



**FIRST BERLIN**

Equity Research

**STRONG BUY**

**ENVIO AG**

GERMANY /  
WASTE DISPOSAL

PRICE TARGET: €6.00  
PREVIOUS CLOSE: €3.10  
RETURN POTENTIAL: 93.5%

INITIATING COVERAGE

30 MARCH 2009





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## ENVIO AG

GERMANY / WASTE DISPOSAL

Frankfurt Stock Exchange  
 Bloomberg symbol: EIO GR  
 ISIN: DE0000A0N4P19

RATING:	<b>Strong Buy</b>
PRICE TARGET:	<b>€6.00</b>
RETURN POTENTIAL:	<b>93.5%</b>
RISK RATING:	<b>Medium</b>

### TECHNOLOGY LEADER IN MARKET OLIGOPOLY

As a waste disposal company, Envio is a beneficiary of the global trend towards environmental protection. The company has quickly become a top three market player worldwide in PCB decontamination. Envio can potentially generate high margins by gaining first mover advantage in markets with good growth potential, such as Asia, and central and south eastern Europe. The company is expanding into other waste disposal areas for future growth. We initiate coverage with a €6.00 price target and Strong Buy rating.

**High-margin niche strategy** Envio's main business segment is the decontamination, recycling and disposal of devices which contain PCB, a toxic organic compound that was used in the electrical industry until it was banned worldwide in 1989. The company generates high margins as it is one of a limited number of companies offering the service worldwide. Moreover, Envio is the only company that pursues an international expansion strategy, focusing on markets with the highest growth potential.

**New facility in South Korea to drive growth** The disposal of PCB-contaminated electric devices only recently began in South Korea, where over 100,000 transformers are stored and await disposal. Envio is the only waste disposal company with an official license and facility in South Korea. Thus, the company will have a near monopolistic market position, at least in the short term, which we believe will significantly boost Envio's profitability.

**Biogas to provide sustainable growth levels** In January 2008, Envio took over the activities of Bebra Biogas GmbH, a company with extensive knowledge and a superior technology in developing biogas facilities. Envio has signed letters of intent for the construction of biogas facilities with 14 South Korean communities. Additional facilities are planned in Germany, where the company also sees enormous market potential. Management regard the new business segment highly positively and expect it to generate sales from 2009.

**Good performance in 2008** Despite falling commodity prices, Envio succeeded in boosting its sales by 2% to a record of over €10m last year. We forecast EBIT to have been roughly flat at €2.8m. 2008 results would have been better if the start of PCB disposal in Korea had not been pushed back due to a delay in obtaining the necessary permits. Beginning with financial year 2008, Envio will publish its results according to IFRS standards.

### FINANCIAL HISTORY & PROJECTIONS

	2007	2008E	2009E	2010E	2011E	2012E
Revenue (€m)	9.83	10.00	12.32	19.10	21.83	25.08
Y-o-y growth	na	1.8%	23.2%	55.1%	14.3%	14.9%
EBITDA (€m)	2.93	2.92	2.81	6.04	7.20	8.61
EBITDA margin	29.8%	29.2%	22.8%	31.6%	33.0%	34.3%
EBIT (€m)	2.72	2.80	2.66	5.80	6.94	8.30
EBIT margin	27.7%	28.0%	21.6%	30.4%	31.8%	33.1%
Net income (€m)	1.28	1.82	1.62	3.61	4.43	5.42
EPS (diluted) (€)	0.17	0.24	0.21	0.47	0.57	0.70
P/E (x)	18.6	13.1	14.7	6.6	5.4	4.4
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF (€m)	-10.55	1.72	0.32	-0.20	2.89	3.60
Net gearing	-16.8%	-26.2%	-26.5%	-22.9%	-32.4%	-40.6%
Liquid assets (€m)	2.84	4.00	8.01	13.37	16.38	20.06

### RISKS

Risks include but are not limited to: need for licences, dependence on environmental laws, prices of raw materials and key personnel, risks associated with acquisitions, supply and customer structure as well as stock dilution.

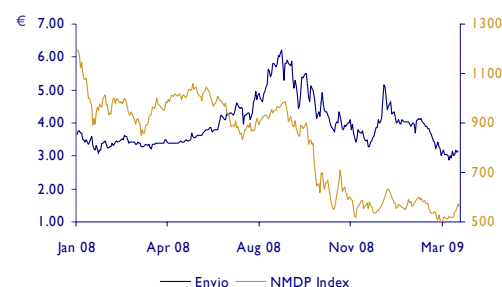
### COMPANY PROFILE

Envio was founded in 2004 through the MBO of a former division of ABB. The core competence of the company is the decontamination, recycling and disposal of transformers and other electric devices. Through Bebra Biogas AG the company also constructs biogas facilities. Envio is headquartered in Dortmund and had 47 employees as of 31 December 2008.

### TRADING DATA

Closing price (27.03.09)	€3.10
Shares outstanding	7.70m
Market capitalisation	€23.86m
52-week range	€2.56 / 6.48
Av. vol. (six months)	8,441

### STOCK OVERVIEW



### COMPANY DATA (as of 30 June 2008)

Liquid assets incl. securities	€1.42m
Current assets	€7.63m
Intangible assets	€8.39m
Total assets	€22.26m
Current liabilities	€7.44m
Shareholders' equity	€14.82m

### SHAREHOLDERS

Christoph Harks	36.4%
Dr. Dirk Neupert	34.8%
CD Vermögensverwaltung GbR	3.9%
Other employees	3.0%
Free float	21.9%



## INVESTMENT CASE

### HIGH-MARGIN NICHE STRATEGY

Envio operates in an attractive niche market with oligopolistic characteristics. According to management, there are just three main competitors in Europe with the ability to dispose of PCB-contaminated electric devices. Moreover, Envio has a significant competitive advantage due to its plants' high processing capacity and its operating experience gained as a former subsidiary of the ABB Group. Further, we believe the company's strategy of being first in markets with good prospects should drive EBIT margins from 28% currently to above 35% in the medium to long term.

### EXCELLENT PROSPECTS IN CORE BUSINESS

The PCB decontamination business is set for continued strong development as a result of the goals set by the Stockholm Convention; that is, achieving environmentally sound management of PCB waste by 2025. Numerous countries have not yet implemented disposal reforms, thus creating excellent opportunities for Envio's services.

### WASTE DISPOSAL LICENCES ALLOW DIFFERENTIATION OF BUSINESS

As Envio has been granted official waste disposal licences by the German and South Korean governments, the company is able to diversify its business and thus achieve independence of PCB disposal – a business with a limited lifespan. The company has started a new biogas business segment and has plans to expand into other areas.

### NEW BIOGAS SEGMENT TO BOOST SALES SIGNIFICANTLY

In January 2008, Envio took over the activities of Bebra Biogas GmbH and thus entered a new industry. Bebra Biogas has strong technological capabilities and extensive experience in constructing biogas facilities. Envio has signed letters of intent with 14 communities in South Korea for constructing biogas production facilities. In the country's capital Seoul alone, 3000 tonnes of food waste are produced every day, thus representing an attractive market. Moreover, the company plans to open smaller facilities in Germany in the short to medium term. Management expect the new division to contribute to group sales from 2009.

### EXPERIENCED MANAGEMENT TEAM

Dr Dirk Neupert and Christoph Harks, Envio's management team, both have degrees in engineering and business administration. The team gained experience in various managerial positions within ABB before the opportunity arose for a management buyout of ABB's transformer disposal unit.

### INTERNATIONAL EXPANSION INTO PROMISING MARKETS

Envio's strategy entails expansion into countries with high future growth potential for PCB disposal, where the company can gain first-mover advantage. These countries are predominantly situated in Asia as well as central and south eastern Europe.

### VALUATION SUGGESTS SUBSTANTIAL UPSIDE FOR THE STOCK

Our valuation, which takes only the PCB business into account, is based on discounted cash flow and peer group analysis. The weighted average of both methods results in a fair value for the stock of €6.00, which corresponds to upside of 93.5% from current level.



## SWOT ANALYSIS

### STRENGTHS

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- A leading international PCB disposal company
- Worldwide supply and cooperation network inherited from ABB
- Experienced and competent management team
- Superior patented LTR<sup>2</sup> technology (Low-Temperature-Rinsing and Re-Use/Recovery)
- The only company that prepares sheet metal from transformers for re-use
- Cost and process efficiency of a mid-sized company
- High market entry barriers due to extensive know-how and capital requirements
- Independent of economic cycle
- Above-average margins and solid financial structure with very low financial debt

### WEAKNESSES

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- Relatively high capital expenditure requirements for further expansion
- Dependence on government licenses
- Diversified companies are generally not well regarded by investors

### OPPORTUNITIES

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- Waste disposal in Germany and South Korea (licenses received)
- Oligopolistic market structure with established companies dominating the market
- Strong growth potential in new markets in Asia as well as central and south eastern Europe
- Additional growth potential through the biogas business and other areas of waste disposal
- Potential spin-off of biogas subsidiary could have a positive impact on Envio's enterprise value

### THREATS

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- PCB disposal is a business with limited lifespan
- Exposure to changes in the price of raw materials
- Exposure to changes in foreign exchange rates through commodity and ex-EU sales
- Risks associated with entry into new market segments
- Share price dilution from potential capital increase



# VALUATION

## SALES AND EARNINGS FORECASTS

Envio has exhibited strong sales growth in recent years, aided by its worldwide customer and partner network inherited from ABB. The company plans to expand into untapped markets in Asia, and central and south eastern Europe (CEE and SEE), where it would have a near monopolistic position in the short term and thus generate high margins. A new facility was already opened recently in South Korea. In general, the company’s international expansion should create substantial sales diversification by 2010.

### Current geographical sales split of the Dortmund facility

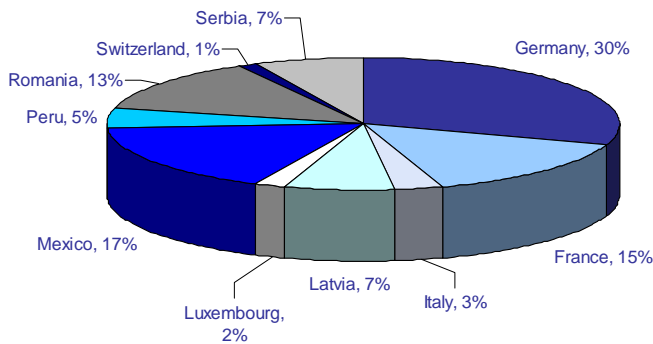


Chart 1 Source: Envio, First Berlin Equity Research

### Forecasted geographical sales split of the Dortmund facility in 2010

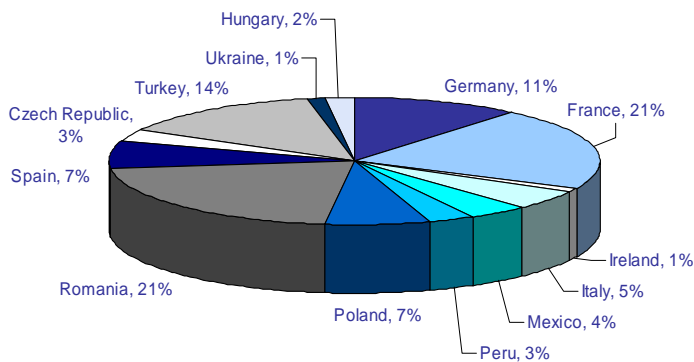


Chart 2 Source: Envio, First Berlin Equity Research



In 2008, the total revenues of €10.0m were generated solely by the facility in Dortmund, where the company processed c. 7,200 transformer units in the period. In 2009, the total number of transformer units processed in Dortmund is expected to go up to c. 8,180 as the company will increase the capacity of the facility from 7,500 tonnes to roughly 10,000 tonnes per year. However, we expect revenues from the facility to decrease this year due to much lower prices for copper and aluminium. Raw material prices also affect Envio's margins, which is why we expect the EBIT margin to decrease this year from 28.0% to 21.6%. Despite the weaker expected performance of the Dortmund facility, we forecast that total revenues will increase to €12.3m in 2009 as the new facility in South Korea is expected to add c. 3,390 units of processed transformers. Beyond 2009 we expect higher raw materials prices and increased capacity expansion to ensure continued revenue growth and an expansion in margins. For the three year period 2009-2012 we forecast a sales CAGR of 26.7% and a rise in the EBIT margin from 21.6% to 33.1%.

Envio has recently created a new business area in the biogas market through taking over the activities of Bebra Biogas GmbH. However, little information is available on this business at present and so we have not incorporated it into our forecasts. As renewables investors generally prefer companies with a focused business model, we expect the company to spin-off its biogas business in the medium term and list it on the stock exchange as a separate company.

## **BALANCE SHEET AND CASH FLOW**

Envio is a financially sound company with a healthy balance sheet and cash flows. As of 30 June 2008, cash including securities totalled €1.4m, whereas total bank debt was €0.5m, and the equity ratio amounted to 67%. We expect the company's cash position to increase significantly in the coming years due to highly profitable business development with healthy cash flows. The company is authorised to issue 3.85m new shares. We believe that there are currently no plans to carry out an issue. However, an issue may be made in the medium term at a higher share price to finance further expansion in CEE and SEE and also facilitate a listing in the Prime Standard for which a free float of 25% is required (the current free float is 21.9%).

## **VALUATION SUGGESTS SUBSTANTIAL UPSIDE FOR THE STOCK**

Our valuation is based on DCF and peer group analysis, which we weight by 70% and 30%, respectively. **The weighted average of both methods generates a fair value for the stock of €6.00 corresponding to upside of 93.5% from current levels.**

Our valuation shows that despite the company's excellent prospects, Envio is heavily undervalued at present. We believe the company will generate impressive growth due to strong environmental protection legislation introduced in recent years. Also, considering management's inclination towards conservative forecasts, we believe there is a possibility that Envio will outperform our forecasts substantially.



Furthermore, we give the stock a medium risk profile mainly because Envio's business is not correlated with the economic cycle and the company has a very solid financial structure with only a low level of financial debt.

### Valuation summary

	Weight	Target price (€)
Discounted cash flow	70%	6.35
Peer Group analysis	30%	5.28
<b>Weighted average</b>		<b>6.03</b>

Table I

Source: First Berlin

### DCF VALUATION

We base the WACC calculation in our discounted cash flow (DCF) model on a risk-free rate of 3.0%, market risk premium of 4.4% and an effective tax rate of 40%. In terms of long-term financial structure, we assume that the company will only use equity for financing in the future. Using the individual company risk factors measured by our multi-factor risk model, we arrive at a cost of equity of 13.4%.

The explicit period of our DCF model runs until 2025. For the terminal period we have assumed a growth rate of 2%. We examine three different raw material price development scenarios from 2010 (especially copper and aluminium), as c. 67% of Envio's current revenues relate to raw material prices. We assume stable raw material prices in 2009 due to the worldwide economic crisis.

The current per tonne prices of copper and aluminium are \$4,078 and \$1,410, respectively. In our base-case scenario, which we weight by 80%, we assume a yearly increase of raw material prices of 3.5%. The other two scenarios, annual price increases of 2% and 5% respectively, are both weighted by 10%. After weighting the different scenarios and discounting free cash flows to the present, we arrive at a fair value for Envio's stock of €6.35.



## DCF model (base-case scenario)

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E
<b>Revenues</b>	<b>9,827</b>	<b>10,000</b>	<b>12,317</b>	<b>19,105</b>	<b>21,834</b>	<b>25,077</b>	<b>28,942</b>	<b>33,288</b>
(y-o-y change)	n.a	1.8%	23.2%	55.1%	14.3%	14.9%	15.4%	15.0%
<b>Operating profit</b>	<b>2,720</b>	<b>2,800</b>	<b>2,658</b>	<b>5,804</b>	<b>6,936</b>	<b>8,303</b>	<b>9,952</b>	<b>11,697</b>
(operating margin)	27.7%	28.0%	21.6%	30.4%	31.8%	33.1%	34.4%	35.1%
<b>NOPLAT</b>	<b>3,403</b>	<b>3,728</b>	<b>1,595</b>	<b>3,533</b>	<b>4,279</b>	<b>5,189</b>	<b>6,298</b>	<b>7,018</b>
+ depreciation & amortisation	211	122	150	233	266	306	353	406
<b>= net operating cash flow</b>	<b>3,614</b>	<b>3,850</b>	<b>1,745</b>	<b>3,765</b>	<b>4,545</b>	<b>5,495</b>	<b>6,651</b>	<b>7,424</b>
<b>- total investments (Capex and WC)</b>	<b>-12,707</b>	<b>-219</b>	<b>-1,450</b>	<b>-4,040</b>	<b>-1,797</b>	<b>-2,125</b>	<b>-2,521</b>	<b>-2,843</b>
capital expenditure	-13,467	-220	-1,467	-4,089	-1,817	-2,148	-2,549	-2,875
working capital	760	1	17	49	20	23	28	31
<b>= Free cash flow (FCF)</b>	<b>-9,093</b>	<b>3,631</b>	<b>295</b>	<b>-275</b>	<b>2,748</b>	<b>3,370</b>	<b>4,130</b>	<b>4,580</b>
PV of FCF's	0	0	269	-220	1,945	2,103	2,274	2,224

### All figures in T€

PV of FCFs in explicit period *	36,720
PV of FCFs in terminal period	8,188
<b>Enterprise value (EV)</b>	<b>44,908</b>
+ Net cash / - net debt	3,968
<b>Shareholder value</b>	<b>48,875</b>

**Number of shares outstanding (m)** 7,696

**WACC** 13.4%

cost of equity	13.4%
pre-tax cost of debt	8.0%
normal tax rate	40.0%
after-tax cost of debt	4.8%
share of equity	100.0%
share of debt	0.0%

**Fair value per share in €** 6.35

	11.6%	12.6%	13.6%	14.6%	15.6%	16.6%	17.6%
<b>10.4%</b>	8.51	8.69	8.87	9.05	9.23	9.42	9.60
<b>11.4%</b>	7.55	7.69	7.83	7.97	8.11	8.25	8.39
<b>12.4%</b>	6.76	6.87	6.98	7.08	7.19	7.30	7.41
<b>13.4%</b>	6.09	6.18	6.27	<b>6.35</b>	6.44	6.52	6.61
<b>14.4%</b>	5.53	5.60	5.67	5.73	5.80	5.87	5.94
<b>15.4%</b>	5.05	5.10	5.16	5.21	5.26	5.32	5.37
<b>16.4%</b>	4.63	4.67	4.72	4.76	4.80	4.85	4.89

Terminal EBIT margin

Fair value per share

\* Explicit period ends in 2025



## Scenario analysis

	Prices of raw materials (y-o-y) until 2025		
	2.0%	3.5%	5.0%
DCF value (EUR)	5.90	6.35	6.83
Weight	10%	80%	10%
<b>Weighted average</b>			<b>6.35</b>

Table 2

Source: First Berlin

## PEER GROUP ANALYSIS

We use just five companies in our peer group, the majority of which are well-diversified waste disposal companies. Moreover, market caps in the group are significantly higher than Envio's, ranging from €59.6m to €9.8bn. Analysis of EV/Sales and EV/EBIT ratios for full-year 2010 shows that Envio is trading at a 45.8% discount to its peers. We derive a fair value of €5.28 per share.

### Peer group analysis

Company	Share price	Shares outst. (m)	Market Cap (m)	Net debt (m)	EV (m)	EV/Sales		EV/EBIT	
						2009E	2010E	2009E	2010E
Seche Environment SA (EUR)	43.76	8.64	377.9	251.1	629.0	1.64	1.58	9.25	8.62
Interseroh SE (EUR)	27.73	9.84	272.9	108.1	381.0	0.21	0.19	5.14	4.98
Waste Management, Inc. (USD)	26.60	491.46	13072.9	6581.1	19654.0	1.59	1.57	9.14	8.95
American Ecology Corp (USD)	15.84	18.30	289.9	-19.9	270.0	1.71	1.75	8.36	7.67
Groupe Pizzorno (EUR)	14.90	4.00	59.6	51.4	111.0	0.67	0.64	n.a	n.a
Median						1.59	1.57	8.75	8.14
Envio AG	3.10	7.70	23.9	-4.0	19.9	1.61	1.04	7.48	3.43
<b>Premium/Discount (Median)</b>						<b>1.3%</b>	<b>-33.6%</b>	<b>-14.5%</b>	<b>-57.9%</b>
Target EV Envio	36.7								
Net cash Envio	-4.0								
Target Market Cap Envio	40.7								
<b>Target price Envio (€)</b>	<b>5.28</b>								

Table 3

Source: Bloomberg, First Berlin Equity Research



## COMPANY OVERVIEW

### DESCRIPTION

Envio Germany GmbH was founded in 2004 through a management buyout of ABB Group's subsidiary ABB Transformatoren GmbH. The ABB Group is the world's largest producer of transformers. The management buyout was carried out by ABB managers Dr Dirk Neupert and Christoph Harks, with both having more than 10 years of experience in the company. In 2007, the company was transformed into Envio AG and listed in the Entry Standard of the German Stock Exchange. Dr Neupert and Mr Harks are still the biggest shareholders of the company with combined direct and indirect stakes of c. 75%.

### Envio's organisational structure

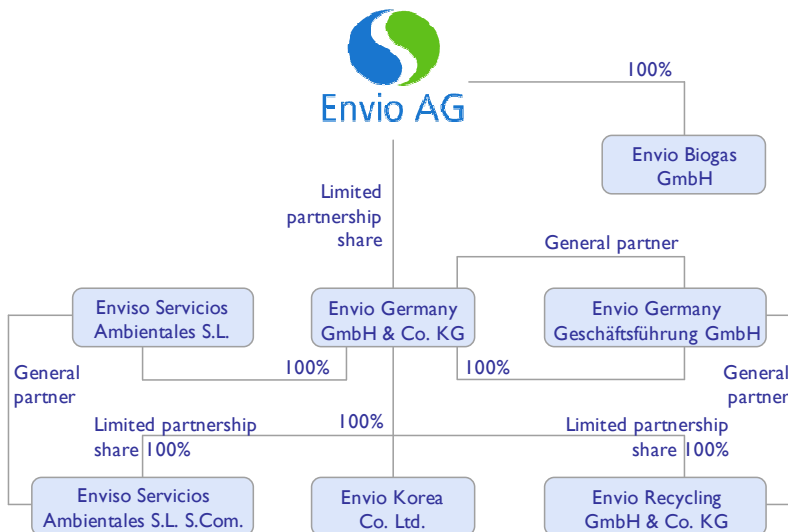


Chart 3

Source: Envio, First Berlin

Envio's main business area is the decontamination, utilisation and disposal of transformers, capacitors and other electrical devices that contain PCB and selling the resulting raw materials. Envio also assists clients in replacing the removed electrical devices. As the company holds waste disposal licences from the German and South Korean governments, it can diversify into the disposal of other materials with relative ease. Envio expanded into the disposal of food waste in January 2008 with the acquisition of the activities of Bebra Biogas GmbH. The company will move into further business segments as the opportunity arises.

Envio's main disposal facility is situated at its headquarters in Dortmund. In September 2008, the company opened a new facility in South Korea, which constitutes the first step of its expansion into Asian markets. In South Korea, Envio already secured orders from Hyundai and Kepco, which is the biggest utility in the country. In Asia, PCB waste disposal is at an early stage and management see great potential. Further markets with excellent prospects where management plan to construct facilities in the coming years are central and south-eastern Europe.



## SHORT HISTORY

- 1984: Brown Boveri & Cie (BBC) establish disposal unit in Dortmund and begin disposing transformers and capacitors in Germany
- 1989: Merger between BBC and ASEA, a Swedish supplier to the electrical power industry, creating the ABB Group. PCB disposal continues through ABB Transformatoren GmbH
- 1993: New disposal facility in Dortmund commences operations
- 2000: Beginning of international PCB disposal projects
- 2003: Founding of Envio Germany GmbH & Co. KG.
- 2004: Management buyout of ABB Transformatoren GmbH under Envio name. Envio Transformer Recycling AB founded in Sweden.
- 2006: Founding of Envio Servicios Ambientales SL S.Com, Envio's Spanish subsidiary.
- 2007: Founding of Envio Korea Ltd., Envio's Korean subsidiary.  
Founding of Envio Recycling GmbH & Co KG with Envio Germany GmbH & Co KG as fully liable partner. Holding company Envio AG listed in the Entry Standard of Frankfurt Stock Exchange in September.
- 2008: Acquisition of Bebra Biogas GmbH & Co KG in January, which was subsequently renamed to Envio Biogas GmbH. South Korean facility opened in September.

## BUSINESS AREAS

### DECONTAMINATION AND DISPOSAL SERVICES

Envio's main business is the processing of PCB-contaminated and non-contaminated transformers, condensers and other electrical devices. The company's clients, utilities and manufacturing companies such as ABB, Alstom, Goodyear, BMW, ThyssenKrupp and TIWAG deliver the electrical devices to Envio's facility in Dortmund. In the case of contaminated devices from abroad, the PCB has already been released before delivery. For German-based clients, one of Envio's cooperation partners such as Bayer incinerates the PCB liquid for Envio. The solid electric devices undergo a recycling and decontamination process.

The contaminated electric devices undergo a process called LTR<sup>2</sup> (low-temperature rinsing and re-use/recovery). During the first phase, the devices are drained, thus releasing the liquid PCB. In the next step, the devices are dismantled and the metal sheets as well as coils are separated according to its raw material fraction. At the end of the process, the coils are granulated.

Envio developed the LTR<sup>2</sup> technology, which is superior to other technologies in terms of cost, security, efficiency and environmental concerns. Decontamination and replacement conducted using the LTR<sup>2</sup> process is substantially cheaper than with other technologies. Moreover, Envio is the only company on the market that can sell the metal sheets after decontamination for reuse. Envio generates further revenues by delivering and installing new equipment for its clients, although this constitutes only a negligible share in the company's total revenues.

### LTR<sup>2</sup> process

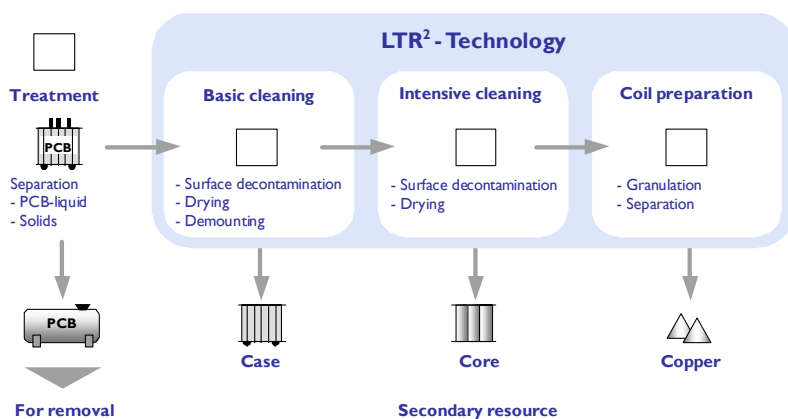


Chart 4

Source: Envio, First Berlin

### SALE OF RAW MATERIALS

The company also sells the end-products of the LTR<sup>2</sup> process on the free market including raw materials copper, iron and aluminium. The business segment made up 67% of total revenues in 2007.



## **BIOGAS PRODUCTION**

Envio's new business segment is the production of biogas through processing food waste and other organic components which the operation company receives for disposal. The company entered this business area through the takeover of the activities of Bebra Biogas GmbH in January 2008. The subsidiary was subsequently renamed Envio Biogas GmbH.

Envio Biogas has extensive experience in constructing and managing biogas production facilities and its superior technology optimises the fermentation process. Envio made the move into biogas after realising the demand for the service in certain market, such as South Korea, where the company already signed letters of intent for erecting biogas facilities with 14 provincial governments. Alone the capital Seoul produces roughly 3,000 tonnes of food waste per day and there is currently no facility for processing the waste. Management expect the company to start construction its first biogas facility in South Korea in the short term. Moreover, further smaller plants are planned in Germany, where management are currently in talks with major utility companies interested in purchasing biogas for use in their gas network. We expect the new biogas segment to contribute to sales from 2009.

Envio can construct up to 2 MW facilities for processing organic waste. In contrast to other biogas technologies, the end-products of Envio's fermentation process are gases that can be used to generate energy in power plants, and cleaned biogas that can be fed into the gas network. Moreover, the remaining material can be converted into fertilizer and sold.

## **CLEAN-UP OF CONTAMINATED SITES / ENVIRONMENTAL CONSULTING**

Envio's final business area is developing clean-up concepts and site-cleaning. The business segment plays a marginal role in terms of sales and only generates low margins.



## MANAGEMENT

**Dr Dirk Neupert (CEO)** has a degree in electrical engineering from Ecole Nationale Supérieure des Télécommunications in Paris and a diploma in business administration from the University of Stuttgart. He also obtained a Ph.D. (Dr.-Ing.) in process control engineering from the RWTH Aachen.

Dr Neupert worked in several positions within the ABB Group from 1991, including R&D engineer and project manager for expert system applications, and export sales manager for France, the Benelux and Northern Africa. Between 1999 and 2003, he worked as general manager for Environmental Services at ABB Transformatoren GmbH, where he had full responsibility for ABB's worldwide transformer recycling activities. Dr Neupert became managing partner of Envio after the management buyout of ABB Transformatoren GmbH. He had held the position of CEO since the company's IPO in late 2007.

Dr Neupert directly holds 37% of Envio AG and indirectly, through his 50% stake in CD Vermögensverwaltung GbR, an additional 1.9% stake. The lock-up period after which he can sell his shares expired on 24 September 2008.

**Christoph Harks (CFO)** graduated in electrical engineering with focus on power engineering from the University of Applied Sciences in Gelsenkirchen. He also completed an MBA program at the International School of Management in Dortmund.

Before his studies, Mr Harks worked for five years as electronics specialist at a STEAG power plant. During his studies, he gained industry experience by working as technical assistant on a project aimed at simulating and optimising automatic control systems and constructing a battery storage plant at the EUS GmbH in Dortmund. Mr Harks also worked at Siemens Components in Singapore, where he developed an entry strategy for the power capacitors market in Asia. After completing his studies, he began working for ABB in Dortmund, where he was employed in several departments. In 2004, he and Dr Neupert conducted the management buyout of ABB's Environmental Services division and he has sat on the company's management board since. Mr Harks has been Envio's Chief Financial Officer since September 2007.

During our meeting at Envio's headquarters in Dortmund, both managers made a good impression and we regard them as strong and competent entrepreneurs capable of leading Envio in the next stage of profitable growth.



## MARKET OVERVIEW

Between 1929 and 1989, before PCB was banned worldwide, 1.5m tonnes of PCB – equivalent to approx. 10m tonnes of contaminated transformers - were produced in total, although production in the former Soviet Union continued until the mid-1990s. Two-thirds of the total PCB produced has not yet gone through a decontamination process, representing strong demand for Envio's services.

PCB, or polychlorinated biphenyl, is an oil-like liquid with high chemical and thermal stability and good dielectric characteristics for thermal conduction. In the past, it was used as an insulating and cooling material in electric devices. Due to PCB's toxic properties, causing among others cancer, headache, nervousness and fatigue, the Stockholm Convention from 2004 obliged all countries to dispose of all PCB-contaminated devices by 2025. However, based on the limited worldwide disposal capacity at present, estimated at some 100,000 tonnes per annum, the process would take at least 30 years. Currently, 150 countries worldwide have ratified the Stockholm Convention, 47 of which Envio regards as its preferred markets.

### Envio's current market presence

Envio's current market presence			
Czech Republic	Hungary	Italy	Peru
France	Romania	South Korea	Yugoslavia
Germany	Spain	Turkey	Mexico
Kasachstan	Macedonia	Greece	Sweden
Ireland			

Table 5

Source: Envio, First Berlin

In Germany, like other countries with access to the North Sea, the decontamination process was officially finished in 1999, but decontamination continues. In many countries, especially in Asia and central and south-eastern Europe, PCB disposal is at an early development phase. In South Korea, for example, over 100,000 contaminated transformers are already put out of service, stored and ready for processing. The total demand in South Korea, estimated at over 200,000 tons of PCB transformers, will come to market until 2050, when national utilities and industry implement their PCB replacement programs to comply with national legislation. Envio is currently the only company with a facility and government disposal licence for PCB transformers in South Korea. As the Stockholm Convention obliges countries to dispose of PCB locally if possible, we expect Envio to generate even higher margins in South Korea than in its Dortmund facility. Therefore, we expect Envio's EBIT margin to move from currently 28% to more than 35% in the medium to long term.



**Estimated volume of PCB disposal in Envio’s current markets (in tonnes)**

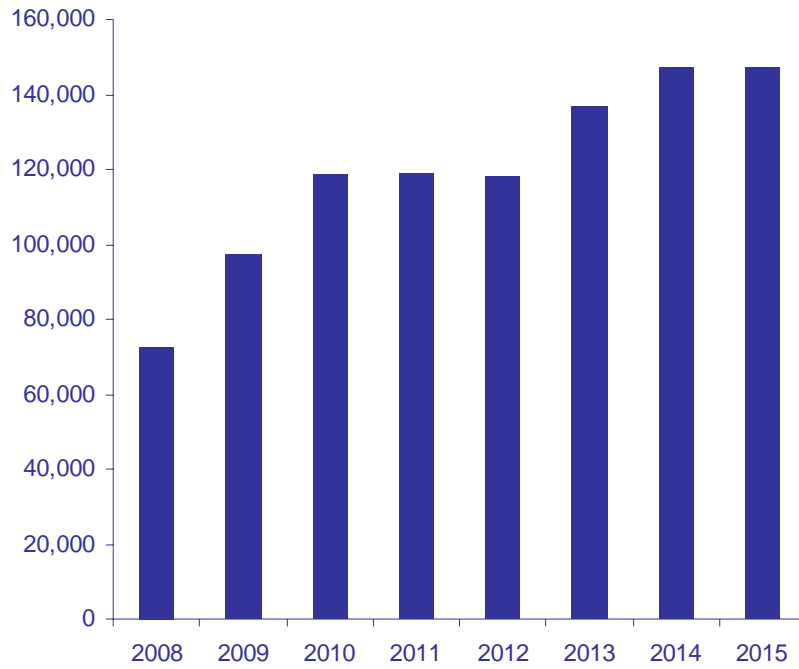


Chart 5

Source: Envio, First Berlin

**Estimated volume of PCB disposal in Envio’s preferred countries (in tonnes)**

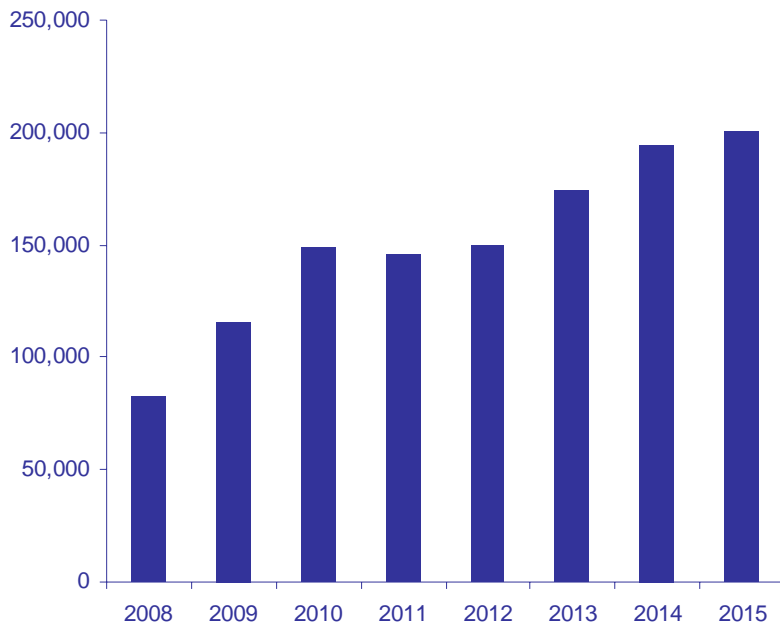


Chart 6

Source: Envio, First Berlin



Envio currently has few competitors that offer similar services. Furthermore, local disposal companies are often Envio's customers. The majority of the company's peers, which are mostly based in France and Belgium, do not plan or have the means to construct facilities in other countries. Moreover, Envio has a significant competitive advantage over its competitors due to its superior technology and its international network, which the company acquired from the ABB Group.

Although prices for copper and aluminium showed significant declines in 2008 due to the global economic downturn, we believe these will rebound soon due to continued strong demand in emerging markets such as China and India. Even in the unlikely event of further price decreases, there will be no major negative impact on Envio's profitability as the company can increase disposal fees, a step it has taken on several occasions in the past.



## **RISKS AND CONCERNS**

### **NO GUARANTEE THAT LICENCES WILL BE GRANTED**

The construction and the operation of facilities for disposing and recycling electric devices require government licences. Obtaining these is often a lengthy process. Also, receiving a licence is not guaranteed and certain conditions can also be imposed on approval.

### **DEPENDENCE ON ENVIRONMENTAL LAWS**

As a waste disposal company, Envio is dependent on environmental laws. The worldwide disposal of PCB is regulated by national and international law such as the Stockholm Convention, which obliges all countries to dispose of PCB-contaminated devices by 2025. If the disposal period is prolonged, it could lead to significantly reduced per-annum demand for Envio's services.

### **PRICE OF RAW MATERIALS**

Envio generated 67% of its 2007 revenues from the sale of raw materials after the recycling process. However, raw material prices have shown strong decreases in the course of 2008. Due to the sharp economic slowdown worldwide, there are no guarantees that the trend will reverse. Despite management's assertion that the company can increase disposal fees to counteract dropping material prices, the risk of reduced revenues remains.

### **ACQUISITIONS**

Envio plans to continue its international expansion strategy. This exposes the company to a number of risks, for example when acquiring another company. The costs of due diligence may be excessively high; there is the possibility that Envio will pay too much for the target company or that the expected synergies after integration are not realised. Envio also bears political, economical, social, legal and cultural risks when establishing a subsidiary in its preferred markets. Further, the financing of a potential move could prove difficult in the current financial climate.

### **DEPENDENCE ON PERSONNEL**

Envio's success depends on the skills and knowledge of its employees. Highly qualified personnel in distribution and project management are especially important to the company. Increasing demand and competition for qualified personnel in the waste disposal industry could pose a threat to Envio's future development.



## **PRICE CALCULATION**

Envio generally offers its services at fixed prices, meaning that the profitability of the business is highly dependent on the company's ability to plan accurately. Mismanagement could significantly impact Envio's financials as well as its reputation with clients.

## **STOCK DILUTION**

Envio may make a share issue in the medium term to finance expansion above and beyond our current forecasts. This could lead to significant dilution of the stock.



## INCOME STATEMENT ANALYSIS

All figures in €000	2007	2008E	2009E	2010E	2011E	2012E
<b>Revenues</b>	<b>9,827</b>	<b>10,000</b>	<b>12,317</b>	<b>19,105</b>	<b>21,834</b>	<b>25,077</b>
Change in inventories	1,065	367	-20	331	137	158
<b>Total Output</b>	<b>10,892</b>	<b>10,367</b>	<b>12,297</b>	<b>19,435</b>	<b>21,971</b>	<b>25,235</b>
Cost of goods sold	-4,198	-2,739	-6,872	-10,763	-11,760	-13,167
<b>Gross profit</b>	<b>6,694</b>	<b>7,627</b>	<b>5,425</b>	<b>8,672</b>	<b>10,211</b>	<b>12,068</b>
Other operating income	505	9	0	0	0	0
Personnel expenses	-1,301	-1,351	-932	-955	-978	-1,001
Depreciation + Amortization	-211	-122	-150	-233	-266	-306
Unrecoverable debt	0	0	-12	-19	-21	-23
Prepaid expenses recognized	0	0	-243	0	0	0
Other operating expenses	-2,967	-3,364	-1,430	-1,662	-2,011	-2,435
<b>EBIT</b>	<b>2,720</b>	<b>2,800</b>	<b>2,658</b>	<b>5,804</b>	<b>6,936</b>	<b>8,303</b>
Other income	3	0	0	0	0	0
Other interest and similar income	62	211	43	127	236	363
Interest and similar expenses	-187	-292	-2	0	0	0
<b>Income before income taxes and minority interests</b>	<b>2,597</b>	<b>2,718</b>	<b>2,699</b>	<b>5,931</b>	<b>7,173</b>	<b>8,665</b>
Exceptional expenses	-663	0	0	0	0	0
Income taxes	-652	-901	-1,080	-2,321	-2,747	-3,249
<b>Net income / loss</b>	<b>1,279</b>	<b>1,816</b>	<b>1,620</b>	<b>3,610</b>	<b>4,425</b>	<b>5,416</b>
Diluted EPS	0.17	0.24	0.21	0.47	0.57	0.70
<b>Ratios</b>						
Gross margin	68.1%	76.3%	44.0%	45.4%	46.8%	48.1%
EBIT margin	27.7%	28.0%	21.6%	30.4%	31.8%	33.1%
EBITDA margin	29.8%	29.2%	22.8%	31.6%	33.0%	34.3%
Net income margin	13.0%	18.2%	13.1%	18.9%	20.3%	21.6%
Interest coverage ratio (x)	14.55	9.58	1564.59	n.a	n.a	n.a
Tax rate	25.1%	33.1%	40.0%	39.1%	38.3%	37.5%
<b>Expenses as % of revenues</b>						
Material costs	42.7%	27.4%	55.8%	56.3%	53.9%	52.5%
Personnel costs	13.2%	13.5%	7.6%	5.0%	4.5%	4.0%
Other operating expenses	30.2%	33.6%	11.6%	8.7%	9.2%	9.7%
<b>Y-o-y growth</b>						
Total revenues	n.a	1.8%	23.2%	55.1%	14.3%	14.9%
Operating income	n.a	3.0%	-5.1%	118.3%	19.5%	19.7%
Net income / loss	n.a	42.0%	-10.8%	122.9%	22.6%	22.4%



## BALANCE SHEET ANALYSIS

All figures in €000	2007	2008	2009E	2010E	2011E	2012E
<b>Current assets, total</b>	<b>8,062</b>	<b>9,311</b>	<b>14,548</b>	<b>23,521</b>	<b>27,973</b>	<b>33,381</b>
Inventories	1,132	1,151	1,418	2,200	2,514	2,888
Trade accounts and notes receivables	2,606	2,652	3,266	5,066	5,790	6,650
Prepaid expenses, deferred charges and others	1,482	1,508	1,858	2,882	3,293	3,782
Cash and cash equivalents	2,842	4,000	8,006	13,373	16,376	20,062
<b>Non-current assets, total</b>	<b>14,137</b>	<b>14,239</b>	<b>15,602</b>	<b>19,597</b>	<b>21,203</b>	<b>23,112</b>
Property, plant and equipment	5,560	5,657	6,968	10,808	12,353	14,187
Goodwill + intangible assets	8,377	8,378	8,383	8,400	8,406	8,414
Other financial assets	200	204	251	389	444	510
<b>Total assets</b>	<b>22,199</b>	<b>23,550</b>	<b>30,151</b>	<b>43,118</b>	<b>49,176</b>	<b>56,493</b>
<b>Current liabilities, total</b>	<b>8,593</b>	<b>8,172</b>	<b>13,744</b>	<b>24,834</b>	<b>27,164</b>	<b>29,893</b>
Trade payables and others	1,392	1,417	1,745	2,707	3,094	3,553
Advances received	1,228	1,249	1,539	2,387	2,728	3,133
Short-term loans	594	32	3,718	9,283	9,391	9,480
Tax payables	310	315	389	603	689	791
Liabilities from associated companies	200	204	251	389	444	510
Provisions	2,713	2,761	3,400	5,274	6,028	6,923
Other debt	2,156	2,194	2,702	4,191	4,790	5,502
<b>Long-term liabilities, total</b>	<b>205</b>	<b>208</b>	<b>257</b>	<b>398</b>	<b>455</b>	<b>522</b>
Other debt	205	208	257	398	455	522
<b>Shareholders equity, total</b>	<b>13,402</b>	<b>15,170</b>	<b>16,150</b>	<b>17,886</b>	<b>21,557</b>	<b>26,078</b>
<b>Total consolidated equity and debt</b>	<b>22,199</b>	<b>23,550</b>	<b>30,151</b>	<b>43,118</b>	<b>49,176</b>	<b>56,493</b>
<b>Ratios</b>						
Current ratio (x)	0.94	1.14	1.06	0.95	1.03	1.12
Quick ratio (x)	0.63	0.81	0.82	0.74	0.82	0.89
Cash ratio (x)	0.33	0.49	0.58	0.54	0.60	0.67
Receivables (days)	97	96	88	80	91	91
Payables (days)	121	187	84	75	90	92
Inventory (days)	98	152	68	61	73	75
Cash conversion cycle (days)	74	61	72	65	74	73
Equity ratio	60.4%	64.4%	53.6%	41.5%	43.8%	46.2%
Gearing	-16.8%	-26.2%	-26.5%	-22.9%	-32.4%	-40.6%
Equity per share (€)	1.74	1.97	2.10	2.32	2.80	3.39
Net debt	-2,249	-3,968	-4,288	-4,090	-6,984	-10,581
Return on Equity (ROE)	9.5%	12.7%	10.3%	21.2%	22.4%	22.7%
Return on Capital Employed (ROCE)	25.0%	24.2%	9.7%	19.3%	19.4%	19.5%



## CASH FLOW ANALYSIS

All figures in €000	2007	2008E	2009E	2010E	2011E	2012E
<b>Net income</b>	<b>1,279</b>	<b>1,816</b>	<b>1,620</b>	<b>3,610</b>	<b>4,425</b>	<b>5,416</b>
Depreciation	211	122	150	233	266	306
Investment in working capital	760	1	17	49	20	23
Others	663	2	0	0	0	0
<b>Net operating cash flow</b>	<b>2,914</b>	<b>1,941</b>	<b>1,786</b>	<b>3,892</b>	<b>4,711</b>	<b>5,745</b>
<b>Capital expenditure</b>	<b>-13,467</b>	<b>-220</b>	<b>-1,467</b>	<b>-4,089</b>	<b>-1,817</b>	<b>-2,148</b>
Free cashflow	-10,553	1,721	320	-198	2,894	3,597
Financial cash flow	11,711	2,285	5,047	3,200	792	942
<b>Change in cash</b>	<b>1,158</b>	<b>4,006</b>	<b>5,367</b>	<b>3,002</b>	<b>3,686</b>	<b>4,539</b>
<b>Cash, start of the year</b>	<b>2,842</b>	<b>4,000</b>	<b>8,006</b>	<b>13,373</b>	<b>16,376</b>	<b>20,062</b>
<b>Cash, end of the year</b>	<b>4,000</b>	<b>8,006</b>	<b>13,373</b>	<b>16,376</b>	<b>20,062</b>	<b>24,601</b>
Free cash flow per share	-1.37	0.22	0.04	-0.03	0.38	0.47
<b>Y-o-y growth</b>						
Net operating cash flow	n.a	-33.4%	-8.0%	117.9%	21.1%	21.9%
CAPEX	n.a	98.4%	-566.4%	-178.8%	55.6%	-18.2%
Financial cash flow	n.a	-80.5%	120.9%	-36.6%	-75.3%	19.0%
Free cash flow per share	n.a	116.3%	-81.4%	-161.8%	-1565.1%	24.3%

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Initial Report	Today	€3.10	Strong Buy	€6.00	-	-

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