

» Investment company «

Scherzer & Co. AG

WKN 694280 | DE0006942808 | Bloomberg: PZS

17 August, 2020

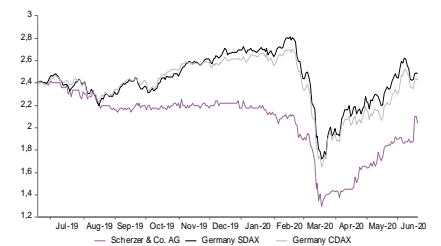
BUY

Before: HOLD

Price target **EUR 2.60 (2.20)**
Price* **EUR 2.28 (+14%)**

*XETRA trading price at the close of the previous day

Change	2020e	2021e	2022e
Sales	-	-	-
EBIT	-	-	-
EPS	-	-	-



Source: Factset

Next squeeze-out in the bag - higher rating

Scherzer published its August presentation on 04.08., as well as its preliminary half-year figures. The net asset value (as of 31 July) was EUR 2.49 per share, which is a sustainable improvement on the pre-crisis level of February (EUR 2.15). YTD the NAV was increased by 10.6%. Due to the uncertainties on the capital markets, which are likely to persist for some time to come, we believe that Scherzer, with its currently high proportion of potential squeeze-out positions, is in a stable position and therefore a currently undervalued share. With our updated valuation we obtain a fair value of EUR 2.67, set our target price at EUR 2.60 (2.20) and our valuation at BUY (HOLD).

Positive half-year result: Despite share price setbacks and lower dividends received in H1-2020, Scherzer succeeded in generating EBT of EUR 3.0m (H1-2019: EUR 0.35m), mainly with proceeds from rectification rights (EUR 5.75m).

Stability through severance pay values; top 10 positions 63%: YTD, the portion of the 10 largest portfolio positions increased from 48.9% to 63.3% of the total portfolio. The share of potential squeeze-out candidates such as Audi and MAN multiplied YTD due to the price development and massive purchases by Scherzer. We expect a limited downside risk due to the high proportion of these special stocks.

New price target of EUR 2.60, recommendation BUY: We are updating our model and (assuming stable market development) set our target price to EUR 2.60 (2.20), therefore we upgrade our recommendation at BUY (HOLD).

We see negative influences from COVID-19, such as a second lockdown, as a major risk to our assessment.

Share Data

	2020
Shares (millions)	29.94
Free Float (percent)	100%
Market Cap (EURm)	61.0
Daily turnover (€)	13,488
High (EUR, 52 weeks)	2.30
Low (EUR, 52 weeks)	1.23

Shareholders

Free float	100.0 %
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Company events

Company presentation	Beginning of September
Company presentation	Beginning of October

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In cooperation with:



ODDO SEYDLER

FY End: 31.12. in EURm	CAGR (19-22e)	2017	2018	2019	2020e	2021e	2022e
Net earnings from fin. instruments	85.8%	12.9	9.4	1.1	9.1	6.9	7.1
EBITDA	48.7%	10.2	8.3	1.5	6.9	4.7	4.9
Margin		78.9%	87.9%	134.5%	75.8%	68.2%	68.9%
EBIT	49.1%	10.2	8.3	1.5	6.9	4.7	4.9
Margin		78.8%	87.7%	132.9%	75.6%	67.9%	68.6%
Net result	n.m.	7.9	-0.9	-2.3	1.1	5.5	5.6
EPS	n.m.	0.26	-0.03	-0.08	0.04	0.18	0.19
Dividend per share		0.10	0.00	0.00	0.02	0.05	0.06
NAV		82.04	69.16	67.38	68.38	70.38	72.38
Return on NAV		15.7%	13.6%	1.6%	13.3%	9.8%	9.8%
ROE		13.0%	-1.5%	-4.3%	1.9%	8.5%	8.2%
ROA		8.8%	-1.0%	-2.9%	1.3%	6.0%	5.9%

Source: Scherzer, FMR

Portfolio review

At **Audi**, there is not yet an exact date when or by when the shareholders will be paid out. The reason for this is that lawsuits are expected/have already been filed. Possible rectification rights proceedings following the squeeze-out are not affected by these events prior to the settlement payment. We expect that Scherzer, regardless of the final amount of the settlement payment, will carefully examine the usual expert opinion, including the valuation parameters shown and then possibly seek the advice of the arbitration panel. In our opinion, Scherzer should have invested around EUR 12-13m in Audi.

The squeeze-out plan of **MAN** has been disclosed, but the necessary Annual General Meeting has not yet taken place and no date has been announced (an invitation must be issued at least 30 days in advance). In addition, no squeeze-out amount has been communicated yet. In principle, a settlement price could be proposed by internal valuation standards or by the 3-month VWAP (volume weighted average price, currently roughly EUR 46).

ArcandWor participation: There was no new information from the commissioned feasibility study on the Arcandor participation (Scherzer holds c. 24.5255% of Arcandor voting rights with a current market value of EUR 1.2m). We do not expect any negative impact from this position for our valuation.

Volume of rectification values shrunk: After Scherzer had sold AXA rectification rights in June 2020 with an original settlement or tender volume of approx. EUR 25.6m and generated EUR 1.2m in Superior Industries Europe AG shares in April, the volume of rectification rights of EUR 126.6m or EUR 139m including Allerthal-Werke (as of 31 December 2019) now fell to EUR 104.9m or EUR 113m (31 July 2020).

Updated model, target price EUR 2.60, BUY: To determine our new price target of EUR 2.60, we take the fair value of our scenario 2 (base scenario, EUR 2.67 per share). At a closing price of EUR 2.28 the day before, this results in an upside of 14%. As we see the Scherzer as a specialist for special stocks as a fundamentally interesting stock in the current market situation, we are increasing our recommendation from HOLD to BUY.

Potential of largest portfolio positions according to consensus expectations

in EURm	current value, FMR exp.	Scenario 1	Scenario 2	Scenario 3
		TP are reached, market rises by 5%	TP are reached, market rises by 0%	TP are reached, market shrinks by 5%
		End of 2020e	End of 2020e	End of 2020e
TOP 10 holdings	68.21	75.44	73.55	71.66
Other holdings	23.53	24.71	23.53	22.35
Exp. Value of AuM at end of 2020e		100.14	97.08	94.01
Bank loans		-17.19	-17.19	-17.19
Cash		0.00	0.00	0.00
NAV		82.96	79.89	76.82
Sum		82.96	79.89	76.82
Number of shares		29.94	29.94	29.94
NAV per share in EURm		2.77	2.67	2.57
Last shareprice in EURm		2.28	2.28	2.28
Upside potential		21.52%	17.03%	12.54%

Source: FMR Research AG

Appendix

Profit and loss account

HGB	EURm	2017A	2018A	2019A	2020e	2021e	2022e
Net income from financial instruments		12.9	9.4	1.1	9.1	6.9	7.1
YoY growth		115.2%	-26.9%	-88.3%	725.0%	-23.9%	2.2%
Personnel expense as % of sales		-2.7 -20.8%	-0.7 -7.3%	-0.7 -62.7%	-1.5 -16.5%	-1.5 -21.7%	-1.5 -21.2%
Other operating income as % of sales		0.9 7.3%	0.3 2.8%	1.8 160.7%	0.0 0.0%	0.0 0.0%	0.0 0.0%
Other operating expenses as % of sales		-1.0 -7.6%	-0.7 -7.6%	-0.7 -63.5%	-0.7 -7.7%	-0.7 -10.1%	-0.7 -9.9%
EBITDA as % of sales		10.2 78.9%	8.3 87.9%	1.5 134.5%	6.9 75.8%	4.7 68.2%	4.9 68.9%
Depreciation and amortization as % of sales		0.0 -0.1%	0.0 -0.2%	0.0 -1.7%	0.0 -0.2%	0.0 -0.3%	0.0 -0.3%
EBIT as % of sales		10.2 78.8%	8.3 87.7%	1.5 132.9%	6.9 75.6%	4.7 67.9%	4.9 68.6%
Net financial results as % of sales		-2.2 -17.2%	-7.6 -80.3%	-3.8 -343.6%	-5.6 -62.1%	1.4 19.7%	1.4 19.9%
EBT as % of sales		7.9 61.7%	0.7 7.5%	-2.3 -210.8%	1.2 13.5%	6.1 87.7%	6.3 88.5%
Income tax as % of EBT		0.0 -0.4%	-1.6 -221.6%	0.0 0.3%	-0.1 -10.0%	-0.6 -10.0%	-0.6 -10.0%
Net income		7.9	-0.9	-2.3	1.1	5.5	5.6
EPS in EUR		0.26	-0.03	-0.08	0.04	0.18	0.19

Source: Scherzer, FMR

Balance							
HGB	EURm	2017A	2018A	2019A	2020e	2021e	2022e
	Other fixed assets	2.4	2.1	2.7	2.2	2.2	2.2
	Financial assets	33.8	29.9	24.7	24.7	25.7	26.7
	as % of total assets	37.6%	35.4%	30.3%	28.5%	28.1%	27.9%
	Non current assets	36.2	32.0	27.4	26.9	27.9	28.9
	as % of total assets	40.3%	38.0%	33.6%	31.0%	30.5%	30.2%
	Other receivables and other assets	5.1	1.0	0.3	1.2	0.9	0.9
	Securities	47.4	49.2	52.7	53.7	54.7	55.7
	as % of total assets	52.8%	58.3%	64.6%	61.9%	59.7%	58.2%
	Cash and cash equivalents	1.1	2.1	0.7	4.9	8.0	10.2
	Current assets	53.5	52.3	54.1	59.8	63.6	66.8
	as % of total assets	59.7%	62.0%	66.4%	69.0%	69.5%	69.8%
	Accruals and deferrals	0.0	0.0	0.5	0.0	0.0	0.0
	Totals assets	89.7	84.4	81.5	86.6	91.5	95.6
	Subscribed capital	29.9	29.9	29.9	29.9	29.9	29.9
	Remaining equity	30.7	26.8	24.5	29.6	34.4	38.6
	Minority interests	0.0	0.0	0.0	0.0	0.0	1.0
	Total equity	60.6	56.7	54.4	59.5	64.4	68.5
	as % of total assets	67.5%	67.3%	66.8%	68.7%	70.4%	71.7%
	Provisions	3.9	1.8	3.6	3.6	3.6	3.6
	Financial liabilities	25.1	25.7	23.3	23.3	23.3	23.3
	Other liabilities	0.1	0.1	0.1	0.2	0.1	0.1
	Total liabilities and provisions	29.1	29.4	27.0	27.1	27.1	27.1
	as % of total assets	32.5%	34.9%	33.2%	31.3%	29.6%	28.3%
	Equity and liabilities	89.7	84.4	81.5	86.6	91.5	95.6

Source: Scherzer, FMR

Cash flow statement

HGB EURm	2017A	2018A	2019A	2020e	2021e	2022e
Net income	7.9	-0.9	-2.3	1.1	5.5	5.6
Depreciation and amortisation	0.0	0.0	5.3	0.0	0.0	0.0
Other transactions incl. non-cash	4.9	7.9	1.8	11.0	0.0	0.0
Change in Working Capital	-4.1	3.9	0.3	-0.4	0.3	0.0
Cash flow from operating activities	8.7	11.0	5.1	11.7	5.7	5.6
Cash flow form investing activities	-12.7	-7.6	-4.0	-7.5	-2.0	-2.0
Change in debt	6.3	0.6	-2.4	0.0	0.0	0.0
Dividend payments	-1.5	-3.0	0.0	0.0	-0.6	-1.5
Other financing activities	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	4.8	-2.4	-2.4	0.0	-0.6	-1.5
Total change in cash and cash equivalents	0.8	1.0	-1.4	4.2	3.1	2.1
Cash and cash equivalents at the start of the period	0.2	1.1	2.1	0.7	4.9	8.0
Cash and cash equivalents at year's end	1.1	2.1	0.7	4.9	8.0	10.2

Source: Scherzer, FMR

Declaration of liability (disclaimer) and mandatory details pursuant to Section 85 Securities Trading Act (WpHG), EU Market Abuse Regulation (EU Regulation No. 596/2014), Delegated Regulation 2016/958 and Delegated Regulation 2017/565 including details of possible conflicts of interest (disclosures), the author and the responsible supervisory authority

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- a) First publication: 17 August 2020,
- b) Time conditions of expected updates: quarterly
- c) Supervisory authority: Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), Lurgiallee 12, 60439 Frankfurt am Main
- d) Previous analyses: No analysis was published in the 12 months before publication of this analysis that contains a recommendation for a specific investment decision which contradicts this analysis.
- e) The analysis was made available to the issuer, to the extent that is legally permissible, before publication and was not amended thereafter.
- f) All prices and price developments listed in the analysis are based on closing prices insofar as no contradictory details were provided about prices and price developments.

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 - (iii.) managed financial instruments of the issuer on a market by means of concluding purchase or sale agreements:

(iv.) has, within the past twelve months, concluded an agreement regarding services in connection with investment banking business or received a service or performance promise from such agreement, with issuers which either themselves or the financial instruments thereof, are the subject of the financial analysis;

(v.) is in possession of a net sales or purchase position which exceeds the threshold of 0.5% of the total issued share capital of the issuer;

(vi.) has concluded an agreement regarding the preparation of investment recommendations with the issuer.

(vii.) has other significant interests with regard to the company being analysed, for example clients with the company being analysed.

Company	Disclosure(s)
Scherzer & Co. AG	-

b) FMR Frankfurt Main Research AG has concluded a cooperation agreement with Oddo Seydler Bank AG, on the basis of which this financial analysis is compiled. Oddo Seydler Bank AG is acting as the agent of the issuer, which is either the subject of the financial analysis itself or its financial instruments are the subject of the financial analysis.

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Company	Disclosure(s)
Scherzer & Co. AG	iii, vi

Valuation history for the last 12 months:

Date	Recommendation	Share price at publishing date	Target price
19.12.2019	HOLD	2.20	2.40
28.01.2020	HOLD	2.18	2.40
06.03.2020	HOLD	1.94	2.30
19.06.2020	HOLD	2.04	2.20
17.08.2020	BUY	2.28	2.60

4. Creation and distribution

a) Responsibility for creation and distribution

FMR Frankfurt Main Research AG

Registered office: Frankfurt am Main; Commercial Register No. HRB 113537, Frankfurt am Main district court; Chairman: Marcus Silbe

b) Issuer

Felix Lutz, Analyst

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5. Investment recommendation details

Investment recommendation details - stocks:

BUY: In our opinion, the stock will demonstrate an absolute price gain of at least 10 % in a 12-month period.

HOLD: In our opinion, the stock will not exceed or fall below an absolute price gain or loss of 10% in a 12-month period.

Sell: In our opinion, the stock will demonstrate an absolute price loss of at least 10 % in a 12-month period.

6. Sensitivity of the evaluation parameters

The figures from profit and loss calculations, cash flow statements and balance sheets which form the basis of the company evaluation are date-related estimates and therefore subject to risks. These may change at any time without prior notice. Regardless of the evaluation methods used, there are significant risks that the price goal/trend will not be achieved within the expected time frame. The risks include unforeseeable changes with regard to competition pressure, demand for the products of an issuer and the offer situation with respect to materials required for production as well as non-occurrence of the assumed development. Such deviations may be the result of changes relating to technology and changes relating to the economy, legal situation and exchange rates. No claim is made that this statement of evaluation methods and risk factors is complete.

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