

### Buy

PT: €22.00

#### Key data

Ticker	MUX GY
Price (17 March 2021)	€20.00
Upside to Price Target (%)	10.0
Market Cap (m)	255
Free Float (%)	50.0
Daily Value Traded (m)	0.4
Next Reporting Date	Apr 8 2021 1
No. of Shares (m)	15.20
1mth perf (%)	5.4
3mth perf (%)	27.6
12mth perf (%)	174.8
12mth high-low (€)	20 - 6

#### Key financials

(In EUR M)

Year to Dec	2019A	2020E	2021E
Group revenue	1,016	1,772	2,815
EBITDA (rep.)	79.1	84.6	(30.2)
EBIT (rep.)	26.1	(78.16)	(280.77)
DPS (c)	1.00	1.50	1.50
Net debt/(cash)	262.9	77.5	(170)
ROCE (NOPAT) (%)	13.3	15.9	20.0
EPS (adj.) y/y (%)	--	--	--
Net debt/EBITDA	35.1	(2.1)	6.76
EV/Sales	0.6	0.2	0.0
EV/EBITDA (adj.)	75.7	(10.4)	(5.3)
EV/EBIT (adj.)	9.4	3.0	0.6
P/E (adj.)	--	--	--
Dividend yield (%)	5.0	7.5	7.5
Free CF yield (%)	(3.5)	231.3	272.5
EV/CE	1.2	0.5	0.1

Prices are intraday as of 4:01 pm CET on 17 March 2021

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All sources unless otherwise stated: Company data, FactSet, Stifel estimates

#### Share price performance (indexed)



## Prel. FY20 results strengthen our confidence in attractive dividend pay-outs

### Key Points

Mutares published preliminary FY20 results today. In summary, the financial performance on the holding level was significantly above our forecasts, which leaves us very confident with our current DPS forecasts, not only for FY20E (€1.50, equivalent to a ~7% yield) but also beyond. As for many other investment holdings, consolidated financials are difficult to interpret. We therefore advise investors to focus on the results on the holding level, which accurately reflect the company's success as a private equity business with focus on special situations. Net income on the holding level also forms the basis for the company's dividend policy.

#### A clear beat against guidance and our forecasts on the holding level

- Management fees, the most relevant performance driver on the holding level, rose by 62% yoy to €66.5m. This is significantly above the company's guidance of €40-50m as well as our forecast of €44.5m. Management fees consist of consulting revenues and dividend income from portfolio companies, which, in our view, are to a high degree of recurring nature. According to the press release, consulting revenues were up 47% yoy to €8.9m in Q4 alone. We note that consulting revenues naturally increase with the overall size of Mutares's investment portfolio, which expanded significantly in FY20 and continued to do so in Jan and Feb 2021.
- FY20 net profit on the holding level amounted to €33.4m up from €22.5m in FY19. This also marks a material beat versus management guidance of > €20m and our estimates, which stood at €23.4m. We note that net profit likely benefited from exit gains.
- The company did not comment on any dividend proposal today but we feel very comfortable with our DPS estimate of €1.50, consisting of €1.00 base dividend and €0.50 of performance dividend.

#### A quick look at the consolidated financial performance

Consolidated group revenues grew by 57% yoy to €1.5bn in FY20, which is below our €1.8bn forecast but, as for all investment companies, this number is difficult to forecast due to various consolidation effects. Reported EBITDA amounted to €143m (SFe €85m) but, more importantly, adjusted EBITDA, which eliminates bargain purchase gains and integration / restructuring costs, came in at -€28.8m, which, we believe, reflects the fact that Mutares is in aggressive growth mode. A closer analysis shows that those companies, which are in the so called 'harvesting phase' generated positive EBITDA of €29.6m, equivalent to a margin of 4%. In our view, this shows management's ability to successfully turn around the vast majority of its portfolio companies.

#### Management is executing on its promise of more frequent exits

It is important to note that management executed on a total of four successful exits in the last fiscal year and 2021 was off to a strong start with the announced disposal of STS Group. This marks an important trigger for the re-rating of the shares as investors should become more confident on the quality of Mutares's portfolio companies.

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## Company Snapshot

### Investment case summary

The Mutares equity story is based on the company's transformation from an investment holding to a private equity firm in the niche area of special situations. As a result, earnings streams should become much more transparent and, as such, easier to value for analysts and investors alike. Consequently, we expect a continued rerating of the shares over the next 12 months. Recurring revenues from consulting services to and dividends from its portfolio companies should cover management's ambitions for attractive dividend payouts to shareholders. Mutares also plans to reduce significantly the holding period of portfolio companies. Hence, a higher exit frequency over the next few years should not only strengthen investor trust in the quality of the portfolio companies, but also result in potential performance dividends.

### Target price methodology

Mutares has decided to provide more transparency on the revenue and profit streams at the holding level, which form the basis for our valuation framework. We also take into account that management is highly committed to dividend payments. Our financial forecasts therefore flow into a private equity peer group analysis (FY21E P/E target multiple of 16x) as well as a dividend discount model (DDM). The average of the two implied equity values, result in our price target of €22.00.

### Risk to our valuation and rating

While a larger portfolio is the prerequisite for growth, it will naturally be more complex to manage. This requires more investment professionals, consultants and, as a consequence, higher fixed costs. We could argue that Mutares's holdings are in a restructuring mode for a reason and a longer-than-expected optimisation phase would postpone dividend income. In some cases, the turnaround does not materialise and potentially results in insolvency procedures. This would naturally lead to either a low or even negative selling price, or trigger a costly liquidation process. That said, we note that Mutares has a strong track record since inception and, in addition, has baked in such, probability-weighted, scenarios in its financial guidance.

### Key dates

- FY20 results: 8 April
- Q1 2021 results: 11 May

### Company description

Mutares is an investment holding company, headquartered in Munich, Germany. It was founded in 2008 and went public in the same year. It is currently listed in the SCALE segment of the Frankfurt stock exchange.

### Key products, clients and end markets

Mutares's investments are focused on medium-sized companies located throughout continental Europe. Management claims to have a particular expertise in investing in and managing special situations or turnaround cases, facilitated by its ~70 consultants FTEs. With offices in Munich, Frankfurt am Main, Vienna, Paris, Madrid, Milan, Stockholm, Helsinki, as well as London, and investment activities in Europe, North Africa, North and South America and Asia, Mutares has a global footprint. The current portfolio comprises 19 equity investments. The firm takes a sector-agnostic approach to investment, albeit with a focus on targets which operate in the industrial sector.

### Key shareholders

- Robin Laik (founder and CEO): 29%
- Mutares management: 11%
- Treasury shares: 3%

### Senior management

- Robin Laik: CEO
- Johannes Laumann: CIO
- Mark Friedrich: CFO
- Dr. Kristian Schleede is CRO

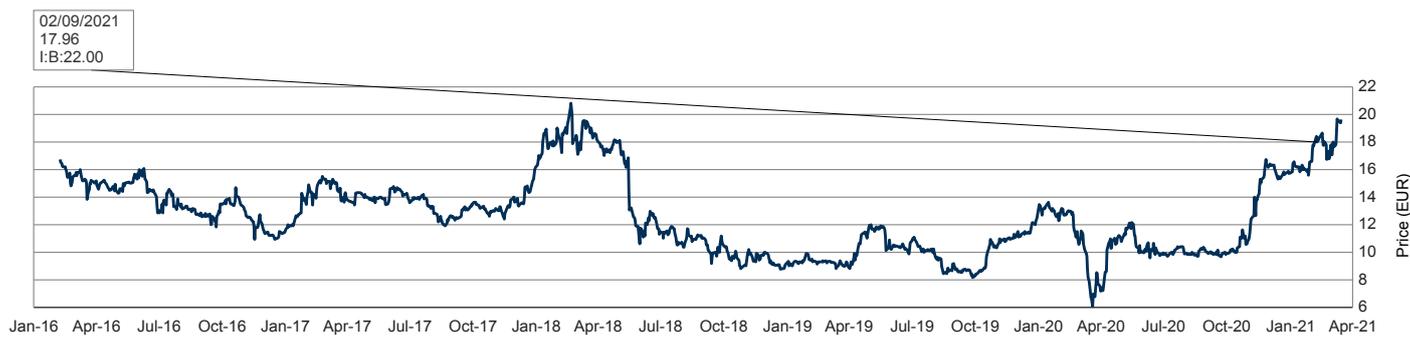
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### Mutares SE & Co KGaA (MUX GY) as of March 16, 2021 (in EUR)



\*Represents the value(s) that changed.

Buy=B; Hold=H; Sell=S; Discontinued=D; Suspended=SU; Discontinued=D; Initiation=I

For a price chart with our ratings and any applicable target price changes for MUX GY go to [http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=MUX\\_GY](http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=MUX_GY)

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**Hold** - We expect a total return between -5% and 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

**Sell** - We expect a total return below -5% over the next 12 months with total return equal to the percentage price change plus dividend yield.

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<sup>1</sup> This rating is only utilised by Stifel Canada.

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