

Update

REALTECH

On its Way to Double-Digit Margins

Industry: IT Services & Consulting
Country: Germany
Reuters: RTCG.DE
WKN: 700890
Website: www.realtech.de

Current Price: 5,59
High: 10,95
Low: 4,89
Price 52W.: 10,95
Market Cap. (Mill. EUR): 30,1
No. Of Shares (in Mill.): 5,4

Shareholders

Free Float: 50,11%
Daniele Di Croce: 16,44%
Rainer Schmidt: 14,22%
Peter Stier: 13,84%
BWVA: 5,39%

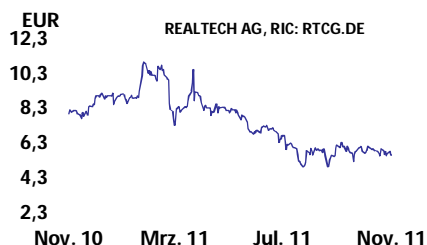
Performance

4 Weeks: -6,0%
13 Weeks: -6,7%
26 Weeks: -31,8%
52 Weeks: -31,4%
YTD: -37,9%

Dividend

	EUR/Share	in %
2009	0,20	48%
2010	0,20	45%
2011e	0,10	45%
2012e	0,13	45%
2013e	0,16	45%

52 Week Share Price History



Analysts

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■ In the third quarter, revenues rose by 7% to €9.5 M (Q3 2010: €10.2 M). Here at last year's figures, the effects of MBOs of the subsidiaries in Spain and Italy have been excluded. The proportion software division versus total sales increased from 27% to 32%. We therefore expect for the future increasing margins. In the third quarter sales of the software segment grew by 27% to €2.5 M (Q3 2010: €3.2 M). Sales of the division Consulting remained with €7M at the same level as the 9month result 2010. In the first nine months 2011 sales in Japan declined, but could recover in the third quarter.

■ The costs of sales have risen faster than revenues. Developments concerning the product theGuard! resulted in high R & D and marketing costs, this led to a decline in EBIT of 96% to €0.04 M (Q3 2010: €0.92 M). Earnings per share were at €-0.03 in the third quarter (Q3 2010: €0.07 M).

■ REALTECH strengthens its collaboration with SAP. The software theGuard! will become integrated into the products "Service Impact Management" and "SAP Business by Design". Regarding these new products we expect in 2012 additional sales revenues and profits based on maintenance services. Although this agreement strengthens the dependence on SAP but for REALTECH it opens an additional potential of 100,000 new customers. In the Consulting segment, the company focuses on the profitable areas. In the software segment the efficiency improves continuously. This is achieved through the integration of the REALTECH subsidiaries into the production processes.

■ After speaking with management, we have adjusted our estimates. In 2011, we expect sales revenues of €39M. Compared to the loss in 2010, we await a slightly positive net income at the end of the fiscal year. Company's product theGuard! should cause a jump in sales of 10% in 2012. We expect double digit margins of the mentioned product. Based on our DCF-Model our fair value is EUR 7.87 per share and we recommend buying the stock.

Key Figures

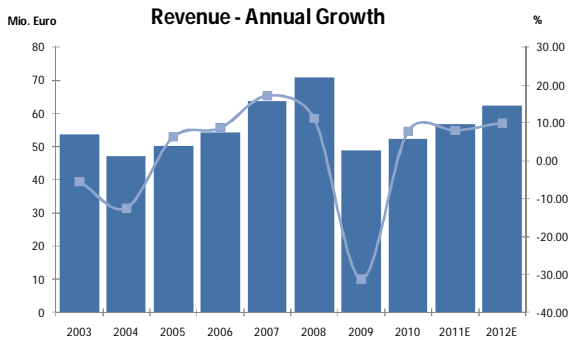
EUR m	2008	2009	2010	2011e	2012e
Revenues	70,8	61,7	52,5	39,5	43,4
EBITDA	8,02	3,74	5,33	1,12	5,47
EBIT	7,02	2,64	4,36	0,12	4,47
Net Income	5,72	1,24	-1,44	0,05	3,10
EPS	1,08	0,23	-0,27	0,01	0,58
BVPS	5,61	5,49	4,77	4,83	5,32
CFPS	1,29	0,47	-0,09	0,20	0,77
RoE	19,6%	4,3%	-5,7%	0,2%	11,0%
RoS	8,1%	2,0%	-2,7%	0,1%	7,1%
EBIT margin	9,9%	4,3%	8,3%	0,3%	10,3%

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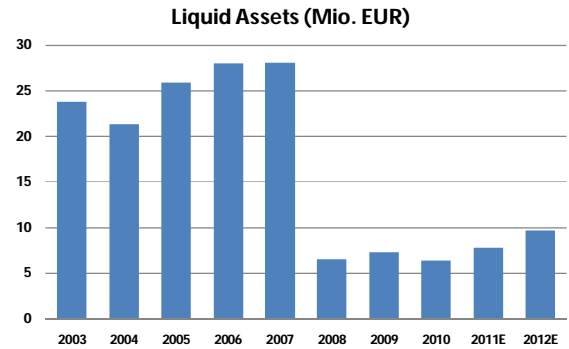
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1. Company Performance

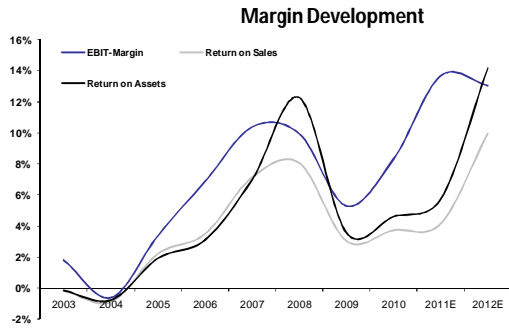
Revenue Development



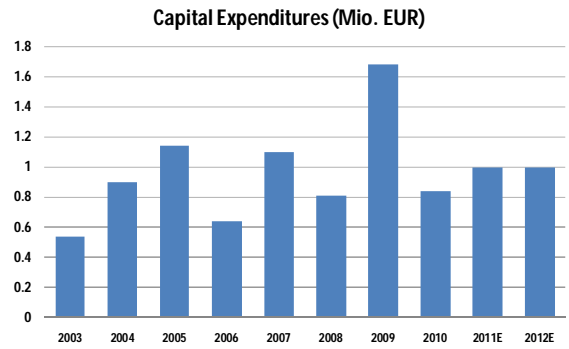
Liquid Asset Development



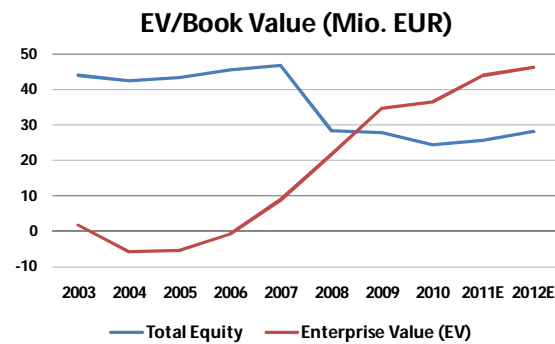
Margin Development



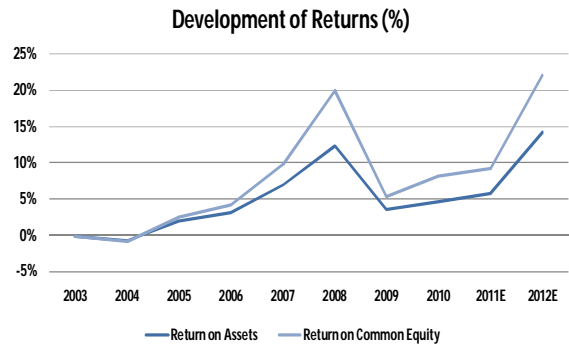
Investment Expenditures



Enterprise Value

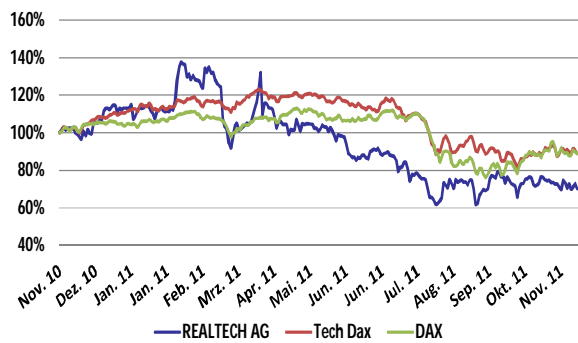


Return on Investments and Equity



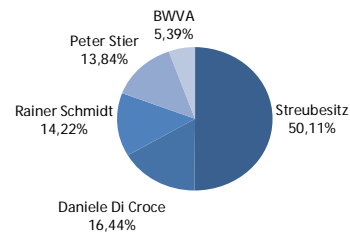
2. Share and Shareholder Structure

Share Price Development



Source: Dr. Kalliwoda Research, Reuters

Shareholder Structure



Source: Realtech AG

3. SWOT Analysis

Strengths

- Location: Good relationship and located close to SAP
- Market position: Germany's leader in technology consulting
- Market position: Europe's largest provider of service management solutions
- Extensive customer base with well known and prominent customers
- Solid balance sheet and high cash flows
- Sustained revenues in spite of challenging business conditions

Opportunities

- Realtech has the potential to profit from increasing investments in IT.
- The company will develop additional international sales channels through its new partnership with SAP.
- Realtech serves top IT topics such as business intelligence, IT governance, IT security, and service-oriented architectures.

Weaknesses

- Realtech concentrates on the competitive German market
- International product sales are still too low
- IT plays only a subordinate roll in manufacturing production systems. Here we see great potential in the integration of isolated solutions in production IT infrastructure, particularly in the SME sector.

Threats

- Expenses for consulting and IIT services are closely interwoven with macro-economic development
- Realtech is, itself, in competition with SAP
- The IT consulting market is highly competitive which could lead to an increase in price competition.

4. Financial Analysis

4.1. Profit and Loss

Profit and Loss - REALTECH AG					
in Mio. EUR	Fiscal Year End				
	2008	2009	2010	2011E	2012E
Revenue	70,8	61,7	52,5	39,5	43,4
Cost of Sales	-43,9	-40,8	-32,1	-21,9	-23,0
Gross Profit	26,9	20,9	20,4	17,7	20,4
Sales and Marketing Costs	-9,2	-8,5	-7,6	-7,5	-6,9
Administrative Costs	-7,0	-6,7	-5,3	-5,3	-5,8
Research and Development Costs	-4,6	-3,8	-3,6	-4,2	-2,6
Other operating expenses	-1,5	-1,3	-1,3	-1,3	-1,4
Other operating income	2,5	2,0	1,7	0,8	0,9
Operating Profit	7,0	2,6	4,4	0,1	4,5
Interest Income/Expense	0,5	0,0	0,1	0,1	0,1
Financial Income/Expense	1,0	-0,1	0,0	0,0	0,0
Foreign Currency Exchange Gains/Losses	0,0	-0,1	0,1	0,0	0,0
Profit Before Tax	8,5	2,4	4,5	0,2	4,6
Income Tax Expense	-2,7	-1,1	-2,5	-0,1	-1,4
Profit for the Year	5,8	1,3	2,0	0,2	3,2
Attributable to Minority Interests	-0,1	-0,1	0,0	-0,1	-0,1
Profit/Loss from Discontinued Operations	0,0	0,0	-3,4	0,0	0,0
Profit for the Year	5,72	1,24	-1,44	0,05	3,10
Earnings per Share	1,08	0,23	-0,27	0,01	0,58
Profit and Loss (Growth)					
Revenue	13,7%	-7,1%	-21,3%	-31,9%	5,2%
Cost of Sales	7,0%	-22,3%	-2,3%	-13,5%	15,4%
Gross Profit	14,9%	-7,8%	-9,9%	-1,6%	-7,6%
Sales and Marketing Costs	4,1%	-5,1%	-21,0%	1,2%	8,9%
Administrative Costs	1,1%	-17,4%	-4,7%	14,6%	-37,3%
Research and Development Costs	16,7%	-15,6%	-2,8%	6,4%	6,5%
Other operating expenses	17,9%	-20,0%	-13,0%	-54,6%	9,7%
Other operating income	6,0%	-62,4%	65,3%	-97,3%	-
Operating Profit	-18,5%	-100,0%	-	24,5%	0,0%
Interest Income/Expense	-	-	-100,0%	-	-
Financial Income/Expense	-100,0%	-	-	-100,0%	-
Foreign Currency Exchange Gains/Losses	18,7%	-71,4%	84,7%	-95,1%	-
Profit Before Tax	5,5%	-59,3%	130,1%	-97,4%	-
Income Tax Expense	26,0%	-77,0%	47,5%	-92,3%	-
Profit for the Year	0,0%	0,0%	-100,0%	-	0,0%
Attributable to Minority Interests	-	-	-	-100,0%	-
Profit/Loss from Discontinued Operations	26,5%	-78,3%	-	-	-
Profit for the Year	24,1%	-78,7%	-	-	-
Profit and Loss (Percentage of Revenue)					
Revenue	100,0%	100,0%	100,0%	100,0%	100,0%
Cost of Sales	-68,9%	-64,0%	-50,3%	-55,3%	-53,0%
Gross Profit	38,0%	33,9%	38,9%	44,7%	47,0%
Sales and Marketing Costs	-14,4%	-13,3%	-12,0%	-19,0%	-16,0%
Administrative Costs	-11,0%	-10,5%	-8,3%	-13,5%	-13,4%
Research and Development Costs	-7,2%	-6,0%	-5,7%	-10,5%	-6,0%
Other operating expenses	-2,4%	-2,0%	-2,0%	-3,4%	-3,3%
Other operating income	3,9%	3,1%	2,7%	2,0%	2,0%
Operating Profit	9,9%	4,3%	8,3%	0,3%	10,3%
Interest Income/Expense	0,7%	0,0%	0,2%	0,3%	0,2%
Financial Income/Expense	1,4%	-0,2%	0,0%	0,0%	0,0%
Foreign Currency Exchange Gains/Losses	0,0%	-0,2%	0,1%	0,0%	0,0%
Profit Before Tax	12,0%	4,0%	8,6%	0,6%	10,5%
Income Tax Expense	-3,8%	-1,8%	-4,8%	-0,2%	-3,2%
Profit for the Year	8,2%	2,2%	3,8%	0,4%	7,4%
Attributable to Minority Interests	-0,1%	-0,2%	0,0%	-0,3%	-0,2%
Profit/Loss from Discontinued Operations	0,0%	0,0%	-6,5%	0,0%	0,0%
Profit for the Year	8,1%	2,0%	-2,7%	0,1%	7,1%

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4.2. Balance sheet

Balance Sheet - REALTECH AG					
In €M	Fiscal Year End				
	2008	2009	2010	2011E	2012E
Assets					
<i>Current Assets</i>					
Trade Receivables	24,0	18,0	16,7	17,7	18,8
Tax Receivables	0,7	0,5	3,6	0,2	0,2
Other Current Assets	1,1	1,2	0,7	1,2	1,2
Other Financial Assets	1,1	0,0	0,0	0,0	0,0
Cash and Cash Equivalents	5,3	7,3	6,4	7,8	9,7
Total Current Assets	32,2	27,0	27,4	26,9	29,9
<i>Non-Current Assets</i>					
Concessions, Industrial Rights and Similar Assets	0,3	0,6	0,6	0,5	0,5
Goodwill	4,3	4,3	4,3	4,3	4,3
Property, Plant and Equipment	7,5	7,5	7,2	7,3	7,3
Technical Equipment and Machines	0,1	0,1	0,0	0,1	0,1
Other Equipment and Office Equipment	1,6	1,5	1,3	1,5	1,5
Advance Payments and Construction in Progress	0,0	0,0	0,0	0,0	0,0
Loans Receivable	0,1	0,0	0,0	0,1	0,1
Deferred Tax Assets	0,3	0,2	1,2	0,3	0,2
Other Non-Current Assets	0,0	0,1	0,3	0,0	0,0
Total Non-Current Assets	14,2	14,3	14,9	14,1	14,0
Total Assets	46,4	41,4	42,4	41,0	43,9
<i>Equity</i>					
Issued Capital	5,3	5,3	5,4	5,3	5,3
Capital Reserves	13,3	13,5	11,0	13,3	13,3
Additional Paid-in Capital	-0,4	0,1	0,5	0,2	0,2
Other Comprehensive Income	0,0	0,0	0,0	0,0	0,0
Retained Earnings	10,3	8,9	7,5	6,1	8,7
Non-Controlling Interest	0,7	0,8	0,9	0,7	0,7
Total Equity	29,2	28,6	25,3	25,6	28,2
<i>Non-Current Liabilities</i>					
Deferred Tax Liabilities	0,5	0,4	0,4	0,4	0,4
Total Non-Current Liabilities	0,5	0,4	0,4	0,4	0,4
<i>Current Liabilities</i>					
Trade Payables	2,3	1,9	1,5	1,5	1,5
Income Tax Payables	1,1	0,4	6,5	1,5	1,5
Provisions	8,8	5,7	4,0	7,0	7,0
Other Financial Liabilities	4,5	4,4	4,7	5,0	5,2
Other Liabilities	0,0	0,0	0,0	0,0	0,0
Total Current Liabilities	16,7	12,4	16,7	15,0	15,3
Total Equity and Liabilities	46,4	41,4	42,4	41,0	43,9

5. Valuation

5.1. DCF Model

Our valuation of REALTECH utilizes a discounted cash flow model. This has been based on REALTECH's consolidated financial statements.

The valuation is driven by discounting the operating free cash flow calculation to the valuation date. We have calculated a residual value assuming a growth rate of 2% per annum.

/ Discounted Cash Flow-Modell (Basis 11/2011)

(Mio. EUR)	<i>Phase 1</i>					
	2011e	2012e	2013e	2014e	2015e	2016e
Revenue	39,54	43,38	46,31	49,49	52,94	56,69
Rate of Change	-25%	10%	7%	7%	7%	7%
EBIT	0,12	4,47	4,91	5,40	5,95	6,54
Rate of Change	-97%	3667%	10%	10%	10%	10%
Margin	0,3%	10,3%	10,6%	10,9%	11,2%	11,5%
Interest and Income from Investments	0,08	0,10	0,10	0,10	0,10	0,10
EBT	0,20	4,57	5,01	5,50	6,05	6,64
Tax Expense	-0,07	-1,37	-1,50	-1,65	-1,81	-1,99
Tax Rate	33,0%	30,0%	30,0%	30,0%	30,0%	30,0%
Depreciation	1,00	1,00	0,23	0,25	0,26	0,28
Depreciation Rate	2,5%	2,3%	0,5%	0,5%	0,5%	0,5%
Changes in Long Term Provisions	0,00	0,10	0,10	0,10	0,10	0,10
Percentage of Revenues	-	0,2%	0,2%	0,2%	0,2%	0,2%
Change in Working Capital	0,20	-0,77	-0,46	-0,49	-0,53	-0,57
Working Capital Ratio	0,5%	-18%	-10%	-10%	-10%	-10%
Investments	-1,00	-1,00	-1,25	-1,34	-1,43	-1,53
Investment Rate	-2,5%	-2,3%	-2,7%	-2,7%	-2,7%	-2,7%
Free Cash-Flow	0,33	2,53	2,13	2,37	2,64	2,94
Rate of Change	-89%	669%	-16%	1%	1%	1%
Free Cash Flow Margin	0,8%	5,8%	4,6%	4,8%	5,0%	5,2%

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5.2. WACC

The discount rate was determined using the weighted cost of capital. We assume that the capital structure will not change significantly in the coming years.

WACC Assumptions

Growth Assumptions

Terminal Growth Rate/ Inflation Rate	2.0%
Residual Period	10 Jahre
Residual Period Sales Growth	3.0%
Terminal EBIT margin	+1 BP

Cost of Equity

Long Term Risk Free Rate	3.5%
Market Risk Premium	6.0%
Beta of the Company	0.95
Cost of Equity	9.2%

Cost of Debt

Pre-tax Cost of Debt	6.5%
Normal Tax Rate	30.0%
Cost of Debt	4.6%

Value of Equity	41
Value of Debt	0
Gearing	0.0%
WACC	9.20%

Adjustments to the liabilities of the current market interest rate have not been made. The risk-free rate is based on the average yield on 30-year government bonds. The determination of the risk premium follows the Capital Asset Pricing Model (CAPM) and covers the systematic risk (market risk premium). Company-specific risk is based on the performance of the DAX benchmark index.

As a result of the recent turmoil in financial markets and continuing economic uncertainty, we have increased our market risk premium from 5% to 6%. This has increased our WACC from 8.25% to 9.2%. We believe this increase reflects the share price volatility created by market risk as opposed to company specific factors.

5.3. Fair Value – Sensitivity Analysis

We have derived a fair value per share of €7.87. This represents a premium of 41.8% over the current share price of €5.55. Here we demonstrate the modification of terminal value parameters in a sensitivity analysis.

Sensitivity Analysis		Market Capitalisation					Sensitivity Analysis		per Share				
(Mio. EUR)		WACC					(EUR)		WACC				
β = 0.95		8.70%	8.95%	9.20%	9.45%	9.70%	β = 0.95		8.70%	8.95%	9.20%	9.45%	9.70%
Growth	1.0%	41.93	41.30	40.70	40.13	39.59	Growth	1.0%	7.97	7.85	7.74	7.63	7.53
	1.5%	42.33	41.66	41.03	40.43	39.87		1.5%	8.05	7.92	7.80	7.69	7.58
	2.0%	42.79	42.07	41.40	40.77	40.17		2.0%	8.13	8.00	7.87	7.75	7.64
	2.5%	43.32	42.55	41.83	41.16	40.52		2.5%	8.24	8.09	7.95	7.82	7.70
	3.0%	43.95	43.11	42.33	41.60	40.92		3.0%	8.36	8.20	8.05	7.91	7.78

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Analysts of this research:

Dr. Norbert Kalliwoda



1. DISCLAIMER

KAUFEN:	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung von mindestens 10 % aufweisen	BUY
AKKUMULIEREN:	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung zwischen 5% und 10% aufweisen	ACCUMULATE
HALTEN:	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung zwischen 5% und - 5% aufweisen	HOLD
REDUZIEREN:	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung zwischen - 5% und - 10% aufweisen	REDUCE
VERKAUFEN:	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung von mindestens - 10 % aufweisen	SELL

Additional Disclosure/Erklärung

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