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# THE EUROPEAN SPIN-OFF & RESTRUCTURING REPORT

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December 1, 2020

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## Allgeier SE (Pre-Spin)

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**Current Share Price (11/30/20): €79.80**  
**Fair Value Estimate: €83 per share**  
**Shares Outstanding: 11.4 million**  
**Market Capitalization: €908 million**

**Ticker: AEIN GR**  
**Dividend: €0.50**  
**Yield: 0.6%**

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## Allgeier SE (Post-Spin)

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**Fair Value Estimate: € 22 per share**  
**Shares Outstanding: 11.4 million**  
**Market Capitalization: € 253 million**

**Ticker: NA**  
**Dividend: N/A**  
**Yield: N/A**

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## Nagarro Group SE

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**Fair Value Estimate: €61 per share**  
**Shares Outstanding\*: 11.4 million**  
**Market Capitalization: € 689 million**

**Ticker: TBD**  
**Dividend: TBD**  
**Yield: N/A**

TBD – To be determined. N/A – Not applicable.

Note: Market capitalization is based on fair value estimate for post-spin entities and current market cap for pre-spin Allgeier SE.



*Exclusive Marketers of  
The Spin-Off Report*

PCS Research Services  
100 Wall Street, 20<sup>th</sup> Floor  
New York, NY 10005  
(212) 233-0100  
www.pcsresearchservices.com



Institutional Research Group

*Michael Wolleben*

*Robert Dunn*



**Murray Stahl**

**Steven Bregman**

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## Investment Thesis

On August 21, 2020, Allgeier SE (AEIN GR) announced that the company intends to spin off its global technology consulting and software development business into a new independent standalone publicly traded company. The new company, which is to adopt the corporate moniker Nagarro Group, is expected to begin trading in mid-December 2020. Shareholders of record will receive one share of Nagarro for each share of Allgeier held.

Allgeier SE, is an Information Technology (IT) solutions and services company based in Munich, Germany. The company was early in identifying the need for IT services, and was a first-mover in combining IT Services and IT Recruiting. By employing an aggressive acquisition strategy, having completed 20 acquisitions since the beginning of 2015, Allgeier has been able to scale quickly to become both the second largest mid-sized IT service provider in Germany and the second largest German IT recruiting company. The company's competitive position in the German IT services market is underscored by its presence in 20 of the top 30 and 52 of the top 100 German companies.

Allgeier reported consolidated sales of €784.2 million in 2019, with EBITDA of €73.4 million, representing a 9.4% EBITDA margin. Over the past five years, Allgeier has increased revenue at a 15.2% CAGR while driving wider margins, resulting in a 30.1% EBITDA growth CAGR. 65% of revenue in 2019 was derived from Germany, 18% from the United States, and the remainder from mostly northern Europe.

The company reports revenue in four business segments: Enterprise Services (€122.6 million in 2019 revenue, €7.3 million in EBIT), Experts (€261.3 million in 2019 revenue, -€0.7 million in EBIT), Technology (€402.2 million in 2019 revenue, €47.8 million in EBIT), and New Business Areas (€7.8 million in 2019 revenue, -€3.8 million in EBIT). The Enterprise Services segment provides software products for the storage and management of company data, with a focus on data and document management, security software and business management software. The Experts segment provides flexible personnel services in Germany. The Technology segment develops software solutions for management and IT consulting, business process consulting, and SAP consulting. New Business Areas includes: 1) The Allgeier CORE Group, a specialized business unit focused on investment in organic growth and targeted acquisitions in the areas of IT and data security; 2) the Allgeier Education Group, focused on the recruitment and training of foreign specialists for the German market; and 3) Oxygen Consultancy, a Human Resources management services company with three locations in Turkey. Companies in the segment span eight locations in total, five of which are in Germany and three in Turkey.

In recent years, Allgeier has grown primarily through acquisitions, having built a broad portfolio of differentiated and specialized companies. While its Technology and Enterprise Services businesses are more similar in the areas of consulting, software development and software services, the Experts segment, with its specialized personnel services business in German-speaking regions, is a very different business model. Accordingly, the separation allows Nagarro, as an independent, full-service, global leader in software engineering and technology solutions, to capitalize on the growing demand for specialized IT services.

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A major rationale for the planned separation is management's claims that Nagarro has outgrown the need to remain under the group's current structure. In particular we view Nagarro's faster revenue growth rate and wider margin profile as being under appreciated within the context of the larger conglomerate (Nagarro represents over 50% of revenue and EBITDA). We would expect that, following the separation, Nagarro would experience a degree of multiple expansion to more closely resemble peers with similar growth and margin profiles, while the parent company would see multiple compression closer to historic AEIN levels, as the combined multiple has expanded in recent months (AEIN currently trades in excess of 12x forward EBITDA, above its five-year average of 9.2x).

On a preliminary, pre-spin sum-of-the-parts basis, shares of AEIN can be fairly valued at €83 per share, consisting of €23 per share in value from Allgeier, and €61 per share in value from Navarro.

With the pre-spin sum-of-the-parts fair value estimate suggesting approximately less than 5% upside from the shares' current consolidated price (€79.80 as of this writing), the transaction appears to be priced in. It should be noted that shares of AEIN have increased in value by over 50% since the beginning of November; the S&P 500 index, for reference, has increased just over 10% during the same time period.

We note that shares may experience volatility in the near-term, given the company's limited presence among institutional investors and very small float (6.4 million float; 11 million shares outstanding, with approximately 25% held by Carl Georg Dorschmid, the company's Chairman of the Board and CEO).

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## Company Description

Allgeier AG (AEIN GR), founded in 1977 and headquartered in Munich, Germany, is one of the German-speaking world's leading IT services companies focused on digital transformation. The company, which is comprised of over 10,500 permanent employees and over 1,200 freelance experts, spans the entire ecosystem of IT services, from recruiting, design, and implementation, to operation of IT infrastructure. Under its current conglomerate structure, the group consists of 82 fully consolidated companies and generated 2019 revenues and adjusted EBITDA of €784 million and €69 million, respectively. Allgeier has historically employed a growth via acquisition strategy, having completed 20 acquisitions since the beginning of 2015.

Allgeier currently reports revenue in four business segments: Enterprise Services (€122.6 million in 2019 revenue, €7.3 million in EBIT), Experts (€261.3 million in 2019 revenue, -€0.7 million in EBIT), Technology (€402.2 million in 2019 revenue, €47.8 million in EBIT), and New Business Areas (€7.8 million in 2019 revenue, -€3.8 million in EBIT). See Exhibits 1 and 2. These four operating segments are subdivided into nine operating business units: Enterprise Services, Experts, Nagarro, MGM Technology Partners, iQuest, Objectiva Software, Allgeier CORE, Allgeier Education and Oxygen Consultancy (see Exhibit 3). These are described in further detail below.

### **Exhibit 1 Allgeier AG: Income Statement Highlights: 2011-2019**

(Fiscal year ends December 31<sup>st</sup>; in € millions)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Revenue, Adj	€ 445.7	€ 497.5	€ 581.6	€ 688.0	€ 784.2
EBITDA, Adj	26.3	34.4	25.9	48.8	69.2
Net Income, Adj	1.8	6.6	3.3	7.9	15.7
EPS, Adj	€ 0.19	€ 0.72	€ 0.34	€ 0.43	€ 1.46
Revenue Growth YoY	16.0%	11.6%	16.9%	18.3%	14.0%
EBITDA Margin	5.9%	6.9%	4.4%	7.1%	8.8%
Net Margin	0.4%	1.3%	0.6%	1.1%	2.0%
EPS Growth YoY	1836.0%	273.0%	-53.3%	26.8%	240.3%
Cash from Operations	€ 10.4	€ 6.1	€ (5.8)	€ 17.0	€ 59.2
Capital Expenditures	(5.8)	(5.8)	(6.6)	(22.9)	(30.6)
Free Cash Flow	€ 4.6	€ 0.3	€ (12.5)	€ (5.9)	€ 28.5

Source: Company reports.

- **Enterprise Services** – companies in this segment design and operate end-to-end IT solutions for implementing and supporting client business-critical processes on standard business software products. Companies in this segment use their own software products in addition to the software products and platforms of well known manufacturers such as Microsoft, SAP, IBM (NYSE: IBM) and Oracle. Employees combine in-depth technical and special industry expertise to analyze and optimize client business processes to implement IT solutions. Services include consulting, development, project planning,

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implementation and support, and extend across several types of business software, including Enterprise Resource Planning; content management, Business Process Management (BPM), and security.

- **Experts** – companies in this segment provide personnel services with a focus on IT design, sourcing, implementation, and support, across a number of industries, with a particular focus on IT, telecommunications, the public sector, banking and insurance. Experts include: 1) contracting services (freelancers and subcontractors who provide temporary support for specific projects and managed services); 2) temporary personnel (leasing of IT and engineering professionals); and 3) permanent (recruitment placement for permanent technical and management positions). As of 2019, Allgeier counted more than 400 customers in the Experts segment-- predominantly large German companies, of which 11 are listed in the DAX 30.
  
- **Technology** – the technology segment consists of Allgeier’s international custom software development business, which consists of MGM Technology Partners Group, the Nagarro Group, the iQuest Group and Objectiva Software Solutions. In 2019, the Technology segment had over 700 customers, including 13 of the 30 German DAX companies. Primary end markets include industry, the public sector, IT and telecommunications, commerce, logistics and transport.
  - MGM Technology Partners, headquartered in Alexandria, Virginia, is a consulting firm focused on enterprise digitization projects and one of the leading e-government service providers in Germany.
  
  - Nagarro, headquartered in Munich, Germany, specializes in digital transformation, product development and design, big data and analysis, artificial intelligence, and the Internet of Things (IoT). The company generates the majority of its revenue from North America, Germany and Austria. Nagarro has made several acquisitions; in 2016, the company acquired Conduct, an IT security provider based in Oslo, Norway, and Mokriya, San Jose, California-based software product development studio. In 2018, Nagarro acquired ANECON, an Austrian software development, testing and consulting company.
  
  - iQuest, headquartered in Bad Homburg v.d. Höhe, Germany, is a technology consultancy focused on software engineering, product development, and managed services for digital transformation across enterprises in the life sciences, transportation, telecommunication, financial services, utilities and logistics industries. The company consists of approximately 700 employees, with local development teams in Romania, Poland and Switzerland.
  
  - Objectiva Software Solutions, founded in 2001 and headquartered in San Diego, California, provides software outsourcing services primarily to independent software vendors (ISV) and digital agencies. The company develops custom

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software for cloud and mobile platforms, and e-commerce and document management implementations, as well as real-time data systems and applications.

- **New Business Areas** – this segment includes: 1) The Allgeier CORE Group, a specialized business unit focused on investment in organic growth and targeted acquisitions in the areas of IT and data security; 2) the Allgeier Education Group, focused on the recruitment and training of foreign specialists for the German market; and 3) Oxygen Consultancy, a Human Resources management services company with three locations in Turkey. Companies in the segment span eight locations in total, five of which in Germany and three in Turkey.

## Exhibit 2 Allgeier AG: Income Statement Highlights by Segment: 2008-2019

(Fiscal year ends December 31st; in € millions)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2019</u> <u>Margin</u>
<b>Enterprise Services</b>						
Revenue	51.4	47.0	100.3	113.6	122.6	
EBIT	(1.4)	(2.4)	1.5	4.9	7.3	6.0%
EBITDA	1.3	(0.4)	4.1	15.8	16.6	13.5%
<b>Experts</b>						
Revenue	245.8	258.5	256.4	278.6	261.3	
EBIT	6.6	5.7	1.6	(1.2)	(0.7)	-0.3%
EBITDA	10.6	10.9	4.8	3.7	3.5	1.3%
<b>Technology</b>						
Revenue	153.8	196.5	219.3	298.2	402.2	
EBIT	10.6	20.8	21.2	26.5	47.8	11.9%
EBITDA	16.2	27.3	27.7	39.9	64.8	16.1%
<b>New Business Areas</b>						
Revenue		0.4	6.0	5.3	7.8	
EBIT		-	(2.2)	(2.4)	(3.8)	-48.7%
EBITDA		-	(2.0)	(1.9)	(2.7)	-34.6%

Source: Company reports.

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## Exhibit 3 Allgeier AG: Business Overview

Allgeier SE			
Enterprise Services	Experts	Technology	New Business Areas
Allgeier Enterprise Services	Allgeier Experts	mgm technology partners	Allgeier Education
		Nagarro	Allgeier CORE
		iQuest	Oxygen Consultancy
		Objectiva Software	

Range of solutions and services			
Enterprise Services	Experts	Technology	New Business Areas
SAP	Services	High-end software & application engineering	IT and data security
Enterprise Resource Planning	- Responsible design, sourcing, implementation and support of projects and services	- Onshore development	- IT security services, security consulting & security training, security due diligence
Document Management (DMS) / Enterprise Content Management (ECM):	Contracting	- Nearshore development	- IT forensics: investigation, verification and clarification of digital security incidents, cyber security
Security	- Recruiting and support of freelance IT and engineering experts for projects on a service contract basis	- Offshore development	Digital training and qualification for experts
Business Process Management (BPM)	Temp	- Implementation	HR management services
Cloud solutions	- Provision of permanently employed IT and engineering professionals, experts and managers under personal leasing agreements	- Management	
Mobile	Perm	- Testing	
	- Professional search for IT and engineering experts and managers for permanent technical and management positions	- Application management services	
		Software lifecycle projects	
		Process & IT consulting	
		- IT architectures	
		- E-commerce & portals	
		- Mobile enterprise	
		- Business intelligence / big data	
		- Apps	

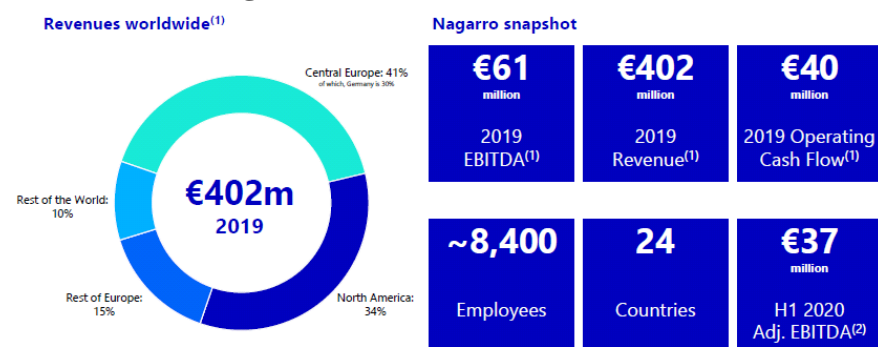
Source: Company reports.

### Nagarro AG

Headquartered in Germany and founded in 1996, Nagarro AG is global technology consulting and software development company specializing in product architecture design, cloud migration, product management, user experience (UX) design. The company, which was acquired by Allgeier in 2011, generated sales of approximately US\$ 22 million in 2010. Today, Nagarro consists of several additional companies: iQuest, operating in Romania, Switzerland, German and Poland; Objectiva, operating in the USA and China; and the SAP business of Allgeier Enterprise Services, operating in Germany, France and Denmark. In 2019, Nagarro generated 2019 revenue and EBITDA of €402 million and €58 million, respectively (14% adjusted EBITDA margin). The post-spin company will consist of approximately 7,000 employees working on projects for over 750 customers in 25 countries, including approximately 1,000 IT experts based in India.

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## Exhibit 4 Nagarro Overview



<sup>1</sup> revenue based on unaudited combined financials

<sup>2</sup> based on 1H 2020 consolidated financials

Source: Company reports.

With the acquisition of Nagarro, Allgeier was able to expand its ability to offer customers cost efficient off-shore or ‘blended shore’ solutions (mixed teams of local and off shore employees). This capability is a competitive advantage relative to most of its smaller competitors who rely primarily on Eastern European staff. Additionally, the company’s access to Indian employees earning approximately 1/5 of their German counterparts provides a cost structure benefit, particularly if the scarcity of well-trained German speaking IT experts results in wage inflation.

Allgeier’s full service approach in both IT services and IT recruiting is a unique advantage relative to its competitors. By offering a broad range of IT services and expertise across multiple product areas, Allgeier has become a ‘preferred service provider’ of many large enterprises. For example, the company’s vast network of freelancers results in a constant pool of available freelancers which increases the company’s cost flexibility and secondly, allows for easier access to follow-on projects where freelancers are already placed.

Allgeier has reported fairly consistent revenue growth – largely a function of its exposure to growing IT services niches such as cloud computing and outsourcing. In 2019, Allgeier recorded 14% year-over-year revenue growth, just below management’s guidance (provided in the company’s 2018 annual report), which forecast total growth in a range between 15 and 20 percent. However, earnings growth exceeded revenue growth, with adjusted EBITDA increasing 34% on a year-over-year basis to EUR 73.4 million (7% EBITDA margin).

For the first half of 2020 (January 1- June 30, 2020), Allgeier generated revenue growth of EUR 394.7 million—a 4% year-over-year increase – consistent with management’s previous guidance (provided prior to the COVID-19 outbreak). Due to lower costs, consolidated EBITDA exceeded 1H guidance. Growth was driven by strong EBITDA growth of the Nagarro Group.

For 2020, management provided guidance which calls for consolidated revenues of between EUR 779 and 789 million with a gross margin in the range of 30 to 32 percent. Expected adjusted



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EBITDA is expected to be EUR 98 to 107 million, or a range of 10 to 12 percent. For the Nagarro segment, revenue growth is expected in the mid single-digits to between EUR 427 and 433 million, with a gross margin in the range of 32 to 33 percent. Adjusted EBITDA for Nagarro for the full year 2020 is expected between EUR 72 to 77 million (15% to 17%). Guidance for 2021 will be finalized in December 2020

Post-spin Allgeier Group is expected to see a mid-single-digit percentage revenue decline and adjusted EBITDA margin of between 6 and 8 percent. For post-spin Allgeier, management has guided to full year 2020 revenues to be between EUR 352 and 356 million with a gross margin in the range of 28 to 30 percent. Adjusted EBITDA for post-spin Allgeier for the full year 2020 is expected between EUR 26 and 30 million.

## **Transaction Structure and Rationale**

On August 21, 2020, Allgeier announced its intention to separate its global technology consulting and software development business. Following the separation, Nagarro AG will become a full-service, global leader in software engineering and technology solutions. In addition to Nagarro, the post-spin company will consist of the following businesses: iQuest, operating in Romania, Switzerland, Germany and Poland; Objectiva, operating in the USA and China; and the SAP business of Allgeier Enterprise Services, operating in Germany, France and Denmark.

In recent years, Allgeier has grown primarily through acquisitions, having built a broad portfolio of differentiated and specialized companies. While the company's Technology and Enterprise Services businesses are more similar in the areas of consulting, software development and software services, the Experts segment, with its specialized personnel services business in German-speaking regions, is a very different business model. A major rationale for the planned separation is management's claims that Nagarro has outgrown the need to remain under the group's current structure. In particular, we view Nagarro's faster revenue growth rate and wider margin profile as being under appreciated within the context of the larger conglomerate (Nagarro represents over 50% of revenue and EBITDA). We would expect that following the separation, Nagarro would experience a degree of multiple expansion to more closely resemble peers with similar growth and margin profiles, while the parent company would see multiple compression closer to historic AEIN levels as the combined multiple has expanded in recent months (AEIN currently trades in excess of 12x forward EBITDA, above its five-year average of 9.2x). Accordingly, the separation allows Nagarro to be an independent, full-service, global leader in software engineering and technology solutions, capitalizing on the growing demand for specialized IT services.

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## Outlook: Nagarro AG (Post-Spin)

Following the spin-off, Nagarro should continue to benefit from demand for specialized IT services. Key growth areas include digital product engineering, e-commerce and customer experience services, expertise in artificial intelligence and machine learning, cloud and IoT solutions and next-generation ERP (Enterprise Resource Planning) solutions. The ITC industry as a whole (information technology, telecommunications and consumer electronics) continues to grow faster than the market. The digital IT services market, which is the fastest growing segment of the market, is estimated at \$346 billion 2020, growing to \$543 billion by 2021 (12% CAGR).

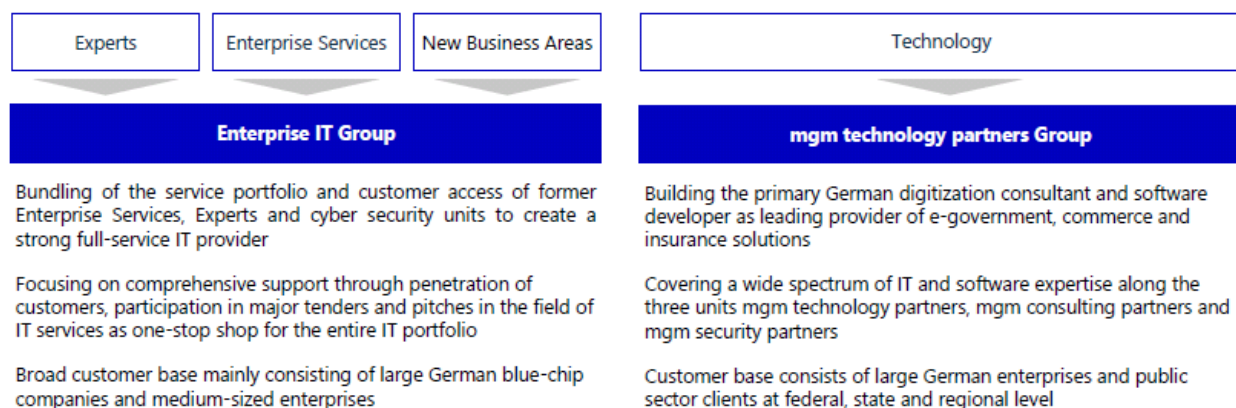
For 2020, revenue growth is expected in the mid single-digits to between EUR 427 and 433 million, with a gross margin in the range of 32 to 33 percent. Adjusted EBITDA for Nagarro for the full year 2020 is expected between EUR 72 to 77 million (15% to 17%).

## Outlook: Allgeier AG

Following the spin-off of Nagarro, Allgeier will be comprised of the Enterprise IT Group and mgm Technology Partners Group (see Exhibit 5). Notably, Allgeier's business model is not very capital intensive, as revenues are generated primarily from services. We expect the post-spin company to remain focused on its growth through acquisitions strategy.

In a fragmented IT services market, Allgeier's competitive position is largely based on the company's size as the second largest mid-sized IT service provider in Germany and also the second largest German IT recruiting company. The company's strong position in the German IT services market is underpinned by the fact that 20 of top 30 and 52 of the top 100 German companies are amongst Allgeier's customers.

## Exhibit 5 Allgeier AG: Post-Spin Business Overview



Source: Company reports.

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As enterprises look to consolidate IT service suppliers and focus on a few preferred partners in an effort to reduce costs, Allgeier should benefit from higher order volumes. The company's leading market position, size and breadth of the product portfolio are also differentiating factors.

Post-spin Allgeier AG is expected to see a mid-single-digit percentage revenue decline and adjusted EBITDA margin of between 6 and 8 percent. For post-spin Allgeier, management has guided to full year 2020 revenues to be between EUR 352 and 356 million with a gross margin in the range of 28 to 30 percent. Adjusted EBITDA for post-spin Allgeier for the full year 2020 is expected between EUR 26 and 30 million.

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## Valuation Analysis

### Valuation: Nagarro AG (Spin Company)

In the company's spin-off announcement, management cited the growth of the Nagarro Group as having reached a point whereby it can operate on a standalone basis. On a pro-forma basis, Nagarro would have generated €402 million in revenue (approximately 50% of Allgeier's revenues on a consolidated basis), €61 million in EBITDA, and €40 million in operating cash flow in 2019. The remaining parent company would have generated €382 million in revenue, €10 million in EBITDA, and €19 million in operating cash flow in 2019.

Based on the 2019 pro-forma revenue and EBITDA margins, it appears reasonable to assume that Nagarro would be able to grow revenue at approximately 10% annually over the next several years, while margins will likely remain in the roughly around 15%. Forecasted growth does take into account the company's stated "Buy and Build" growth strategy, which we expect to support the revenue growth assumptions.

Assuming revenue growth of 8%, 12%, and 10% in 2020 through 2022, respectively, post-spin Nagarro would generate revenues of €535 million in 2022. Applying an EBITDA margin of 15% – consistent with the low end of management's guidance, which calls for adjusted EBITDA margin of 15% to 17% – post-spin Nagarro could reasonably generate 2022E EBITDA of €80 million (see Exhibit 6).

### **Exhibit 6 Post-Spin Nagarro AG: Fair Value Estimate Based on 2022E EBITDA**

(€ in millions, except per share data; shares in millions)

2019 Revenue	402.0
<u>Growth</u>	<u>8.0%</u>
2020E Revenue	434.2
<u>Growth</u>	<u>12.0%</u>
2021E Revenue	486.3
<u>Growth</u>	<u>10.0%</u>
<b>2022E Revenue</b>	<b>534.9</b>
<i>EBITDA Margin *</i>	<i>15.0%</i>
<b>2022E EBITDA</b>	<b>80.2</b>
<u>Applied Multiple</u>	<u>10.0x</u>
Implied Enterprise Value	802.3
Net Debt	100.0
<b>Implied Market Capitalization</b>	<b>702.3</b>
<u>Shares outstanding</u>	<u>11.4</u>
<b>FVE \$/Share</b>	<b>€ 61.70</b>

\* 2020 guidance calls for adjusted EBITDA margin of 15%-17%

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Following the separation, Nagarro will be better positioned to be compared to a peer group of global software development and digital transformation companies, which includes IT services

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and consulting companies such as Cognizant Technology Solutions Corp. (NASDAQ: CTSI), Infosys (INFY), Cap Gemini (CAP MF), Accenture plc (NYSE: ACN), and Tata Consultancy Services Ltd. (TCS.IN), among others. For reference, shares of AEIN currently trade at 9.2x the 2022 consensus EBITDA estimate; a broad group of IT service firms trade in a range of 8x-10x; and software focused peers trade at 17x-19x forward EBITDA. If Nagarro shares are re-rated to approximate the low end of software peers, at 10x estimated 2022E EBITDA, the company could be valued at €802 million on an enterprise basis, or €62 per share, based on estimated net debt of €100 million and 11.4 million shares outstanding (1:1 distribution). Note that in August 2020, the company secured a commitment for a €100 million credit facility.

One could also examine recent trends and guidance to derive projected EPS for the post-spin company. Based on estimated 2022 EBITDA of €80 million (derived in Exhibit 6 above), and assuming depreciation of €32 million, post-spin Nagarro could generate 2022 operating income of €48 million. Assuming interest expense and tax expense of €4 and €13 million (30% tax rate), respectively, the post-spin company would generate net income of €31 million, or €2.72 per share. (Exhibit 7). Applying a peer multiple of 22x to 2022E EPS generates an implied fair value estimate of €60 per share.

## **Exhibit 7 Post-Spin Nagarro AG: Fair Value Estimate Based on 2022E EPS**

(€ in millions, except per share data; shares in millions)

<b>2022E EBITDA</b>	<b>80.2</b>
Depreciation	32.0
<u>2022E Operating Income</u>	<u>48.2</u>
Interest Expense	4.0
<u>Pre Tax Income</u>	<u>44.2</u>
Tax Expense	13.3
<u>Net Income</u>	<u>31.0</u>
Shares Outstanding	11.4
<b>2022E EPS</b>	<b>€ 2.72</b>
<i>Multiple</i>	<i>22.0x</i>
<b>FVE \$ / Share</b>	<b>€ 59.84</b>

Implied Market Capitalization	€ 681
<b>Implied EV</b>	<b>€ 781</b>

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Alternatively, investors could look at the business's ability to generate free cash flow. Based on the above assumptions, and estimating €15 million in capital expenditures based on 2019 levels, as a standalone company Nagarro could be estimated to generate €48 million in free cash flow, or €4.21 per share. Assuming shares receive a 7% free cash flow yield, shares would be fairly valued at €60 (see Exhibit 8). Notably the higher margin Nagarro business should see a lower free cash flow yield than the current AEIN, which has a yield of 9.4%.

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## Exhibit 8 Post-Spin Nagarro AG: Fair Value Estimate Based on Estimated Free Cash Flow

(€ in millions, except per share data; shares in millions)

<b>2022E Net Income</b>	<b>31.0</b>
Depreciation and Amortization	32.0
CAPEX	15.0
<b>2022E free cash flow</b>	<b>48.0</b>
Fully diluted shares outstanding	11.4
<b>FCF/share</b>	<b>€ 4.21</b>
<i>Estimated FCF Yield *</i>	<i>7.0%</i>
<b>FVE \$/share</b>	<b>€ 60.20</b>

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Based on the above valuation exercises above, Nagarro can be fairly valued at an enterprise value of 687 million. Based on estimated net debt of €100 million, and an estimated 11 million shares outstanding (1:1 distribution), post-spin Nagarro can be fairly valued at €52 per share (see Exhibit 9).

## Exhibit 9 Post-Spin Nagarro AG: Valuation Summary

(€ in millions, except per share data; shares in millions)

Average Implied Enterprise Value	789.6
Net Debt *	100.0
<b>Average Implied Market Capitalizat</b>	<b>689.6</b>
Shares Outstanding	11.4
<b>FVE \$/Share</b>	<b>€ 60.58</b>

\* Nagarro to be capitalized with an expected €100 million term facility

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

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## Exhibit 10 Peer Comparables

(€ in millions, except per share data; shares in millions)

Ticker	Algeier SE	International Business	Cognizant Technology	CANCOM SE	Infosys Ltd	Tata Motors	DXC Technology Co	Hewlett Packard	Accenture PLC	Genpact Ltd	EPAM Systems	HCL Technologies	NTT Data	
	AEIN GR	S&T AG	Machines Corp			Solutions Corp		Ltd			Enterprise Co	Inc	Ltd	Corp
	SANT GY	IBM	CTSH	COK GR	INFY	TTM	DXC	HPE	ACN	G	EPAM	HCLT IN	9613 JP	
Price	\$79.60	\$19.18	\$124.79	\$77.65	\$44.84	\$15.13	\$11.97	\$22.11	\$11.13	\$247.63	\$40.84	\$319.90	\$822.10	\$1,388.00
Shares Out	11.4	66.1	891.1	534.6	38.5	4,259.5	617.8	254.4	1,286.4	633.6	189.3	56.0	2,713.7	1,402.5
M Cap	906.0	1,267.7	111,195.0	41,514.9	1,728.5	64,446.2	7,932.5	5,625.1	14,317.4	157,127.6	7,733.0	17,910.9	2,230,904.0	1,946,670.0
Cash & Equiv	51.3	271.5	15,593.0	4,575.0	255.1	260,110.0	392,763.5	3,079.0	8,465.0	8,509.6	803.4	1,221.2	165,700.0	271,063.0
Minority Interest	(24.2)	5.8	126.0	-	0.3	4,340.0	14,617.7	350.0	51.0	498.6	-	-	5,150.0	46,811.0
Total Debt	201.0	384.8	65,414.0	2,450.0	128.0	-	1,094,731.6	9,668.0	19,457.0	61.9	1,641.5	25.0	31,000.0	557,862.0
Net Debt	125.5	119.2	49,947.0	(2,125.0)	(126.8)	(255,770.0)	716,585.8	6,939.0	11,043.0	(7,949.1)	838.1	(1,196.1)	(129,550.0)	333,610.0
EV	1,031.5	1,386.9	161,142.0	39,389.9	1,601.7	4,534,385.9	1,303,074.8	12,564.1	25,360.4	149,178.4	8,571.0	16,714.7	2,101,354.0	2,280,280.0
Revenue														
2019	784.2	1,122.9	77,147.0	16,783.0	1,549.3	826,750.0	2,991,905.9	20,753.0	29,135.0	43,215.0	3,520.5	2,293.8	604,270.0	2,163,625.0
2020E	802.3	1,216.0	73,968.6	16,711.6	1,667.7	966,670.6	2,661,867.9	19,629.8	26,651.3	44,403.3	3,693.8	2,639.3	707,302.9	2,263,091.8
2021E	855.3	1,450.9	74,860.2	17,574.3	1,811.3	975,349.1	2,441,272.2	17,463.0	26,907.4	46,545.6	3,903.1	3,209.7	749,313.2	2,237,764.3
2022E	926.5	1,615.0	76,467.6	18,585.0	1,948.4	1,060,457.2	2,903,416.9	16,669.3	27,235.0	49,922.7	4,254.6	3,931.2	833,220.7	2,328,923.4
EV / Sales														
2019	1.3x	1.2x	2.1x	2.3x	1.0x	5.5x	0.4x	0.6x	0.9x	3.5x	2.4x	7.3x	3.5x	1.1x
2020E	1.3x	1.1x	2.2x	2.4x	1.0x	4.7x	0.5x	0.6x	1.0x	3.4x	2.3x	6.3x	3.0x	1.0x
2021E	1.2x	1.0x	2.2x	2.2x	0.9x	4.6x	0.5x	0.7x	0.9x	3.2x	2.2x	5.2x	2.8x	1.0x
2022E	1.1x	0.9x	2.1x	2.1x	0.8x	4.3x	0.4x	0.8x	0.9x	3.0x	2.0x	4.3x	2.5x	1.0x
EBITDA														
2019	69.2	111.6	22,570.2	3,559.0	165.9	208,945.0	254,854.9	4,447.0	5,019.0	7,197.8	644.4	417.0	139,260.0	305,754.0
2020E	85.7	124.6	15,494.2	3,066.3	113.0	238,210.2	237,734.8	3,428.4	4,546.4	8,058.9	629.3	504.6	164,751.0	309,984.4
2021E	95.5	150.4	18,985.8	3,295.0	136.2	260,249.8	239,208.5	2,333.6	4,301.1	8,553.4	684.5	608.2	192,175.4	326,744.7
2022E	112.0	174.3	18,215.0	3,531.4	158.5	275,425.5	349,665.0	2,697.9	4,680.4	9,190.0	772.7	744.5	209,703.5	353,979.5
EV / EBITDA														
2019	14.9x	12.4x	7.1x	11.1x	9.7x	21.7x	5.1x	2.8x	5.1x	20.7x	13.3x	40.1x	15.1x	7.5x
2020E	12.0x	11.1x	10.4x	12.8x	14.2x	19.0x	5.5x	3.7x	5.6x	18.5x	13.6x	33.1x	12.8x	7.4x
2021E	10.8x	9.2x	8.5x	12.0x	11.8x	17.4x	5.4x	5.4x	5.9x	17.4x	12.5x	27.5x	10.9x	7.0x
2022E	9.2x	8.0x	8.8x	11.2x	10.1x	16.5x	3.7x	4.7x	5.4x	16.2x	11.1x	22.5x	10.0x	6.4x
EPS														
2019	\$1.45	\$0.73	\$15.27	\$3.77	\$2.00			\$6.92	\$1.38	\$7.36	\$1.61	\$4.61	\$72.83	\$67.11
2020E	\$2.40	\$0.82	\$9.01	\$3.62	\$1.20	\$41.41	(\$42.58)	\$5.34	\$1.35	\$7.70	\$2.10	\$6.25	\$39.78	\$64.70
2021E	\$2.95	\$1.07	\$11.64	\$3.98	\$1.49	\$43.20	(\$87.40)	\$2.10	\$1.53	\$8.07	\$2.27	\$7.49	\$45.33	\$60.39
2022E	\$3.71	\$1.31	\$12.66	\$4.40	\$1.81	\$46.77	\$42.58	\$3.17	\$1.72	\$8.87	\$2.54	\$9.22	\$50.44	\$72.95
P/E														
2019	54.7x	26.3x	8.2x	20.6x	22.4x			3.2x	8.1x	33.6x	25.3x	69.3x	11.3x	20.7x
2020E	33.2x	23.5x	13.9x	21.5x	37.5x	0.4x	-0.3x	4.1x	8.2x	32.1x	19.4x	51.2x	20.7x	21.5x
2021E	27.0x	18.0x	10.7x	19.5x	30.1x	0.4x	-0.1x	10.6x	7.3x	30.7x	18.0x	42.7x	18.1x	23.0x
2022E	21.4x	14.7x	9.9x	17.7x	24.8x	0.3x	0.3x	7.0x	6.5x	27.9x	16.1x	34.7x	16.3x	19.0x
P/B	4.7x	3.3x	5.2x	3.8x	2.9x			1.3x	0.9x	9.2x	4.4x	9.6x	4.3x	2.0x
Dividend Yield		0.2%	5.2%	1.1%				1.9%	4.3%	1.3%	0.9%	0.0%	0.0%	
FCF Yield	9.4%	7.5%	12.0%	7.0%	3.0%			18.5%	3.0%	4.8%	5.7%	2.4%		6.9%
ROE	12.1%	13.5%	50.1%	16.4%	7.6%	23.7%	-37.0%	10.1%	5.5%	38.6%	19.7%	18.3%	25.9%	10.7%
ROIC	5.1%	10.7%	12.4%	14.5%	6.0%	20.9%	-2.9%	4.5%	2.5%	48.6%	10.7%	17.1%	23.5%	5.6%
Operating ROIC	7.5%	9.9%	13.2%	20.4%	8.6%	28.6%	1.1%	6.6%	4.0%	62.1%	14.6%	20.2%	29.3%	10.7%

Source: Bloomberg.

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## Valuation: Post-Spin Allgeier AG (Parent Company)

Following the spin-off of Nagarro, AEIN will exhibit slower growth and significantly lower margins. Assuming mid-single digit revenue annual revenue declines, and a 6% EBITDA margin, in line with recent guidance, the parent company would earn €19.2 million in EBITDA in 2022 (see Exhibit 11). Assuming a modest multiple contraction to account for the loss of the higher margin business, valuing shares at 8x (versus AEIN's current consolidated multiple of approximately 9x 2021E EBITDA), results in an enterprise value estimate of €153 million, or €23 per share.

### Exhibit 11 Allgeier AG: Post-Spin Fair Value Estimate Based on 2022E EBITDA

(€ in millions, except per share data; shares in millions)

2019 Revenue	382.0
Growth	<u>-7.0%</u>
2020E Revenue	355.3
Growth *	<u>-5.0%</u>
2021E Revenue	337.5
Growth	<u>-5.0%</u>
<b>2022E Revenue</b>	<b>320.6</b>
EBITDA Margin	6.0%
<b>2022E EBITDA</b>	<b>19.2</b>
Applied Multiple	<u>8.0x</u>
Implied Enterprise Value	153.9
Net Cash	111.6
<b>Implied Market Capitalization</b>	<b>265.5</b>
Shares outstanding	11.4
<b>FVE \$/Share</b>	<b>€ 23.33</b>

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

One can also project future earnings of the post-spin company. Based on estimated 2022 EBITDA of €19.2 million (derived in Exhibit 11 above), and modeling depreciation of €2 million, post-spin Allgeier could generate operating income of €17 million (see Exhibit 12). Assuming tax expense of €5.2 million, the post-spin company could generate net income of €12.1 million, or €1.06 in 2022E EPS, based on 11.4 million shares outstanding.



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## Exhibit 12 Allgeier AG: Post-Spin Fair Value Estimate Based on 2022E EPS

(€ in millions, except per share data; shares in millions)

<b>2022E EBITDA</b>	<b>19.2</b>
Depreciation	2.0
<b>2022E Operating Income</b>	<b>17.2</b>
Interest Expense	-
Pre Tax Income	17.2
Tax Expense	5.2
<b>Net Income</b>	<b>12.1</b>
Shares Outstanding	11.4
<b>2022E EPS</b>	<b>\$1.06</b>
Multiple	20.0x
<b>FVE \$ / Share</b>	<b>€ 21.20</b>
Implied Market Capitalization	€ 241
<b>Implied EV</b>	<b>€ 130</b>

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Based on the above exercises, post-spin Allgeier can be valued at an enterprise value of €142 million, or €22 per share based on a net cash position of 112 million as of June 30, 2020 and 11.4 million shares outstanding (see Exhibit 13).

## Exhibit 13 Post-Spin Allgeier AG: Valuation Summary

(€ in millions, except per share data; shares in millions)

Average Implied Enterprise Value	€	141.8
Net Cash *	€	111.6
<b>Average Implied Market Capitalization</b>	<b>€</b>	<b>253.4</b>
Shares Outstanding	€	11.4
<b>FVE \$/Share</b>	<b>€</b>	<b>22.26</b>

\* balance sheet as of June 30, 2020

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

On a preliminary, pre-spin sum-of-the-parts basis, shares of AEIN can be fairly valued at €83 per share, consisting of €23 per share in value from Allgeier, and €61 per share in value from Navarro (see Exhibit 14).

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## Exhibit 14 Allgeier AG: Pre-Spin Sum-of-the-Parts Fair Value Estimate

(€ in millions, except per share data; shares in millions)

Nagarro	689.6
Post-Spin AEIN	253.4
<u>Total Average Implied Market Capital:</u>	<u>943.0</u>
Shares outstanding	11.4
<b>Implied FVE \$/Share</b>	<b>€ 82.85</b>

AIEN Current Share Price (11/30/20) € 79.80

Implied Upside 4%

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

With the pre-spin sum-of-the-parts fair value estimate suggesting approximately less than 5% upside from the shares' current consolidated price (€79.80 as of this writing), the transaction appears to be priced in. It should be noted that shares of AEIN have increased in value by over 50% since the beginning of November; the S&P 500 index, for reference, has increased just over 10% during the same time period.

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# THE EUROPEAN SPIN-OFF & RESTRUCTURING REPORT

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## Conclusion

On a preliminary, pre-spin sum-of-the-parts basis, shares of AEIN can be fairly valued at €83 per share, consisting of €23 per share in value from Allgeier, and €61 per share in value from Navarro (see Exhibit 14).

With the pre-spin sum-of-the-parts fair value estimate suggesting approximately less than 5% upside from the shares' current consolidated price (€79.80 as of this writing), the transaction appears to be priced in. It should be noted that shares of AEIN have increased in value by over 50% since the beginning of November; the S&P 500 index, for reference, has increased just over 10% during the same time period.

We note that shares may experience volatility in the near-term, given the company's limited presence among institutional investors and very small float (6.4 million float; 11 million shares outstanding, with approximately 25% held by Carl Georg Dorschmid, the company's Chairman of the Board and CEO).