

Buy (initiation)

Price target: EUR 9.00

Price: EUR 4.00 **Next result:** Q1 2011 09.05.11
Bloomberg: AQU GR **Market cap:** EUR 206.3 m
Reuters: AQUG.DE **Enterprise Value:** EUR 177.7 m

06-May-11

Marie Therese Grübner
Analyst

marie-therese.gruebner@ha-research.de
Tel.: +49 40 414 3885 83

A fresh DECT of cards

- Transformation from a holding company, with a portfolio of restructuring cases called Arques, which was close to bankruptcy, into a debt-free, operating business generating an average Free Cash Flow of € 21m p.a. by 2013E, or an 11% yield on enterprise value.
- Undisputed market leader for DECT cordless phones in Europe with a 30% market share and the No. 3 player worldwide.
- Focus on premium DECT handsets resulting in innovation leadership and high product quality evident in an average life cycle of 3 years vs.1 for the mass market...
- ...all of which is perceived (90% brand recognition) and valued by customers with prices that are on average 30% higher than competition's.
- ...and resulting in strong market share gains: from 8% to 12% globally over the past three years.
- Estimated 6 % average top line growth by 2013E: further market share gains, flat-rate telephony in Europe, digital migration in the developing world and an expansion into the small office/home office market, adjacent to the company's historic retail focus.
- Earnings development should be over-proportional as the company continues to shed its holding legacy, with EBITDA expected to be some € 23m higher yoy in 2011E at € 57m. ROCE is seen averaging 26% p.a. by 2013E, way above WACC.
- Q1 results due on May 9th: evidence of a significantly improved liquidity position expected.
- TecDax membership since March 2011, which should result in higher capital market visibility.
- Very appealing valuation at an EV/EBITDA 2011E multiple of 3.4x. The stock is initiated with a BUY recommendation, PT € 9.00 based on FCF Yield 2011E.



Source: Company data, Hauck & Aufhäuser

High/low 52 weeks: 4.63 / 0.83
Price/Book Ratio: 2.9
Relative performance (-):
 3 months -
 6 months -
 12 months -

Changes in estimates

		Sales	EBIT	EPS
2011	old:	546.8	27.2	0.47
	Δ	-	-	-
2012	old:	570.8	40.5	0.65
	Δ	-	-	-
2013	old:	594.2	44.8	0.72
	Δ	-	-	-

Key share data:

Number of shares: (in m pcs) 45.6
 Authorised capital: (in € m) 20.0
 Book value per share: (in €) 1.4
 Ø trading volume: (12 months) 360K

Major shareholders:

Free Float 91.2 %
 Dr. Dr. Peter Löw 4.6 %
 Mantra Invest 4.2 %

Company description:

Leading producer of DECT cordless phones

Y/E 31.12 (EUR m)	2009	2010	2011E	2012E	2013E
Sales	544.9	503.7	546.8	570.8	594.2
Sales growth	n/a	-8 %	9 %	4 %	4 %
EBITDA	-13.4	37.4	57.3	71.9	77.5
EBIT	-65.5	2.6	27.2	40.5	44.8
Net income	-62.0	-7.4	21.2	33.4	37.4
Net debt	12.8	-8.7	-36.1	-63.0	-87.6
Net gearing	10.8 %	-25.0 %	-51.2 %	-57.9 %	-64.6 %
Net Debt/EBITDA	-1.0	0.0	0.0	0.0	0.0
EPS fully diluted	-2.35	-0.26	0.41	0.65	0.72
CPS	-3.83	-1.35	0.38	0.81	0.90
DPS	0.00	0.00	0.00	0.13	0.14
Dividend yield	0.0 %	0.0 %	0.0 %	3.2 %	3.6 %
Gross profit margin	46.8 %	50.9 %	49.5 %	50.0 %	50.2 %
EBITDA margin	-2.5 %	7.4 %	10.5 %	12.6 %	13.1 %
EBIT margin	-12.0 %	0.5 %	5.0 %	7.1 %	7.5 %
ROCE	-13.7 %	1.2 %	23.0 %	29.0 %	25.3 %
EV/sales	0.3	0.2	0.3	0.3	0.2
EV/EBITDA	-11.3	3.1	3.1	2.1	1.6
EV/EBIT	-2.3	43.3	6.5	3.7	2.8
PER	-2.1	-15.5	9.7	6.2	5.5
Adjusted FCF yield	-29.3 %	12.4 %	19.7 %	31.4 %	43.2 %

Source: Company data, Hauck & Aufhäuser Close price as of: 05.05.2011

Table of Contents

<u>Executive Summary</u>	3
Company Background	3
Quality	5
Growth	7
Valuation	12
Theme	12
<u>ROCE Decomposition</u>	14
<u>Valuation</u>	20
FCF Yield	20
DCF	21
<u>Company Background</u>	22
<u>Financials</u>	26
<u>Contacts: Hauck&Aufhäuser Investment Banking</u>	32

Executive Summary

Company Background

Founded in 1941 and part of Siemens until 2008, Gigaset produces telecommunication hardware and accessories. The company is mainly known for **cordless phone devices**, accounting for over 90% of sales and based on the **Digital Enhanced Cordless Telecommunications (“DECT”)** standard for home and professional communications systems. DECT is one of the most successful telecommunications standards in the world, with over 100 million terminals sold on average each year.

Gigaset is **European leader with a market share of some 30%** and the **No. 3 worldwide** behind Panasonic and Vtech.

The company focuses on the **premium segment** with handsets that are on average 30% more expensive than competition's.

In **Germany, its home market, Gigaset enjoys a market share of 60%**. The company is active in 70 countries and employs 1,700 people, 1,300 of which in Germany, where its sole production site is based.

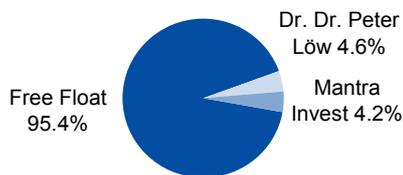
The company was acquired by Arques Industries AG, the predecessor of Gigaset AG, in 2008.

		Group																								
Products	<p>Cordless phones 92% Corded phones 7% NextG Internet phones 1%</p>																									
Sales 10 (€ m)	503.7																									
Market positions	<p>Gigaset market share by sales (in 2010)</p> <table border="1"> <tr><th>Country</th><th>Market Share (%)</th></tr> <tr><td>Austria</td><td>68%</td></tr> <tr><td>Germany</td><td>60%</td></tr> <tr><td>Netherlands</td><td>39%</td></tr> <tr><td>Italy</td><td>35%</td></tr> <tr><td>France</td><td>34%</td></tr> <tr><td>Switzerland</td><td>33%</td></tr> <tr><td>Turkey</td><td>31%</td></tr> <tr><td>Poland</td><td>27%</td></tr> <tr><td>Spain</td><td>19%</td></tr> <tr><td>Russia</td><td>12%</td></tr> <tr><td>UK</td><td>7%</td></tr> </table>		Country	Market Share (%)	Austria	68%	Germany	60%	Netherlands	39%	Italy	35%	France	34%	Switzerland	33%	Turkey	31%	Poland	27%	Spain	19%	Russia	12%	UK	7%
Country	Market Share (%)																									
Austria	68%																									
Germany	60%																									
Netherlands	39%																									
Italy	35%																									
France	34%																									
Switzerland	33%																									
Turkey	31%																									
Poland	27%																									
Spain	19%																									
Russia	12%																									
UK	7%																									
Customers	Operators: 15% of sales (e.g. France Telecom, Telekom Austria, Telecom Italia), Distributors: 20% of sales, Retail: 65 % of sales (MediaMarkt/Saturn, Darty, Dixons, Carrefour). Diversified customer base with top 3 clients accounting for no more than 15% of group sales.																									
Competitors	Panasonic Philips Thomson Uniden Vtech																									
Sales distribution by region (10)	<p>Domestic 59% Europe (ex. Germany) 31% Rest of world 9% Other 2%</p>																									
Production sites	Bocholt, Germany																									
Capacity utilisation (2010)	Capacity: 16 m units per year; 56% utilisation as of FY 2010																									
Recurring EBIT 10* (€ m)	16.0																									
Recurring EBIT-margin	3.2%																									
Recurring ROCE (2010)	13%																									

Source: Company data, Hauck & Aufhäuser, *excludes € 13.5m arising from divestitures and holding costs reductions.

The stock is a **TecDax member** since March 2011 and the current shareholding structure is as follows.

Shareholder structure



Source: Company data, Hauck & Aufhäuser

The outstanding **39.7m Gigaset shares** are listed in the Prime Standard Segment of the Frankfurt stock exchange. The shares have an **outstanding average daily liquidity of € 1m**.

After conversion of a € 24m convertible bond on June 30, 2011, **the number of shares outstanding will increase to 51.6m**.

Dr. Dr. Peter Löw is the former founder and CEO of Arques Industries AG, the predecessor to Gigaset AG and an equity investment company focusing on acquisitions and turnarounds, listed since 2004.

After leaving the company in 2007, Dr. Dr. Löw joined Gigaset AG again as shareholder in 2010 and he was appointed as **chairman of the supervisory board at an extraordinary AGM in August 2010**. Dr. Dr. Löw has spearheaded the overhaul of the company's strategy, resulting in its transformation from a holding company into a focused telecom equipment provider.

Mantra Invest is a French private equity company with one representative on the company's supervisory board.

Between 2007 and 2010 Arques was mis-managed with high executive turnover, as a result of which, portfolio companies were neglected with losses widening. The latter combined with **existence imperilling legal disputes** (Siemens arbitration claim for some € 65m, EU anti trust fine of some € 13m, € 6.7m of which was eventually settled for) and **permanent cash shortages** led to **fire sales** and a collapse in Arques' share price.

Since August 2010, management was reshuffled, legal risks reduced or settled, holding costs were narrowed from € 12m to € 2m, and the equity base strengthened with a **€ 40m capital raising effort in Q4 2010**, including a € 24m convertible bond.

All participations outside Gigaset and SME, an accessories business complementary to Gigaset's, have been sold at this point, with **no residual risk of P&L losses**.

This all illustrates the dramatic 180 degree turn in the equity story over the past 10 months.

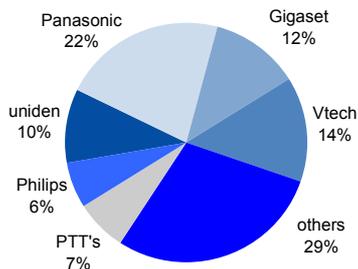
Quality

Competitive landscape

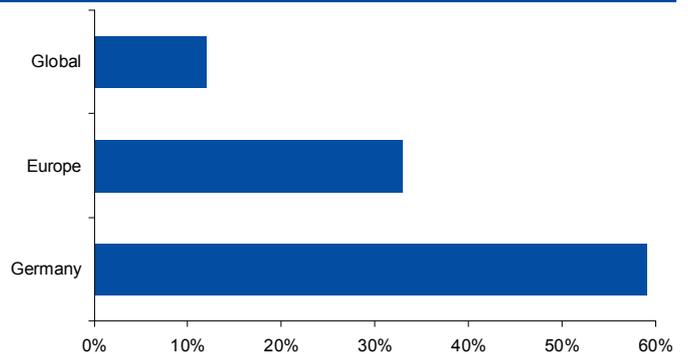
The **global market for DECT telephones** can be characterised as an **oligopoly**. While there are still some smaller companies like Binatone, Sagem, Polycm, Grundig, DeTeWe or Telefunken active in this field, the key players include Panasonic, Gigaset, Philips, uniden and Vtech.

Based on 2009 figures, Gigaset is the **quasi monopolist in German-speaking countries** with an estimated market share of 60%, the leading provider in Europe, with a 30% market share and the global No. 3.

Global market shares 2009 (total volume: 102m units)



Gigaset market share by region (in 2010)

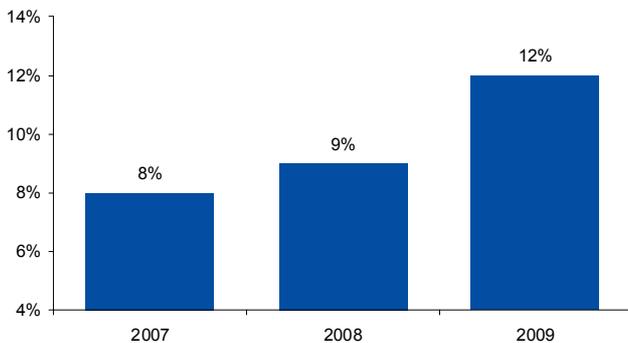


Source: MZA, GfK, Company data; Hauck & Aufhäuser

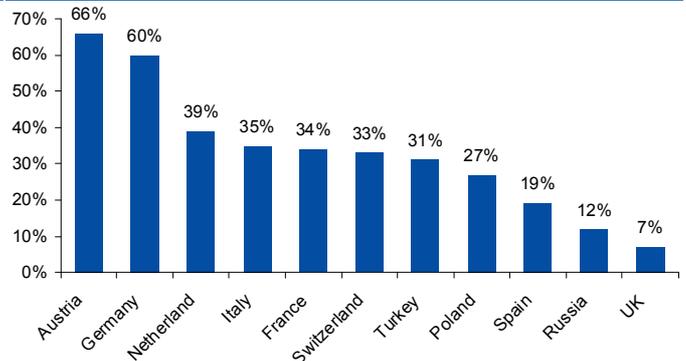
Strong competitive quality

Over the last four years Gigaset has gradually expanded its market share from 8% in 2007 to 12% in 2009.

Global market share development Gigaset



Gigaset market share by sales (in 2010)



Source: Company data; Hauck & Aufhäuser

Gigaset's **strong competitive quality** is based on its **unique focus in the DECT niche**.

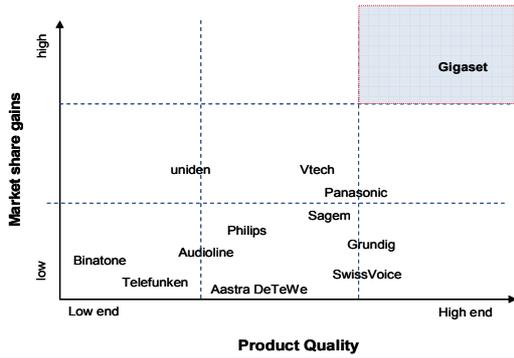
While all meaningful competitors are parts of larger conglomerates, **Gigaset's focus allows it to be the innovation leader in the DECT market**. Hence, the company was the first to introduce integrated answer machines, text messaging in the fixed line network, or hands-free operation.

The latest innovations include a slim metal case design with a touchpad, features normally associated with a smartphone.

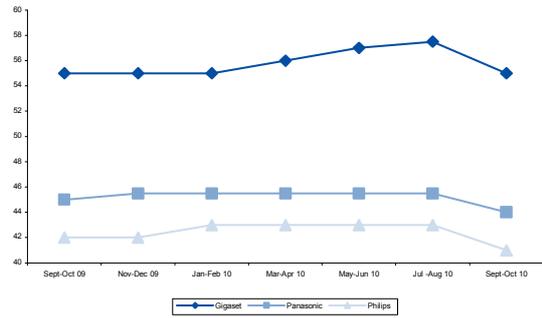
While the overall pricing environment is and looks set to remain challenging, Gigaset clearly sticks out in its ability to extract higher prices for better products as its differentiation is perceived (**90% brand recognition in core markets**) and valued by customers (**products are on average 30% more**

expensive than competition).

Competitive Quality



Average Sales Price (ASP) in EUR



Source: Company data; Hauck & Aufhäuser

The competitive quality appears to be more than sustainable: Gigaset is seen to be a beneficiary of the fact that cordless and corded phones are increasingly becoming **non-core for competitors like Panasonic and Philips** which have to compete for more important marketplaces.

Barriers to entry into this market include large capital outlays (€ 200m invested in the Bocholt plant), brand recognition and technological know-how.

Growth

Market growth

After growth in the late 1990s was driven by analogue to digital migration, the market in developed countries is approaching saturation.

A rebound in demand is nonetheless expected in Western Europe, accounting approximately for 25% of global shipments, going forward. This is driven by ADSL-related flat rate telephony, which remains much cheaper than mobile telephony and which is enticing customers to have more than one handset at home.

Hence in France, consumer’s widespread adoption of ADSL triple play services with flat-rate telephony has caused DECT growth to resume at an average rate of 4.2% since 2008. In 2010, 6.3m DECT phones are estimated to have been shipped up from 5.8 million units in 2008, according to GfK.

Furthermore, as the latest innovations spill over from mobile telephony to fixed-line cordless telephony, a replacement cycle should be kicking in favour of lighter, lower radiation-emitting handsets with more features.

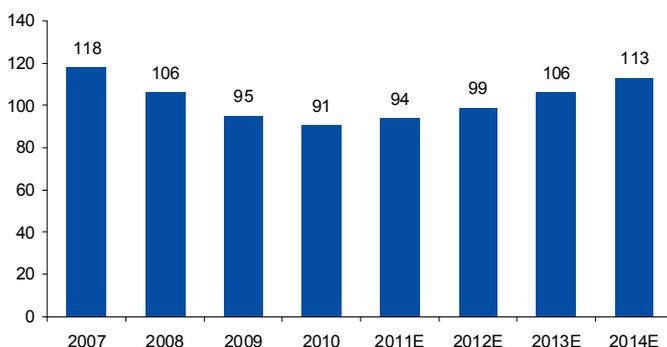
DECT should also be continuing to capture market share away from competing digital standards for cordless handsets, particularly in the USA, accounting for approximately 50% of global shipments.

In LatAm and in APAC (recent licence award in South Korea), analogue substitution is still underway.

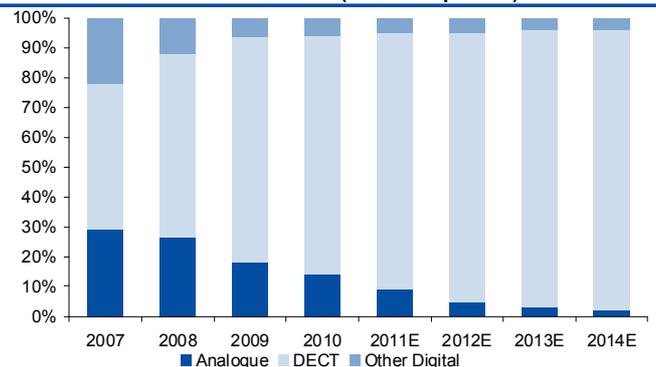
The small office/home office market is still largely analogue or served by local specialists with no resources to invest in the latest technologies. Gigaset is turning its attention to that market segment going forward.

All in all, DECT market penetration is seen increasing globally from 45% in 2007 to 94% by 2014E, according to MZA, a UK-based specialised consultancy, suggesting ample room for growth.

World Market Cordless Voice Devices 2007-2014E (in m shipments)



World market Cordless Voice Devices (in % of shipments)



Source: MZA 2009/2010; Hauck & Aufhäuser

As a result, the estimated number of shipped cordless phones should increase up to 113 million units until 2014E. This would translate into a CAGR of 5.6%.

Assuming an endemic industry-wide price erosion of 5%, the market should be however flat in revenue terms.

On going market share gains

Gigaset **has the potential to grow stronger than the market**, given its unique DECT focus and its concentration on the premium segment where it has **historically been able to maintain pricing**.

New segment: Gigaset Pro, leveraging existing know-how and design competence

The **launch of Gigaset Pro in March 2011** should be contributing € 2m to sales in 2011E and some € 8m in sales by 2013E, or 1% of total in H&A's conservative estimates.

Gigaset Pro is a professional product line that comprises several IP telephone systems and IP-system phones addressing the telecommunications needs of the small office/home office segment. **Gigaset is by no means looking to compete against Cisco or Siemens Enterprise Networks** equipping 1,000+ lines customers such as large multinationals.

The **target market includes clients with up to 150 telephone lines, at an average revenue per contract of € 10-13k**.

The offer includes the telephone systems T300 PRO and T500 PRO as well as the system phones DE700 IP PRO and DE900 IP PRO.

While the T300 PRO telephone system is designed for up to 15 employees, the T500 PRO comes with 10 user licences and can be expanded to handle up to 100 users. Once DE700 IP PRO and DE900 IP PRO have been connected to the enterprise network, they are configured virtually automatically.

Their features include menus with a simple and logical structure, clearly arranged keys to enable quick access to frequently required functions, and an easy-to-read display.

The telephone systems and system phones presented in Q1 2011 have a modern design in black and titanium.

Acquisition of SME

In **February 2011**, the company announced **the acquisition of SME, better known in Germany under the brand name Skymaster** (satellite dishes). The company specialises in the purchase and distribution of telecommunications and multimedia equipment produced in Asia.

Apart from the brand Skymaster, which has been established in retail, consumer and building markets for over 20 years, the company also distributes receivers and set-top boxes, as well as other multimedia and telecommunications accessories of the brand Telefunken under license.

The **company should be generating sales of € 28m in 2011E**, and was loss-making. Gigaset is estimated to have paid some € 0.5m for the company, by taking over € 2m in shareholder loans.

The **main rationale for the acquisition** lies in

- Synergies in procurement and logistics;
- The ability to leverage the Gigaset brand over a range of telco accessories in the future;
- The ability to approach retail with joint marketing efforts.

The restructuring of SME in 2011 is estimated to cost some € 2m in one-offs.

All in all Gigaset is expected to achieve top-line growth of 5.6% by 2013E.

Since its acquisition from Siemens in October 2008, non-core multimedia, WiMax, broadband and home media activities were sold off or shut down, explaining the decline in sales until fiscal year end 2010e.

Gigaset posted revenue growth of 3% yoy in its core DECT business in 2010 up from € 491m to € 504m, following an average 3% growth in 2008 and 2009, in a decreasing overall market.

Revenue growth building blocks 2010-2013E

EUR m	2008	2009	2010	2011E	2012E	2013E
Sales	588	544.9	503.7	546.8	570.8	594.2
<i>Growth</i>		-7.3%	-7.6%	8.5%	4.4%	4.1%
SME			28	29.1	30.3	31.5
<i>Growth</i>				4%	4%	4%
Gigaset Pro				2	6	8
<i>Growth</i>					<i>n.m.</i>	50%
DECT				515.6	534.5	554.7
<i>Growth</i>				2.4%	3.7%	3.8%

Source: Company data, Hauck&Aufhäuser

The gross margin is expected to remain largely unchanged at close to 51%. Input cost inflation should be passed on to consumers, given Gigaset's market shares and premium positioning. Not to mention by now engrained inflation expectations in consumers' minds.

The weakness in the USD could provide some upside.

With **70% of sourcing being USD based**, a 1 cent change in the USD/EUR base-case exchange rate of 1.35, results in a € 700k gain at gross margin level.

Hence, all else equal, should the exchange rate average 1.50 for the rest of 2011, **the upside potential on the gross margin is € 11m or 200 bps**, which the company may or may not choose to invest in more competitive pricing.

The reported EBITDA is expected to be up 22% in 2011E at € 57m and up some 14% p.a. on average by 2013E as Gigaset gets rid of the costs associated with its holding company past.

The margin is seen gaining by gaining 570 bps at 13.1% between 2010 and 2013E.

Personnel expenses are expected to be **down 18% yoy** at € 104m in 2011E (€ 127.6m) as a result of:

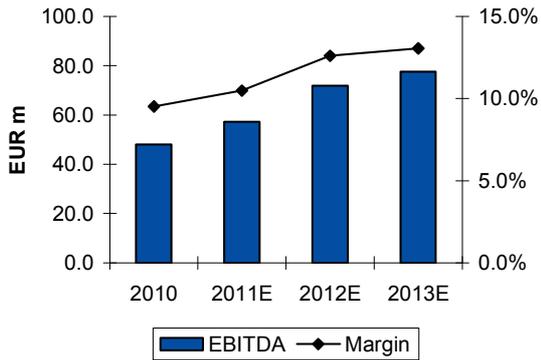
1. The deconsolidation of former Arques businesses sold in 2010 and 2011 (Carl Froh, Oxynova and Van Netten).
2. Headcount cuts at headquarters

In 2012E and 2013E, **personnel expenses are expected to grow again by 5% p.a.** on average as the company tackles the small office/home office market with dedicated structures and presumably dedicated R&D.

The company will also be increasing advertising and marketing spend to support the **migration to the Gigaset brand, as it will have to drop the dual Gigaset/Siemens branding in September 2011.**

These incremental marketing expenses equal some € 11m annually in 2011E and 2012E and should be fading away in 2013E.

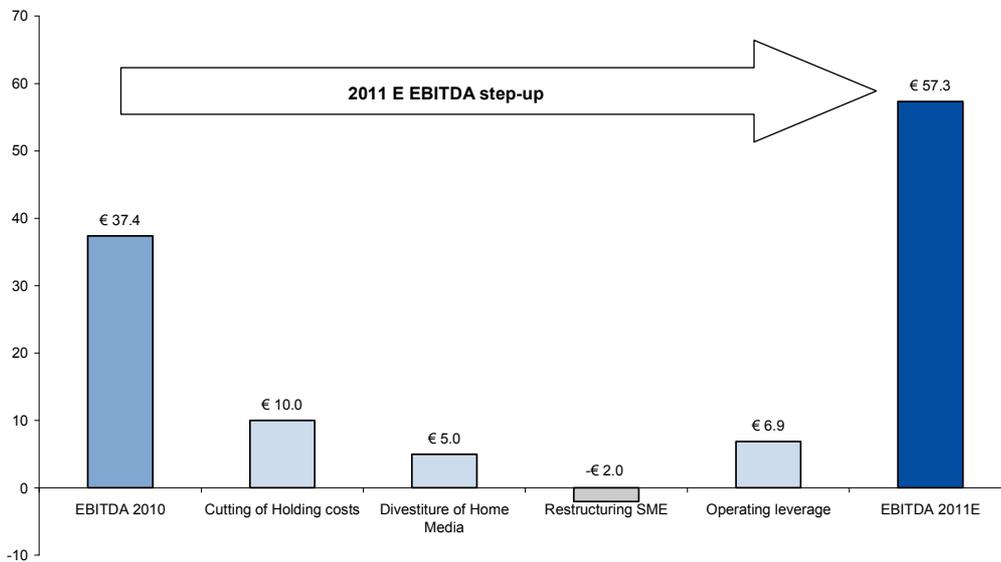
EBITDA and EBITDA margin development



Source: Company data, Hauck & Aufhäuser

The diagram bellows outlines details of the **EBITDA step-up between 2010 and 2011E, which is not clarified in the company’s 2011 guidance of € 540m in revenues and € 57m in EBITDA.**

EBITDA Development

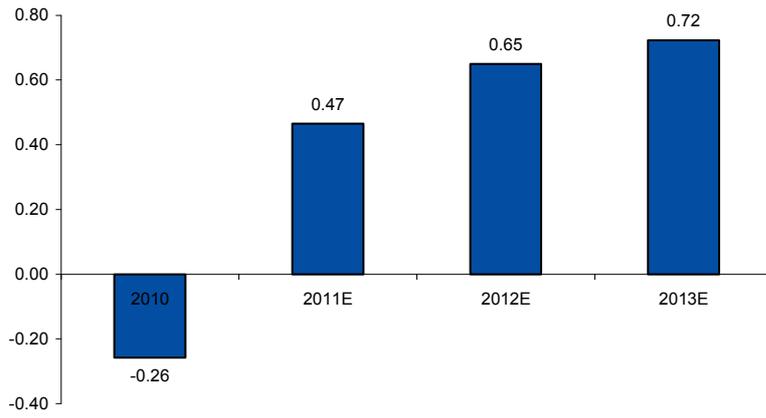


Source: Company data, Hauck & Aufhäuser

Following a quasi total deleveraging of the company thanks to the sale of subsidiaries, a € 23.8m convertible bond issue, which will mandatorily convert into share on June 30, 2011 and a € 14.5m capital increase, **EPS is set to grow by 27% p.a. on average between 2010E and 2013E.**

The company should be **benefitting from a very low effective 10% tax rate** in the near future as it can tap € 15m of tax-loss carry forwards at Gigaset GmbH level and of more than € 73m at the Gigaset AG holding level.

EPS Development



Source: Company data, Hauck & Aufhäuser

Valuation

All metrics suggest a significant undervaluation of the share: **BUY PT € 9.0.**

1) The **Adjusted Free Cash Flow Yield model** indicates a **fair value of € 9.0** per share on 2011E. **2012 estimates would yield a fair value per share of € 12.8.**

2) The **DCF model** indicates a **fair value of € 8.7** per share, based on the following set of assumptions:

- A risk free rate of 3.4%
- An equity risk premium of 5%
- A beta of 1.0
- A terminal growth rate of 1%
- A terminal EBIT margin of 7.5%
- A terminal WACC of 8.4%

Theme

Q1 should provide evidence of the operational turnaround and the massively improved liquidity position.

Q1 results are expected on May 9th. Q1 is typically the weakest quarter in the year at Gigaset, given the seasonality of a consumer business, with Q4 and Q2 being the strongest quarters.

EBITDA is seen down as we are comparing “continuing” operations as of Q1 10 vs. “new” Gigaset, which includes only Gigaset GmbH and SME, in Q1 11. The **margin should however significantly improve**, as loss making operations are sold.

Net profit should be significantly up given lower expected tax rate thanks to the use of tax loss carry-forwards and a much better financial result due to the capital measures of FY 2010 and the divestitures.

We get to our net income assumption by pro-rating the expected financial result for full year 2011 and assuming a 15% effective tax rate in Q1.

EUR million	Q1 11E	Q1 10	yoy
Sales	145.0	267.0	-45.7%
EBITDA	18.0	24.0	-25.0%
EBITDA margin	12.4%	9.0%	+ 3.4 pp
EBIT	10.0	6.8	47.1%
EBIT margin	6.9%	2.5%	+ 4.3 pp
Net profit	7.7	1.0	n.m
Net margin	5.3%	0.4%	+ 4.9 pp

Source: Company data, Hauck&Aufhäuser

Better visibility in capital markets

Gigaset has been hardly visible recently in the financial markets, which is mainly due to the shady history of the predecessor company Arques.

Consequently, the new Gigaset management is unknown to institutional investors abroad so far, even though the company **has joined the TecDAX** in March 2011.

Moreover, Gigaset was so far been only followed by one corporate finance boutique.

On the back of the drastically improved prospects for the company and the significant returns potential, **institutional investor and broker interest ought to be back on the agenda.**

Hauck & Aufhäuser vs. consensus

Comparing Hauck & Aufhäuser estimates with consensus hardly makes any sense as there is so far only one broker covering the company.

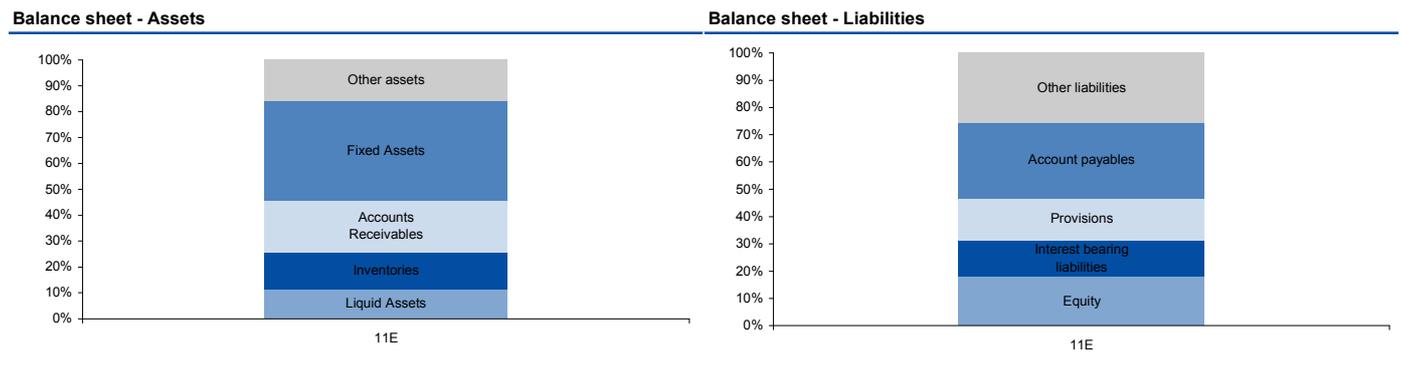
Consequently, **the table below needs to be treated cautiously.**

However, the fact that the company has been neglected by the market as a result of its patchy history and despite the recent TecDAX entry, which partly explains the low valuation of the stock and illustrates which impact a broader awareness among institutional investors could have.

Consensus-Overview	2008	2009	2010	2011E	2012E	2013E
Sales (consensus)	1286.2	544.9	503.7	520.0	535.0	na
yoy in %			-7.6%	3.2%	2.9%	na
Sales (Hauck&Aufhäuser)	1286.2	544.9	503.7	546.8	570.8	594.2
yoy in %			-7.6%	8.6%	4.4%	4.1%
delta H&A estimates (total)			0.0	-26.8	-35.8	na
delta H&A estimates (%)			0%	-5%	-6%	na
EBITDA (consensus)	44.4	-13.4	37.4	52.0	51.0	na
yoy in %			-380.0%	38.9%	-1.9%	na
margin in %			7.4%	10.0%	9.5%	na
EBITDA (Hauck&Aufhäuser)	44.4	-13.4	37.4	57.3	71.9	77.5
yoy in %			-380.0%	53.0%	25.5%	7.8%
margin in %			7.4%	10.5%	12.6%	13.1%
delta H&A estimates (total)			0.0	-5.3	-20.9	na
delta H&A estimates (%)			0%	-9%	-29%	na
EBIT (consensus)	-145.1	-65.5	2.6	34.0	33.0	na
yoy in %			-104.0%	1184.0%	-2.9%	na
margin in %			0.5%	6.5%	6.2%	na
EBIT (Hauck&Aufhäuser)	-145.1	-65.5	2.6	27.2	40.5	44.8
yoy in %			-104.0%	927.0%	48.9%	10.7%
margin in %			0.5%	5.0%	7.1%	7.5%
delta H&A estimates (total)			0.0	6.8	-7.5	na
delta H&A estimates (%)			0%	25%	-19%	na
Net profit (consensus)	-157.0	-62.0	-7.4	28.0	27.0	na
yoy in %			-88.0%	-477.2%	-3.6%	na
margin in %			-1.5%	5.4%	5.0%	na
Net profit (Hauck&Aufhäuser)	-157.0	-62.0	-7.4	21.2	33.5	37.3
yoy in %			-88.0%	-386.1%	57.7%	11.4%
margin in %			-1.5%	3.9%	5.9%	6.3%
delta H&A estimates (total)			0.0	6.8	-6.5	na
delta H&A estimates (%)			0%	32%	-19%	na
EPS (consensus)	-1.25	-1.94	-0.26	0.72	0.69	na
yoy in %			-86.7%	-379.2%	-4.2%	na
EPS (Hauck&Aufhäuser)	-1.25	-2.35	-0.26	0.47	0.65	0.00
yoy in %			-89.0%	-280.5%	39.5%	na
delta H&A estimates (total)			0.00	0.25	0.04	na
delta H&A estimates (%)			0%	55%	6%	na
DPS (consensus)	#DIV/0!	0.00	0.00	0.00	0.00	na
DPS (Hauck&Aufhäuser)	#DIV/0!	0.00	0.00	0.00	0.13	0.14
delta H&A estimates (total)			0.00	0.00	-0.13	na
delta H&A estimates (%)			na	na	na	na

Source: Hauck&Aufhäuser, FacSet

ROCE Decomposition



Source: Hauck&Aufhäuser

Balance sheet structure

The balance sheet structure has changed substantially over the last years due to the **transformation of the company from a restructuring holding to a pure play telecommunication equipment provider**.

Even though the continued existence of Gigaset, respectively its predecessor company Arques, was highly at risk approximately one year ago, **the current balance sheet quality looks very solid which is a result of the:**

- **Operational turnaround**, which the current management achieved in less than 9 months.
- **Sale of the vast majority of the company's former holdings.**
- **Settlement of a legal dispute with Siemens regarding Gigaset GmbH** – according to the agreement the remaining 19.8% in Gigaset were acquired for the contractual amount of € 5k.
- **Capital increase in October 2010 which led to a cash inflow of € 15m.**
- **Proceeds of some € 24m** raised through the issuance of a two-year convertible bond.

After all these measures have been implemented – incl. the expected conversion of the bond in June 2011 – and on the basis of an expected strong operating cash flow in 2011, liquidity will no longer be a concern; i.e. at the end of 2011E Gigaset should be **virtually debt-free and dispose of some € 36m in liquid funds (eH&A)**.

Despite benefitting from “over-invested” Siemens standards at its state-of-the-art production site (up to € 16m units per year) in Bocholt, Germany, **fixed assets are almost evenly split between...**

a) Intangible assets (eH&A 2011E € 43.1m, mainly capitalised R&D and PPA) and...

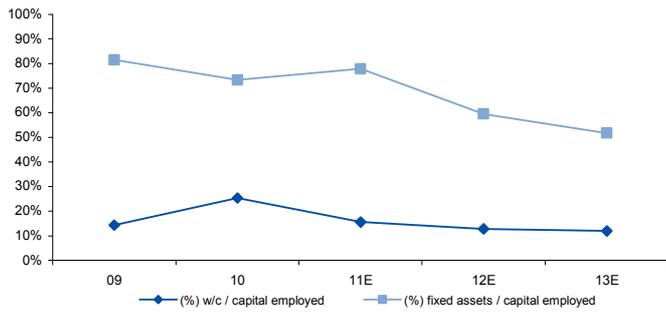
b) Property, plant and equipment (eH&A 2011E € 48.7m, mainly land, buildings, machinery, office equipment, etc.)

...only explaining 33.9% of Total Assets.

Current assets, namely inventories of € 28.8m (eH&A 2011E) and accounts receivables of € 71.9m (eH&A 2011E) constitute some 37.4% of Total Assets.

However, net working capital remains modest as a result of some € 82.4m in accounts payable and amounts to 3.9% of sales on average by 2013E.

Capital employed



Source: Hauck & Aufhäuser

Capital employed

The market for DECT-telephones is effectively an oligopoly. As a result, the **ownership of the brand name Gigaset** (included in intangible assets for some € 8.4m), which stands for “telephony at home” in several European countries, **is critical in order to continue to extract premium prices.**

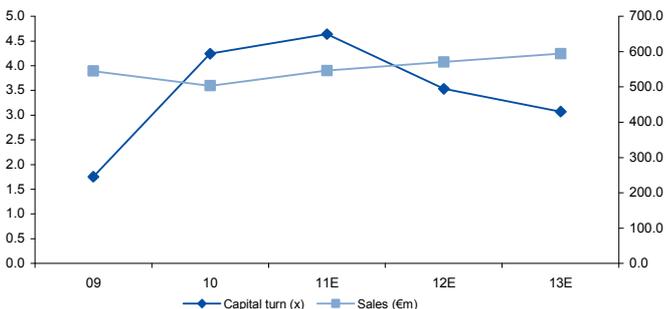
At the same time the market share gains of the last years were achieved because Gigaset is one of the few providers being prepared to invest consistently in product performance and design (eH&A capex 2011E ca. € 35m, thereof € 17m in capitalised R&D and € 18m in PP&E).

As such the company has:

- Expanded and substantially re-designed its product portfolio for private clients.
- Launched a new product platform Gigaset PRO focused on small and home offices.
- Maintained a state-of-the-art production system allowing a “Made in Germany” product quality and also a **process quality of 99.8%.**

Thus, **it is fair to conclude that capital employed does indeed represent a competitive strength, putting the company in an excellent position to further expand its global market share.**

Capital employed turnover and sales



Source: Hauck & Aufhäuser

Operational efficiency

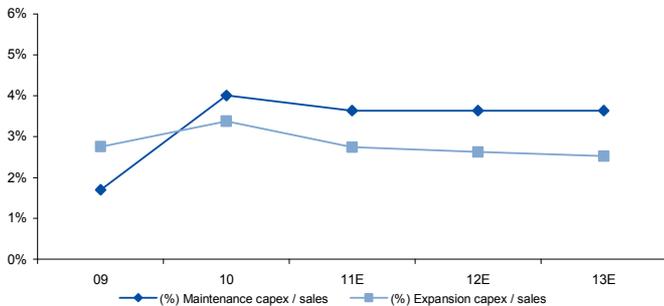
Capital intensity appears to be appropriate for this sort of business, with a capital turn 2011E of 4.5x (cash-adjusted: 6.8x) and very low working capital consumption.

The drop in capital turn to 3x by 2013E is largely due to a **strong profitability growth and cash generation** allowing the company to significantly improve its **equity base.**

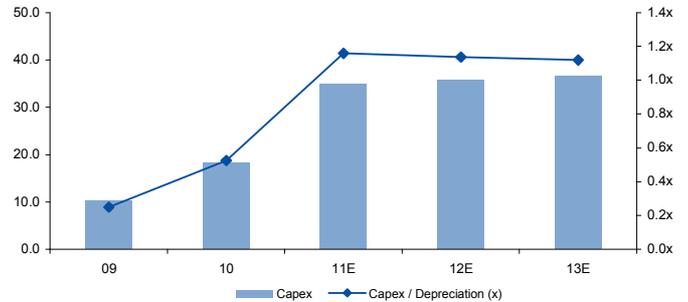
Excess cash should be partly **deployed selectively on acquisitions** and partly returned to shareholders in the form of a dividend.

Current capacity can be regarded as sustainable: while the company produced some 9m units in 2010 according to our calculation (Gigaset phone sales 2010 of € 491m, price per unit of ca. € 55), that **output could close to double to 16m, without further expanding capacities.**

Capex cycle



Capex bar and Capex/depreciation



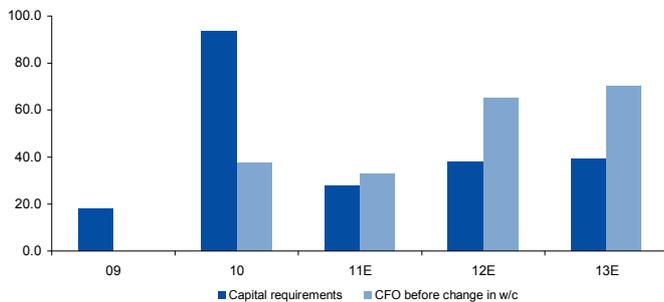
Source: Hauck&Aufhäuser

Capex cycle and net capex

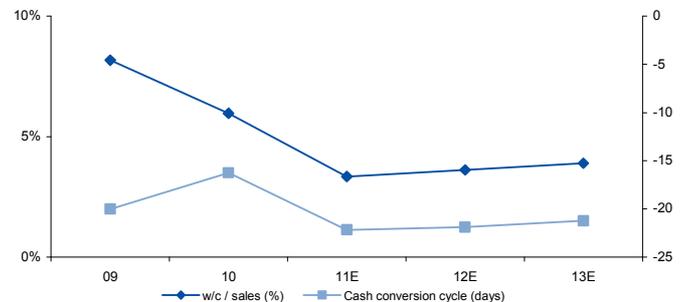
While a “normal” capex level can hardly be derived from the past, Gigaset is expected to spend some € 35m on average p.a. over the next years. While capitalised R&D explains some € 15m of this, the rest is maintenance capex.

Having said that, the capex cycle (as a percentage of EBITDA) should move in the right direction and gradually release a higher amount of free cash flow.

Capital requirements and CFO before changes in w/c



Cash flow analysis



Source: Hauck&Aufhäuser

Cash flow analysis

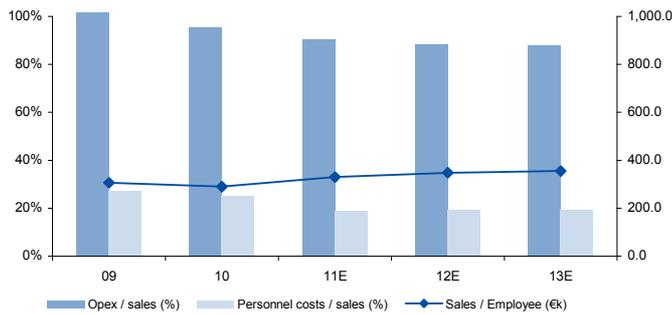
Gigaset is expected to generate an average cash flow from operating activities before changes in working capital of some € 70m p.a. over the next three years.

Working capital accounts for some 15% of capital employed in 2011E (or € 18m) and is minor, as accounts receivables and inventories are largely financed by the accounts payable leading to a **highly attractive negative cash conversion cycle of close to 20 days.**

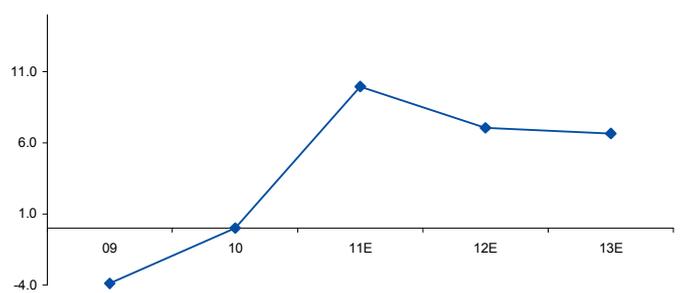
Furthermore, Gigaset has a **framework factoring contract** in place, which allows it to sell up to **€ 50 m p.a. in receivables**. Starting 2011 the company is set to use this facility by some 60% annually. The costs for the factoring are accounted for in the financial result at an interest rate of 4%. Default risk rests with the factoring company.

Hence, the company’s ability to afford its capital requirements can only be regarded as high.

Cost base and leverage



Operating leverage



Source: Hauck&Aufhäuser

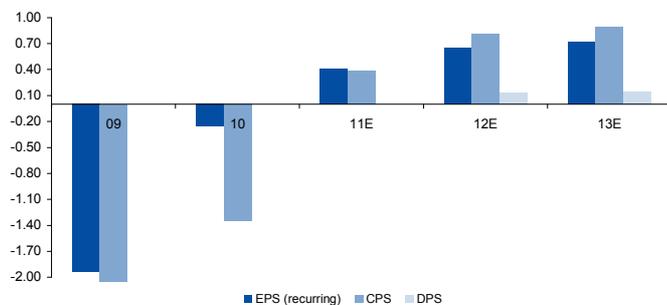
Cost base and operational gearing

While the overall pricing environment is and looks set to remain challenging, Gigaset clearly sticks out as the only focused provider, with a “premium” positioning clearly perceived by customers, **which should help it defend gross margins going forward.**

Even though the ratio of gross margin to EBIT margin yields an operating leverage of almost 10x in 2011, **the real operational gearing** is a more **moderate 2.5x** as most of the operating expenses are variable; i.e. material expenses (c. 50% of sales) and other operating expenses (c. 25% of sales; largely variable). The remaining 25% are personnel costs.

In 2011 the cost structure should continue to be affected by remaining one-off items related to the transformation of the company into a pure operating business.

DPS/CPS/EPS



Source: Hauck&Aufhäuser

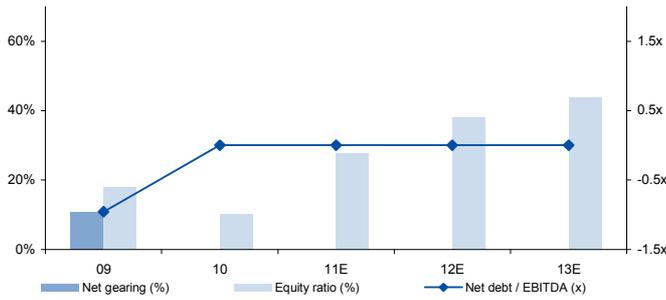
Dividend distribution

Unsurprisingly, the struggling predecessor of Gigaset (Arques) was not in the position to pay out a dividend.

Going forward, CPS (base on cash flow from operating activities) should closely resemble EPS despite expected tax rates of some 10% as a result of substantial tax loss carry-forwards (some € 15m at Gigaset AG and > € 70m on the holding level).

All in all, this will give Gigaset substantial leeway for dividend payments which management already indicated for the fiscal year 2012E, to be paid in 2013. We are assuming a 20% pay-out ratio.

Solvency



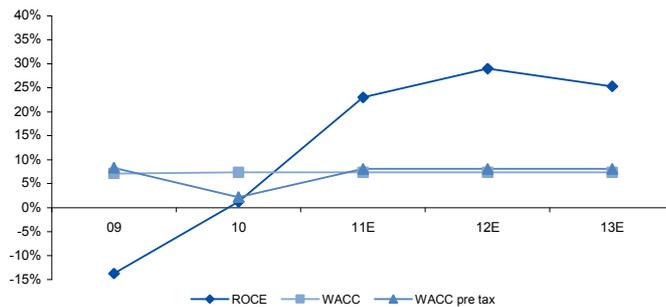
Source: Hauck&Aufhäuser

Solvency

At the end of 2010 Gigaset carried a net cash position of some € 9m which already includes the above mentioned convertible bond of € 23.1m. Net cash is expected to increase to ca. € 36m thanks to better profitability and the convertible bond's conversion in June.

The end of any restructuring measures, the return to organic growth and the sale of all non-core activities scheduled for H1 2011 (van Netten) should further improve the financial flexibility going forward.

Returns



Source: Hauck&Aufhäuser

Sustainability and cyclicity of returns

Obviously, Gigaset could not create value over the last two years. While management had to focus on keeping the company alive in 2009, 2010 was mainly characterised by

- Stabilising the operating business (like-for-like growth of 2.6% yoy to € 491m) and
- Selling non-core holding companies like Anvis (auto supplier), Fritz Berger (camping equipment), Oxynova (specialty chemicals), and Carl Froh (auto supplier) etc.

Going forward, ROCE should reach 25% which can be explained by:

- A **700 bps increase in the EBIT margin** from 0.5% in 2010 to 7.5% in 2013E driven by a lower cost base and some operating leverage on higher sales,
- Stable overall capital employed** due to low capacity utilisation.

Adjusted for cash, returns should be sustainable given that:

- Gigaset should take further advantage of increasing its scale.
- The company is seen to be a beneficiary of the fact that cordless and corded phones are increasingly becoming non-core for competitors like Panasonic and Philips which have to battle for more important marketplaces.

Having suffered from the pending insolvency one year ago, the share has already substantially rebounded from its lows.

However, as it is still being neglected by capital markets, the share price is still at attractive levels and does not reflect future returns prospects.

Valuation

All metrics suggest a significant undervaluation of the share: **BUY PT € 9.0.**

FCF Yield

Due to the fact that Gigaset hardly bears 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 the 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 7.5%, assuming a statutory tax rate of 35%, giving investors in Gigaset the benefit of the lower effective tax rate over the medium term. Anything less suggests the stock is expensive; anything more suggests the stock is cheap.

Factored receivables of approximately € 30m annually were brought back on onto the balance sheet for valuation purposes.

Based on 2011E, the adjusted FCF yield indicates a fair value of € 9.0 per share.

Gigaset AG						
FCF yield, year end Dec. 31	2009	2010	2011E	2012E	2013E	
EBITDA	-13.4	37.4	57.3	71.9	77.5	
- Maintenance capex	41.4	20.2	19.9	20.7	21.6	
- Minorities	0.1	0.0	0.0	0.0	0.0	
- tax expenses	-13.3	3.1	2.4	3.7	4.2	
= Adjusted Free Cash Flow	-41.6	14.2	35.1	47.5	51.8	
Actual Market Cap	113.0	123.2	220.7	220.7	220.7	
+ Net debt (cash)	12.8	-8.7	-36.1	-63.0	-87.6	
+ Pension provisions	32.3	8.2	7.5	7.7	8.0	
+ Off balance sheet financing	0.0	20.0	30.0	30.0	30.0	
+ Adjustments prepayments	0.0	0.0	0.0	0.0	0.0	
- Financial assets	-8.6	0.0	0.0	0.0	0.0	
- Dividend payment	0.0	0.0	0.0	0.0	-6.7	
<i>EV Reconciliations</i>	36.5	19.4	1.4	-25.3	-56.3	
= Actual EV'	149.5	142.6	222.1	195.4	164.4	
Adjusted Free Cash Flow yield	-27.8%	10.0%	15.8%	24.3%	31.5%	
Sales	544.9	503.7	546.8	570.8	594.2	
Actual EV/sales	0.3x	0.3x	0.4x	0.3x	0.3x	
Hurdle rate	7.5%	7.5%	7.5%	7.5%	7.5%	
FCF margin	-7.6%	2.8%	6.4%	8.3%	8.7%	
Fair EV/sales	-1.0x	0.4x	0.9x	1.1x	1.2x	
Fair EV	-554.2	189.5	467.6	633.0	690.7	
- <i>EV Reconciliations</i>	36.5	19.4	1.4	-25.3	-56.3	
Fair Market Cap	-590.6	170.0	466.2	658.3	747.0	
No. of shares (million)	26.4	28.8	51.6	51.6	51.6	
Fair value per share	-22.4	5.9	9.0	12.8	14.5	
Premium (-) / discount (+) in %	-622.7%	38.0%	111.2%	198.3%	238.5%	
Sensitivity analysis fair value						
	7.5%	-22.4	5.9	9.0	12.8	14.5
Hurdle rate	10.0%	-17.1	4.3	6.8	9.7	11.1
	12.5%	-14.0	3.3	5.4	7.9	9.1
	15.0%	-11.9	2.6	4.5	6.6	7.8

Source: Hauck&Aufhäuser

DCF

Main assumptions underlying the DCF are:

- A risk free rate of 3.4%
- An equity risk premium of 5%
- A beta of 1
- A terminal growth rate of 1%
- A terminal EBIT margin of 7.5%
- A terminal WACC of 8.4%

The analysis yields a fair value of € 8.7 per share.

DCF (EUR m) (except per share data and beta)	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Terminal value
NOPAT	24.5	36.4	40.3	41.0	41.5	41.7	41.7	41.5	42.1
Depreciation	30.1	31.4	32.7	34.0	35.2	36.2	37.1	37.9	38.6
Increase/decrease in working capital	6.8	-2.4	-2.5	-2.7	-3.0	-3.3	-3.6	-0.7	-0.7
Increase/decrease in long-term provisions and accruals	-0.7	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Capex	-34.9	-35.7	-36.6	-37.4	-35.2	-36.2	-37.1	-37.9	-38.6
Acquisitions	-0.5	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
Cash flow	25.3	30.0	34.2	35.1	38.7	38.7	38.4	41.1	41.6
Present value	24.0	24.0	26.2	27.6	26.1	26.6	24.5	22.4	282.7
WACC	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%

DCF per share derived from		DCF avg. growth and earnings assumptions	
Total present value	484	Short term growth (2010-2013)	1.6%
thereof terminal value	58%	Medium term growth (2013 - 2017)	3.0%
Net debt (net cash) at start of year	-9	Long term growth (2017 - infinity)	1.0%
Financial assets	0	Terminal year EBIT margin	7.5%
Provisions and off balance sheet debt	43		
Equity value	450	WACC derived from	
No. of shares outstanding	51.6	Cost of borrowings before taxes	6.0%
Discounted cash flow per share	8.7	Tax rate	10.0%
upside/(downside)	104%	Cost of borrowings after taxes	4.9%
		Required return on invested capital	8.4%
		Risk premium	5.0%
		Risk-free rate	3.4%
Share price	4.28	Beta	1.0

Sensitivity analysis DCF						Sensitivity analysis DCF							
		Long term growth						EBIT margin terminal year					
		0%	0.5%	1.0%	1.5%	2.0%			5.5%	6.5%	7.5%	8.5%	9.5%
WACC	10.4%	6.5	6.7	6.9	7.2	7.4	WACC	10.4%	5.9	6.4	6.9	7.4	7.9
	9.4%	7.2	7.4	7.7	8.0	8.4		9.4%	6.5	7.1	7.7	8.3	8.9
	8.4%	8.0	8.4	8.7	9.2	9.7		8.4%	7.3	8.0	8.7	9.5	10.2
	7.4%	9.1	9.6	10.1	10.7	11.5		7.4%	8.3	9.2	10.1	11.0	12.0
	6.4%	10.6	11.3	12.1	13.0	14.2		6.4%	9.7	10.9	12.1	13.3	14.5

Source: Hauck&Aufhäuser

Company Background

Company history

10/2005 Siemens sets up SHC for its cordless voice, broadband, WiMAX and home media activities.

10/2008 Siemens sells its loss-making telco division.

10/2008 Arques buys 80.2% of SHC with an option to acquire the remaining 19.8%

10/2008 The company is renamed Gigaset Communications GmbH

12/2010 Settlement with Siemens with transfer of the remaining 19.8% to Gigaset

DECT technology

Currently, Gigaset's products are mainly based on **DECT technology**. DECT, is the main standard for modern cordless phone systems.

It was developed for short distance data communication between a base station and a handset: 30 to 50 meters within a building and 300 meters outside.

The electronic signals are coded and decoded by the base station, which sends the signals into the public fixed-line network.

DECT is a protected and regulated standard and predominantly used in developed countries. Today, **DECT is available in 110 countries worldwide**, with an increasing number of certified regions.

In 2005, the USA opened the market for DECT and Japan, which is currently using the PHS standard, is expected to introduce DECT technology shortly.

Brand name

The company is exclusively producing and selling the phones under the brand Gigaset. Until September 2011, the SIEMENS brand will still be printed on the products, as the former owner sold the phones as SIEMENS Gigaset.

In the past, the SIEMENS logo was printed smaller and less highlighted. Meanwhile the logo Gigaset is branded more visibly on the products to improve awareness.

With the full production in Germany, the company is able to sell the phones with the merchandise mark: Made in Germany, **which stands for quality and reliability**.

Additionally more certifications were obtained over the recent years: the company's products are certified by ISO 14001 for Environmental Management.

Further, Gigaset received the **ECO DECT sign** (for energy saving and low-radiation technology) and several design awards (i.e. Red Dot Design Award, Good Design, iF product Design Award and others).

Production

The production site is based in Bocholt, Germany.

Here, the Gigaset products are manufactured under **the high quality, i.e. over-capitalised and high environmental standards of a former SIEMENS subsidiary.**

50 production systems enable the company to produce some 16 million units per year which are available in 1,200 product variances. Since the production of cordless phones started in 1993, Gigaset produced more than 150 million telephones.

Currently 1,200 employees in Bocholt guarantee a flexible output in the range of 800k to 1.7m units per month. The variable utilisation is related to the Christmas season which is the peak season for these products.

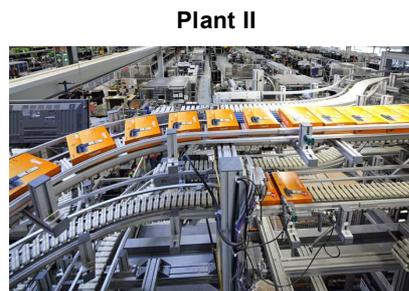
Hence, the main production period is in Autumn (September to November), when retailers fill their stocks for the coming business.

In 2009, the plant was awarded as “Fabrik des Jahres” – Deutscher GEO Award / “Factory of the Year” for an Excellent Change Management.

Gigaset production site in Bocholt, Germany



Plant I



Plant II

Source: Company data, Hauck&Aufhäuser

Segments

While sales have clearly been dominated by cordless phone devices (**Cordless Voice**).

Gigaset is currently expanding its product portfolio on the back of its strong brand name in the fields of

- Products for small and medium sized enterprises (**Gigaset PRO**),
- **Next Generation** solutions based on IP technology.

Cordless Voice

While business customers mainly use corded phones, some 95% of the cordless phones are used at home by private clients.

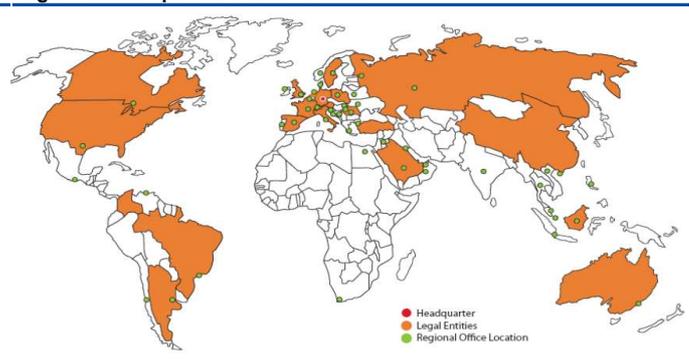
For Gigaset, cordless consumer phones are the core products with revenue share of some 80%. Gigaset phones are mainly distributed by retail chains such as Metro Group (Metro, Saturn, Media Markt), Karstadt, Carrefour, FNAC, EP as well as telecommunication operators like Telefonica, China Telecom or Telecom Italia.

Gigaset is represented by subsidiaries, retailers and network operators in over 70 countries.

Retailer and telecom network



Gigaset market presence in 70 countries



Source: Company data; Hauck & Aufhäuser

Gigaset PRO

Gigaset PRO (professional) is a new **product line for business clients**. It is focusing on small and medium sized enterprises with a need for up to 50 phone lines. Gigaset looks set to offer the whole infrastructure a company of that size normally needs, i.e. software, hosts, base stations and corded or cordless end devices.

Gigaset PRO was **initially presented at CEBIT 2011**. While first products are currently being produced, these solutions are distributed through value added resellers and distributors.

Next Generation

Further, the company offers corded and cordless telephones for Voice over IP (VoIP). This technology enables the communication without a fixed-line network and makes use of the internet technology. Currently, routers which are transforming electronic signals of a conventional phone or solutions like are predominantly used in this field, the Gigaset solutions are VoIP-phones which are meant to replace PC, laptop and router to call directly and independent from other equipment.

Hence, the company pushes the development of “cloud friendly” VoIP-phones

and focuses the end consumer who will be targeted by the retail channel or online-shops.

Management

Dr. Alexander Blum, CFO. Mr. Blum earned his doctorate at the European Business School in Oestrich-Winkel, which was followed by several years as a consultant at a large, international consulting firm, before he started in operations at Gigaset AG in 2008.

Here he managed the restructuring of Gigaset Communications GmbH from the start before being appointed CFO in February 2010. He has contributed significantly in focusing Gigaset as a medium-sized, profitable company and has expanded its global finance and controlling structures.

As Chief Financial Officer of Gigaset AG Dr. Blum is responsible for Finance, Legal, HR and IR on the Holding level.

Maik Brockmann, COO

Since 1998, Mr. Brockmann worked in the restructuring of SMEs and has, in recent years, actively supported and driven the development of 26 subsidiary companies. Since 2006, Maik Brockmann has worked for ARQUES Industries AG. Before joining ARQUES Industries AG, he served as an executive of a medium-sized company.

Financials

Profit and loss (EUR m)	2009	2010	2011E	2012E	2013E
Net sales	544.9	503.7	546.8	570.8	594.2
Sales growth	n/a	-7.6 %	8.6 %	4.4 %	4.1 %
Increase/decrease in finished goods and work-in-process	6.0	13.6	5.5	5.7	5.9
Total sales	551.0	517.2	552.2	576.5	600.2
Other operating income	27.1	34.0	27.3	28.5	29.7
Material expenses	293.2	253.8	278.8	288.3	298.6
Personnel expenses	148.7	127.6	104.0	109.9	114.1
Other operating expenses	149.5	132.4	139.4	135.0	139.6
Total operating expenses	564.3	479.8	494.9	504.6	522.6
EBITDA	-13.4	37.4	57.3	71.9	77.5
Depreciation	22.8	20.2	19.9	20.7	21.6
EBITA	-36.1	17.3	37.4	51.2	56.0
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	18.6	14.6	10.2	10.7	11.1
Impairment charges	10.8	0.0	0.0	0.0	0.0
EBIT	-65.5	2.6	27.2	40.5	44.8
Interest income	1.9	0.3	0.4	0.6	0.7
Interest expenses	11.6	7.4	4.0	4.0	4.0
Other financial result	0.0	0.0	0.0	0.0	0.0
Financial result	-9.7	-7.0	-3.6	-3.4	-3.3
Recurring pretax income from continuing operations	-75.2	-4.4	23.6	37.1	41.5
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0
Earnings before taxes	-75.2	-4.4	23.6	37.1	41.5
Taxes	-13.3	3.1	2.4	3.7	4.2
Net income from continuing operations	-62.0	-7.4	21.2	33.4	37.4
Result from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0
Net income	-62.0	-7.4	21.2	33.4	37.4
Minority interest	0.1	0.0	0.0	0.0	0.0
Net income (net of minority interest)	-62.0	-7.4	21.2	33.4	37.4
Average number of shares	26.4	28.8	45.6	51.6	51.6
EPS reported	-2.35	-0.26	0.47	0.65	0.72

Profit and loss (common size)	2009	2010	2011E	2012E	2013E
Net sales	100.0 %				
Increase/decrease in finished goods and work-in-process	1.1 %	2.7 %	1.0 %	1.0 %	1.0 %
Total sales	101.1 %	102.7 %	101.0 %	101.0 %	101.0 %
Other operating income	5.0 %	6.7 %	5.0 %	5.0 %	5.0 %
Material expenses	53.8 %	50.4 %	51.0 %	50.5 %	50.3 %
Personnel expenses	27.3 %	25.3 %	19.0 %	19.3 %	19.2 %
Other operating expenses	27.4 %	26.3 %	25.5 %	23.7 %	23.5 %
Total operating expenses	103.6 %	95.3 %	90.5 %	88.4 %	88.0 %
EBITDA	-2.5 %	7.4 %	10.5 %	12.6 %	13.1 %
Depreciation	4.2 %	4.0 %	3.6 %	3.6 %	3.6 %
EBITA	-6.6 %	3.4 %	6.8 %	9.0 %	9.4 %
Amortisation of goodwill	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Amortisation of intangible assets	3.4 %	2.9 %	1.9 %	1.9 %	1.9 %
Impairment charges	2.0 %	0.0 %	0.0 %	0.0 %	0.0 %
EBIT	-12.0 %	0.5 %	5.0 %	7.1 %	7.5 %
Interest income	0.4 %	0.1 %	0.1 %	0.1 %	0.1 %
Interest expenses	2.1 %	1.5 %	0.7 %	0.7 %	0.7 %
Other financial result	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Financial result	-1.8 %	-1.4 %	-0.7 %	-0.6 %	-0.6 %
Recurring pretax income from continuing operations	-13.8 %	-0.9 %	4.3 %	6.5 %	7.0 %
Extraordinary income/loss	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Earnings before taxes	-13.8 %	-0.9 %	4.3 %	6.5 %	7.0 %
Tax rate	17.6 %	-69.9 %	10.0 %	10.0 %	10.0 %
Net income from continuing operations	-11.4 %	-1.5 %	3.9 %	5.8 %	6.3 %
Income from discontinued operations (net of tax)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Net income	-11.4 %	-1.5 %	3.9 %	5.8 %	6.3 %
Minority interest	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Net income (net of minority interest)	-11.4 %	-1.5 %	3.9 %	5.8 %	6.3 %

Source: Company data, Hauck & Aufhäuser

Balance sheet (EUR m)	2009	2010	2011E	2012E	2013E
Intangible assets	60.2	38.3	43.1	47.4	51.3
Property, plant and equipment	184.6	48.7	48.7	48.7	48.7
Financial assets	8.6	0.0	0.0	0.0	0.0
FIXED ASSETS	253.4	87.0	91.8	96.1	100.0
Inventories	93.7	36.5	28.8	30.0	31.3
Accounts receivable	131.3	83.4	71.9	76.6	81.4
Other current assets	101.0	98.1	32.0	35.0	40.0
Liquid assets	74.9	36.6	40.9	67.8	92.4
Deferred taxes	3.7	4.0	4.0	4.0	4.0
Deferred charges and prepaid expenses	0.0	0.0	0.0	0.0	0.0
CURRENT ASSETS	404.6	258.6	177.5	213.4	249.0
TOTAL ASSETS	658.0	345.6	269.3	309.5	349.0
SHAREHOLDERS EQUITY	118.4	34.9	70.5	108.9	135.6
MINORITY INTEREST	3.1	0.1	0.0	0.0	0.0
Long-term debt	87.7	27.9	4.8	4.8	4.8
Provisions for pensions and similar obligations	32.3	8.2	7.5	7.7	8.0
Other provisions	69.5	47.6	35.0	40.0	45.0
Non-current liabilities	189.5	83.6	47.3	52.5	57.7
short-term liabilities to banks	0.0	0.0	0.0	0.0	0.0
Accounts payable	180.4	89.8	82.4	86.0	89.5
Advance payments received on orders	0.0	0.0	0.0	0.0	0.0
Other liabilities (incl. from lease and rental contracts)	148.6	122.9	55.0	48.0	52.0
Deferred taxes	17.9	14.1	14.1	14.1	14.1
Deferred income	0.0	0.0	0.0	0.0	0.0
Current liabilities	347.0	226.9	151.5	148.2	155.7
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	658.0	345.6	269.3	309.5	349.0

Balance sheet (common size)	2009	2010	2011E	2012E	2013E
Intangible assets	9.1 %	11.1 %	16.0 %	15.3 %	14.7 %
Property, plant and equipment	28.1 %	14.1 %	18.1 %	15.7 %	13.9 %
Financial assets	1.3 %	0.0 %	0.0 %	0.0 %	0.0 %
FIXED ASSETS	38.5 %	25.2 %	34.1 %	31.0 %	28.6 %
Inventories	14.2 %	10.6 %	10.7 %	9.7 %	9.0 %
Accounts receivable	20.0 %	24.1 %	26.7 %	24.8 %	23.3 %
Other current assets	15.4 %	28.4 %	11.9 %	11.3 %	11.5 %
Liquid assets	11.4 %	10.6 %	15.2 %	21.9 %	26.5 %
Deferred taxes	0.6 %	1.2 %	1.5 %	1.3 %	1.1 %
Deferred charges and prepaid expenses	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
CURRENT ASSETS	61.5 %	74.8 %	65.9 %	69.0 %	71.4 %
TOTAL ASSETS	100.0 %				
SHAREHOLDERS EQUITY	18.0 %	10.1 %	26.2 %	35.2 %	38.9 %
MINORITY INTEREST	0.5 %	0.0 %	0.0 %	0.0 %	0.0 %
Long-term debt	13.3 %	8.1 %	1.8 %	1.5 %	1.4 %
Provisions for pensions and similar obligations	4.9 %	2.4 %	2.8 %	2.5 %	2.3 %
Other provisions	10.6 %	13.8 %	13.0 %	12.9 %	12.9 %
Non-current liabilities	28.8 %	24.2 %	17.6 %	17.0 %	16.5 %
short-term liabilities to banks	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Accounts payable	27.4 %	26.0 %	30.6 %	27.8 %	25.7 %
Advance payments received on orders	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Other liabilities (incl. from lease and rental contracts)	22.6 %	35.6 %	20.4 %	15.5 %	14.9 %
Deferred taxes	2.7 %	4.1 %	5.3 %	4.6 %	4.1 %
Deferred income	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Current liabilities	52.7 %	65.7 %	56.3 %	47.9 %	44.6 %
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	100.0 %				

Source: Company data, Hauck & Aufhäuser

Cash flow statement (EUR m)	2009	2010	2011E	2012E	2013E
Net profit/loss	-62.0	-7.4	21.2	33.4	37.4
Depreciation of fixed assets (incl. leases)	22.8	20.2	19.9	20.7	21.6
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	18.6	14.6	10.2	10.7	11.1
Others	-31.1	10.5	-18.5	0.2	0.2
Cash flow from operations before changes in w/c	-51.7	37.8	32.8	65.0	70.3
Increase/decrease in inventory	4.5	0.9	7.7	-1.3	-1.2
Increase/decrease in accounts receivable	58.6	13.0	11.5	-4.7	-4.8
Increase/decrease in accounts payable	-85.1	-70.7	-7.4	3.6	3.5
Increase/decrease in other working capital positions	14.1	0.3	-5.0	0.0	0.0
Increase/decrease in working capital	-8.0	-56.5	6.8	-2.4	-2.5
Cash flow from operating activities	-59.7	-18.6	39.6	62.7	67.8
CAPEX	10.3	18.3	34.9	35.7	36.6
Payments for acquisitions	0.0	0.0	0.5	0.0	0.0
Financial investments	0.0	0.0	0.0	0.0	0.0
Income from asset disposals	1.1	-4.7	0.0	0.0	0.0
Cash flow from investing activities	-9.2	-23.0	-35.4	-35.7	-36.6
Cash flow before financing	-68.9	-41.6	4.2	26.9	31.3
Increase/decrease in debt position	-10.9	-8.2	0.0	0.0	0.0
Purchase of own shares	0.0	0.0	0.0	0.0	0.0
Capital measures	0.0	14.1	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	6.7
Others	11.5	5.8	0.0	0.0	0.0
Effects of exchange rate changes on cash	17.4	3.2	0.0	0.0	0.0
Cash flow from financing activities	0.7	11.7	0.0	0.0	-6.7
Increase/decrease in liquid assets	-50.8	-26.7	4.2	26.9	24.6
Liquid assets at end of period	74.9	36.6	40.9	67.8	92.4

Source: Company data, Hauck & Aufhäuser

Regional split (EUR m)	2009	2010	2011E	2012E	2013E
Domestic	155.9	294.8	315.5	327.1	338.7
yoy change	-67.7 %	89.0 %	7.0 %	3.7 %	3.6 %
Rest of Europe	261.6	154.8	169.5	177.5	185.4
yoy change	-49.0 %	-40.8 %	9.5 %	4.7 %	4.4 %
NAFTA	33.7	10.9	12.6	13.4	14.3
yoy change	-76.5 %	-67.5 %	14.9 %	6.7 %	6.3 %
Asia Pacific	93.7	43.2	49.2	52.8	55.9
yoy change	-36.3 %	-53.9 %	14.0 %	7.3 %	5.8 %
Rest of world	0.0	0.0	0.0	0.0	0.0
yoy change	n/a	n/a	n/a	n/a	n/a
TTL	544.9	503.7	546.8	570.8	594.2
yoy change	-57.6 %	-7.6 %	8.6 %	4.4 %	4.1 %

Source: Company data, Hauck & Aufhäuser

Key ratios (EUR m)	2009	2010	2011E	2012E	2013E
P&L growth analysis					
Sales growth	n/a	-7.6 %	8.6 %	4.4 %	4.1 %
EBITDA growth	-130.1 %	-380.0 %	53.0 %	25.5 %	7.8 %
EBIT growth	-54.8 %	-104.0 %	927.0 %	48.9 %	10.7 %
EPS growth	-60.4 %	-89.0 %	-280.5 %	39.1 %	12.0 %
Efficiency					
Total operating costs / sales	103.6 %	95.3 %	90.5 %	88.4 %	88.0 %
Sales per employee	306.1	289.5	329.4	348.5	355.3
EBITDA per employee	-7.5	21.5	34.5	43.9	46.4
Balance sheet analysis					
Avg. working capital / sales	21.4 %	7.4 %	4.4 %	3.4 %	3.7 %
Inventory turnover (sales/inventory)	5.8	13.8	19.0	19.0	19.0
Trade debtors in days of sales	87.9	60.4	48.0	49.0	50.0
A/P turnover [(A/P*365)/sales]	120.8	65.1	55.0	55.0	55.0
Cash conversion cycle (days)	-20.0	-16.2	-22.2	-21.9	-21.2
Cash flow analysis					
Free cash flow	-70.0	-36.9	4.7	26.9	31.3
Free cash flow/sales	-12.8 %	-7.3 %	0.9 %	4.7 %	5.3 %
FCF / net profit	112.8 %	497.3 %	22.3 %	80.7 %	83.6 %
FCF yield	-66.3 %	-32.1 %	2.3 %	13.1 %	15.2 %
Capex / depre	24.9 %	52.5 %	115.8 %	113.7 %	111.9 %
Capex / maintenance capex	-7.9 %	3.2 %	100.0 %	100.0 %	100.0 %
Capex / sales	1.9 %	3.6 %	6.4 %	n/a	n/a
Security					
Net debt	12.8	-8.7	-36.1	-63.0	-87.6
Net Debt/EBITDA	-1.0	0.0	0.0	0.0	0.0
Net debt / equity	0.1	-0.3	-0.5	-0.6	-0.6
Interest cover	0.0	0.4	6.8	10.1	11.2
Dividend payout ratio	0.0 %	0.0 %	0.0 %	20.0 %	20.0 %
Asset utilisation					
Capital employed turnover	1.8	4.2	4.6	3.5	3.1
Operating assets turnover	2.4	6.4	8.2	8.2	8.3
Plant turnover	3.0	10.3	11.2	11.7	12.2
Inventory turnover (sales/inventory)	5.8	13.8	19.0	19.0	19.0
Returns					
ROCE	-13.7 %	1.2 %	23.0 %	29.0 %	25.3 %
ROE	-52.4 %	-21.2 %	30.1 %	30.7 %	27.6 %
Other					
Interest paid / avg. debt	7.7 %	12.7 %	24.5 %	83.8 %	83.8 %
No. employees (average)	1780	1740	1660	1638	1673
Number of shares	26.4	28.8	45.6	51.6	51.6
DPS	0.0	0.0	0.0	0.1	0.1
EPS reported	-2.35	-0.26	0.47	0.65	0.72
Valuation ratios					
P/BV	0.9	3.3	2.9	1.9	1.5
EV/sales	0.3	0.2	0.3	0.3	0.2
EV/EBITDA	-11.3	3.1	3.1	2.1	1.6
EV/EBITA	-4.2	6.6	4.7	2.9	2.3
EV/EBIT	-2.3	43.3	6.5	3.7	2.8
EV/FCF	-2.2	-3.1	37.5	5.6	4.1
Dividend yield	0.0 %	0.0 %	0.0 %	3.2 %	3.6 %

Source: Company data, Hauck & Aufhäuser

Disclosure in respect of section 34b of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG)

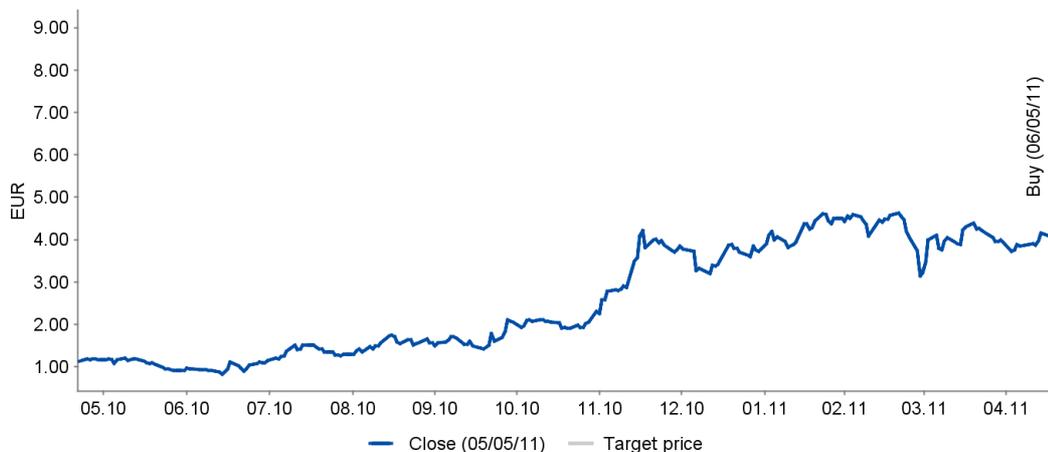
Company	Disclosure
Gigaset AG	8

- (1) Hauck & Aufhäuser or its affiliate(s) was Lead Manager or Co-Lead Manager over the previous 12 months of a public offering of this company.
- (2) Hauck & Aufhäuser acts as Designated Sponsor for this company or offers Equity Advisory Services.
- (3) Over the previous 12 months, Hauck & Aufhäuser and/or its affiliate(s) has effected an agreement with this company for investment banking services or received compensation or a promise to pay from this company for investment banking services.
- (4) Hauck & Aufhäuser and/or its affiliate(s) hold 5 % or more of the share capital of this company.
- (5) Hauck & Aufhäuser holds a trading position in shares of this company.
- (6) Hauck & Aufhäuser and/or its affiliate(s) holds a net short position of 1 % or more of the share capital of this company, calculated by methods required by German law as of the last trading day of the past month.
- (7) Within the last five years Hauck & Aufhäuser was a member of the issuing syndicate of this company.
- (8) The research report has been made available to the company prior to its publication / dissemination. Thereafter, only factual changes have been made to the report

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

**Price and Rating History
Gigaset AG as of 06/05/11**

Initiation coverage
06-May-11



Hauck & Aufhäuser distribution of ratings and in proportion to investment banking services

Buy	80.33 %	100.00 %
Sell	4.92 %	0.00 %
Hold	14.75 %	0.00 %

Valuation basis/rating key

Buy: Sustainable upside potential of more than 10% within 12 months.

Sell: Sustainable downside potential of more than 10% within 12 months.

Hold: Upside/downside potential limited. No immediate catalyst visible.

Competent supervisory authority

Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin – (Federal Financial Supervisory Authority), Graurheindorfer Straße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt am Main, Germany

Important Disclosures

This research report has been prepared by Hauck & Aufhäuser Institutional Research GmbH, Hamburg, or one of its affiliates (“**Hauck & Aufhäuser**”).

Hauck & Aufhäuser has made every effort to carefully research all information contained in this financial analysis. The information on which the financial analysis is based has been obtained from sources which we believe to be reliable such as, for example, Reuters, Bloomberg and the relevant specialised press as well as the company which is the subject of this financial analysis.

Only that part of the research note is made available to the issuer, who is the subject of this analysis, which is necessary to properly reconcile with the facts. Should this result change considerably, a reference is made in the research note.

Opinions expressed in this financial analysis are the current, personal opinions of the analyst responsible for the document as of the issuing date indicated on this document and are subject to change without notice. Hauck & Aufhäuser does not commit itself in advance to whether and in which intervals an update is made. Also, the opinions in this document do not necessarily correspond to the opinions of Hauck & Aufhäuser.

The document and the recommendations and estimations contained therein are not linked - whether directly or indirectly - to the compensation of the analyst responsible for the document.

No representation, guarantees or warranties are made by Hauck & Aufhäuser with regard to the accuracy, completeness or suitability regarding all the information on the stocks, stock markets or developments referred to in it.

On no account should the document be regarded as a substitute for the recipient's procuring information for himself or exercising his own judgements.

The document has been produced for information purposes only, and only for institutional clients or market professionals. In particular, it is not intended to be distributed to private investors or private customers. Private investors or private customers, into whose possession this document comes, should discuss possible investment decisions with their customer service officer as differing views and opinions may exist with regard to the stocks referred to in this document.

This document is not a recommendation, offer or solicitation to buy or sell the mentioned stock and will not form the basis or a part of any contract.

The document may include certain descriptions, statements, estimates, and conclusions underlining potential market and company development. These reflect assumptions, which may turn out to be incorrect. Past performance is not a guide to future results. The price of securities may decrease or increase and as a result investors may lose the amount originally invested. Changes in exchange rates may also cause the value of investments to decrease or increase. Hauck & Aufhäuser and/or its directors, officers and employees accept no responsibility or liability whatsoever for any direct or consequential loss or damages of any kind arising out of the use of this document or any part of its content. To the extent this research report is being transmitted in connection with an existing contractual relationship, e.g. financial advisory or similar services, the liability of Hauck & Aufhäuser shall be restricted to gross negligence and wilful misconduct. In any case, the liability of Hauck & Aufhäuser is limited to typical, foreseeable damages and liability for any indirect damages is excluded.

Hauck & Aufhäuser may act as market-maker or underwrite issues for any securities mentioned in this document, derivatives thereon or related financial products or perform or seek to perform capital market or underwriting services.

Hauck & Aufhäuser reserves all the rights in this document. No part of the document or its content may be rewritten, copied, photocopied or duplicated in any form by any means or redistributed without Hauck & Aufhäuser's prior written consent.

Please note that our research is only for the personal use of Hauck & Aufhäuser institutional clients. Do not pass on to third parties or make available to third parties. From time to time Hauck & Aufhäuser Institutional Research GmbH will be compensated for its services using soft dollar compensation arrangements, such as trading commissions.

By accepting this document, a recipient hereof agrees to be bound by the foregoing limitations.

Remarks regarding foreign investors

The preparation of this document is subject to regulation by German law. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions

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

Marc Osigus, CFA
Analyst

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

Tim Wunderlich
Analyst

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

Henning Breiter
Analyst

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

Roland Rapelius, CFA
Analyst

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

Marie-Therese Gruebner
Analyst

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

Thomas Wissler
Analyst

Tel.: +49 (0)40 414 3885 - 80
E-Mail: thomas.wissler@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 20 7763 7178
E-Mail: toby.woods@ha-research.de

Senior Advisors

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

Jochen Lucht
Senior Advisor

Tel.: +49 (0) 69 50 500 49- 1260
E-Mail: jochen.lucht@ha-research.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