

OIM plc

Strengths and opportunities

- **Spectacular deal:** Subsidiary MySparta is planning to purchase 77 percent of the Chinese marketing rights for the successful energy drink Mad Croc; in addition, the company is to have a share of 30.8 percent in the net profit of the Indian Mad Croc offshoot. In exchange, the beverage producer obtains 35 percent of MySparta. Aside from a book profit in the year 2011, the deal promises high current income in the long term as well.
- **Rising profitability:** Along with the profit from existing business, we expect for 2011 a surplus of 2.1 m EUR.
- **Bond issue:** The placement of a zero bond with a volume of 50 m EUR is to provide financing scope for further expansion. The launch of the first tranche of 12.5 m EUR is scheduled for November.

Weaknesses and threats

- **Market uncertainty:** The business success of investment holding companies depends to a large extent on developments in the capital market.
- **Limited diversification:** OIM is focusing on a few major investments; this is correlated with a high risk of loss for individual failures.

Speculative buy (*unchanged*)

Target price 2.74 EUR
Current price 1.64 EUR (*Euronext*)



Price history (Euronext)	1 M	3 M	12 M
High (EUR)	1.75	1.77	2.50
Low (EUR)	1.26	0.51	0.50
Performance	-1.80%	+192.86%	-32.79%
Ø-turnover (EUR/day)	74.582	49.005	32.754

Key data

ISIN / WKN	GB00B063YS85 / A0Q769
Sector	Investment holding
Based in	Warwickshire / UK
Website	www.oimplc.com
Outstanding shares	17.08 m
Listed since	September 2010
Segment	Open Market / Euronext
Market capitalization	28.0 m EUR
Free Float	<10 %
Accounting	IFRS

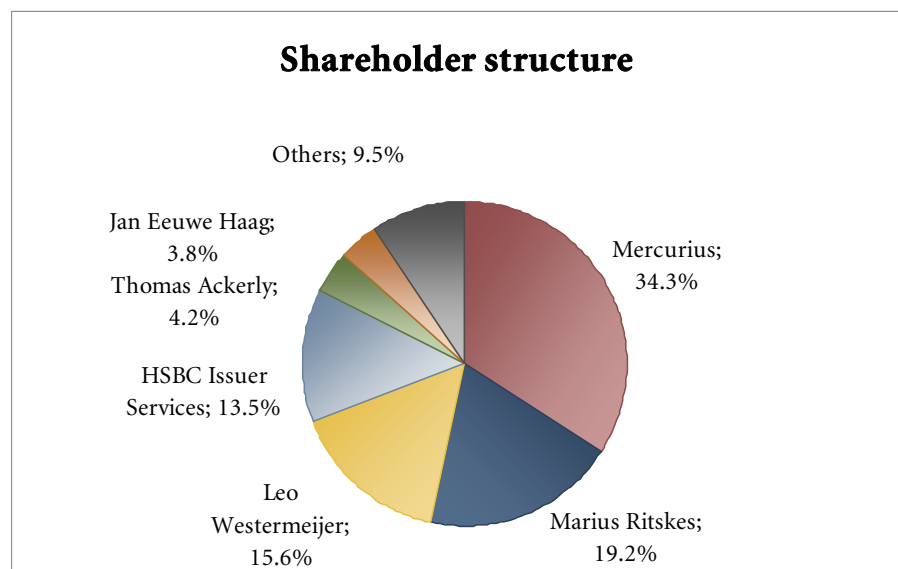
Financial year (31.12.)	2009	2010	2011e*	2012e*		
Revenues (m EUR)	38.2	39.7	41.6	42.9	CAGR revenues 09-12 (e)	4.0%
Revenues growth	1.0%	3.9%	5.0%	3.0%	CAGR EBIT 09-12 (e)	31.0%
EBIT (m EUR)	1.4	1.0	2.6	3.2	CAGR EpS 09-12 (e)	103.4%
EBIT margin	3.7%	2.5%	6.2%	7.5%		
EpS	0.02	0.01	0.12	0.15	Enterprise Value (m EUR)	29.7
Dividend per share	0.00	0.00	0.02	0.04	Book value (m EUR)	6.5
PSR	0.73	0.71	0.67	0.65	EV / revenues 11 (e)	0.7
PER	91.5	274.6	13.4	10.9	EV / EBIT 11 (e)	11.4
Dividend yield	0.0%	0.0%	1.2%	2.4%	Price / book value	4.3

*operating development only, without major acquisitions by G. Fleischhauer

Company profile

Financial holding company with an eventful history

In 2004, the financial holding Opportunity Investment Management Plc. (OIM) has emerged from the listed conglomerate Algo Vision, which had previously overstrained itself with an acquisition-driven growth strategy. After extensive disinvestments and lead by the new CEO and major shareholder Marius Ritskes (in office since November 2007), the company has initially focused upon the development of the core investment, the technology service provider G. Fleischhauer. Since 2010 – after a temporary delisting – the share has been traded again on the Euronext. The free float (in the stricter sense) amounts presently to about 10 percent. The following diagram shows an overview of the current shareholder structure.



Source: company

Established technology service provider as a mainstay

At present, the most important investment is still the G. Fleischhauer Ingenieur-Büro GmbH & Co. KG, in which OIM holds a stake of 95.9 percent. The well-established company was founded in the 19th century and provides building services solutions in the areas of security, IT, media and electrotechnology; the turnover here amounted to nearly EUR 40 m in the last year. G. Fleischhauer's customer base includes among others such renowned names as Volkswagen, TUI, Deutsche Bahn or Deutsche Messe. The company is based in Hannover but has eleven further branch offices concentrated in Northern Germany.

Cooperation with Mad Croc

Since 2003, OIM has also a stake of currently 84.3 percent in the shell company MySparta AG. Due to the necessary restructuring of both the holding and the subsidiary G. Fleischhauer, there have been no operational activities as yet, but this is about to change. On Friday, the 11th of November, the company signed a

Letter of Intent with Energy Brands Ltd. and Voyage Ventures Ltd., both belonging to the group around the successful energy drink Mad Croc. The LOI includes a purchase of 77 percent of the Chinese marketing rights and a share in net profit of 30.8 percent in the Indian Mad Croc offshoot. In India, the marketing has already started in the summer. According to company statements, there are currently orders for 11 m cans. In exchange, the owner of the partner companies obtains a 35 percent interest in MySparta, thus reducing the OIM's stake to 49.3 percent. As the company is as yet fully depreciated in the OIM balance sheet, this transaction will presumably lead to a non-recurring book profit at the end of the year due to the fair value measurement of the remaining 49.3 percent.

Financial services envisaged as a further focus

In addition, OIM is aiming at establishing a second mainstay in the area of financial services. CEO Marius Ritskes' more than 30 years of experience in the investment industry and his proven competence in this field could well be used in the framework of a new investment. In order to avoid a consolidation of activities, however, such an involvement is to be limited to a minority position (just as with MySparta).

Market and strategy

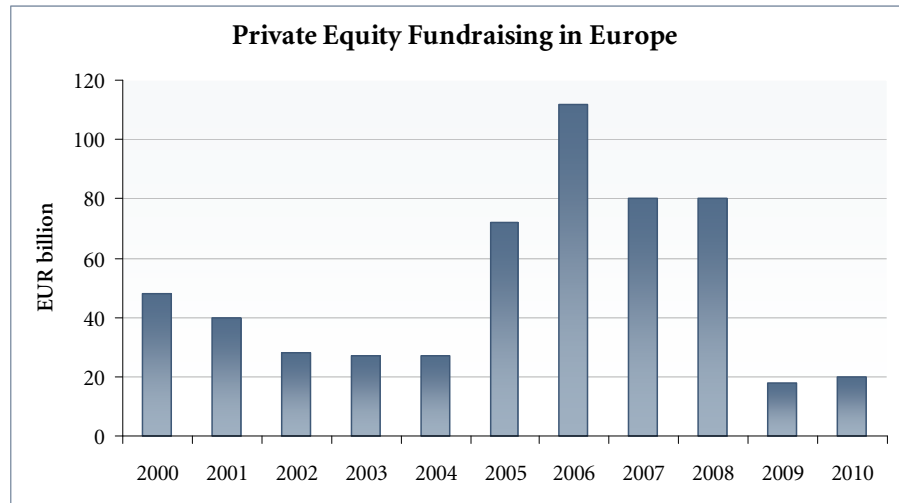
Focus on profitable minority shareholdings

According to CEO Ritskes – a statement based upon his own expertise –, OIM's core business should be the identification of profitable companies in which the holding can invest and for whom it can then pave the way for a going public. OIM is aiming at significant minority positions where the existing owners keep primary responsibility. This combination should be as attractive for many potential acquisition candidates as the financing scope offered by OIM's investment. For the going public, OIM sees its strength in the exploitation of corporate shells, which make an IPO comparatively cost-effective and allow a relatively wide dispersion of the shares compared to a mere listing.

Development of capital market a key factor

In principle, a profitable development of this business is only possible in a friendly capital market environment. Only then an appropriate price for a company can be obtained at the stock market. However, the OIM method is less sensitive with regard to the current stock market condition than for instance an IPO. There is no need to raise fresh funds from the investors; instead, as a rule, a contribution of assets based on a valuation report is made. Since the report, however, is not independent of prices obtainable at the stock market (e.g. for comparable companies), the condition of the capital market is at least indirectly a key factor in the OIM model as well. This dependence applies also for the own fundraising, as is shown in the following figure. The diagram shows the fundraising of the European Private Equity sector, in which we include OIM, in the years

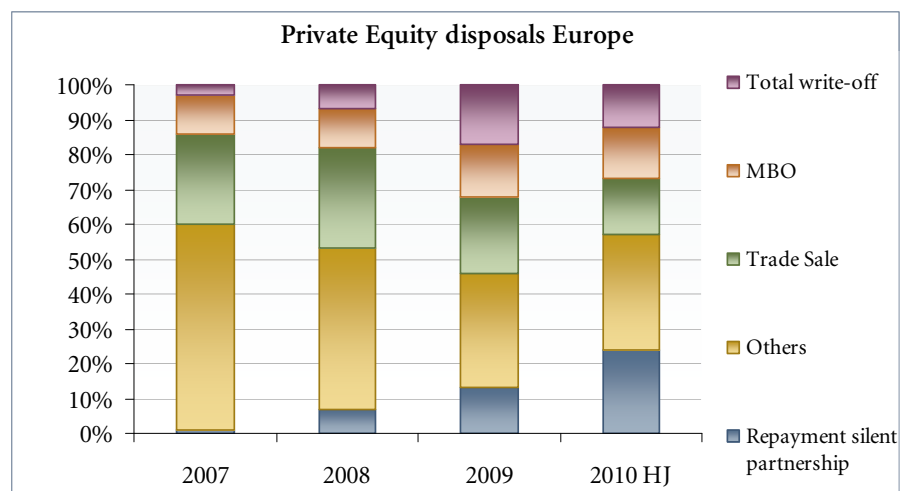
between 2000 and 2010. It is obvious that the crash of 2008 led to a dramatic drop in funds volume which has rallied only moderately until 2010.



Source: EVCA

Total write-offs with peak in 2009

In the meantime, the industry’s balance has considerably deteriorated with regard to investment success as well (see the following summary). In 2007, only 3 percent of the disinvestments were due to total losses; in 2009, they increased to 17 percent. The picture has been improving ever since, but it seems currently very doubtful if this does also apply for the next years. The upswing in the capital market ended very radically and suddenly in August 2011, a development that as a rule is reflected with a certain time delay also in the transactions of the Private Equity industry.



Source: EVCA

Two risk-reducing measures

OIM is limiting the intrinsic risk of underperforming investments mainly through a restriction to only a few transactions which are thoroughly examined and where a substantial minority interest is held. The involvement of previous owners after the acquisition is also intended to minimize the risk that the objects are not of sufficient value. The downside of this investment strategy, however, is a low degree of portfolio diversification.

Business development

Restructuring completed

The G. Fleischhauer group was acquired (by Algo Vision) already in 2000, but in the following years it plunged into a severe crisis due to numerous wrong decisions of the former management – reflected in the negative equity of 7 m EUR in 2007. As a result, major shareholder Marius Ritskes took the lead and initiated a comprehensive restructuring. One of the key elements was to convert a shareholder’s loan of EUR 10 m into equity capital, which served to reduce the group’s liabilities by nearly a half. The improvements in the financial structure were also felt in the development of the financial results which rose from -1.07 to -0.31 m EUR. Moreover, G. Fleischhauer had also undergone a restructuring and a reorientation that had a positive impact on the business development. Even in the recession of 2009, OIM had been able – owing to the subsidiary’s operational success – to increase revenues from 37.8 to 38.3 m EUR and realise a profit of 0.9 m EUR – an impressive achievement.

Key data	2008	2009	2010
Revenues	37.79	38.16	39.66
Gross yield	14.98	15.01	15.67
EBIT	2.41	1.42	1.01
Annual result	1.71	0.92	0.40

Stated in m EUR; source: company

Profit leap in the first half of 2011

This established a basis for a further improvement of the group’s profitability in a more favourable economic climate. In 2010, the margin pressure in the core business, higher taxes and the costs of the Euronext listing caused a decline in profits from 0.8 to 0.4 m EUR, whereas revenues increased 4 percent to 39.7 m EUR. By contrast, the first half of 2011 brought a high profit growth. According to company statements, the EBIT increased by 23 percent to 0.97 m EUR, while the net profit rose by as much as 44 percent to 0.75 m EUR.

Financing the expansion through bond issue

After the successful restructuring, the management is now also able to increasingly push external growth. G. Fleischhauer is to play an important part in this area as well. The company, presently concentrated mainly in Northern Germany, intends to strengthen its position in the south through the acquisition of smaller

competitors. In the medium term, revenues of 100 m EUR are targeted, which would allow for considerable economies of scale especially in the overhead. Furthermore, CEO Ritskes is aiming at a diversification of the OIM portfolio by means of purchasing attractive companies; aside from the Mad Croc deal, a further project is currently reaching the final straight. For the financing of these activities, the company is intending to issue a Zero Bond in November. The bond has a coupon of 8.25 percent and a maturity of six years. The first tranche of 12.5 m EUR (of an intended volume of 50 m EUR) is to be placed before the end of this year and is secured by shares in G. Fleischhauer.

Valuation

Yield Value Model

We assess OIM's fair valuation level by means of a Yield Value Model based on an estimation of the major value drivers revenues, net yield and equity costs.

Discount rate according to CAPM 9.9 %

The discount rate as measure for the equity costs is set according to the Capital Asset Pricing Model (CAPM), with a risk-free rate of 2.5 percent (average running yield of German fixed-income bonds) and a long-term risk premium for investment in shares of 5.3 percent. For the risk estimation, the value for the beta factor statistically ascertainable from market data is not significant due to the lack of correlation between the OIM share and the market. The systematic risk is therefore derived following the fundamental factors. The company's by far most important investment, the technology service provider G. Fleischhauer, is operating in a very competitive market, where profitability fluctuate considerably with capacity utilization rate due to high fixed costs. Moreover, OIM is planning to enter new business areas (through acquisitions) that are not as yet among the group's core activities. We perceive therefore a particularly high risk compared to the market portfolio and assess the beta with 1.4. These assumptions result in a discount rate of 9.9 percent.

Stable organic growth

With regard to G. Fleischhauer's revenue and profit prospects we are sanguine despite the macroeconomic turbulence. Since the restructuring, the company has already proved that it is able to operate profitably even under adverse conditions. What is more, we think that the expansion plans aiming at a successive spreading out into Southern Germany are realistic and realizable. We expect therefore a constant, if moderate, revenues growth over the coming years.

Considerable profit growth probable

The group's profit might well increase considerably as a result of the activities in the investment business. Since the group is aiming only at minority shareholdings, there will be no consolidation, but the revenues flow into profit by way of income from investments. We assess the Mad Croc plans for the MySparta subsidiary as a promising beginning; this is reflected in our significantly raised profit

estimate as compared to our short report from September 28th. We expect now a surplus of 2.1 m EUR for the current year, due also to a book profit from the revaluation of the MySparta shares. From the next period on, the expansion of the Mad Croc business should provide a continuously increasing profit contribution and thus a yield increase from at first 6 percent to a target figure of 8 percent (so far 5 percent). The following table shows the assumed business development of the OIM group over the next eight years.

	2011	2012	2013	2014	2015	2016	2017	2018
Revenues (m EUR)	41.6	42.9	45.0	47.3	49.2	50.7	51.7	52.7
Revenues growth		3.0%	5.0%	5.0%	4.0%	3.0%	2.0%	2.0%
Net yield	5.0%	6.0%	7.0%	7.5%	8.0%	8.0%	8.0%	8.0%
Profit (m EUR)	2.08	2.57	3.15	3.55	3.93	4.05	4.13	4.22
Profit growth	1.982%	23.6%	22.5%	12.5%	10.9%	3.0%	2.0%	2.0%

Fair value 2.74 EUR per share

Assuming an unchanged perpetual earnings growth rate of 2 percent subsequent to the detailed forecast period, this calculation results in a fair value of 46.7 m EUR or 2.74 EUR per share. Despite the excellent performance of the share in the past few months, there is still a further price increase potential of 67 percent.

Sensitivity analysis

The following table shows the impact that a variation of the parameters “perpetual growth” and “discount rate” would have on the fair share value. The more restrictive assumptions still lead to a price by far above the current one, and even in the worst case (perpetual growth 1 percent, discount rate 10.9 percent) the price potential is still 39 percent.

		Perpetual growth				
		1.0 %	1.5 %	2.0 %	2.5 %	3.0 %
Discount rate	8.9%	2.87 EUR	2.99 EUR	3.13 EUR	3.30 EUR	3.49 EUR
	9.4%	2.69 EUR	2.80 EUR	2.92 EUR	3.06 EUR	3.22 EUR
	9.9%	2.54 EUR	2.63 EUR	2.74 EUR	2.85 EUR	2.99 EUR
	10.4%	2.40 EUR	2.48 EUR	2.57 EUR	2.67 EUR	2.79 EUR
	10.9%	2.28 EUR	2.35 EUR	2.43 EUR	2.51 EUR	2.61 EUR

Conclusion

Unchanged recommendation: “Speculative buy”

In the past two months, OIM’s share has been discovered in the market despite the difficult general conditions and has improved since our recommendation from September 28th by more than 40 percent. The performance is well substantiated on the operative side due to the high profit dynamics of the G. Fleischhauer subsidiary. Further potential will result from the plans in the investment area.

The proportional purchase of the China license for the successful energy drink Mad Croc and a profit sharing in the India business as a basis for the business expansion of the MySparta subsidiary made for an auspicious beginning. We have therefore raised our profit estimate and assess the fair value at 2.74 EUR per share. In these premises, OIM remains a speculative buy.

Appendix

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Author of this report is Dipl.-Kfm. Holger Steffen (financial analyst). The company responsible for the issue is Performaxx Research GmbH. The Perfor-

maxx Research GmbH will presumably write and publish one research report and two updates in the next twelve months for the company analyzed here. **The dates of the next publications are not fixed yet.** In the past twelve months the Performaxx Research GmbH has published the following reports for the company here analyzed:

<u>Date of publication</u>	<u>Price at the time of publication</u>	<u>Recommendation</u>
2011-09-28	1.186 EUR	Speculative buy

If not indicated otherwise, the recommendation refers to a long-term investment horizon of at least twelve months. In this timeframe, the investment ratings are as follows:

- „Buy“ expected return greater than 25 percent,
- „Overweight“ expected return between 10 and 25 percent,
- „Hold“ expected return up to 10 percent,
- „Underweight“ expected decrease in price by up to 10 percent,
- „Sell“ expected decrease in price by more than 10 percent,
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