Muehlbauer Holding (MUBG.DE)

Rating	**OUTPERFORM***
Price (12 Mar 09, Eu)	14.40
Target Price (Eu)	25.00[1]
Market cap. (Eu m)	211.62
Enterprise value (Eu m)	170.3

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*
[1]Target price is for 12 months.

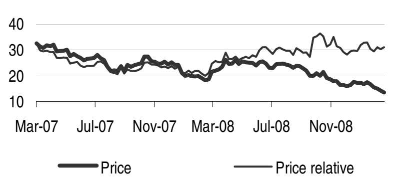
Research Analysts
Michael Geiger
49 69 75 38 2271
michael.geiger@credit-suisse.com

RESULTS

Solid trend and confident management

- **Event:** Muehlbauer released solid 2008 results, which are in line with our expectations on EBIT and EPS – adjusted for non-recurrig items (Eu 3.1m). 2008 sales are up 8.4% year on year to Eu 172.6m. EBIT – adjusted for the non-recurring cost item – was up 3.5% year on year with a margin of 15.8%. In 2008 the core business "Cards & Tecurity" advanced by 13.1% year on year, while the smaller segments combined increased sales by 2.9% year on year. Management is confident for the future and guides towards a stable business in 2009 and renewed growth in 2010. Dividend proposal is Eu 1 per share (AGM 29 April), equivalent to a dividend yield of 6.9% on current price. Muehlbauer generates Free Cash Flow (3.7% of sales) and has a strong balance sheet with 78% equity ratio and Eu 35m net cash. Order intake and order backlog are up year on year.
- **View:** Muehlbauer is worldmarket leader (in terms of market share) in Smart ID manufacturing equipment. In the last decade the company has seen solid and consistent profitablility (10 year EBIT margin range low/high: 2.7% to 21.4%). We expect 2009 and 2010 EBIT profitability of 15.8% and 16.2% respectively. We rate management highly due to its strategic approach and expect Muehlbauer shares to continue to outperform (last 12M: +47.7% against Europe Dow Jones Stoxx) as the global Smart ID business should continue to grow driven by government induced internationl identification programmes with regards to biometric ID (identity cards, health cards, drivers licenses, passports etc.). We reiterate our Outperform rating.
- **Catalysts:** (1) oversees manufacturing is now in place in Asia and the US, we expect increasing benefits from this with respect to governmernt order allocation (local content) in 2009 and beyond (2) profitability of oversees capacities should rise with increasing capacity utilisation.
- **Valuation:** We believe with a 2009E PE of 10.6x Muehlbauer is attractively valued for a global market leader with consistent high profitablility (2009E: EBIT margin 15.8%, NI margin 12.2%) and high capital returns (2009E ROIC: 16.3%).

Share price performance



The price relative chart measures performance against the Europe Dow Jones Stoxx index which closed at 182.07 on 12/03/09
On 12/03/09 the spot exchange rate was Eu .77 /US$1

Performance Over	1M	3M	12M
Absolute (%)	-9.4	-12.2	-22.9
Relative (%)	2.4	5.9	47.7

Financial and valuation metrics

Year	12/08A	12/09E	12/10E	12/11E
Revenue (Eu m)	172.6	170.8	192.7	235.6
EBITDA (Eu m)	34.81	37.28	42.52	53.98
Net Income (Eu m)	18.3	20.9	24.2	31.2
CS adj. EPS (Eu)	1.24	1.36	1.56	1.96
ROIC (%)	14.32	16.32	18.07	21.06
P/E (adj., x)	11.61	10.62	9.25	7.36
P/E rel. (%)	140.3	132.8	127.4	92.6
EV/EBITDA	5.1	4.6	4.0	3.2

Dividend (2009E)	1.38	IC (12/09E, Eu m)	115.9
Dividend yield (%)	9.6	EV/IC	1.5
Net debt (12/09E, Eu m)	-41.3	Current WACC	14.5
Net debt/equity (12/09E, %)	-28.0	Free float (%)	20.3
BV/share (12/09E, Eu)	13.8	Number of shares (m)	14.70

Source: FTI, Company data, Datastream, Credit Suisse Securities (EUROPE) LTD. Estimates.

Investment thesis

World market leader

- Muehlbauer is – in terms of market share – world market leader in the field of manufacturing equipment for Smart Identification (Smart ID), which includes products such as biometric ePassports, ID cards, drivers' licenses, EMV chip cards, GSM/SIM cards etc.
- Muehlbauer has been in the market for 27 years, employs 1,900 of which 330 are active in Research & Development. The company has manufacturing/assembly in Europe, Asia and America and can offer local content, which is of significant advantage in government induced business such as ePassports etc.
- To our knowledge Muehlbauer is the only turn-key provider in the Smart ID business worldwide and runs complete demonstration lines on three continents, which is of particular advantage to convince customers to choose a Muehlbauer solution. Management claims to be – more or less - involved in basicly all global government projects (c200). Muehlbauer solutions reach from picking up a silicon chip to personalisation of Smart ID devices. Moreover, the company offers Smart ID infrastructure such as eGates. In other words Muehlbauer offers consulting, software, hardware and services.
- The company is active in young markets. Some 80% of Smart ID is still to come. Many countries and businesses still use magnetic stripe or barcodes instead of chip based Smart ID.

Increasing software and recurring revenue business

- The company increasingly develops own software solutions for its Smart ID manufacturing equipment, which assures high margins (2008A: gross margin 41%). Moreover, Muehlbauer revenues increasingly stem from 5 year to 7 year service contracts and new sales models, where governments pay the company for instance per ePassport produced. Hence we believe sales visibility is on the rise and the business develops to a kind of license model.

Positive order book

- 2008 order intake is Eu 189.2m up 13% year on year and year end 2008 order backlog is Eu 80.8m up 10.7% year on year. In the core business Smart ID ("Cards & Tecurity") oder intake is up 37% in 2008 and order backlog is up 38% year on year. We believe the company has good chances to collect government induced orders in 2009. According to management many government projects are in process and Muehlbauer is tendering for all such potential contracts.

Strong financials

- Dividend proposal is Eu 1 per share, equivalent to a dividend yield of 6.9% on current price. Muehlbauer generates Free Cash Flow (2008A: 3.7% of sales) and has a strong balance sheet with 78% equity ratio (equity to total assets) and Eu 35m net cash. Accounting is conservative in our view.

Attractive valuation

- We believe with a 2009E PE of 10.6x Muehlbauer is attractively valued for a global market leader with consistent high profitablility (2009E: EBIT margin 15.8%, NI margin 12.2%) and high capital returns (2009E ROIC: 16.3%). Dividend yield is 6.9% and price to book is 1.5x. Our EVA® based 12 month target price is Eu 25 and offers significant upside potential.

2008 review

Figure 1: Muehlbauer: 2008 Profit and Loss review
In Euro thousands, unless otherwise stated

	Q4 07A	FY 07A	Q4 08A	FY 08A	Q4 08E	FY 08E
Cards & Tecurity	**34,993**	**89,154**	**28,858**	**100,848**	**28,194**	**100,184**
Semiconductor related products	**8,423**	**36,137**	**4,483**	**34,905**	**6,076**	**36,499**
Traceability	**4,517**	**13,956**	**3,933**	**17,710**	**-100**	**13,677**
Precision parts & Systems	**4,754**	**20,253**	**4,761**	**19,424**	**5,387**	**20,050**
Gross sales	**52,687**	**159,500**	**42,034**	**172,887**	**39,558**	**170,411**
	Q4 07A	**FY 07A**	**Q4 08A**	**FY 08A**	**Q4 08E**	**FY 08E**
Net sales	**52,608**	**159,134**	**41,950**	**172,575**	**39,375**	**170,000**
in % of year	33.1	100.0	24.3	100.0	23.2	100.0
% change yoy	14.7	-1.0	-20.3	8.4	-25.2	6.8
% change qoq	27.1		-2.6	299.9	-8.6	294.0
Cost of goods sold	-31,054	-94,931	-23,976	-101,851	-24,465	-102,340
% of net sales	-59.0	-59.7	-57.2	-59.0	-62.1	-60.2
Gross profit	**21,553**	**64,203**	**17,974**	**70,724**	**14,910**	**67,660**
Gross margin	41.0%	40.3%	42.8%	41.0%	37.9%	39.8%
Selling and marketing expenses	-2,152	-9,674	-3,385	-14,538	153	-11,000
% of net sales	-4.1%	-6.1%	-8.1%	-8.4%	0.4%	-6.5%
General and administrative expenses	-1,734	-7,568	-1,951	-8,227	-1,934	-8,210
% of net sales	-3.3%	-4.8%	-4.7%	-4.8%	-4.9%	-4.8%
Research and development	-5,097	-20,280	-5,302	-22,731	-4,246	-21,675
% of net sales	-9.7	-12.7	-12.6	-13.2	-10.8	-12.8
Other income net	231	-270	782	-991	1,484	-289
% of net sales	0.4%	-0.2%	1.9%	-0.6%	3.8%	-0.2%
SG&A	-8,752	-37,792	-9,856	-46,487	-4,543	-41,174
% of net sales	-16.6%	-23.7%	-23.5%	-26.9%	-11.5%	-24.2%
EBIT	**12,801**	**26,411**	**8,118**	**24,237**	**10,367**	**26,486**
in % of sales	24.3%	16.6%	19.4%	14.0%	26.3%	15.6%
% change yoy	33.6%	-23.3%	-36.6%	-8.2%	-19.0%	0.3%
EBIT adjusted for non-recurring items	**12,801**	**26,411**	**8,118**	**27,337**	**10,367**	**26,486**
Financial income	569	2,970	581	3,859	-278	3,000
Financial expense	-292	-937	-782	-3697.0	2,006	-908.9
Net Financial income	277	2,033	-201	162	1,728	2,091
% of net sales	0.5	1.3	-0.5	0.1	4.4	1.2
EBT	**13,078**	**28,444**	**7,917**	**24,399**	**12,095**	**28,577**
% of net sales	24.9	17.9	18.9	14.1	30.7	16.8
% change	26.5	-25.2	-39.5	-14.2	-7.5	0.5
Income taxes	-4,849	-9,330	-2,314	-6,125	-4,562	-8,373
% of income before taxes	-37.1	-32.8	-29.2	-25.1	-37.7	-29.3
Group net income	**8,229**	**19,114**	**5,603**	**18,274**	**7,533**	**20,204**
% of net sales	15.6	12.0	13.4	10.6	19.1	11.9
% change	-10.5%	-31.1%	-31.9%	-4.4%	-8.5%	5.7%
EPS basic	**0.57**	**1.31**	**0.37**	**1.24**	**0.43**	**1.30**
EPS basic adjusted for non-recurring items				**1.31**		

Source: Company data, Credit Suisse estimates

Valuation

Figure 2: Muehlbauer: EVA valuation
in Euro millions, unless otherwise stated

Cum PV of EVA	106
Terminal Value	99
PV of EVA	**204**
Beginning Capital	118
Corporate Value	**323**
Net cash	35
Pension provisions	0
Investment grants	0
Equity Value	**358**
Equity value of general partner	205
Equity value of other shareholders	153
Fair Value per share in Euro	**25.00**

Source: Credit Suisse estimates

Financial Model

Profit and Loss

Figure 3: **Muehlbauer: Profit and Loss**
In Euro thousands, unless otherwise stated

	2005A	2006A	2007A	2008A	2009E	2010E
Net sales	**147,932**	**160,676**	**159,134**	**172,575**	**170,773**	**192,718**
growth (%)	14.7%	8.6%	-1.0%	8.4%	-1.0%	12.9%
Cost of sales	83,518	91,406	94,931	101,851	103,318	117,558
as % of sales	56.5%	56.9%	59.7%	60.2%	60.5%	61.0%
Gross profit	**64,414**	**69,270**	**64,203**	**70,724**	**67,456**	**75,160**
growth (%)	20.2%	7.5%	-7.3%	10.2%	-4.6%	11.4%
as % of sales	43.5%	43.1%	40.3%	41.0%	39.5%	39.0%
SG&A (sales&general admin)	15,926	19,075	17,242	22,765	18,785	20,428
as % of sales	10.8%	11.9%	10.8%	13.2%	11.0%	10.6%
Research and development	15,264	17,081	20,280	22,731	21,347	23,126
% of net sales	10.3%	10.6%	12.7%	13.2%	12.5%	12.0%
Other income/ expense	-150	1,323	-270	-991	-298	-307
as % of sales	-0.1%	0.8%	-0.2%	-0.6%	-0.2%	-0.2%
Total operating costs	31,040	37,479	37,252	44,505	39,834	43,247
as % of sales	21.0%	23.3%	23.4%	25.8%	23.3%	22.4%
EBIT	**33,074**	**34,437**	**26,411**	**24,237**	**27,026**	**31,299**
growth (%)	21.4%	4.1%	-23.3%	-8.2%	11.5%	15.8%
as % of sales	22.4%	21.4%	16.6%	14.0%	15.8%	16.2%
EBIT adjusted for non-recurring items*	**33,074**	**34,437**	**26,411**	**27,337**	**27,026**	**31,299**
Net Financial income	1,594	3,576	2,033	162	2,250	2,322
EBT	**34,668**	**38,013**	**28,444**	**24,399**	**29,276**	**33,621**
as % of sales	23.4%	23.7%	17.9%	14.1%	17.1%	17.4%
Income taxes	11,648	10,285	9,330	6,125	8,406	9,461
Total Taxes as % pretax profit	33.6%	27.1%	32.8%	25.1%	28.7%	28.1%
Group Net income	23,020	27,728	19,114	18,274	20,870	24,160
growth (%)	29.2	20.5	-31.1	-4.4	14.2	15.8
as % sales	15.6%	17.3%	12.0%	10.6%	12.2%	12.5%
Share of general partner	13,361.4	16,138.0	11,099.7	10,685.0	12,575.9	14,635.5
Net income attributable to limited partner shareholders	9,659	11,590	8,014	7,589	8,294	9,525
as % of sales	6.5%	7.2%	5.0%	4.4%	4.9%	4.9%
growth (%)	29.1%	20.0%	-30.9%	-5.3%	9.3%	14.8%
EPS	**1.59**	**1.90**	**1.31**	**1.24**	**1.36**	**1.56**
growth	29.3%	19.4%	-30.9%	-5.5%	9.3%	14.8%
EPS adjusted for non-recurring items*	**1.59**	**1.90**	**1.40**	**1.31**	**1.36**	**1.56**

Source: Company data, Credit Suisse estimates, 2008 provision for legal fees

Balance Sheet

Figure 4: **Muehlbauer: Balance Sheet**
in Euro thousands, unless otherwise stated

	2005A	2006A	2007A	2008A	2009E	2010E
Cash and equivalents	13,507	11,311	16,425	17,122	23,316	23,702
Marketable securities	32,687	21,819	21,062	17,981	17,981	17,981
Trade receivables	21,985	30,106	29,536	34,033	32,447	32,762
as % of sales	14.9%	18.7%	18.6%	19.7%	19.0%	17.0%
Other current assets	3,510	4,598	4,770	5,830	5,769	6,510
Tax Receivables	976	1,360	1,233	2,882	2,882	2,882
Inventories	33,532	39,807	39,913	50,398	47,817	52,882
as % of sales	22.7%	24.8%	25.1%	29.2%	28.0%	27.4%
Total ST assets	**106,197**	**109,001**	**112,939**	**128,246**	**130,212**	**136,719**
as % of sales	71.8%	67.8%	71.0%	74.3%	76.2%	70.9%
Total current assets excl. Cash	92,690	97,690	96,514	111,124	106,896	113,017
as % of sales	62.7%	60.8%	60.6%	64.4%	62.6%	58.6%
Other marketable securities	10,809	11,524	4,562	-	-	-
Trade acounts receivables, net	279	1,335	1,536	741	763	786
other receivables	-	-	2,150	-	-	-
Investment and LT financial assets	11,088	12,859	8,248	741	763	786
Land and buildings net	27,343	25,683	26,276	27,819	28,097	28,378
Technical equipment	5,965	8,895	8,217	8,895	8,984	9,074
Furniture & office equipment	5,510	5,168	5,315	5,251	5,776	6,354
Buildings and equipment in progress	200	377	179	5,083	5,083	5,083
Tangible assets	**39,018**	**40,123**	**39,987**	**47,048**	**47,940**	**48,889**
as % of sales	26.4%	25.0%	25.1%	27.3%	28.1%	25.4%
Software & licences	638	1,039	1,001	591	739	923
Capitalized development costs	7,774	8,971	8,603	6,413	6,734	7,070
Intangible assets	8,412	10,010	9,604	7,004	7,472	7,994
Long-Term tax receivable	0	2268	2389	2334.0	2380.7	2428.3
Deferred tax assets	99	42	162	759	835	918
Other Fixed assets	510	926	1302	913	903	1020
Total LT assest	**59,127**	**66,228**	**61,692**	**58,799**	**60,295**	**62,035**
Total assets	**165,324**	**175,229**	**174,631**	**187,045**	**190,507**	**198,754**
assets excl cash	151,817	163,918	158,206	169,923	167,191	175,052
Debt maturing within one year	960	-	21	22	22	22
Trade payables	6,150	7,655	6,068	10,578	10,468	11,813
as % of sales	4.2%	4.8%	3.8%	6.1%	6.1%	6.1%
Downpayment received on orders	10,330	5,646	6,769	7,439	7,264	8,198
as % of sales	7.0%	3.5%	4.3%	4.3%	4.3%	4.3%
Other short-term liabilities	6,385	4,723	5,226	10,689	10,689	10,689
Accruals for taxes on income	2,919	2,540	1,962	1,900	2,090	2,299
Other accruals	8,256	9,847	9,350	8,789	9,668	10,635
Short term liabilities	**35,000**	**30,411**	**29,396**	**39,417**	**40,201**	**43,655**
Long term loans	0.0	0.0	0.0	0.0	0.0	0.0
Deferred taxes	4,109	4,519	3,492	2,658	2,738	2,820
Long term liabilities	**4,109**	**4,519**	**3,492**	**2,658**	**2,738**	**2,820**
Shareholders equity	**126,215**	**140,299**	**141,743**	**144,970**	**147,570**	**152,279**
ROE	18.2%	19.8%	13.5%	12.6%	14.1%	15.9%
Total liabilities and shareholders equity	**165,324**	**175,229**	**174,631**	**187,045**	**190,507**	**198,754**

Source: Company data, Credit Suisse estimates

Cash Flow

Figure 5: Muhlbauer: Balance Sheet
in Euro thousands, unless otherwise stated

	2005A	2006A	2007A	2008A	2009E	2010E
Net income	23,020	27,728	19,114	18,274	20,870	24,160
Income taxes	11,648	10,285	9,330	6,125	8,406	9,461
Interest Expense	507	148	295	124	128	132
Interst income	0	-275	-534	-526	-542	-558
Expenses from the employee profit-sharing program	121	188	162	75	195	195
Depreciation	7,899	9,886	9,641	10,572	10,252	11,223
Realized/unrealized gain(losses) from the sales of fixed assets	-161	-261	-248	-97	-185	-185
Currency differences from the transition of assets	-10	-1	0	0	0	0
Realized net (gains)/losses from securities and LT financial assets	-889	-2,265	-1,045	1,215	0	0
Unrealized (gains)/losses from changes fair value financial instruments	-32	-222	149	-17	0	0
(Increase)/ decrease of deferred tax assets	135	57	-118	-597	76	83
Increase/ (decrease) of deferred tax liabilities	12	473	-1,039	-834	270	291
Cash Flow before Working capital requirements	42,250	45,741	35,707	34,314	39,470	44,802
as % of sales	28.6%	28.5%	22.4%	19.9%	23.1%	23.2%
Increase in inventories	-1,316	-6,275	-106	-10,485	2,581	-5,065
Increase in trade receivables	477	-12,368	-631	-5,208	1,586	-315
Increase in trade payables	-2,233	-2,310	1,834	13,087	-110	1,345
Purchase of securities (trading papers)	0	24,734	27,485	65,843	66,501	67,166
Sale of securities (trading papers)	0	-29,351	-26,266	-64,475	-65,120	-65,771
Income taxes paid	-15,799	-11,827	-12,657	-11,495	-8,406	-9,461
Interest paid	-105	-13	-110	-30	-128	-132
Interest received	0	252	353	484	494	504
Cash Flow from operations	**23,274**	**8,583**	**25,609**	**22,035**	**36,868**	**33,073**
as % of sales	15.7%	5.3%	16.1%	12.8%	21.6%	17.2%
Proceeds from disposals of fixed assets	294	321	1,277	3,989	4,029	4,069
Change in LT borrowing	0	0	-2,395	-1,380	0	0
Capex fixed assets	-6,755	-7,947	-6,596	-11,463	-15,878	-16,354
Capex intangible assets (software & licenses)	-670	-992	-486	-358	-394	-433
Expenditures for capitalized development costs	-3,042	-4341	-2207	-1,397	-1,425	-1,453
Disposal of LT securities	0	0	8,652	6,081	0	0
Investment in LT securities	-14,603	-3,876	-1,672	-1,476	0	0
Cash Flow from investing activities	0	**-12,836**	**-3,427**	**-6,004**	**-13,668**	**-14,172**
Free Cash Flow (adjusted)	27,163	2,447	16,394	6,331	17,975	13,622
as % of sales	18.4%	1.5%	10.3%	3.7%	10.5%	7.1%
Free cash Flow (unadjusted)	16,519	636	19,013	10,572	20,990	16,719
as % of sales	11.2%	0.4%	11.9%	6.1%	12.3%	8.7%
Increase in long term financial liabilities	-925	0	0	0	0	0
Increase in short term financial liabilities	-63	-960	21	1	0	0
Sale of own shares	485	384	475	131	0	0
Dividend distribution	-9,033	-12,006	-15,617	-12,720	-14,628	-16,091
tax withdrawal personally liable shareholder	-1,070	-1,250	-1,758	-2,331	-2,378	-2,425
Cash Flow from financing activities	**-10,606**	**-13,832**	**-16,879**	**-14,919**	**-17,006**	**-18,516**
Effect of difference from currency exchange rates	429	-90	-189	-415	0	0
Increase in cash & cash equivalents	13,097	-18,175	5,114	697	6,195	385
Cash at beginning of year	**44,998**	**29,486**	**11,311**	**16,425**	**17,122**	**23,316**
Cash at end of year	**29,486**	**11,311**	**16,425**	**17,122**	**23,316**	**23,702**

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 12 Mar 09)*
Muehlbauer Holding (MUBG.DE, Eu14.40, OUTPERFORM, TP Eu25.00, OVERWEIGHT)

Disclosure Appendix

Important Global Disclosures

The analysts identified in this report each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for MUBG.DE

MUBG.DE Date	Closing Price (EUR)	Target Price (EUR)	Rating	Initiation/ Assumption
04-Aug-06	28.91	44.725		
01-Nov-06	29.49	39.997		
10-Jul-07	26.9	35.004		
17-Mar-08	22.2	35.003		
10-Mar-09	13.8	25		

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

Analysts' stock ratings are defined as follows***:

Outperform (O): The stock's total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

Underperform (U):** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

**The industry average refers to the average total return of the relevant country or regional index (except with respect to Europe, where stock ratings are relative to the analyst's industry coverage universe).*

***In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.*

****For Australian and New Zealand stocks a 7.5% threshold replaces the 10% level in all three rating definitions, with a required equity return overlay applied.*

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Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe* versus the relevant broad market benchmark**:

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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	Global Ratings Distribution	
Outperform/Buy*	38%	(57% banking clients)
Neutral/Hold*	43%	(55% banking clients)
Underperform/Sell*	17%	(47% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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See the Companies Mentioned section for full company names.

Price Target: (12 months) for (MUBG.DE)

Method: We have taken an EVA discounted cash flow analysis to determine our 12 months target price. We assume a 10 year risk free rate of 5.5%, an equity risk premium of 9% and a statutory income tax rate of 34% deriving a WACC of 14.5%. We assume no growth rate in the terminal value.

Risks: We see the following major risks for target price achievement. (1) Risk of delays in government and private smart ID projects, (2) risk of a delay in sales recognition as customers increasingly tend to delay final approval of machinery, (3) risk of increasing competition in RFID as market goes from niche to mass market, (4) risk of a downturn in cyclical semiconductor equipment and automotove related orders, (5) risk of new technological developments (polymers etc.) becoming a threat for Muehlbauer semiconductor based technology (6) risk of under-performing order allocation as Muehlbauer as a family controled mid cap company might have lobbying disadvantages against major international system integrators. (7) We also see the risk that Muehlbauer might have difficulties in quickly getting up new foreign factories to German profitability levels. (8) The shares have low liquidity and therfore run the risk of high volatility.

Important Regional Disclosures

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (MUBG.DE) within the past 12 months.

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CREDIT SUISSE SECURITIES (Europe) Limited
Europe: +44 (20) 7888-8888