

Internet

A Research Publication by DZ BANK AG

TELES³⁾⁵⁾⁶⁾

Year *	Sales EUR m	Adj. IFRS- Earnings per sh. EUR	Cash flow per share EUR	PER	PCF	Dividend per share EUR
2007	19.2	0.38	0.43	6.4	5.7	0.00
2008e	23.1	-0.33	-0.28	–	–	0.00
2009e	26.6	-0.21	-0.17	–	–	0.00
2010e	29.2	-0.11	-0.07	–	–	0.00

* Fiscal year end December

Speculative upside gone following the disposal of TELES' freenet stake

- In advance of the annual shareholders' meeting, at which the decision was taken to **distribute a dividend in the amount of EUR 1 per share**, TELES divested itself of its 2.8% shareholding in freenet. The approximately **3.57 million shares** were sold off via an **accelerated bookbuild** at a price of **EUR 9.30** per share.
- The **disposal of the group's freenet stake came as no surprise to us**. Already at the end of July, the company indicated the possibility of a dividend payout, which added fuel to speculations that the freenet shares might soon be sold off. In addition, within the scope of its half-year financial report, TELES had to face a **value adjustment** in the amount of **EUR 13.3 million** on its freenet stake. Hence, management found itself under increasing pressure to act.
- On the basis of our revised sum-of-the-parts analysis, we have now derived a **fair value of EUR 1.10** per TELES share. Hence, we have **changed our investment recommendation** from Buy to **Sell**. According to our assumptions, the positive sales performance in the TCS segment should continue over the coming quarters. Due to the cessation of non-recurring negative special effects, EBIT in the TCS segment is likely to improve significantly in the course of 2008. However, we do not expect TELES to reach the operating break even (on a quarterly basis) in this business segment until the end of 2009/ start of 2010 at the earliest. We also anticipate further significant negative earnings impact from the legal enforcement of VoIP patents in the USA in the coming quarters.

Selected Companies	Price on		PER		EV / EBITDA		EBITDA marg. 08e	Re- com.
	29 Aug 2008		08e	09e	08e	09e		
TELES	2.80	EUR	–	–	–	–	-40.0%	↓
United Internet	9.94	EUR	12.5	9.8	7.0	5.6	20.8%	↑
ComBOTS	8.50	EUR	84.2	115.1	–	–	–	–
Median for all peer group companies	48.4	62.5	7.0	5.6	20.8%	–	–	–

↑ = Buy, → = Hold, ↓ = Sell, ● = not rated, n/a = not appropriate

Source: DZ BANK, I/B/E/S, FactSet

Equities

Flash
1 Sep 2008

Sell (prev. Buy)

Closing price 29 Aug 2008

(in EUR): 2.80

Fair value: 1.10

Risk classification: 5

Financial ratios 2008e:

Book value per share (in EUR): 3.04

Equity ratio (in %): 81.1

Net margin (in %): -29.9

ROE (in %): -10.9

Dividend yield (in %): 0.0

Free cash flow (EUR m): -4.8

Net cash (EUR m): 52.9

Number of shares

(million units): 21.1

Market cap

(in EUR m): 59.16

Free float (in %): 41.7

SIN: 745490

ISIN: DE0007454902

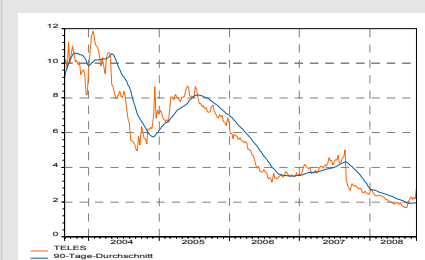
Datastream: D:TLI

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Next Newsflow:

November 12, 2008: German Equity Forum



Author: Marcus Pratsch, Analyst

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Valuation

Sum-of-the-parts analysis

	Valuation	Value EUR m	% of fair value	Value per share
Cash	Balance sheet Q2/2008	1.3	5.1%	0.06
Proceeds from freenet stake (3.565m shares)	3.565m shares, EUR 9.30 each, less commission	32.7	127.2%	1.40
Treasury shares (2.175m)	Fair Value	2.4	9.3%	0.10
Value after dividend payout	Assumption: 20% payout taxation	29.6	115.1%	1.27
TCS	3.0 x EBIT 2009e	-5.4	-21.0%	-0.23
MS/ TIPR	1.0 x EBIT 2009e	-4.5	-17.4%	-0.19
Sum operating business		-9.9	-38.4%	-0.42
Gravis stake (20%)	DZ BANK estimate	6.0	23.3%	0.26
Equity Value		25.7	100.0%	1.10
Number of shares	Including treasury shares	23.3		
Fair Value per share (EUR)		1.10		

Source: DZ BANK estimates

Profit and loss account

Euro m	2007	2008e	2009e	2010e	2011e	2012e
Sales	19.2	23.1	26.6	29.2	31.7	33.9
% against prev. year	0%	20%	15%	10%	8%	7%
Cost of goods sold	-9.6	-11.4	-12.0	-12.0	-12.2	-12.7
Gross profit	9.7	11.7	14.6	17.2	19.5	21.2
% against prev. year	-16%	21%	24%	18%	13%	9%
Sales costs	-6.2	-6.2	-6.1	-6.3	-6.4	-6.6
Administration costs	-10.0	-8.8	-8.2	-8.2	-8.3	-8.1
R&D expenditure	-5.9	-6.9	-6.7	-6.3	-6.7	-7.0
Other operating income	0.2	0.0	0.0	0.0	0.0	0.0
Other operating expenses	-0.8	0.0	0.0	0.0	0.0	0.0
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	-12.9	-10.2	-6.4	-3.5	-1.8	-0.5
For information: EBIT adjusted	-12.9	-10.2	-6.4	-3.5	-1.8	-0.5
% against prev. year						
Interest paid / received	22.5	0.3	0.1	0.1	0.1	0.2
Profit before tax	9.6	-9.9	-6.3	-3.4	-1.6	-0.3
For information: EBT adjusted	9.6	-9.9	-6.3	-3.4	-1.6	-0.3
% against prev. year		-203%				
Income taxes from continuing operations	-1.6	3.0	1.9	1.0	0.5	0.1
Tax rate	16%	30%	30%	30%	30%	30%
Net profit from continuing operations	8.1	-6.9	-4.4	-2.4	-1.1	-0.2
Net profit from discontinued operations	-5.6	0.0	0.0	0.0	0.0	0.0
Net profit	2.5	-6.9	-4.4	-2.4	-1.1	-0.2
Profit or loss attributable to minority interest	0.0	0.0	0.0	0.0	0.0	0.0
Profit or loss attributable to shareholders	2.5	-6.9	-4.4	-2.4	-1.1	-0.2
thereof from continuing operations	8.1	-6.9	-4.4	-2.4	-1.1	-0.2
thereof from discontinued operations	-5.6	0.0	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	21.195	21.195	21.195	21.195	21.195	21.195
IFRS earnings per share, diluted	0.12	-0.33	-0.21	-0.11	-0.05	-0.01
Adjusted earnings per share, diluted (contin.)	0.38	-0.33	-0.21	-0.11	-0.05	-0.01
For information						
Depreciation	1.0	0.9	0.9	0.9	0.8	0.8
EBITDA	-11.9	-9.3	-5.5	-2.6	-0.9	0.3
EBITDA adjusted	-11.9	-9.3	-5.5	-2.6	-0.9	0.3

Fiscal year end December

Source: TELES and DZ BANK estimates

	2007	2008e	2009e	2010e	2011e	2012e
Profit and loss account (EUR m)						
Sales	19.2	23.1	26.6	29.2	31.7	33.9
Gross profit	9.7	11.7	14.6	17.2	19.5	21.2
Admin and sales costs	-16.1	-15.0	-14.3	-14.5	-14.6	-14.7
R&D expenditure	-5.9	-6.9	-6.7	-6.3	-6.7	-7.0
Operating profit (EBIT)	-12.9	-10.2	-6.4	-3.5	-1.8	-0.5
Interest paid / received	22.5	0.3	0.1	0.1	0.1	0.2
Income taxes from continuing operations	-1.6	3.0	1.9	1.0	0.5	0.1
Net profit from continuing operations	8.1	-6.9	-4.4	-2.4	-1.1	-0.2
Net profit	2.5	-6.9	-4.4	-2.4	-1.1	-0.2
Profit or loss attributable to shareholders	2.5	-6.9	-4.4	-2.4	-1.1	-0.2
Profit and loss ratios						
EBITDA margin	-62.0%	-40.0%	-20.9%	-9.1%	-3.0%	0.9%
EBIT margin	-66.9%	-44.1%	-24.3%	-12.0%	-5.6%	-1.5%
Tax rate	16.2%	30.0%	30.0%	30.0%	30.0%	30.0%
Net margin	42.0%	-29.9%	-16.7%	-8.2%	-3.6%	-0.5%
Investment ratio	4.6%	4.0%	3.5%	3.1%	2.7%	2.4%
Net financial income as % of sales	117.0%	1.3%	0.4%	0.3%	0.4%	0.7%
Average sales growth next five years	12.0%					
Average earnings growth next five years						
Balance sheet ratios						
Equity ratio	83.4%	81.1%	78.1%	76.0%	74.8%	73.3%
Long term debt and equity / Fixed assets	116.6%	111.0%	109.2%	110.7%	113.9%	117.9%
Liquidity (quick ratio)	138.7%	96.6%	79.9%	81.0%	91.0%	99.2%
Receivables as % of sales	25.4%	25.4%	25.4%	25.4%	25.4%	25.4%
Investment (net of GW) / Depreciation		100.2%	102.4%	102.5%	101.4%	101.5%
Working capital as % of sales	10.5%	9.5%	8.9%	8.5%	7.5%	6.4%
Cash flow statement (EUR m)						
Operating CF (cont.)	-10.9	-9.4	-5.7	-2.8	-0.8	0.5
Operating CF (discont.)	0.0					
Investing CF (cont.)	19.7	4.6	4.2	3.2	2.3	1.4
Investing CF (discont.)	-1.4					
Free cash flow (cont.)	8.8	-4.8	-1.5	0.4	1.5	1.9
Free cash flow (discont.)	-1.4					
Financing CF (cont.)	-42.2	0.0	0.0	0.0	0.0	0.0
Financing CF (discont.)	0.0					
Increase/decrease of cash	-34.9	-4.8	-1.5	0.4	1.5	1.9
Profitability ratios						
ROE	11.5%	-10.9%	-7.5%	-4.2%	-2.1%	-0.3%
ROCE	-209.3%	-161.1%	-98.8%	-52.7%	-27.0%	-7.8%
Figures per share (EUR)						
Earnings per share, diluted	0.38	-0.33	-0.21	-0.11	-0.05	-0.01
Diluted cash earnings per share	0.43	-0.28	-0.17	-0.07	-0.01	0.03
Net cash per share, diluted	3.00	2.49	2.19	2.02	1.94	1.94
Valuation ratios						
Enterprise value / Sales		0.3	0.5	0.6	0.6	0.5
Enterprise value / EBITDA						57.2
Enterprise value / EBIT						
P/E common shares	6.4					

Source: TELES and DZ BANK estimates

Imprint

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Hold	1.7%	Hold	20.0%
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- Sell: more than 5% decrease in share price

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Rating History

Recommendation	Date	Price
Sell	1 Sep 2008	2.80 EUR
Buy	4 Jan 2008	2.75 EUR
Sell	6 Sep 2007	2.95 EUR
Buy	10 Nov 2006	3.54 EUR
Suspended	16 Aug 2006	3.40 EUR

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