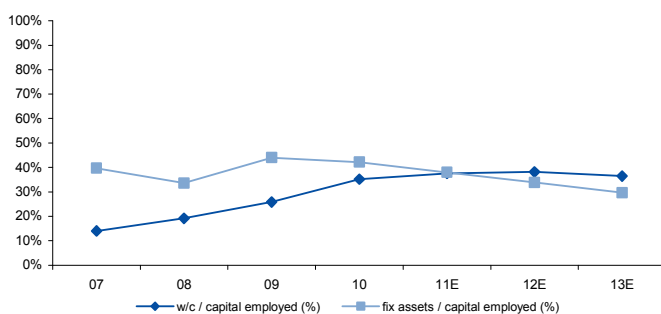
**Cash and cash equivalents amount to € 17m** representing 27% of TA.

As an IT consultancy and software company, adesso has no inventories. Hence, accounts receivable of € 20m (33% of TA) determine **working capital of € 15m or 17% of sales**, partly offset by accounts payable of € 3.5m (6% of Total Liabilities) and prepayments of € 2.2m.

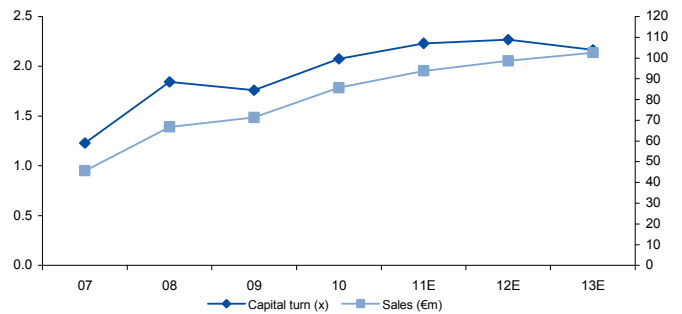
The liabilities side is characterised by:

- **Equity of € 31m** equalling an equity ratio of almost 50%.
- **Interest-bearing liabilities of € 8m** (12% of TL) of which € 5.5m is long-term; i.e. due in one to five years.
- **Other liabilities of € 14m** or 23% of TL reflecting mainly personnel liabilities of c. € 10m related to bonuses and variable salary.

Capital employed



Capital employed turnover and sales



Source: Company data, Hauck & Aufhäuser

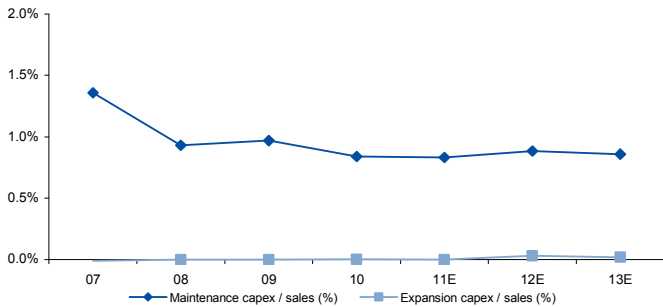
### Capital employed and operational efficiency

adesso's business is **not very capital intensive** because revenues are generated with service and software sales. Hence, while c. 40% of capital employed is tied up in fixed assets, this is mostly Goodwill reflecting adesso's

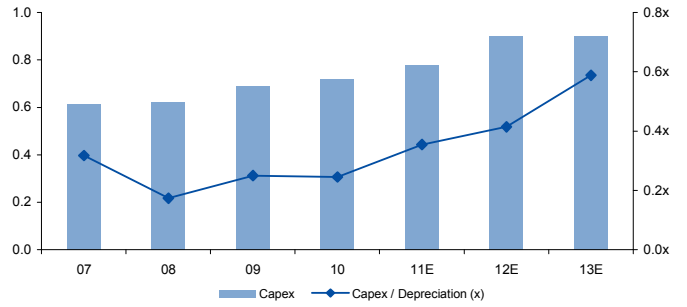
acquisitive history. Of the remaining capital, one half is employed in working capital and the other half is sitting in cash.

The capital-light business model explains the **attractive capital efficiency of above 2x**, which conforms with peers GFT (2.7x), Allgeier (2.4x) and 7Principles (2.2x) and is **deemed sustainable** as growth should continue to be driven by service and software sales going forward.

Capex cycle



Capex bar and Capex/depreciation



Source: Company data, Hauck & Aufhäuser

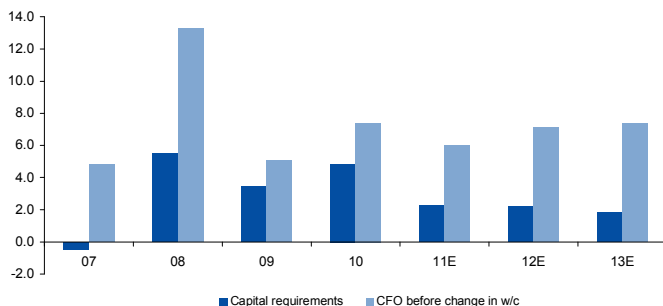
Capex cycle and net capex

**Capital requirements are low:** necessary investments of less than € 1m per year pertain mainly to maintenance needs including for example laptops, servers and office equipment.

adesso expenses R&D expenditures rather than capitalising them. Even when expanding abroad the company avoids big investments – and hence risk – by exclusively falling back on distribution partners in a first step.

Depreciation is yet significantly above maintenance needs due to PPA amortisation of c. € 2m (2010) stemming from past acquisitions. As this should decrease substantially in the next three years, depreciation should more and more approach the level of capex.

Capital requirements and CFO before changes in w/c

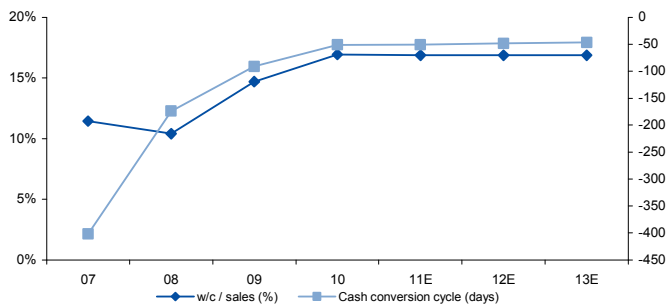


Source: Company data, Hauck & Aufhäuser

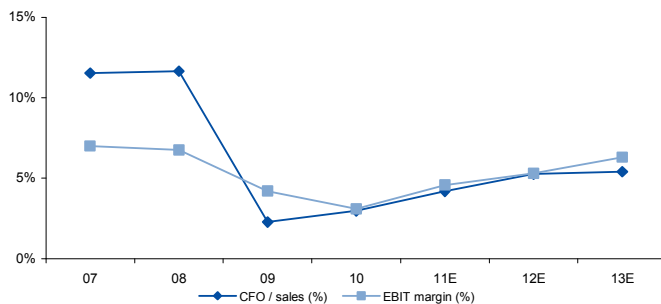
Operational funding of capital needs and Cash Flow Analysis

Evident from the graph above, adesso is **well capable of financing its capital needs internally** as capex requirements are low and working capital needs moderate at 17% of sales.

Cash flow analysis



CFO/sales and EBIT margin



Source: Company data, Hauck & Aufhäuser

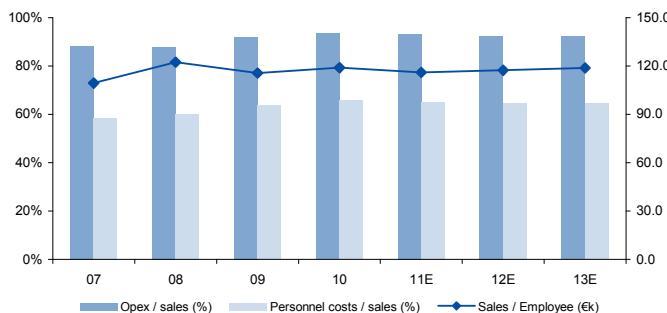
Working capital requirements result from the project nature of adesso's business and differ according to project type:

**“Time and material”** projects (>80% of all projects) require customers to pay variable expenses incurred (e.g. consultants' wages) plus a pre-specified margin. In the first week of a month, adesso invoices the customer for services performed the month before, offering payment terms of 20 to 40 days. **Waiting for payment means working capital is in need of financing.**

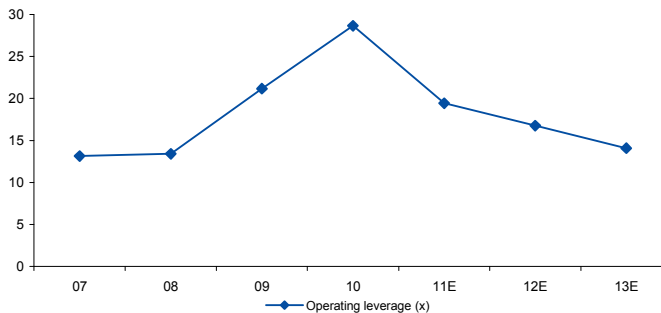
In **“fixed price”** projects (<20% of all projects) the price is pre-specified and does not vary with total expenses. Payment terms look as follows: a down payment of 30% is followed by another payment of 40% when the project is ready for approval. The remaining 30% are due following acceptance. Alternatively, customers can defer paying 10% of the total price for three months to account for mistakes surfacing after final acceptance.

**EBIT is neatly transferred into cash flow** (see upper right graph) as D&A compensate for slight working capital growth.

Cost base and leverage



Operating leverage



Source: Company data, Hauck & Aufhäuser

Cost base and operational gearing

**The total cost base of € 86m splits 20% into variable expenses and 80% into fixed expenses:** While the former comprise material expenses (which is mainly freelance personnel) as well as sales & marketing included under other operating expenses, the latter contain personnel, depreciation and admin, which is part of other operating expenses.

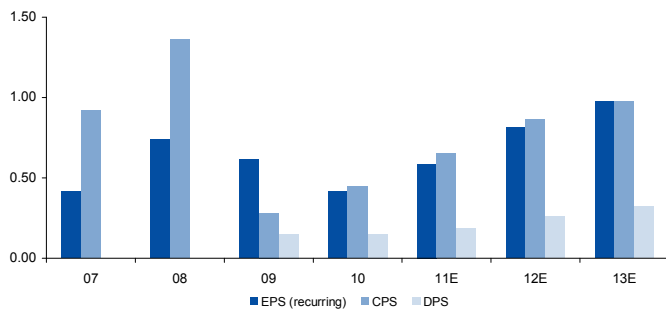
Still, the resulting operating leverage (see graph on upper right hand side) of above 10 is only a theoretical construct: personnel expenses are only “quasi-fixed” as headcount will be significantly expanded in the coming years.

Also, **wage inflation is a major cost input factor** given the importance of personnel expenses, which account for 65% of total expenses. adesso was able to exert significant influence on wages last year on the back of low utilisation in H1 2010: the average wage is hence expected to drop by 0.1% in

2011E. However, higher utilisation and an overall improving industry sentiment are expected to give rise to continued wage inflation in 2012E (+2.4% eH&A) and 2013E (+1.5% eH&A).

Putting it all together, **we expect adesso to transfer roughly 15-20% of its incremental sales into EBITDA going forward.**

## DPS/CPS/EPS



Source: Company data, Hauck & Aufhäuser

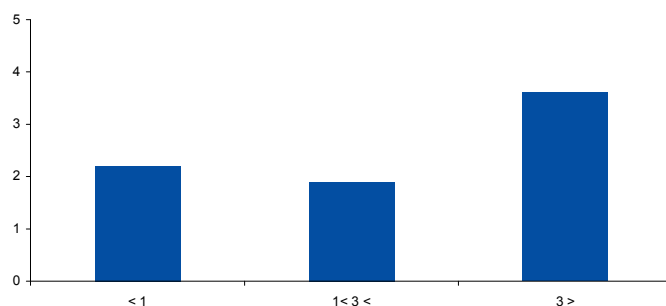
## Dividend distribution

adesso paid a dividend of € 0.15 per share in both 2009 and 2010 for a yield of 2.5%. Given adesso's history, we expect the company to continue a generous dividend policy by paying out slightly more than 30% of net income while retaining enough cash to execute selected acquisitions at the same time.

## Solvency



## Debt maturity

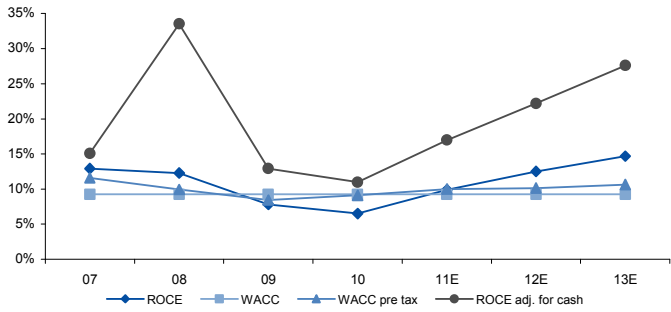


Source: Company data, Hauck & Aufhäuser

## Solvency

The company is profitable and had net cash of € 9m at the end of 2010; hence **solvency is warranted** underlined by a current ratio of 2x and a cash ratio of 0.7x.

Returns



Source: Company data, Hauck & Aufhäuser

Value creation and cyclicity of returns

Value creation took place in 2007 and 2008 but not in the two years thereafter as declining EBIT-margins due to receding utilisation and daily rates burdened returns (ROCE). A more favourable trend in both utilisation and prices is the main driver behind the **expected upswing in returns going forward** which should re-launch value creation.

On top, ROCE is diluted by adesso's high cash base. When adjusting returns, **adesso has a record of earning its capital costs.**

The service business is exposed to economic cycles and **returns hence cyclical** despite some long-term projects running for more than 3 years.

The rising sales share of the new ventures in the IT Solutions segment should dampen cyclicity to some extent as these are driven by more secular growth trends. This is supported by a growing sales share with Public Authorities (10% of sales in 2013E vs. 0% in 2009) whose demand pattern is also rather unrelated to economic cycles.

Looking at intra-year cyclicity, H2 is usually stronger than H1 and Q3 generally adesso's best quarter.

## Background Information

### History

adesso was founded in 1997 in Dortmund as an IT service provider initially focussing on the insurance sector. It soon expanded its business to the Lottery industry and in 1999 founded product subsidiaries e-Spirit AG and adesso mobile solutions GmbH. The company was rebranded into an AG (i.e. public limited company) in 2000.

adesso did a **reverse IPO** in 2007 by merging with listed BOV AG, an IT service provider creating customised software tackling industry-specific challenges. The joint company, which assumed the name adesso AG, had sales of € 37m and upheld seven locations in Germany and Switzerland.

In 2007, adesso started pursuing its **internationalisation strategy**, opening new offices in Luxemburg and England. Through its project business, the company also generated first revenues in countries such as Russia and Spain.

In recent years, **acquisitions have become a major pillar of the growth strategy** to expand into new countries, access synergies and enlarge the consulting portfolio. Following the merger with BOV, adesso acquired *Sitgate* in 2007, *CFC* and *beiT Consulting* in 2009 and *evu.it* in 2010.

### What does the company do?

adesso AG operates two segments:

- **IT-Services** where adesso focuses on selected industries providing made-to-measure service and software solutions for sector-specific challenges.
- **IT-Solutions** which comprises the two product subsidiaries e-Spirit (100%) and adesso mobile solutions GmbH (100%) which are leaders in the fields of Web Content Management and Mobile Internet Solutions, respectively.

### Segment sales split (2010)

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#### ■ Segment IT-Solutions

Sales € 11.5m

c. 11% EBT-margin

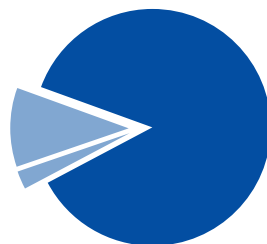
thereof:

#### \* e-Spirit

(€ 9.3m sales / >11% margin)

#### \* adesso mobile solutions

(€ 2.2m sales / >12% margin)



#### ■ Segment IT-Services

Sales € 74.2m

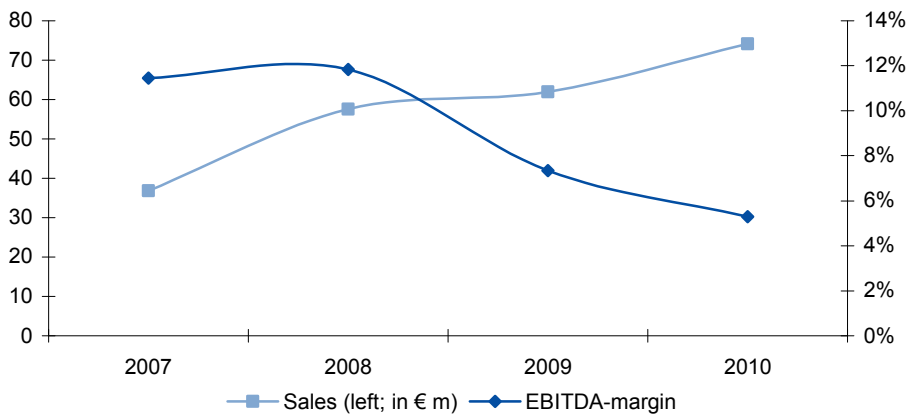
5.8% EBT-margin

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Source: Company data

**Segment IT-Services (€ 74.2m sales / 87% of group sales / 610 full-time employees)**

**IT-Services segment: Sales and EBITDA-margin trend (2007-2010)**

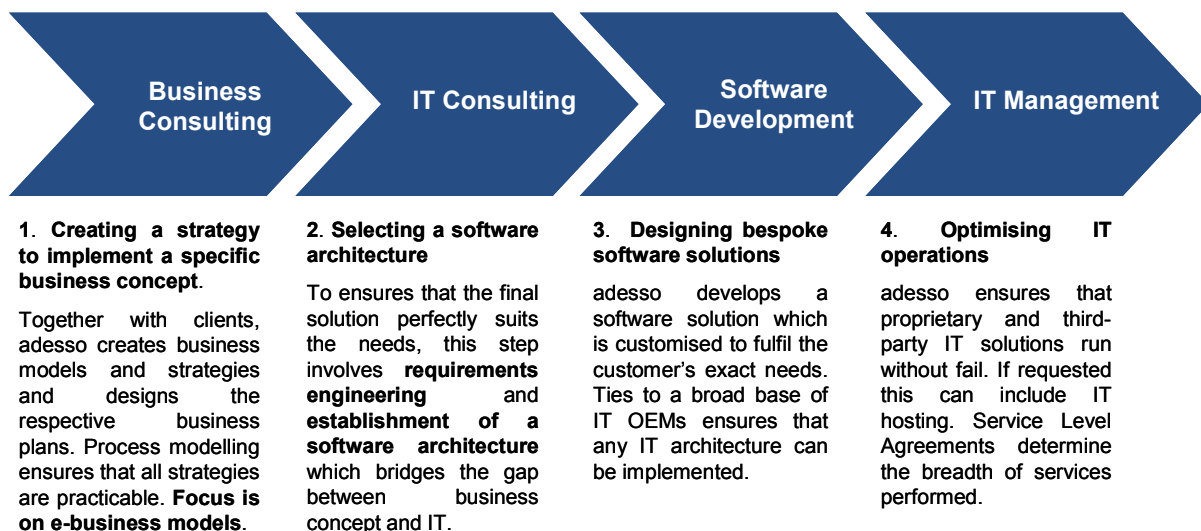


Source: Company data

adesso is an **IT service provider** with a focus on selected industries in which its consultants possess sophisticated know-how. Here, the company provides **made-to-measure IT solutions** helping customers tackle **industry-specific** challenges.

Typically, a project starts out with a client wishing to optimise a core business process using IT. adesso meets the client to **create a strategy** to attain the business goal, **determines the needed software architecture**, develops a **bespoke software solution** and finally **implements that solution** and trains the employees in using it.

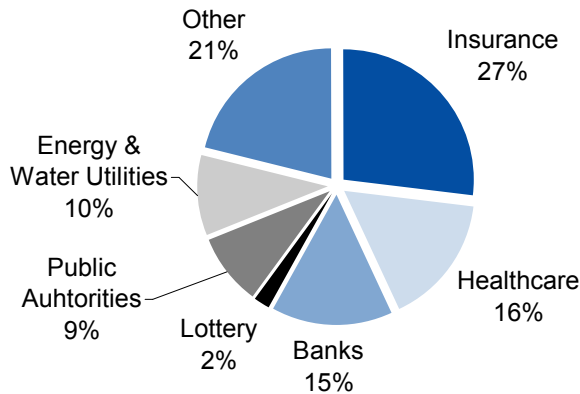
**adesso's made-to-measure service offering**



Source: Company data

Focus industries are **Insurance, Healthcare, Banks, Lottery, Public Authorities** and **Energy & Water Utilities**.

Sales split according to end-market (2010) / Sales: € 85.7m



Source: Company data

adesso's strategic goal in this area is to:

- **Penetrate 15 of the Top-25 companies in each industry.**
- **Expand its focus gradually to new industries** by establishing the needed sector know-how through acquisitions or the recruitment of key industry personnel.
- **Grow at least twice as fast as the German IT service market** while sustaining above-average profitability.

Selected clients in the key end-markets Insurance, Healthcare and Banks

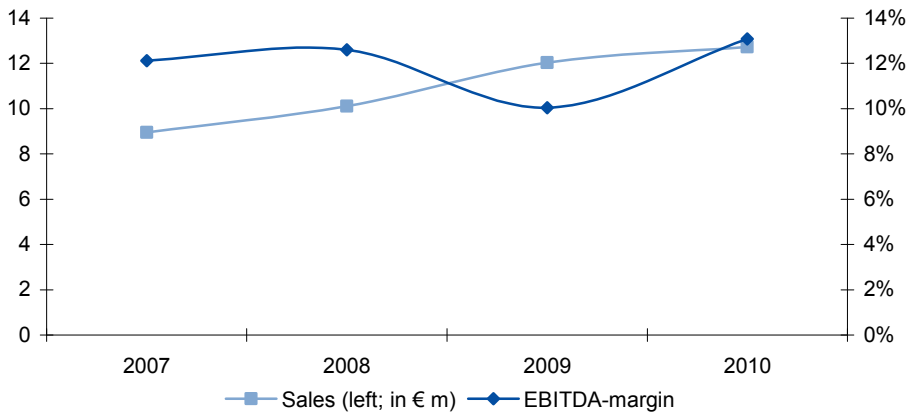
Insurances	Healthcare	Banks
	Unternehmen Leben	

Source: Company data

**Segment IT-Solutions (€ 11.5m sales / 13% of sales / 119 full-time employees)**

Next to its service business, adesso has two product subsidiaries **e-Spirit AG** and **adesso mobile solutions GmbH**. While the sales contribution is yet moderate, these ventures have a bright future in view of their high growth and high margin nature.

IT-Solutions segment: Sales and EBITDA-margin trend (2007-2010)



Source: Company data

**e-Spirit AG (€ 9.3m sales / >11% margin)**

The key product is the web content management software *FirstSpirit* which makes for easy and convenient managing, editing and updating of websites:

Imagine a publisher with an internet presence totalling more than 1m sites. Commonly, a mass of editors (>500) will have to maintain the website changing the content regularly, which can in extreme cases amount to more than 100,000 changes per day. Using FirstSpirit, **this becomes child's play** – even lacking basic IT know-how, editors will still be able to do their job.

Based on modules which allow for gradual installation, FirstSpirit is the market's **technologically leading solution** providing particular value-add in situations with:

- Extremely high data volumes.
- Frequently changing content.
- The need to integrate third-party-systems, e.g. SAP Portals.

**More than 150 customers from various industries use FirstSpirit.** These include for example Airbus, Robert Bosch, Commerzbank, BASF and Schaeffler.

The project nature of this business means that the **biggest customer** changes frequently but usually accounts for c. **20% of annual sales**. The **average customer** contributes 2% to 4% to sales in a given year. New customers are won at a rate of c. 30 per year.

The price for FirstSpirit ranges from € 0.1m to € 1.0m depending on the specific customer requirements. All customers have a maintenance contract which can be terminated annually. Yearly maintenance revenue amounts to 20% to 25% of the total license fees **representing recurring sales**.

**A pure product company**, e-Spirit relies on its broad base of more than 60 partners (e.g. adesso, ARITHNEA, CSC, Kernpunkt, Salmon LLC) to customise FirstSpirit so that clients' wishes are fulfilled.

### adesso mobile solutions (€ 2.2m sales / >12% margin)

adesso mobile solutions (AMS) ensures that customer's websites are **optimally displayed on the screen of a handheld device**.

It does so through its key software solution **in|MOTION** which has access to a data base comprising the configuration of 20,000 mobile devices. It identifies the portable device, collects the information, and displays it in an optimised format **without needing to make changes to the existing web presence**.

#### How web in|MOTION works

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Source: Company data

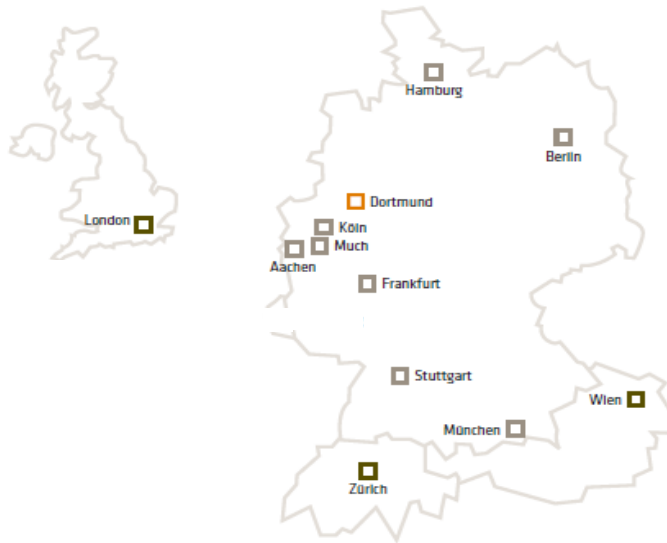
Projects to optimise the display of a mobile website usually take **15 to 60 days** and cost between **€ 10,000 and € 200,000**. In 80% of the cases, the software solution is run on the premises of AMS with the customer using it as a service (*Software as a Service*) for which it has to pay a monthly fee of € 400 to € 1,800 including maintenance.

In the minority of cases when the customer does not want to outsource his data, the software is installed at the customer premises and the client solely pays a maintenance fee.

**Customers** include Allianz, BASF, Bayer, Sueddeutsche.de, Union Investment, ZEIT ONLINE and Daimler.

## Sales and footprint

### adesso's footprint



Source: Company data

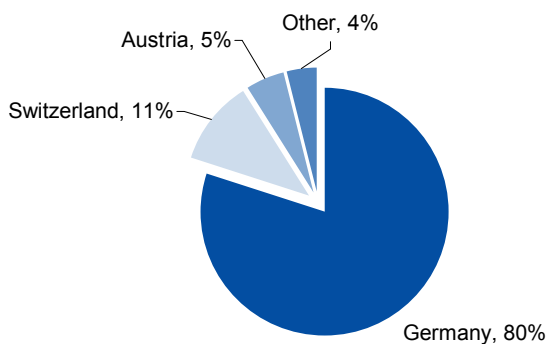
Headquartered in Dortmund, Germany, adesso AG has several offices in Germany as well as one in Switzerland and Austria each. However, due to the project nature of the business, a small part of revenues comes from all over the world, especially in the IT-Solutions segment.

The London office in the UK belongs to daughter e-Spirit AG. Both subsidiaries in the IT Solutions segment are present in the same cities as parent company adesso AG.

Group overhead is c. 110 employees, which includes sales. In the IT-Services segment, **distribution** is organised according to sectors Insurance, Health Care, Banking, Public, Lottery and Cross Industries.

While e-Spirit and adesso mobile have small own sales teams and a **large number of mainly non-exclusive distribution partners**, their product solutions are also cross-sold by adesso AG.

### Regional sales share 2010



Source: Company data

## Management

The management of adesso comprises:

**Michael Kenfenheuer – co-head of the management board responsible for Consulting and Sales.** He was elected to the management board in 2000 and has several years of experience in corporate and project management.

**Dr. Rüdiger Striemer – co-head of the management board responsible for Software Development and Corporate Communications.** Starting out as Business Development Manager at adesso AG in 1999, he joined the management board already in 2001 assuming responsibility of Corporate Communications. He further took charge of Software Development in 2002.

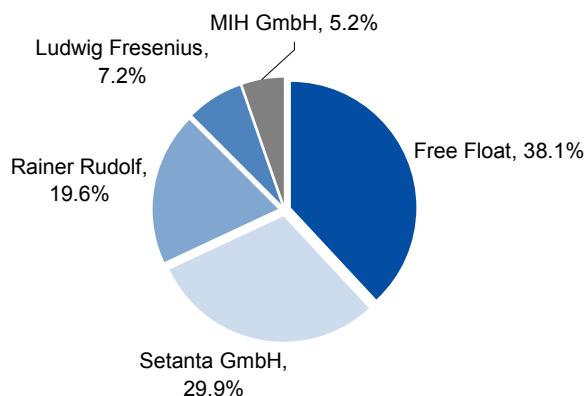
**Christoph Junge – member of the management board responsible for Finance and Human Resources.** Starting out as Finance Director for BOV AG, Mr Junge joined the company's management board in 2005. He became part of adesso's management board when the company merged with BOV in 2007.

**Rainer Rudolf – member of the management board responsible for Administration and Legal Affairs.** Mr Rudolf is co-founder of adesso AG and has been in charge of his current duties since the founding days.

## Shareholder structure

### Shareholder structure as of April 2011

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Source: Company data

There are 5.71m shares outstanding of which 38.1% are floating freely.

**Management holds 1.33m shares overall or 21% of the shares outstanding.** Rainer Rudolf, one of the founders of adesso, holds the largest portion with 19.6%. The other four board members own at least 10,000 shares each and 1.4% altogether, which is included in the Free Float.

Setanta GmbH is the investment vehicle of Prof. Dr. Volker Gruhn who is one of the company's founders and head of the supervisory board.

Ludwig Fresenius is deputy chairman of the supervisory board of Cognos AG. Best known as the former sole shareholder of Institut Fresenius AG, Mr Fresenius participated in two capital raises of the former BOV AG.

MIH GmbH is the investment vehicle of Michael Hochgürtel, who was a member of the management board during adesso's early years.

## Financials

Profit and loss (EUR m)	2007	2008	2009	2010	2011E	2012E	2013E
<b>Net sales</b>	<b>45.6</b>	<b>66.8</b>	<b>71.3</b>	<b>85.7</b>	<b>93.8</b>	<b>100.6</b>	<b>105.4</b>
<i>Sales growth</i>	66.5 %	46.3 %	6.8 %	20.1 %	9.5 %	7.2 %	4.8 %
Increase/decrease in finished goods and work-in-process	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total sales</b>	<b>45.6</b>	<b>66.8</b>	<b>71.3</b>	<b>85.7</b>	<b>93.8</b>	<b>100.6</b>	<b>105.4</b>
Other operating income	2.2	2.3	2.1	3.0	3.0	3.1	3.2
Material expenses	3.7	6.4	8.0	9.4	10.4	11.3	12.0
Personnel expenses	26.7	40.1	45.4	56.2	61.2	65.2	68.0
Other operating expenses	12.2	14.4	14.4	17.4	18.9	19.7	20.4
Total operating expenses	40.3	58.7	65.6	80.1	87.5	93.1	97.2
<b>EBITDA</b>	<b>5.3</b>	<b>8.1</b>	<b>5.8</b>	<b>5.6</b>	<b>6.3</b>	<b>7.5</b>	<b>8.2</b>
Depreciation	0.5	0.6	0.6	0.7	0.8	0.8	0.8
<b>EBITA</b>	<b>4.8</b>	<b>7.5</b>	<b>5.2</b>	<b>4.9</b>	<b>5.6</b>	<b>6.7</b>	<b>7.4</b>
Amortisation of goodwill	0.4	1.4	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	1.2	1.5	2.2	2.3	1.5	1.4	0.8
Impairment charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>3.2</b>	<b>4.5</b>	<b>3.0</b>	<b>2.7</b>	<b>4.1</b>	<b>5.3</b>	<b>6.7</b>
Interest income	0.3	0.5	0.3	0.2	0.2	0.2	0.2
Interest expenses	0.2	0.4	0.3	0.4	0.4	0.2	0.2
Other financial result	-0.1	0.0	0.3	0.0	0.0	0.0	0.0
Financial result	0.1	0.1	0.3	-0.2	-0.2	0.0	0.1
<b>Recurring pretax income from continuing operations</b>	<b>3.2</b>	<b>4.6</b>	<b>3.3</b>	<b>2.5</b>	<b>3.9</b>	<b>5.3</b>	<b>6.8</b>
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Earnings before taxes</b>	<b>3.2</b>	<b>4.6</b>	<b>3.3</b>	<b>2.5</b>	<b>3.9</b>	<b>5.3</b>	<b>6.8</b>
Taxes	0.8	0.4	-0.3	0.0	0.3	0.5	1.0
<b>Net income from continuing operations</b>	<b>2.4</b>	<b>4.3</b>	<b>3.6</b>	<b>2.5</b>	<b>3.6</b>	<b>4.8</b>	<b>5.7</b>
Result from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>2.4</b>	<b>4.3</b>	<b>3.6</b>	<b>2.5</b>	<b>3.6</b>	<b>4.8</b>	<b>5.7</b>
Minority interest	0.0	0.1	0.1	0.1	0.2	0.1	0.2
<b>Net income (net of minority interest)</b>	<b>2.4</b>	<b>4.2</b>	<b>3.5</b>	<b>2.4</b>	<b>3.4</b>	<b>4.6</b>	<b>5.6</b>
Average number of shares	5.7	5.7	5.7	5.7	5.7	5.7	5.7
<b>EPS reported</b>	<b>0.42</b>	<b>0.74</b>	<b>0.61</b>	<b>0.42</b>	<b>0.59</b>	<b>0.81</b>	<b>0.97</b>

Profit and loss (common size)	2007	2008	2009	2010	2011E	2012E	2013E
<b>Net sales</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Increase/decrease in finished goods and work-in-process	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Total sales</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Other operating income	4.9 %	3.5 %	3.0 %	3.5 %	3.2 %	3.1 %	3.0 %
Material expenses	8.0 %	9.6 %	11.2 %	11.0 %	11.1 %	11.2 %	11.4 %
Personnel expenses	58.5 %	60.1 %	63.6 %	65.6 %	65.2 %	64.8 %	64.5 %
Other operating expenses	26.8 %	21.6 %	20.1 %	20.3 %	20.1 %	19.6 %	19.4 %
Total operating expenses	88.4 %	87.9 %	91.9 %	93.5 %	93.3 %	92.5 %	92.2 %
<b>EBITDA</b>	<b>11.6 %</b>	<b>12.1 %</b>	<b>8.1 %</b>	<b>6.5 %</b>	<b>6.7 %</b>	<b>7.5 %</b>	<b>7.8 %</b>
Depreciation	1.1 %	0.9 %	0.8 %	0.8 %	0.8 %	0.8 %	0.7 %
<b>EBITA</b>	<b>10.5 %</b>	<b>11.2 %</b>	<b>7.3 %</b>	<b>5.8 %</b>	<b>5.9 %</b>	<b>6.7 %</b>	<b>7.0 %</b>
Amortisation of goodwill	0.9 %	2.2 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Amortisation of intangible assets	2.6 %	2.3 %	3.1 %	2.7 %	1.5 %	1.4 %	0.7 %
Impairment charges	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>EBIT</b>	<b>7.0 %</b>	<b>6.7 %</b>	<b>4.2 %</b>	<b>3.1 %</b>	<b>4.4 %</b>	<b>5.3 %</b>	<b>6.3 %</b>
Interest income	0.7 %	0.8 %	0.5 %	0.2 %	0.2 %	0.2 %	0.2 %
Interest expenses	0.4 %	0.6 %	0.5 %	0.5 %	0.4 %	0.2 %	0.1 %
Other financial result	-0.1 %	0.0 %	0.4 %	0.0 %	0.0 %	0.0 %	0.0 %
Financial result	0.1 %	0.2 %	0.4 %	-0.2 %	-0.2 %	0.0 %	0.1 %
<b>Recurring pretax income from continuing operations</b>	<b>7.1 %</b>	<b>6.9 %</b>	<b>4.6 %</b>	<b>2.9 %</b>	<b>4.2 %</b>	<b>5.3 %</b>	<b>6.4 %</b>
Extraordinary income/loss	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Earnings before taxes</b>	<b>7.1 %</b>	<b>6.9 %</b>	<b>4.6 %</b>	<b>2.9 %</b>	<b>4.2 %</b>	<b>5.3 %</b>	<b>6.4 %</b>
Tax rate	25.3 %	7.6 %	-8.9 %	-1.4 %	8.3 %	9.6 %	15.1 %
<b>Net income from continuing operations</b>	<b>5.3 %</b>	<b>6.4 %</b>	<b>5.0 %</b>	<b>2.9 %</b>	<b>3.8 %</b>	<b>4.8 %</b>	<b>5.4 %</b>
Income from discontinued operations (net of tax)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Net income</b>	<b>5.3 %</b>	<b>6.4 %</b>	<b>5.0 %</b>	<b>2.9 %</b>	<b>3.8 %</b>	<b>4.8 %</b>	<b>5.4 %</b>
Minority interest	0.1 %	0.1 %	0.1 %	0.1 %	0.3 %	0.1 %	0.2 %
<b>Net income (net of minority interest)</b>	<b>5.2 %</b>	<b>6.3 %</b>	<b>4.9 %</b>	<b>2.8 %</b>	<b>3.6 %</b>	<b>4.6 %</b>	<b>5.3 %</b>

Source: Company data, Hauck & Aufhäuser

Balance sheet (EUR m)	2007	2008	2009	2010	2011E	2012E	2013E
<b>Intangible assets</b>	<b>13.6</b>	<b>10.7</b>	<b>16.2</b>	<b>15.6</b>	<b>14.2</b>	<b>12.9</b>	<b>12.3</b>
Property, plant and equipment	1.1	0.9	1.0	1.2	1.1	1.2	1.2
Financial assets	0.1	0.5	0.5	0.6	0.6	0.6	0.6
<b>FIXED ASSETS</b>	<b>14.7</b>	<b>12.2</b>	<b>17.8</b>	<b>17.4</b>	<b>16.0</b>	<b>14.7</b>	<b>14.1</b>
Inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable	11.7	14.3	16.4	20.3	22.1	23.7	24.8
Other current assets	1.3	1.5	1.6	1.7	1.7	1.7	1.7
Liquid assets	15.9	22.8	17.3	17.0	17.7	19.4	23.3
Deferred taxes	4.6	5.1	5.7	5.9	5.9	5.9	5.9
Deferred charges and prepaid expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>CURRENT ASSETS</b>	<b>33.5</b>	<b>43.7</b>	<b>41.1</b>	<b>44.9</b>	<b>47.4</b>	<b>50.7</b>	<b>55.7</b>
<b>TOTAL ASSETS</b>	<b>48.2</b>	<b>55.8</b>	<b>58.9</b>	<b>62.3</b>	<b>63.4</b>	<b>65.5</b>	<b>69.8</b>
SHAREHOLDERS EQUITY	20.9	25.3	28.8	30.7	33.2	36.7	40.7
MINORITY INTEREST	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Long-term debt	7.4	2.1	5.6	5.5	3.6	1.7	1.7
Provisions for pensions and similar obligations	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other provisions	7.4	3.0	2.6	2.2	2.2	2.2	2.2
<b>Non-current liabilities</b>	<b>15.2</b>	<b>5.6</b>	<b>8.7</b>	<b>8.2</b>	<b>6.3</b>	<b>4.4</b>	<b>4.4</b>
short-term liabilities to banks	0.9	5.3	3.0	2.2	2.2	2.2	2.2
Accounts payable	5.0	4.4	3.8	3.5	3.9	4.1	4.3
Advance payments received on orders	1.5	2.9	2.1	2.2	2.4	2.6	2.7
Other liabilities (incl. from lease and rental contracts)	2.8	10.5	10.9	14.1	14.1	14.1	14.1
Deferred taxes	1.9	1.7	1.4	1.2	1.2	1.2	1.2
Deferred income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Current liabilities</b>	<b>12.0</b>	<b>24.9</b>	<b>21.3</b>	<b>23.2</b>	<b>23.7</b>	<b>24.2</b>	<b>24.5</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>48.2</b>	<b>55.8</b>	<b>58.9</b>	<b>62.3</b>	<b>63.4</b>	<b>65.5</b>	<b>69.8</b>

Balance sheet (common size)	2007	2008	2009	2010	2011E	2012E	2013E
<b>Intangible assets</b>	<b>28.2 %</b>	<b>19.2 %</b>	<b>27.6 %</b>	<b>25.0 %</b>	<b>22.4 %</b>	<b>19.8 %</b>	<b>17.6 %</b>
Property, plant and equipment	2.2 %	1.7 %	1.7 %	1.9 %	1.8 %	1.8 %	1.7 %
Financial assets	0.2 %	0.9 %	0.9 %	1.0 %	1.0 %	0.9 %	0.9 %
<b>FIXED ASSETS</b>	<b>30.5 %</b>	<b>21.8 %</b>	<b>30.3 %</b>	<b>27.9 %</b>	<b>25.2 %</b>	<b>22.5 %</b>	<b>20.2 %</b>
Inventories	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Accounts receivable	24.2 %	25.6 %	27.9 %	32.5 %	34.9 %	36.2 %	35.6 %
Other current assets	2.7 %	2.7 %	2.6 %	2.7 %	2.6 %	2.5 %	2.4 %
Liquid assets	33.0 %	40.8 %	29.4 %	27.3 %	27.9 %	29.7 %	33.4 %
Deferred taxes	9.6 %	9.2 %	9.7 %	9.5 %	9.4 %	9.1 %	8.5 %
Deferred charges and prepaid expenses	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>CURRENT ASSETS</b>	<b>69.5 %</b>	<b>78.2 %</b>	<b>69.7 %</b>	<b>72.1 %</b>	<b>74.8 %</b>	<b>77.5 %</b>	<b>79.8 %</b>
<b>TOTAL ASSETS</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
SHAREHOLDERS EQUITY	43.4 %	45.3 %	48.9 %	49.3 %	52.3 %	56.0 %	58.3 %
MINORITY INTEREST	0.1 %	0.1 %	0.1 %	0.3 %	0.3 %	0.3 %	0.3 %
Long-term debt	15.3 %	3.8 %	9.5 %	8.8 %	5.7 %	2.6 %	2.4 %
Provisions for pensions and similar obligations	1.0 %	0.9 %	0.8 %	0.8 %	0.8 %	0.8 %	0.8 %
Other provisions	15.3 %	5.3 %	4.5 %	3.5 %	3.4 %	3.3 %	3.1 %
<b>Non-current liabilities</b>	<b>31.6 %</b>	<b>10.0 %</b>	<b>14.8 %</b>	<b>13.2 %</b>	<b>10.0 %</b>	<b>6.7 %</b>	<b>6.3 %</b>
short-term liabilities to banks	1.9 %	9.5 %	5.1 %	3.5 %	3.4 %	3.3 %	3.1 %
Accounts payable	10.3 %	7.9 %	6.5 %	5.7 %	6.1 %	6.3 %	6.2 %
Advance payments received on orders	3.1 %	5.2 %	3.6 %	3.6 %	3.8 %	4.0 %	3.9 %
Other liabilities (incl. from lease and rental contracts)	5.8 %	18.9 %	18.6 %	22.6 %	22.3 %	21.6 %	20.2 %
Deferred taxes	3.9 %	3.1 %	2.5 %	1.9 %	1.8 %	1.8 %	1.7 %
Deferred income	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
<b>Current liabilities</b>	<b>24.9 %</b>	<b>44.6 %</b>	<b>36.2 %</b>	<b>37.3 %</b>	<b>37.4 %</b>	<b>37.0 %</b>	<b>35.1 %</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

Source: Company data, Hauck & Aufhäuser

Cash flow statement (EUR m)	2007	2008	2009	2010	2011E	2012E	2013E
Net profit/loss	2.4	4.3	3.6	2.5	3.6	4.8	5.7
Depreciation of fixed assets (incl. leases)	0.5	0.6	0.6	0.7	0.8	0.8	0.8
Amortisation of goodwill	0.4	1.4	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	1.2	1.5	2.2	2.3	1.5	1.4	0.8
Others	0.3	5.4	-1.3	2.0	0.2	0.2	0.1
Cash flow from operations before changes in w/c	4.8	13.3	5.1	7.4	6.0	7.1	7.4
Increase/decrease in inventory	2.3	-4.9	-0.1	0.0	0.0	0.0	0.0
Increase/decrease in accounts receivable	-2.1	-4.4	-0.3	-3.8	-1.8	-1.6	-1.1
Increase/decrease in accounts payable	0.9	4.4	-2.3	-0.3	0.3	0.3	0.2
Increase/decrease in other working capital positions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase/decrease in working capital	1.1	-4.9	-2.8	-4.1	-1.5	-1.3	-0.9
<b>Cash flow from operating activities</b>	<b>5.9</b>	<b>8.4</b>	<b>2.3</b>	<b>3.3</b>	<b>4.5</b>	<b>5.8</b>	<b>6.5</b>
CAPEX	0.6	0.6	0.7	0.7	0.8	0.9	0.9
Payments for acquisitions	1.7	0.1	4.3	-0.1	0.0	0.0	0.0
Financial investments	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Income from asset disposals	0.2	0.0	-0.3	0.0	0.0	0.0	0.0
<b>Cash flow from investing activities</b>	<b>-2.2</b>	<b>-0.7</b>	<b>-5.3</b>	<b>-0.6</b>	<b>-0.8</b>	<b>-0.9</b>	<b>-0.9</b>
Cash flow before financing	3.7	7.7	-2.9	2.7	3.7	4.9	5.6
Increase/decrease in debt position	3.4	-0.9	1.6	-2.9	-1.9	-1.9	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.9	0.0	0.1	0.9	0.9	1.2	1.5
Others	0.1	0.2	0.1	-0.2	-0.2	-0.1	-0.2
Effects of exchange rate changes on cash	0.0	0.1	0.0	0.1	0.0	0.0	0.0
<b>Cash flow from financing activities</b>	<b>2.7</b>	<b>-0.8</b>	<b>1.6</b>	<b>-4.0</b>	<b>-3.0</b>	<b>-3.2</b>	<b>-1.7</b>
Increase/decrease in liquid assets	6.4	7.1	-1.4	-1.3	0.7	1.7	3.9
<b>Liquid assets at end of period</b>	<b>11.6</b>	<b>18.7</b>	<b>17.3</b>	<b>17.0</b>	<b>17.7</b>	<b>19.4</b>	<b>23.3</b>

Source: Company data, Hauck & Aufhäuser

Regional split (EUR m)	2007	2008	2009	2010	2011E	2012E	2013E
Domestic	37.4	59.4	59.9	68.5	73.7	76.9	78.8
yoy change	39.3 %	58.8 %	0.8 %	14.4 %	7.5 %	4.3 %	2.5 %
Rest of Europe	8.2	7.3	11.4	17.1	20.1	23.7	26.6
yoy change	1399.3 %	-10.6 %	55.4 %	50.1 %	17.3 %	17.9 %	12.2 %
NAFTA	n/a	n/a	n/a	n/a	n/a	n/a	n/a
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Asia Pacific	n/a	n/a	n/a	n/a	n/a	n/a	n/a
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Rest of world	n/a	n/a	n/a	n/a	n/a	n/a	n/a
yoy change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>TTL</b>	<b>45.6</b>	<b>66.8</b>	<b>71.3</b>	<b>85.7</b>	<b>93.8</b>	<b>100.6</b>	<b>105.4</b>
yoy change	66.5 %	46.3 %	6.8 %	20.1 %	9.5 %	7.2 %	4.8 %

Source: Company data, Hauck & Aufhäuser

Key ratios (EUR m)	2007	2008	2009	2010	2011E	2012E	2013E
<b>P&amp;L growth analysis</b>							
Sales growth	66.5 %	46.3 %	6.8 %	20.1 %	9.5 %	7.2 %	4.8 %
EBITDA growth	84.6 %	52.3 %	-28.8 %	-2.8 %	12.6 %	19.0 %	9.3 %
EBIT growth	27.7 %	40.9 %	-33.5 %	-11.2 %	54.1 %	30.0 %	25.1 %
EPS growth	54.5 %	77.1 %	-16.9 %	-32.3 %	41.5 %	38.1 %	19.9 %
<b>Efficiency</b>							
Total operating costs / sales	88.4 %	87.9 %	91.9 %	93.5 %	93.3 %	92.5 %	92.2 %
Sales per employee	109.3	122.4	115.6	118.9	116.0	119.6	122.0
EBITDA per employee	12.7	14.8	9.3	7.8	7.8	8.9	9.5
<b>Balance sheet analysis</b>							
Avg. working capital / sales	9.4 %	9.1 %	12.2 %	14.6 %	16.2 %	16.3 %	16.5 %
Inventory turnover (sales/inventory)	11,411.5	0.0	0.0	0.0	0.0	0.0	0.0
Trade debtors in days of sales	93.3	78.1	84.1	86.4	86.0	86.0	86.0
A/P turnover [(A/P*365)/sales]	39.7	24.2	19.6	15.1	15.0	15.0	15.0
Cash conversion cycle (days)	-402.1	-174.1	-91.3	-51.0	-49.3	-47.5	-45.8
<b>Cash flow analysis</b>							
Free cash flow	5.3	7.8	1.6	2.5	3.7	4.9	5.6
Free cash flow/sales	11.5 %	11.6 %	2.3 %	3.0 %	4.0 %	4.9 %	5.3 %
FCF / net profit	220.8 %	184.1 %	46.2 %	107.2 %	110.8 %	105.7 %	99.7 %
FCF yield	15.3 %	22.6 %	4.7 %	7.4 %	10.8 %	14.3 %	16.2 %
Capex / depn	31.8 %	17.4 %	25.0 %	24.6 %	35.5 %	41.5 %	58.8 %
Capex / maintenance capex	106.5 %	82.5 %	91.0 %	92.9 %	89.7 %	92.0 %	90.9 %
Capex / sales	1.5 %	0.9 %	1.0 %	0.8 %	0.8 %	n/a	n/a
<b>Security</b>							
Net debt	-7.6	-15.4	-8.8	-9.4	-11.9	-15.6	-19.4
Net Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net debt / equity	-0.4	-0.6	-0.3	-0.3	-0.4	-0.4	-0.5
Interest cover	16.1	10.8	8.8	6.5	11.3	22.1	43.1
Dividend payout ratio	0.0 %	0.0 %	24.9 %	37.8 %	34.3 %	33.0 %	33.9 %
<b>Asset utilisation</b>							
Capital employed turnover	1.2	1.8	1.8	2.1	2.2	2.3	2.2
Operating assets turnover	7.3	8.5	6.2	5.5	5.5	5.6	5.6
Plant turnover	43.3	70.6	69.5	72.1	82.4	86.1	88.7
Inventory turnover (sales/inventory)	11,411.5	0.0	0.0	0.0	0.0	0.0	0.0
<b>Returns</b>							
ROCE	12.9 %	12.3 %	7.8 %	6.5 %	9.9 %	12.5 %	14.7 %
ROE	11.4 %	16.7 %	12.2 %	7.7 %	10.1 %	12.7 %	13.7 %
<b>Other</b>							
Interest paid / avg. debt	3.4 %	5.3 %	4.2 %	5.0 %	5.4 %	5.0 %	4.0 %
No. employees (average)	418	546	617	721	809	841	864
Number of shares	5.7	5.7	5.7	5.7	5.7	5.7	5.7
DPS	0.0	0.0	0.2	0.2	0.2	0.3	0.3
EPS reported	0.42	0.74	0.61	0.42	0.59	0.81	0.97
<b>Valuation ratios</b>							
P/BV	1.6	1.4	1.2	1.1	1.0	0.9	0.8
EV/sales	0.6	0.3	0.4	0.3	0.2	0.2	0.1
EV/EBITDA	5.1	2.4	4.5	4.6	3.6	2.6	1.9
EV/EBITA	5.7	2.6	5.0	5.2	4.1	2.9	2.1
EV/EBIT	8.5	4.3	8.7	9.6	5.6	3.6	2.3
EV/FCF	5.2	2.5	16.1	10.0	6.2	3.9	2.8
Dividend yield	0.0 %	0.0 %	2.5 %	2.5 %	3.1 %	4.3 %	5.4 %

Source: Company data, Hauck & Aufhäuser

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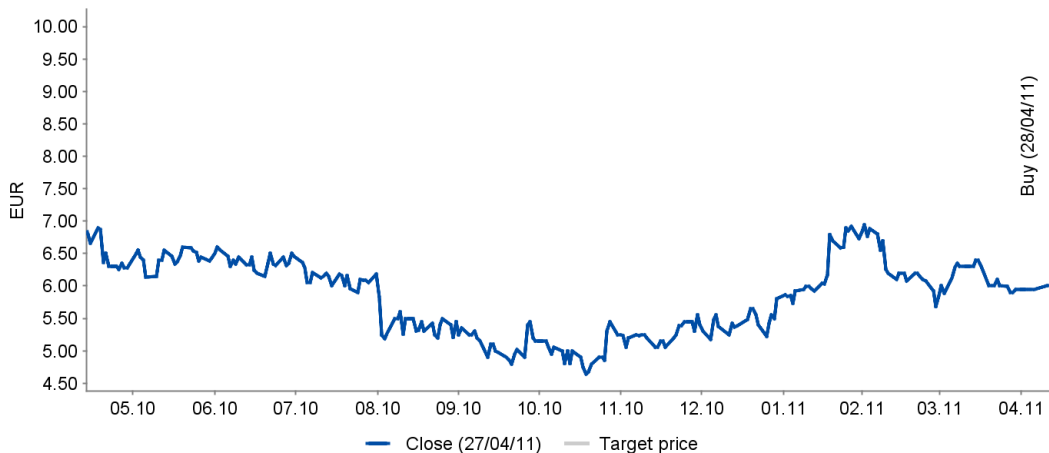
Company	Disclosure
adesso AG	2, 8

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**Historical target price and rating changes for adesso AG in the last 12 months**

**Price and Rating History  
adesso AG as of 28/04/11**

**Initiation coverage**  
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**Contacts: Hauck&Aufhäuser Investment Banking**

**Hauck & Aufhäuser Research**

Hauck & Aufhäuser  
Institutional Research GmbH  
Mittelweg 142  
  
20148 Hamburg  
Germany

Tel.: +49 (0) 40 414 3885 - 70  
Fax: +49 (0) 40 414 3885 - 71  
Email: info@ha-research.de  
www.ha-research.de

**Sascha Berresch, CFA**  
Analyst

Tel.: +49 (0)40 414 3885 - 85  
E-Mail: sascha.berresch@ha-research.de

**Henning Breiter**  
Analyst

Tel.: +49 (0)40 414 3885 - 73  
E-Mail: henning.breiter@ha-research.de

**Marie-Therese Gruebner**  
Analyst

Tel.: +49 (0)40 414 3885 - 83  
E-Mail: marie-therese.gruebner@ha-research.de

**Marc Osigus, CFA**  
Analyst

Tel.: +49 (0)40 414 3885 - 90  
E-Mail: marc.osigus@ha-research.de

**Roland Rapelius, CFA**  
Analyst

Tel.: +49 (0)40 414 3885 - 86  
E-Mail: roland.rapelius@ha-research.de

**Thomas Wissler**  
Analyst

Tel.: +49 (0)40 414 3885 - 80  
E-Mail: thomas.wissler@ha-research.de

**Tim Wunderlich**  
Analyst

Tel.: +49 (0)40 414 3885 - 81  
E-Mail: tim.wunderlich@ha-research.de

**Hauck & Aufhäuser Sales**

**Vincent Bischoff**  
Sales

Tel.: +49 (0)40 414 3885 - 88  
E-Mail: vincent.bischoff@ha-research.de

**Hugues Madelin**  
Sales

Tel.: +33 1 78 41 40 62  
E-Mail: hugues.madelin@ha-research.de

**Toby Woods**  
Sales

Tel.: +44 777 55 833 46  
E-Mail: toby.woods@ha-research.de

**Senior Advisors**

**Dr. Alexander Klemm**  
Senior Advisor

Tel.: +49 (0) 69 50 500 49- 71  
E-Mail: alexander.klemm@ha-ib.com

**Graeme Davies**  
Senior Advisor

Tel.: +49 (0)40 414 3885 - 72  
E-Mail: graeme.davies@ha-research.de

**Michael Schramm**  
Senior Advisor

Tel.: +49 (0)69 2161 - 1240  
E-Mail: michael.schramm@hauck-aufhaeuser.de

**Hauck & Aufhäuser Sales Trading**

Hauck & Aufhäuser  
Privatbankiers KGaA  
Kaiserstraße 24

60311 Frankfurt am Main  
Germany

Tel.: +49 (0) 69 2161- 0  
Fax: +49 (0) 69 2161- 1340  
Email: info@hauck-aufhaeuser.de  
www.hauck-aufhaeuser.de

**Thomas Seibert**  
Trading

Tel.: +49 (0)69 2161 - 1555  
E-Mail: thomas.seibert@hauck-aufhaeuser.de

**Sebastian Schuett**  
Trading

Tel.: +49 (0)69 2161 - 1556  
E-Mail: sebastian.schuett@hauck-aufhaeuser.de