

# **S.C. CONTOR GROUP S.A. (CGC)**

## **- Initial Public Offering -**

### ***1. IPO Characteristics***

- **number of shares** put up for sale: 31.012.666 shares (20% of the future share capital assuming full subscription);
- **face value:** 0.1 RON/share;
- **price:** 0.38 RON/share;
- **total IPO value:** RON 11.78 mn;
- **market capitalization** at the subscription price: RON 58.9 mn (EUR 16.1 mn).

### ***2. Essential Information regarding the Issuer***

- Arad-based Contor Group S.A. company has a 15-year experience in manufacturing and marketing water meters (including flow meters and level transducers), electricity meters and heat cost allocators.
- The company was founded in 1993 in Romania under the name: S.C. Contor Zenner S.R.L., this being a subsidiary of a German company (Zenner GmbH&Co KG). In 1998, the company became Contor Zenner Romania S.A.. In December 2004, the Romanian party took over the entire package of shares through management buyout.

- During 2005-2007, the company made capital expenditures in excess of EUR 5 mn to expand production capacities and introduce the latest technology. Throughout this interval, production hiked by 60% being expected to reach 1 million units by the end of the current year (twofold against 2005).
- Aside from its core activities, the company also conducts subsidiary activities such as: research and engineering in the field of mechanics and hydraulics, the manufacture of dies and plastic injection moulds, electrostatic spray painting, machining operations, injection molding, meter calibration and maintenance services, energy consumption monitoring systems, marketing of flow meters, water level meters, pumps, electricity and gas meters, as well as professional technical consulting services.
- The Issuer has 9 subsidiaries in Romania, in the country's main cities, and 6 foreign subsidiaries in Southeast Europe.
- The company markets its products in: Romania, the Balkan States, EU (Germany, France), CSI (Russia, Ukraine), Africa and the Middle East. In Romania, Contor Group's market share stands at app. 65%.
- The company's management system is certified in compliance with EN ISO 9001:2001 and EN ISO 14001:2004. The meteorology laboratory is licensed in accordance with EN ISO/CEI 17025:2005.
- Currently, the company's shareholding structure comprises of: S.C. Waterhouse S.R.L. - 59.9378% of the share capital, Contor Caracioni GmbH - 28.0575%, Middle Europe Opportunity Fund III - 6.2500%, SIF Banat-Crisana 2.0153%, other shareholders adding up 3.7394% stake in the company.

### Valuation Multiples at the IPO Price

Price (RON)	Market Capitalization (RON mn)	P/E 9M 07	P/S 9M 07	P/E 07prelim.	P/S 07prelim.	P/E 08e	P/S 08e
0.38	58.9	<b>117.8</b>	1.8	<b>29.5</b>	1.3	<b>23.6</b>	1.2

Source: prospectus info, [www.contorgroup.ro](http://www.contorgroup.ro), Vanguard Research estimates

### 2008 Financials and Projections

RON mn	2004	2005	2006	9M 2007	2007 prelim.	2008e
<b>Sales</b>	<b>57.0</b>	<b>47.1</b>	<b>46.3</b>	<b>32.6</b>	<b>47.2</b>	<b>51.9</b>
<i>Increase in Sales (%)</i>	-	-17.4%	-1.6%	-	2.0%	10.0%
<b>EBITDA</b>	<b>7.6</b>	<b>5.3</b>	<b>4.4</b>	<b>5.0</b>	<b>10.4</b>	<b>5.5</b>
<i>EBITDA Margin (%)</i>	13.3%	11.3%	9.5%	-	22.0%	10.5%
<b>Operating Profit (EBIT)</b>	<b>4.5</b>	<b>2.0</b>	<b>1.4</b>	<b>2.4</b>	<b>6.7</b>	<b>3.9</b>
<i>Operating Margin (%)</i>	7.9%	4.3%	3.0%	-	14.2 %	7.5%
<b>Net Profit</b>	<b>2.2</b>	<b>1.4</b>	<b>1.2</b>	<b>0.5</b>	<b>2.0</b>	<b>2.5</b>
<i>Net Margin (%)</i>	3.8%	2.9%	2.5%	-	4.2%	4.8%

Source: prospectus info, [www.contorgroup.ro](http://www.contorgroup.ro), Vanguard Research estimates

The company's sales figure slid in 2005-2006 mainly because it ceded some services contracts and renewed its product portfolio, at the end of 2007, the company posting RON 47.2 mn in preliminary sales, up by a mere 2% against 2006, but sharply higher compared to the year's third quarter. Throughout 2005-2006, the company's operating margin was cut by half, however, in 2007, according to preliminary financials, the company posted operating margin of 14.2% and RON 6.7 mn in operating profit, almost 5-fold against the 2006 level. The good results achieved at the end of the year compared to the end of Q3 are mostly due to booming sales in the year's last quarter, generated by a seasonality of the issuer's activity. On the other hand, this upswing might mirror the company's management decision to improve its image by employing questionable accounting practices.

### 3. General Information regarding the IPO and Current Shareholders

Contor Group S.A. IPO is to be carried out throughout February 29 – March 13, 2008. The object of this IPO comprises of 31.012.666 new shares with a face value of 0.1 RON/share, accounting for app. 20% of the post-offering share capital assuming full subscription. A share's offering price is RON 0.38, the company aiming to collect RON 11.78 mn from investors- assuming full subscription.

- In case of oversubscription, the shares will be allotted in accordance with the pro-rata allotment criterion.
- The IPO is to last for 10 business days, with an extension possibility in compliance with regulations in force.
- The offering will be considered as successful regardless of the number of shares subscribed until its completion.

Assuming the shares will be fully subscribed and that the current owners will not exercise the preemptive rights, their stakes will undergo the following changes:

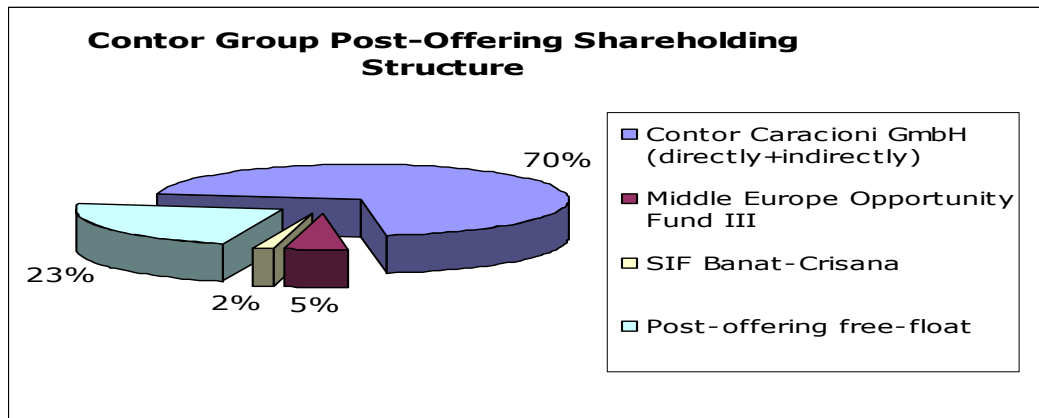
<b>Shareholding Structure</b>	<b>Prior to the IPO</b>	<b>After the IPO</b>
S.C. Waterhouse S.R.L.	59.9378%	47.9503%
Contor Caracioni GmbH	28.0575%	22.4460%
Middle Europe Opportunity Fund III	6.2500%	5.0000%
SIF Banat-Crisana	2.0153%	1.6122%
<i>Other shareholders, legal and natural persons</i>	3.7394%	2.9915%
<i>Free-float*</i>	-	20.0000%
<b>TOTAL</b>	100.0000%	100.0000%

*Source: prospectus info*

*\*The post-offering free-float might be considered 22.9915%, including minority stakes held by other shareholders- legal and natural persons.*

It's worth mentioning that S.C. Waterhouse S.R.L. is entirely owned by Contor Caracioni GmbH, therefore, overall, Contor Caracioni GmbH is to hold (directly and indirectly) 70%

stake in Contor Group following the IPO, assuming full subscription and that current shareholders will not participate in the offering.

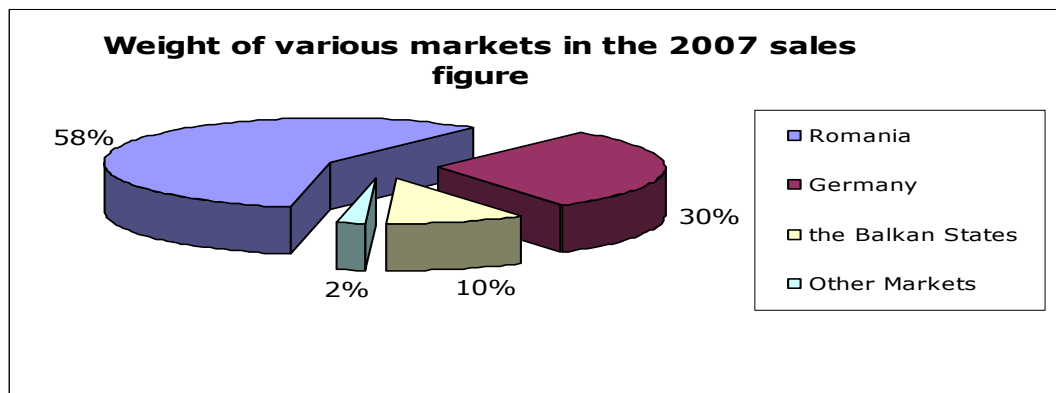


Source: prospectus info, Vanguard Research

## 4. Contor Group S.A. – Company Presentation

### 4.1 The Issuer’s Market and Market Share

The company sells its products on several foreign markets, however, the countries generating most of the company’s sales figure are: Romania (58%), Germany (the most important foreign market), France, Poland, Russia, Ukraine and the Balkan States. In Romania, Contor Group has a market share of 65 – 70%, in the Balkan region holding market share of 20%, and 8-10% in Germany, the latter witnessing an upward trend.



Source: prospectus info, Vanguard Research

Geographically, although the company makes rather similar sales on both domestic and foreign markets, the number of units sold abroad is significantly higher than the one sold on the domestic market, as on foreign markets Contor Group adopts a differentiation strategy based on costs. It might be assumed that foreign activity generates lower profitability, however, which might surge based on consolidating a stable client portfolio. The quantitative evolution of foreign sales is vastly superior to the domestic one from a dynamics viewpoint, where fluctuations have been registered.

Based on product types, the greatest weight in total sales is given by apartment meters and branch meters for measuring water consumption for both residential and industrial use.

## **4.2 Investment Strategy**

Since the company was founded until today, Contor Group has made two major capital expenditures. The first one, in total amount of app. EUR 10 mn, was carried out throughout 1998-2000 when, succeeding the takeover of the majority stake in Optiplast, Arad-based meter plant was built, the most modern meter plant in Central-Eastern Europe. The second significant capital expenditure was made during the 2005-2007 interval, when the company expended EUR 5 mn, EUR 3 mn out of which for mechanization and automation in view of expanding production capacities.

Below there is a detailed account of technology investments made by the company since 1993 until today:

- EUR 1.4 mn in brass die casting technology;
- EUR 1.8 mn in case mechanical processing technology;
- EUR 0.9 mn in case mold manufacturing technology;
- EUR 1.5 mn in meter assembly and testing technology;
- EUR 2.1 mn in injection molding technology.

Until 2012, the company has planned capital expenditures in amount of RON 14.67 mn (EUR 4.01 mn), the average annual level of capital expenditures amounting to RON 2.93 mn. For 2008, the company planned capital expenditures totaling RON 2.79 mn, 27% out

of which being intended for the research & development activity, 20% for equipment, 22% for developing new products, 15% for infrastructure development at the company's level, the remaining amount being used for renewing the auto park, the calculation technique and for entering new markets.

In the table displayed below we have detailed the issuer's CAPEX program throughout 2008-2012:

2008-2012 CAPEX Plan				RON mn	
Type	2008	2009	2010	2011	2012
Research - Development	0.748	0.782	0.816	0.850	0.884
Equipment	0.544	0.680	0.850	0.850	0.952
New Products	0.612	0.476	0.544	0.680	0.850
Calculation Technique	0.102	0.102	0.102	0.102	0.102
Infrastructure	0.408	0.272			
New Markets	0.170	0.238	0.272	0.272	0.272
Auto Park	0.204	-	0.935		
<b>TOTAL</b>	<b>2.788</b>	<b>2.550</b>	<b>3.519</b>	<b>2.754</b>	<b>3.060</b>

Source: prospectus info

The issue prospectus does not say how the funds collected from the capital market will be used assuming there will be full subscription, the 2008 CAPEX plan being limited to RON 2.79 mn.

### 4.3 Strong and Weak Points; Perspectives

The company's main **strong points** are:

- orientation towards exports, which might give an advantage once the water and electricity metering systems will be used by a larger number of consumers in the region;
- app. 66% market share in Romania;
- the only meter manufacturer in Romania, market valued at some EUR 20 mn;
- the opportunity of earning constant post-sale revenues due to maintenance, assistance and meteorological testing services;
- existence of a portfolio of traditional clients;

As weak **points/risks** we mention:

- heavy dependence on the company owned by the majority shareholder (Contor Caracioni) that, through involvement in logistics and sales, represents the reason for entering German and French markets. The majority shareholder is an important supplier for the issuer (15% of purchases). A potential drop in the stake held by the majority shareholder might raise the issue of reconsidering the contracts signed for export, which could damage future revenues. The majority shareholder also signed a consulting agreement with the issuer.
- high operating risks related to low liquidity, negative operating cash flow;
- price-based competition of China-made products;
- transparency risks (the company did not incorporate the auditors' opinions in its financial results);
- hike in the price of imported raw materials (50% of the total needed);
- significant portion of payables and debts due to affiliated parties.

Gain opportunities are to arise in the field of irrigation meters, when funds will be allocated to increase irrigated agricultural surfaces. Another promising market for Contor Group is the one for heat cost allotments, nonetheless, their weight in the issuer's total sales figure is currently insignificant.

## 4.4 Financials

### 2004-2007 Balance Sheet

ASSETS	RON mn	2004	2005	2006	2007 prelim.
<b>1. Long-term Assets</b>		<b>34.6</b>	<b>36.2</b>	<b>42.0</b>	<b>46.7</b>
<b>2. Current Assets</b>		<b>45.2</b>	<b>43.2</b>	<b>41.4</b>	<b>51.0</b>
- Inventories		11.2	12.3	15.0	n.a
- Receivables		31.6	29.5	22.4	22.9
- Cash and cash equivalents		2.4	1.4	4.0	1.5
<b>3. Prepaid Expenses</b>		<b>0.5</b>	<b>0.1</b>	<b>0.2</b>	<b>n.a.</b>
<b>TOTAL ASSETS (1+2+3)</b>		<b>80.3</b>	<b>79.5</b>	<b>83.5</b>	<b>97.9</b>

Liabilities	RON mn			
<b>1. Current Liabilities*</b>	<b>41.2</b>	<b>39.2</b>	<b>41.0</b>	<b>49.0</b>
<b>2. Long Term Liabilities</b>	<b>6.7</b>	<b>4.4</b>	<b>4.5</b>	<b>6.5</b>
<b>3. Equity</b>	<b>32.3</b>	<b>35.8</b>	<b>37.9</b>	<b>42.4</b>
- Share Capital	1.5	1.5	1.6	11.6
<b>4. Account Payables</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
<b>TOTAL LIABILITIES (1+2+3+4)</b>	<b>80.3</b>	<b>79.5</b>	<b>83.5</b>	<b>97.9</b>

Source: prospectus info, [www.contorgroup.ro](http://www.contorgroup.ro)

\* for 2007- the current/long-term liabilities were delimited based on information available at 9 months.

## 2004-2007 Profit and Loss Account

RON mn	2004	2005	2006	9M 2006	9M 2007	2007 preliminary
<b>Sales</b>	<b>57.0</b>	<b>47.1</b>	<b>46.3</b>	<b>27.8</b>	<b>32.6</b>	<b>47.2</b>
Increase in sales (%)	-	-17.4%	-1.6%		17.3%	2.0%
<b>EBITDA</b>	<b>7.6</b>	<b>5.3</b>	<b>4.4</b>	<b>2.8</b>	<b>5.1</b>	<b>10.4</b>
EBITDA Margin (%)	13.3%	11.3%	9.5%	10.1%	15.6%	22.0%
<b>Operating Profit (EBIT)</b>	<b>4.5</b>	<b>2.0</b>	<b>1.4</b>	<b>0.5</b>	<b>2.4</b>	<b>6.7</b>
Operating Margin (%)	7.9%	4.3%	3.0%	1.8%	7.4%	14.2 %
<b>Net Profit</b>	<b>2.2</b>	<b>1.4</b>	<b>1.2</b>	<b>0.2</b>	<b>0.5</b>	<b>2.0</b>
Net Margin (%)	3.8%	2.9%	2.5%	0.7%	1.5%	4.2%

Source: prospectus info; [www.contorgroup.ro](http://www.contorgroup.ro)

## 5. Contor Group S.A. Valuation

Regarding the issuer's financial history, we noticed the following:

- The sales figure witnessed a downward trend, nevertheless, this was rectified by revenues stemmed from the growth in inventories, thus the decrease at the level of total revenues was less visible. The company justified this trend by the restructuring of its product portfolio and finding new suppliers after the split from Zenner Germany, as well as by the long duration of the validation process of new products and of obtaining marketing licenses for these products. The fact that app. 16% of the sales figure is

derived from services, shows growth potential of their value as more units are being sold.

- Regarding cash flow, we noticed negative operating cash flow at the end of Q3'07, although the issuer made net profit. Operating cash flow was significantly cut down by interest and income tax payments. The negative short-term liabilities/ operating cash flow indicator, of - 0.02, shows the issuer's reduced ability to settle debts and pay the interest on loans taken out. We estimate that the issuer poses a higher risk compared a similar issuer with positive cash flow, loan repayments being imperiled.
- The current liquidity ratio of 1.01 is far below the comfortable limit of 2, indicating the issuer's low capacity to pay short-term liabilities with the help of available current assets. The quick ratio (0.49) sends out a negative signal regarding the company's ability to handle potential financial constraints in the short-term (Contor Group inventories do not fit in the category of easily sellable products).
- The receivables management is rather faulty: the average duration for collecting money from customers far exceeding that of paying the suppliers (177 and 86 days respectively). Analyzing historical ratios, we could state that the company did not make significant progress in this regard. Although the average inventory rotation duration is shorter, the company could not benefit from it because of lengthy delays in collecting receivables.
- The increase in inventories is not correlated with the increase in sales, the former hiking sharply whereas the latter dropped or continued to languish. The revenues hike is also not correlated with the growth in receivables. These trend and growth pace discrepancies denote the lack of healthy business development premises.

The existence of an circumspect audit opinion it's also worth mentioning, this matter raising questions about the accuracy with which the actual evolution of the issuer's sales is reflected in its financials. Consequently, we believe it is essential to adjust some elements of the profit and loss account and of the balance sheet in accordance with these opinions, thus:

- negative adjustment of 2006 assets, equity, total revenues and profit (operating and net) with RON 0.52 mn because of unregistered account payables for slow-moving inventories, which led to overvalued inventories;
- negative adjustment of 2006 assets, equity and sales (inclusive of the profit figure) because of overvaluing receivables with RON 0.55 mn, fact that increased the sales figure and net profit with the aforementioned amount;
- negative adjustment of the 2006 sales figure with the amount of RON 1.17 mn representing the transfer of some services contracts to a former subsidiary, Servito SRL company (sold afterwards to Techem Germany), the auditors' opinion showing that this amount should have been included in the "other operating revenues" category;
- positive EBITDA adjustment with RON 0.79 mn because of incurring expenses with the amortization of tangible assets to "other operating expenses";
- negative adjustment of 2006 total revenues and expenses with revenues derived from inventory variations, in amount of RON 15.5 mn, because the internal consumption of raw materials and materials should not be included in these revenues.

RON mn	2004	2005	2006	2006 adjusted
<b>Sales</b>	<b>56.9</b>	<b>47.1</b>	<b>46.3</b>	<b>44.6</b>
Variation %		-17.2%	-1.7%	-5.3%
<b>Total Revenues</b>	<b>58.6</b>	<b>47.9</b>	<b>67.7</b>	<b>51.1</b>
Variation %		-18.3%	41.3%	6.7%
<b>EBITDA</b>	<b>7.6</b>	<b>5.3</b>	<b>4.4</b>	<b>4.6</b>
EBITDA Margin (%)	13%	11.3%	9.5%	10.4%
<b>Operating Profit (EBIT)</b>	<b>4.5</b>	<b>2.0</b>	<b>1.4</b>	<b>0.9</b>
Operating Margin (%)	7.9%	4.2%	3.0%	1.9%
<b>Net Profit</b>	<b>2.2</b>	<b>1.4</b>	<b>1.2</b>	<b>0.1</b>
Net Margin (%)	3.9%	3.0%	2.6%	0.3%
<b>Total Assets</b>	<b>80.2</b>	<b>79.0</b>	<b>83.5</b>	<b>83.0</b>
<b>ROA</b>	2.7%	1.8%	1.4%	0.2%
<b>Equity</b>	<b>32.3</b>	<b>35.3</b>	<b>37.9</b>	<b>37.4</b>
<b>ROE</b>	6.8%	4.0%	3.2%	0.3%
<b>Debt-to-assets ratio</b>	59.7%	45.0%	54.6%	55.0%

Source: prospectus info, Vanguard Research

## 5.1 Valuation through the Multiples Method

For the evaluation based on this method, Contor Group indicators were compared to the ones of companies manufacturing similar devices, i.e. water, electricity and heat meters.

Company Name	Country	Capitalization (EUR mn)	P/E	P/S	P/B	EBITDA Margin	Net Margin	ROA
Electromagnetica Mecanica Fina Bucharest	Romania	87.7	25.2	1.3	4.9	8%	5%	6%
Amplo SA Ploiesti	Romania	5.0	29.0	2.3	0.5	23%	8%	2%
Introl SA	Poland	2.3	7.5	0.7	5.5	16%	9%	12%
Hydrotor SA	Poland	64.2	11.5	1.7	4.2	n.a.	14.5%	24.8%
		28.1	10.7	1.2	1.8	17.8%	11.3%	12.5%
<b>Average</b>			<b>16.8</b>	<b>1.4</b>	<b>3.4</b>	<b>17.8%</b>	<b>12.9%</b>	<b>18.6%</b>
<b>Contor Group 2007</b>		16.1	<b>29.5</b>	<b>1.3</b>	<b>1.4</b>	<b>22.0%</b>	<b>4.2%</b>	<b>2.0%</b>
<i>Difference against the average (-/+)</i>			76%	-11%	-59%			

Source: Vanguard Research

Note: The multiples and indicators computed take into account the preliminary results for the year 2007

Target – price based on average P/S	0.43
Target-price based on average P/E	0.22
<b>Average</b>	<b>0.32</b>
<b>IPO Price</b>	<b>0.38</b>
<b>Price premium against the average</b>	<b>17%</b>

Source: Vanguard Research

Compared to the companies selected above, Contor's 2007 P/E multiple is quite high, however, P/S lies at the average level and there is a significant discount for P/B. We believe that, in accordance with this valuation method, the company is rather undervalued if only the P/S indicator is taken into consideration, and rather overvalued if only the P/E indicator is considered. The picture shows a potentially profitable company. Overall, the company is slightly overvalued.

## 5.2 Valuation through the Discounted Free Cash Flow method

In employing this method we have relied on the issuer's both historical and 2007 preliminary results, and on the revenue&expense budget forecasts posted on the company's website for the 2008-2012 interval.

We believe that the management's forecasts are optimistic and we have adjusted these projections based on the company's current state and its perspectives (operating risks, market potential). Moreover, the 2007 preliminary financials once again show major discrepancies between operating revenues and the sales figure, confirming the 2006 evolution, when most of these revenues were ascribed to gains derived from inventory variations (questionable- according to the auditor's opinion). Furthermore, as in most of the estimates the sales figure does not exceed 90-95% of operating revenues, we believe that a cautious approach is called for regarding profit figures and preliminary profit margins until the registration methods used will be clarified when the audited financial results will be published.

RON mn	2004	2005	2006	2006 adjusted	2007 prelim.	2008e	2009e	2010e	2011e	2012e
<b>Sales</b>	<b>56.9</b>	<b>47.1</b>	<b>46.3</b>	<b>44.6</b>	<b>47.2</b>	<b>51.9</b>	<b>57.1</b>	<b>62.8</b>	<b>69.1</b>	<b>76.0</b>
Variation %		-17.2%	-1.7%	-5.3%	5.9%	10.0%	10.0%	10.0%	10.0%	10.0%
<b>Total Revenues</b>	<b>58.6</b>	<b>47.9</b>	<b>67.7</b>	<b>51.1</b>	<b>82.9</b>	<b>54.1</b>	<b>59.5</b>	<b>65.4</b>	<b>72.0</b>	<b>79.2</b>
Variation %		-18.3%	41.3%	6.7%	62.1%	-34.8%	10.0%	10.0%	10.0%	10.0%
<b>EBITDA</b>	<b>7.6</b>	<b>5.3</b>	<b>4.4</b>	<b>4.6</b>	<b>10.4</b>	<b>5.5</b>	<b>6.0</b>	<b>6.6</b>	<b>7.3</b>	<b>8.0</b>
EBITDA Margin (%)	13%	11.3%	9.5%	10.4%	22.0%	10.5%	10.5%	10.5%	10.5%	10.5%
<b>Operating Profit (EBIT)</b>	<b>4.5</b>	<b>2.0</b>	<b>1.4</b>	<b>0.9</b>	<b>6.7</b>	<b>3.9</b>	<b>4.3</b>	<b>5.0</b>	<b>5.5</b>	<b>6.1</b>
Operating Margin (%)	7.9%	4.2%	3.0%	1.9%	14.2%	7.5%	7.5%	8.0%	8.0%	8.0%
<b>Net Profit</b>	<b>2.2</b>	<b>1.4</b>	<b>1.2</b>	<b>0.1</b>	<b>2.0</b>	<b>2.5</b>	<b>3.0</b>	<b>3.6</b>	<b>4.2</b>	<b>4.9</b>
Net Margin (%)	3.9%	3.0%	2.6%	0.3%	4.2%	4.8%	5.2%	5.7%	6.1%	6.5%
<b>Total Assets</b>	<b>80.2</b>	<b>79.0</b>	<b>83.5</b>	<b>83.0</b>	<b>97.9</b>	<b>98.6</b>	<b>104.8</b>	<b>112.4</b>	<b>119.3</b>	<b>127.0</b>
<b>ROA</b>	2.7%	1.8%	1.4%	0.2%	2.0%	2.5%	2.8%	3.2%	3.5%	3.9%
<b>Equity</b>	<b>32.3</b>	<b>35.3</b>	<b>37.9</b>	<b>37.4</b>	<b>42.3</b>	<b>55.3</b>	<b>57.7</b>	<b>60.5</b>	<b>63.9</b>	<b>67.9</b>
<b>ROE</b>	6.8%	4.0%	3.2%	0.3%	4.7%	4.5%	5.1%	5.9%	6.6%	7.3%
<b>Leverage</b>	59.7%	45.0%	54.6%	55.0%	56.7%	43.9%	45.0%	46.1%	46.4%	46.5%

Source: prospectus info, [www.contogroup.ro](http://www.contogroup.ro), Vanguard Research

In determining the updated value of free cash flow to the firm (FCFF) we have considered two stages of company development taking into account the capital expenditures Contor is planning to make in the upcoming period in view of expansion. Thus, we considered a

quicker growth period (2008-2012) and a more stable one (starting with 2013). The results of applying the updated free cash flow to the firm approach reflect both potential difficulties encountered by the issuer in trying to maintain an adequate financial balance, and the high risk involved in investing in the issuer's share at this moment in time.

Hypotheses:

- 80% profit reinvestment rate estimated throughout 2007-2012, following to drop by 60% in the succeeding interval.
- The debt/equity ratio is presumed to be kept relatively steady at 45% liabilities – 55% equity, liabilities following to decrease to 30% after 2012.
- The Beta value exceeds 1 and the gap will continue to be rather significant as long as the company doesn't improve operating efficiency and its client portfolio in order to reduce dependency on some of these.
- The weighted average cost of capital (WACC) is of 17.40% during the quick growth period, and 14.13% during the average growth period.

<b>Quick Growth Period: 2007-2012</b>		<b>Average Growth Period: Starting 2013</b>	
Risk-Free Rate	10.00%	Risk-Free Ratio	8.00%
Beta	1.30	Beta	1.20
Risk Premium	11.00%	Risk Premium	7.00%
Cost of Equity	24.30%	Cost of Equity	16.40%
Cost of Debt	14.00%	Cost of Debt	10.50%
Cost of Debt x (1-t)	11.76%	Cost of Debt x (1-t)	8.82%
<b>Weighted Average Cost of Capital</b>	<b>17.40%</b>	<b>Weighted Average Cost of Capital</b>	<b>14.13%</b>

Source: Vanguard Research

RON mn		2007	2008	2009	2010	2011	2012
Sales		47.20	51.92	57.11	62.82	69.11	76.02
EBIT		6.70	3.89	4.28	5.03	5.53	6.08
EBIT x (1-t)		5.63	3.27	3.60	4.22	4.64	5.11
plus: amortization expenses		4.62	3.79	3.88	4.03	4.11	4.19
minus: capital expenditures		-4.70	-1.26	-1.05	-1.89	-0.95	-1.05
minus: working capital variation		-5.5	-1.1	-1.7	-0.9	-0.9	-1.0
<b>FCFF</b>		<b>0.05</b>	<b>4.66</b>	<b>4.68</b>	<b>5.46</b>	<b>6.86</b>	<b>7.20</b>
<b>Present Value (PV) of FCFF</b>			3.97	3.40	3.37	3.61	3.23
Sum of PV FCFF	17.58						
Terminal Value in 2012	108.08						
Present Value of the Terminal Value	48.46						
Free Cash Flow to the Firm Value	66.04						
minus: net liabilities	10.0						
minus: interest x (1-t)	1.43						
<b>Free Cash Flow to Equity</b>	<b>74.62</b>						
<b>per share</b>	<b>0.48</b>						
<b>IPO Price/Share</b>	<b>0.38</b>						
<b>Growth potential against the IPO price</b>	<b>21%</b>						

Source: Vanguard Research

## 6. Conclusions

Employing the valuation methods presented above, we have obtained two target prices:

**Multiples target-price: 0.32 RON/share**

**FCFF target-price: 0.48 RON/share**

**Average: 0.40 RON/share**

**Growth potential against the offering price: +5%**

The valuation result through the abovementioned methods shows that the company's current value slightly exceeds the issue price. The company's financial history is less relevant and its current financial position entails several risks at operating level. On the other hand, recent results on the first nine months and the 2007 preliminary results

indicate steady sales and massive increase in operating and net profit accompanied by significant improvement in margins. Nevertheless, we will see if such a leap is sustainable in the future. Company estimates regarding the financial evolution in the revenue and expense budget posted on its website show a positive dynamics of sales and profit figures that might counterbalance industry averages until 2012.

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Research Department: [research@vanguard.ro](mailto:research@vanguard.ro)  
Magda Sirghe: [magda.sirghe@vanguard.ro](mailto:magda.sirghe@vanguard.ro)  
Robert Stefan: [robert.stefan@vanguard.ro](mailto:robert.stefan@vanguard.ro)  
Antonela Badea [abadea@vanguard.ro](mailto:abadea@vanguard.ro)

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**Terminology & Abbreviations:**

**EBITDA** – earnings before interest, taxes, depreciation and amortization; estimated as operating profit + amortization;

**EBIT** – earnings before interest & tax; similar to the operating profit

**FCFF** – cash generated by the company and at the company's disposal; it is computed as the difference between the cash-flow operational and capital expenditures made  
 $FCFF = CFO - CAPEX$

**t** – tax rate