

23 February 2022

BAUER GROUP

Rating Buy
Share price (EUR) 9.81
Target price (EUR) 13.00

Bloomberg B5A GY
Sector Capital Goods

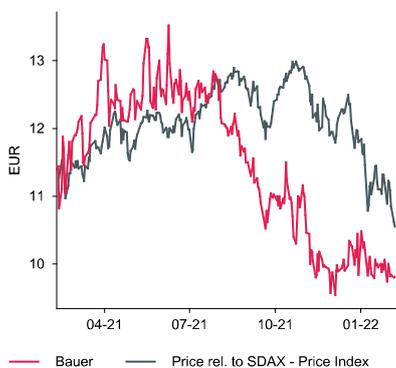
Share data

Shares out (m) 26.1
Daily volume shs (m) 0.1
Free float (%) 33.98
Market cap (EUR m) 256
EV (EUR m) 725
DPS (EUR) 0.00
Dividend yield (%) 0.0
Payout ratio (%) 0.0

Performance

ytd (%) 2.0
12 months (%) -18.5
12 months rel. (%) -23.9
Index SDAX

Share price performance



Source: Bloomberg

Next triggers

7 March 2022 – Preliminary results FY 2021
7 April 2022 – Annual Report FY 2021

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Play on future global mega trends

BAUER is globally acting as an innovative, specialized provider of products, equipment and services in the fields of ground and groundwater. Offering solutions to the biggest problems in the world BAUER's business model benefits from the following global mega trends: urbanization, infrastructure, environmental awareness and climate change. Impacted by the COVID-19 pandemic in the past we expect a recovery of profitability as we assume equipment markets to pick up and that the huge order backlog of the Construction segment will be worked down efficiently. We expect Total Group Revenues to increase by 4.4% (CAGR 2020-2023e) and EBIT margin to improve from 2.5% in 2021e to 6.1% in 2023e. We initiate coverage with a BUY rating and a TP of EUR 13.00.

Benefitting from fundamental trends

Offering solutions to the biggest problems in the world BAUER's business model benefits from the following global mega trends: urbanization, infrastructure, environmental awareness and climate change. These trends will help BAUER to further increase demand for its products and services which will have a positive impact on its profitability. The company exploits synergies between its three segments (Construction, Equipment and Resources). Most of its revenues are generated in Germany (9M 2021: 31% of Total Group Revenues) followed by Europe (20%), Americas (17%) and Asia-Pacific (15%).

Sustainable earnings and healthy balance sheet as key targets

In contrast to the Resources division which was unaffected by the COVID-19 pandemic especially the Construction and Equipment segments were affected by the pandemic. Recovery of profitability requires that Equipment markets pick up and that the huge order backlog of the Construction segment (Q3 2021: EUR 799.2m) will be worked down efficiently. It is therefore essential for both segments that the Far East markets will recover. The Resources segment is expected to be profitable again and should grow in the core business and enter new markets. We expect Total Group Revenues to increase by 4.4% (CAGR 2020-2023e). EBIT margin is expected to reach 2.5% in 2021e and should further improve to 6.1% in 2023e. Main margin driver should be the Equipment segment (EBIT margin in 2023e: 10.2%), followed by Resources (2023e: 5.2%) and Construction (2023e 3.4%). Note that the increase of profitability will further strengthen the company's equity ratio. We expect BAUER to be able to further increase the equity ratio (2021e: 27.7%, 2022e: 28.5%, 2023e: 30.4%).

Key figures		2019	2020	2021e	2022e	2023e
Sales	EUR m	1,471	1,343	1,436	1,524	1,568
EBITDA	EUR m	134	165	149	181	212
EBIT	EUR m	34	56	36	66	96
EPS	EUR	-2.17	-0.48	-0.32	0.54	1.61
Sales growth	%	n.a.	-8.7	6.9	6.1	2.9
EBIT growth	%	n.a.	64.8	-34.5	82.4	45.2
EPS growth	%	n.a.	-77.6	-33.5	-268.6	195.9
EBITDA margin	%	9.1	12.3	10.4	11.9	13.5
EBIT margin	%	2.3	4.1	2.5	4.4	6.1
Net margin	%	-2.5	-0.6	-0.5	0.9	2.7
EV/Sales	ratio	0.56	0.55	0.55	0.52	0.49
EV/EBITDA	ratio	6.1	4.5	5.3	4.3	3.6
EV/EBIT	ratio	24.4	13.4	21.7	11.9	8.0
P/E	ratio	n.m.	n.m.	n.m.	18.3	6.2
P/BV	ratio	0.4	0.5	0.6	0.5	0.5
Dividend yield	%	0.0	0.0	0.0	0.0	0.0

Source: Bloomberg, Company data, Quirin Privatbank estimates

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Executive Summary

Play on trends such as infrastructure, urbanization, environmental awareness and climate change

BAUER is globally acting as an innovative, specialized provider of products, equipment and services in the fields of ground and groundwater. Offering solutions to the biggest problems in the world BAUER's business model benefits from the following global mega trends: urbanization, infrastructure, environmental awareness and climate change. Urbanization and further population growth will increase demand for new infrastructure. Maintenance and the expansion of existing infrastructure will also be of great importance. Climate change will also have a positive impact for BAUER as alternative energy sources need appropriate infrastructure. BAUER's highly specialized services are also needed when it comes to sustainable protection of the environment. These trends will help BAUER to further increase demand for its products and services which will have a positive impact on its profitability. The company exploits synergies between its three segments (Construction, Equipment and Resources). Most of its revenues are generated in Germany (9M 2021: 31% of Total Group Revenues) followed by Europe (20%), Americas (17%) and Asia-Pacific (15%).

Recovery of Construction and Equipment segment and Resources segment to grow profitably

In contrast to the Resources division which was unaffected by the COVID-19 pandemic especially the Construction and Equipment segments were affected by the pandemic. Customer reluctance to invest mainly in China and countries of the Far East weighed on profitability of the high-margin Equipment segment. Recovery of profitability requires that Equipment markets pick up and that the huge order backlog of the Construction segment (Q3 2021: EUR 799.2m) will be worked down efficiently. The Resources segment is expected to be profitable again and should grow in the core business and enter new markets. New growth opportunities can be created for BAUER with respect to combating and managing climate change. Profit drivers are expected to be mainly driven by the areas Constructed Wetlands and Environmental Services in the Resources segment. We expect Total Group Revenues to increase by 4.4% (CAGR 2020-2023e). EBIT margin is expected to reach 2.5% in 2021e and should further improve to 6.1% in 2023e. Main margin driver should be the Equipment segment (EBIT margin in 2023e: 10.2%), followed by Resources (2023e: 5.2%) and Construction (2023e 3.4%). Note that the increase of profitability will further strengthen the company's equity ratio. We expect BAUER to be able to further increase the equity ratio (2021e: 27.7%, 2022e: 28.5%, 2023e: 30.4%).

Optimization of cost structure

BAUER established a long-term supply chain management program which will optimize the production of equipment in terms of shorter lead times and will also help to react more flexibly to fluctuations on the global markets. As a result BAUER expects a further improvement of working capital and of the cost structure in the Equipment segment. In June 2021 net proceeds of around EUR 63.3m from a further capital increase has been used for deleveraging and thus to further increase the equity ratio (as of Q3 2021: 27.1% vs. 21.2% as of Q3 2020). Note that the increase of profitability will further strengthen the company's equity ratio. BAUER targets an equity ratio of above 30% which should also be reached through sustainable profits. Further deleveraging will help BAUER to increase its profitability.

Dividend payment

BAUER plans to come back to a sustainable and reliable dividend policy and it targets a dividend ratio of around 25 to 30% of Group earnings after taxes.

Valuation based on DCF model

We have derived a target price of EUR 13.00 from a DCF model valuation.

Valuation

Discounted Cash flow model

We have derived a target price of EUR 13.00 from a DCF model valuation. The key parameters of the model are as follows:

DCF model TP: EUR 13.00

- Driven by an expected recovery of the Construction and Equipment segment we expect high Sales growth in 2021e and 2022e which should stabilize to 3.0% in 2030e.
- We forecast EBIT margin to further improve reaching 7.0% from 2024e onwards.
- CAPEX as a % of sales is expected to decrease from 9.1% in 2021 to 7.6% in 2030e.
- Tax rate is expected to be 36% from 2024e onwards.
- Our terminal value is based on the assumption of a growth rate of 1.0% consistently.
- We calculated a WACC of around 7.33% (Equity ratio: 70%; financial debt cost: 4.5% and company beta: 1.2). The model results to an equity value of c. 340m (EUR 13.00 per share).

DCF model for BAUER

(EUR m)	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TV
Sales	1,436	1,524	1,568	1,623	1,688	1,754	1,819	1,883	1,943	2,002	
growth yoy	6.9%	6.1%	2.9%	3.5%	4.0%	3.9%	3.7%	3.5%	3.2%	3.0%	
EBIT	36	66	96	114	118	123	127	132	136	140	
EBIT margin	2.5%	4.4%	6.1%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Taxes	-47.3	-39.8	-36.6	-41.2	-42.5	-44.2	-45.8	-47.4	-49.0	-50.4	
Tax rate	130%	60%	38%	36%	36%	36%	36%	36%	36%	36%	
Depreciation	113.0	115.0	116.0	120.0	126.6	132.4	137.8	142.8	147.5	152.1	
% of sales	7.9%	7.5%	7.4%	7.4%	7.5%	7.5%	7.6%	7.6%	7.6%	7.6%	
Capex	-130.0	-135.0	-140.0	-145.0	-139.6	-139.2	-141.3	-144.6	-148.5	-152.1	
% of sales	9.1%	8.9%	8.9%	8.9%	8.3%	7.9%	7.8%	7.7%	7.6%	7.6%	
Δ NWC	-55.0	12.0	7.0	10.0	-3.4	-3.5	-3.6	-3.8	-3.9	-4.0	
% of sales	3.8%	-0.8%	-0.4%	-0.6%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	
FCF	-82.9	18.6	42.8	58.2	59.3	68.3	74.4	78.8	82.2	85.7	1,358.9
growth yoy	nm	nm	nm	36.1%	18%	15.3%	8.8%	5.9%	4.4%	4.2%	1.0%
PV FCF	-82.9	17.5	37.5	47.6	45.1	48.5	49.1	48.5	47.2	45.8	726.2

PV Forecast Period	304
PV Terminal Value	726

Enterprise value	1,030
- Net Debt / Net Cash	529
- Pension Provisions	161
Equity value	340
Number of shares	26.1
Value per share (€)	13.0

Sensitivity Analysis	Terminal growth rate				
	0.0%	0.5%	1.0%	1.5%	2.0%
6.60%	13.85	16.29	19.17	22.61	26.79
6.97%	11.31	13.43	15.91	18.85	22.36
WACC 7.33%	9.02	10.88	13.04	15.56	18.55
7.70%	6.95	8.59	10.48	12.66	15.23
8.07%	5.08	6.53	8.18	10.09	12.31

Risk free rate	2.00%	Equity ratio	70%
Cost of debt	4.50%	Company beta	1.2
Market Premium	6.00%	WACC	7.33%

Source: Quirin Privatbank

Peer Group

As the peer group of listed peers is limited we have based our valuation upon a DCF model valuation. We included below a peer group analysis.

Our Peer Group Analysis is based upon a multiples comparison of BAUER with other companies with a similar business focus, only taking into account P/E multiples as well as EV multiples (EV/Sales, EV/EBIT and EV/EBITDA). Our peer group consists of Caterpillar, Daldrup & Söhne, Keller Group, Trevi, Wacker Neuson, Sany and XCMG. Note that no estimates were available for Daldrup & Söhne.

Except of EV/EBIT multiples and P/E 2022e BAUER trades with a discount between 10% and 33% to the median on the remaining selected multiples (P/E, EV/Sales and EV/EBITDA) to its peer group. Note that Caterpillar already reported FY 2021 results.

In order to arrive at a fair equity value for BAUER we used the median based on the most important ratios P/E, EV/Sales, EV/EBITDA and EV/EBIT. These ratios were weighted equally and multiplied with the company's individual prospected figures for 2021e, 2022e and 2023e. To obtain a fair value of equity using the enterprise value, net debt has to be subtracted. Dividing by the number of shares and computing the median results in the fair equity value per share of EUR 13.91.

Peer Group Valuation for BAUER

Company	Price	Market Cap (EUR m)	P/E 21e	P/E 22e	P/E 23e	EV/Sales 21e	EV/Sales 22e	EV/Sales 23e	EV/EBITDA 21e	EV/EBITDA 22e	EV/EBITDA 23e	EV/EBIT 21e	EV/EBIT 22e	EV/EBIT 23e
CATERPILLAR INC	191.2	90303.3	n.a.	15.6x	13.2x	n.a.	1.9x	1.7x	n.a.	9.9x	8.6x	n.a.	12.6x	10.6x
DALDRUP & SOEHNE AG	4.3	25.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
KELLER GROUP PLC	819.0	710.7	10.5x	8.5x	7.9x	0.4x	0.4x	0.3x	4.4x	3.8x	3.5x	9.0x	7.2x	6.5x
TREVI FINANZIARIA INDUSTRIAL	0.6	92.8	n.a.	10.3x	5.6x	0.7x	0.6x	0.6x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
WACKER NEUSON SE	22.3	1559.9	12.9x	12.3x	10.1x	0.9x	0.9x	0.8x	5.8x	5.7x	5.0x	9.3x	8.8x	7.2x
SANY HEAVY INDUSTRY CO LTD-A	20.8	24593.3	11.3x	10.7x	10.0x	1.5x	1.5x	1.4x	8.9x	8.0x	7.2x	9.2x	8.2x	7.5x
XCMG CONSTRUCTION MACHIN-A	5.7	6231.6	7.9x	7.1x	6.6x	0.7x	0.7x	0.7x	5.9x	5.3x	4.9x	7.2x	6.0x	5.2x
Median			10.9x	10.5x	8.9x	0.7x	0.8x	0.7x	5.9x	5.7x	5.0x	9.1x	8.2x	7.2x
BAUER AG	10.0	260.4	-30.9x	18.3x	6.2x	0.5x	0.5x	0.5x	5.3x	4.3x	3.6x	21.7x	11.9x	8.0x
Relative to median			n.m.	75%	-31%	-24%	-33%	-33%	-10%	-24%	-28%	138%	45%	11%
Implied EV			-91.9	148.7	375.9	1037.1	1181.2	1155.2	879.0	1039.0	1064.7	331.1	542.7	693.3
Net debt						529.2	528.5	509.9	529.2	528.5	509.9	529.2	528.5	509.9
Fair equity value			-91.9	148.7	375.9	507.9	652.7	645.3	349.8	510.6	554.8	-198.1	14.2	183.5
Fair value per share			-3.5	5.7	14.4	19.5	25.0	24.7	13.4	19.6	21.3	-7.6	0.5	7.0
Target price														13.91

Source: Bloomberg, Quirin Privatbank

Among the listed peers we see Trevi as well as Keller Group as the closed peers in terms of business focus. Other not listed peers are Soletanche Bachy, Menard, Liebherr and other small regional players. More precisely in terms of segments Keller Group, Trevi, Soletanche Bachy are the closest peers in the Construction segment. Competitors in the Equipment segment are Trevi, Liebherr and Chinese manufacturers such as Sany and XCMG and there is also further competition regarding special product types. The competition in the Resources segment is rather fragmented for each single product and service area.

Peer Group

Caterpillar (Market Cap: EUR 90bn)

Caterpillar is a manufacturer of construction and mining equipment, diesel and natural gas engines, industrial gas turbines, and diesel-electric locomotives. As of FY 2020 total revenues amounted to USD 41.7bn of which 42% related to the segment energy & transportation, 41% related to construction industries and 19% related to resources industries. 61% of revenues were realized outside the US.

Daldrup & Söhne (Market Cap: EUR 26m)

Daldrup & Söhne provides drilling and environmental services such as planning and implementation of geothermic drilling, Exploratory and test drilling for raw material deposits and building ground, Well drilling for drinking water, service water, mineral and medicinal water and thermal brine and technical environmental services and special foundation engineering. As of FY 2020 the main part of its revenues (EUR 38.7m) was generated in Germany (35%), followed by EU (33%) and other countries (32%). 49% of its revenues were realized from the geothermal sector and 41% from exploration.

Keller Group (Market Cap: EUR 711m)

As a geotechnical specialist contractor Keller Group provides specialist geotechnical solutions across the entire construction sector, e.g. ground improvement, grouting, deep foundations, earth retention, marine, post-tension systems and instrumentation and monitoring. The average project value amounts to €350k. As of FY 2020 c. 60% of its revenues was generated in North America and 29% in EMEA. The infrastructure/public buildings sector contributed by 36% to revenues, followed by power/industrial (22%), office/commercial (20%), residential sector (20%) and marine (2%).

Sany (Market Cap: EUR 24bn)

Sany is a Chinese engineering machinery manufacturer. Products include for example excavators, cranes, concrete machinery, port machinery, road machinery, trucks, mining & tunneling and wind turbines.

Trevi (Market Cap: EUR 93m)

Trevi is active in the field of underground engineering from A to Z (special foundations, soil consolidation, recovery of polluted sites) as well as in the design and marketing of specialized technologies in the sector. As of FY 2020 the main part of its revenues (EUR 491.3m) was generated in Europe (24% of total revenues), followed by USA and Canada (22%), Far East and the rest of the world (19%) and Middle East and Asia (11%). 76% of revenues stemmed from specialist foundation works.

Wacker Neuson (Market Cap: EUR 1,559m)

Wacker Neuson is a manufacturer of high quality construction equipment and compact construction machines. 79.8% of its turnover (as of FY 2020: EUR 1,616m) was realized in Europe, 16.7% in Americas and 3.4% in Asia-Pacific region. The main part of its revenues stemmed from compact machines (53.9%), followed by services (24.5%) and construction equipment (21.6%).

XCMG (Market Cap: EUR 6,232m),

XCMG is a Chinese construction equipment manufacturer. The product portfolio includes mobile cranes, excavators, wheel loaders, machines for road construction and various other construction machines.

SWOT Analysis

Strengths

- **Unique business model with high entry barriers**

BAUER is globally acting as an innovative, specialized provider of products, equipment and services in the fields of ground and groundwater. It has a worldwide production, sales and services network. Currently, global competition for the realization of especially large projects (EUR 50-200m) is relatively low which makes its business model unique.

- **Benefiting from fundamental global mega trends**

BAUER's business model benefits from the following trends: urbanization, infrastructure, environmental awareness and climate change. Urbanization and further population growth will increase demand for new infrastructure. Maintenance and the expansion of existing infrastructure will also be of great importance. Climate change will also have a positive impact for BAUER as alternative energy sources need appropriate infrastructure. BAUER offers products and services for the sustainable protection of the environment. These trends will help BAUER to further increase demand for its products and services which will have a positive impact on its profitability.

- **Strong experience in environment issues**

The Environment division of the Resources segment offers a broad range of services for all environment issues such as the remediation of waste sites, disposal of contaminated waste from construction and industry as well as the cleaning of ground and site water. The company also owns plants for the biological and mechanical cleaning of soil and waste all over Germany and in Austria.

- **Synergies between the three segments**

The segmental structure of the Group enables the realization of synergies, especially between the divisions Construction and Equipment. Insights while deploying equipment and developing methods in the Construction division are helpful to improve equipment. Comprehensive specialist foundation engineering works, including waste disposal or brownfield remediation link the offered services of the two segments Construction and Resources.

- **Long-term projects ensure stable cash flows**

Some projects of the Resources division (Mining projects as well as Constructed Wetlands project in Oman) are running more than 5 years which ensure stable cash flows.

Weaknesses

- **Net debt largely depends on working capital**

BAUER's business is characterized by a relatively high level of working capital. Over the duration of the construction site a negative cash flow is generated until completion, i.e. pre-financings are required of around three months' sales in the Construction segment. Advance payments are not the standard in the business, however BAUER is focusing on optimizing cash flows at construction projects. As customers expect short delivery lead times in the Equipment segment as they order once they have a contract to fulfill BAUER has to hold finished machinery which is reflected in the inventories. The implementation of a new supply chain management system should help to reduce the production time per rig and reduce inventories as well as production flow and procurement should be optimized.

- **Profit warnings**

Due to ongoing effects of the Corona pandemic BAUER adjusted its FY 2021 targets on 2 November 2021. Especially the Construction and Equipment segments were affected by the pandemic, mostly in countries of the Far East such as Southeast Asia where strict exit restrictions resulted in project delays and standstills at construction sites. There were also some delays in some areas with individual major projects in Europe, including a project for the foundation of an offshore wind park on the French coast. On the other side work on construction sites in Europe, USA and Middle East proceeded well.

- **Cyclical Equipment business**

While the Equipment segment is impacted by economic trends in the construction sector the Resources segment is rather not influenced by construction cycles.

- **Business model impacted by macroeconomic and political environment**

Political unrest weighs on infrastructure budgets with negative influences on construction markets in individual countries. This weighs also on sales volumes in the Equipment segment. The COVID-19-pandemic caused delays in the project implementation as a result of curfews and travel restrictions.

- **Project risks**

Especially the Construction segment could be exposed to project risks. Those risks could relate to construction soil or could result from the individual character of the project resulting in contract, schedule and damage risks which will have a negative impact on the solvency of smaller subsidiary companies.

Opportunities

- **Recovery of profitability in the segments Equipment and Construction**

Especially the Construction and Equipment segments were affected by the pandemic. The Construction segment was hit by curfews as well as travel and exit restrictions. Customer reluctance to invest mainly in China and countries of the Far East weighed on profitability of the high-margin Equipment segment. Recovery of profitability requires that Equipment markets pick up and that the huge order backlog of the Construction segment will be worked down efficiently.

- **Resources segment can grow on a profitable basis**

Compared to the Equipment and Construction Segments the Resources Segment was unaffected by the COVID-19 pandemic. As of Q3 2020 the areas of water well construction, environmental services, constructed wetlands and mining performed well. The Resources segment should grow on a profitable basis after its restructuring. New growth opportunities can be created for BAUER with respect to combating and managing environmental problems. Profit drivers are expected to be mainly driven by the areas Constructed Wetlands and Environmental Services as new projects are likely and new markets are planned to be entered such as US and China.

- **Potential projects in the Middle East**

It is possible that BAUER will receive a project in the Middle East for the construction and operation of another constructed wetland. This project is still in the final negotiation phase.

- **Innovation and digitalization as a key driver**

Due to the fact that markets were becoming more volatile quick action and decisions are required. Processes and services can be optimized through an increase of digitalization. Digitalization projects such as "Digital Construction" enables BAUER to enter new markets and thus strengthen its position in specialist foundation engineering. Due to new products, technologies and methods in the field of renewable energies such as foundation for offshore wind parks BAUER's divisions Construction and Equipment should be well prepared for the future. BAUER also addresses the trend of sustainability as well as climate and environmental protection as a result of innovations in the areas of environmental services and water treatment. In terms of electrification of equipment BAUER is at the top in its branch.

- **Global footprint**

The global footprint makes the business less volatile to regional fluctuations. A diversified organization should limit negative earnings impacts in case of a regional market downturn or collapse. Due to the network strategy in the Construction segment capacities could be relocated rapidly to another country where operations can be continued. On the other side BAUER is reviewing its locations in the Construction segment. While the footprint in the US is planned to be expanded it is possible that locations especially in the Far East, Middle East and Europe will be closed. The Resources segments plans to expand its footprint and enter new markets such as China and USA.

- **Reduction of project risks in the Construction segment**

As the Construction segment could be exposed to project risks a strict construction process should help to reduce project risks.

- **Optimization of BAUER's cost structure**

BAUER established a long-term supply chain management program which will optimize the production of equipment. As a result BAUER expects a further improvement of working capital and of the cost structure. The optimization of the supply chain in the Equipment segment will enable the company to offer customers faster delivery times and reduce inventory.

- **Dividend payment**

BAUER plans to come back to a sustainable and reliable dividend policy and it targets a dividend ratio of around 25 to 30% of Group earnings after taxes in its mid-term targets for 2023.

- **Reliability of financial targets**

As BAUER will reach its published financial targets investors' awareness will increase which is expected to positively influence the share price development.

- **Optimization of financial structure**

In June 2021 net proceeds of around EUR 63.3m from a further capital increase has been used for deleveraging and thus to further increase the equity ratio (As of Q3 2021: 27.1% vs. 21.2% as of Q3 2020). Note that the increase of profitability will further strengthen the company's equity ratio. BAUER targets an equity ratio of above 30% which should also be reached through sustainable profits. Further deleveraging will help BAUER to increase its profitability. Net debt/EBITDA ratio is planned to be below 2.5x (vs. FY 2020: 3.2x) and BAUER target to decrease liabilities to banks to less than EUR 300m.

Threats

- **Sensitivity to raw material prices**

The business model is exposed to changes of the raw material prices, i.e. especially steel prices in the Equipment division. An increase of raw material prices could negatively impact earnings.

- **Exposure to US dollar**

Due to BAUER's international focus the company is exposed to currency fluctuations, mainly in the US dollar which may burden its profitability.

- **Decline in demand in core regions**

Decline in demand for BAUER's products and services will burden its profitability. Note that demand was negatively influenced by the pandemic and has led BAUER to revise its financial targets.

- **Further effects of COVID-19 impact**

Further effects of the pandemic, i.e. strict exit restrictions resulting in project delays and standstills at construction sites as well as further decrease of demand due to reluctance of investors to invest is expected to further burden BAUER's profitability.

- **Increasing number of competitors in the Equipment segment**

Competitors in the Equipment segment are also some Chinese manufacturers. If those competitors will be able to further expand abroad competition regarding product types is expected to increase.

Business model and Strategy

Specialized provider of products, equipment and services especially for ground and groundwater

BAUER provides services, equipment and products in the fields of ground and groundwater. Its business activities are divided into three segments: **Construction, Equipment** and **Resources**. While the Construction division offers specialist foundation engineering services the Equipment segment manufactures and supplies a full range of equipment for specialist foundation engineering, exploration, mining and extraction of natural resources. The Resources division is specialized on products and services for the water, mining and environmental industries.

In September 2021 BAUER employed around 11,900 people in c. 70 countries. The company has its headquarter in Schrobenhausen (Germany, Bavaria), has over 110 subsidiaries and operates a network on all continents.

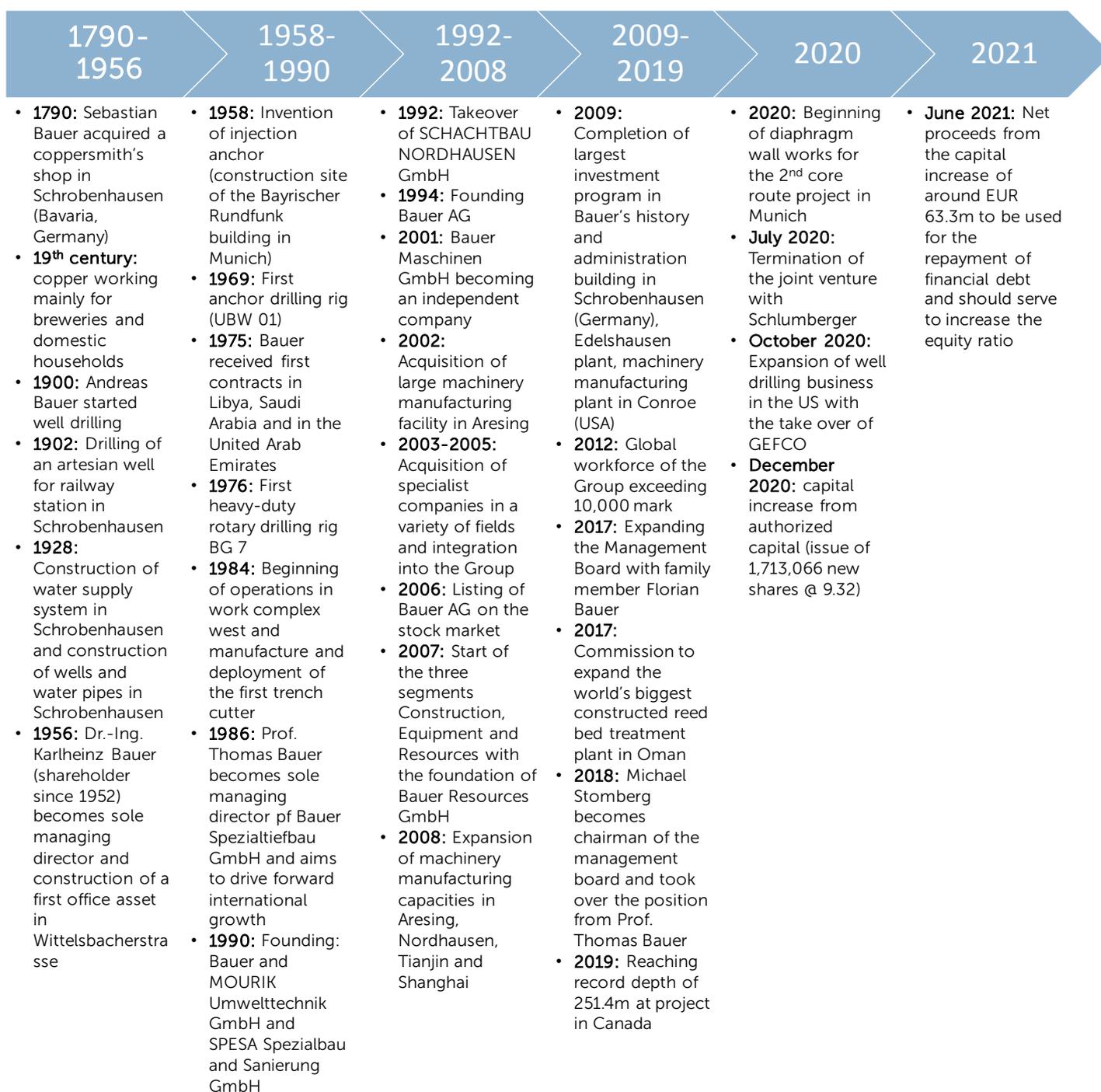
BAUER Aktiengesellschaft acts as the holding company of BAUER Group and provides central management and service functions for its affiliates, including human resources, accounting, financing, legal and tax affairs, IT, Group accounting and controlling, internal audit and risk management and health, safety and environment (HSE). The shares are listed in the CDAX and are trading in the Prime Standard segment of the German stock market.

Corporate History

Started as a small copper forge in 1790

The foundation of the Group dates back to 1790 when Sebastian Bauer acquired a coppersmith's shop in Schrobenhausen (Bavaria, Germany). In the 19th century Bauer generations were engaged in copper working, dominantly for breweries and domestic households. In 1902 Andreas Bauer started well drilling and in 1902 has been the drilling of an artesian well for railway station in Schrobenhausen. In 1928 wells and water pipes were consztructed throughtout Bavaria and Dipl.-Ing. Karl Bauer constructed the water supply system in Schrobenhausen. In 1956 Dr.-Ing. Karlheinz Bauer who has been a shagreholder since 1952 became sole managing director and in 1986 Prof. Thomas Bauer became sole managing director of BAUER Spezialtiefbau GmbH with the ambition to drive forward the international growth. In 1969 the first anchor drilling rig UBW 01 was introduced and in 1976 the first heavy-duty rotary drilling rig BG7 was introduced. In 1994 BAUER AG was founded and is listed on the stock market since 2006. The group's business activities are divided into the three segments Construction, Equipment and Resources since the foundation of BAUER Resources GmbH in 2007. In 2017 the management board was expanded by Florian Bauer and in 2018 Michael Stomberg became chairman of the management board and took over the position of Prof. Thomas Bauer. For the first time a non family member is the chairman of the management board. In 2020 diaphragm wall works for the 2nd core route project in Munich started and in July 2020 the joint venture with Schlumberger was terminated which started in 2015. With the termination of the joint venture BAUER reacquired all shares of BAUER Manufacturing LLC in the USA and BAUER Deep Drilling GmbH in Germany. With the take over of GEFCO the well drilling business was further expanded. In December 2020 BAUER conducted a capital increase from the authorized capital and issued c. 1.7m new shares at a share price of EUR 9.32. In June 2021 net proceeds of around EUR 63.3m from a further capital increase should be used for deleveraging and thus to further increase the equity ratio. Following the capital increase the shareholding of Doblinger Beteiligung GmbH in BAUER increased to 30.0%.

Historic development



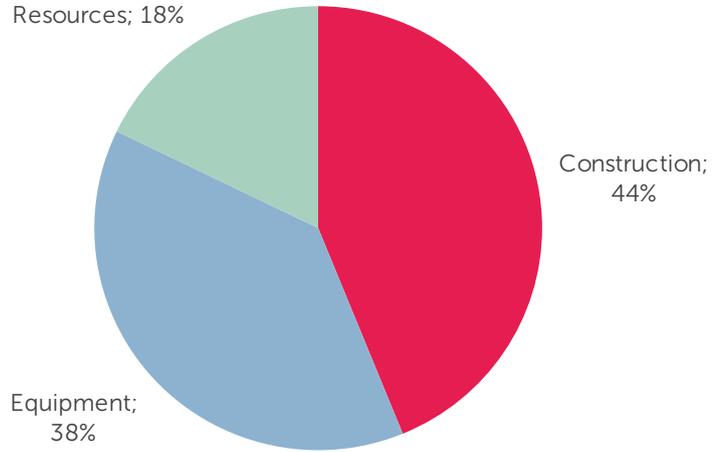
Source: BAUER, Quirin Privatbank

Construction segment as main contributor to Total Group Revenues as of 9m 2021

Business model

The main part total group revenues is generated by BAUER's segment Construction as 44% of Total Group Revenues were generated by that segment as of 9m 2021. The second biggest Revenue driver was the Equipment segment with 38% of Total Group Revenues followed by Resources (18%).

Total Group Revenues by segments (9m 2021)

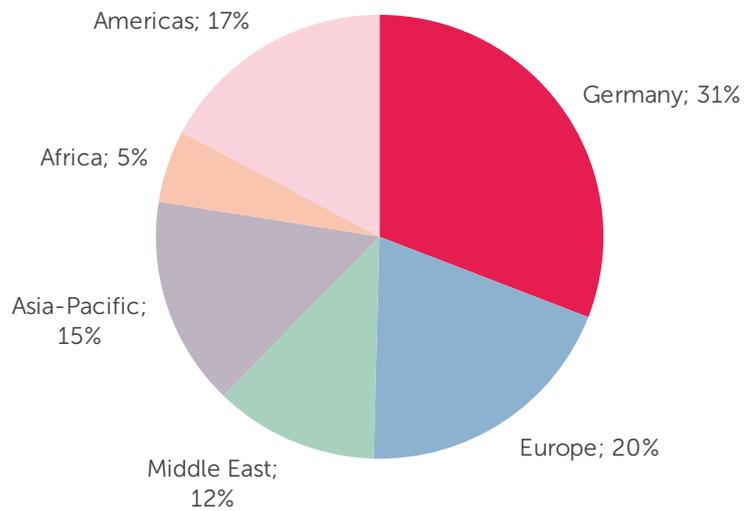


Source: BAUER, Quirin Privatbank

Global player with 31% German exposure

As of 9m 2021 the main part of Total Group Revenues was realized in Germany (31% of Total Group Revenues), followed by Europe (20%), Americas (17%), Asia-Pacific (15%) and Middle East (12%).

Regional breakdown of Total Group Revenues (as of 9m 2021)



Source: BAUER, Quirin Privatbank

Construction

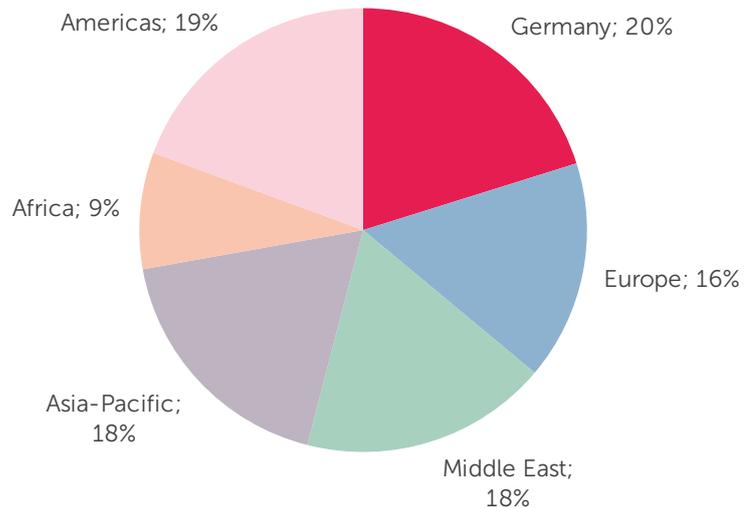
In the Construction segment BAUER Spezialtiefbau GmbH, the parent company of the BAUER Group, provides specialist foundation engineering and specialist construction services. BAUER applies all established methods and techniques of specialist foundation engineering for private and public clients. Its core competencies include the execution of complex excavation pits and foundations for large-scale infrastructure projects and buildings, cut-off walls and ground improvements. Main services in the Construction segments are all kinds of bored piles, anchors, diaphragm and cut-off walls, as well as injections and deep vibrations. Note that own equipment is in use in that segment.

While local subsidiaries carry out projects in the construction markets BAUER pools capacities from all over the world for large projects in countries without local subsidiaries.

Project volumes in the Construction segment range from around EUR 1.5m to more than EUR 200m while the main part of projects have a project volume of less than EUR 10m.

As of 9m 2021 the main part of Total Group Revenues in the Construction segment was generated in Germany (20%), followed by Americas (19%), Middle East (18%) and Asia-Pacific (18%) and Europe (16%).

Construction segment: Total Group Revenues by region (as of 9m 2021)



Source: BAUER, Quirin Privatbank

Equipment

BAUER's Equipment segment acts as a provider of full range equipment for specialist foundation engineering as well as for the exploration, mining and the exploitation of natural resources. While BAUER Maschinen GmbH which is an independent entity within the Group since 2001 designs and manufactures rotary drilling rigs, diaphragm wall equipment and all related tools subsidiary companies of BAUER Maschinen GmbH provide the full range of specialist foundation engineering equipment and equipment for exploration, mining and safeguarding of valuable natural resources. Around 300-400 equipments are sold yearly among over 30 product types.

Product overview



Drilling Rigs



ValueLine



Accessories



Cutter Systems



Grab Systems



Duty-Cycle Cranes



Separation Technology



Mixing and Pumping Technology



Other Product Lines

Source: BAUER

Besides the company's headquarter in Germany (Schrobenhausen), the Equipment segment operates a worldwide distribution network and production facilities in countries such as Germany, China, Malaysia, Russia, Italy, Turkey and the USA.

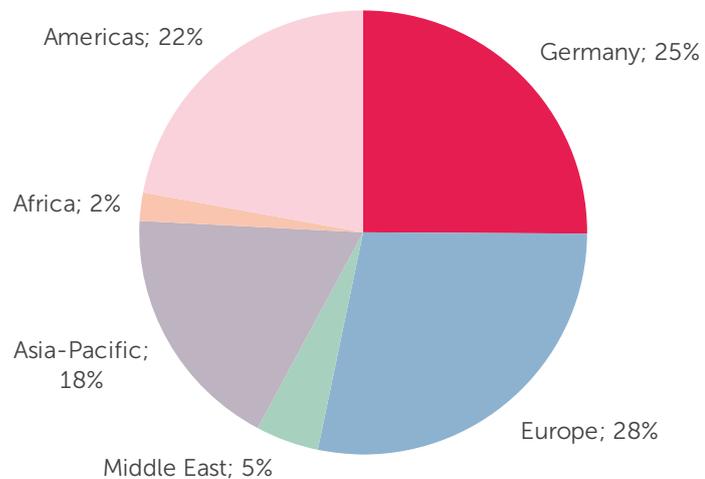
Overview of BAUER's worldwide footprint



Source: BAUER

As of 9m 2021 the main part of Total Group Revenues in the Equipment segment was realized in Europe (28%) followed by Germany (25%), Americas (22%) and Asia-Pacific (18%).

Equipment segment: Total Group Revenues by region (as of 9m 2021)



Source: BAUER, Quirin Privatbank

Resources

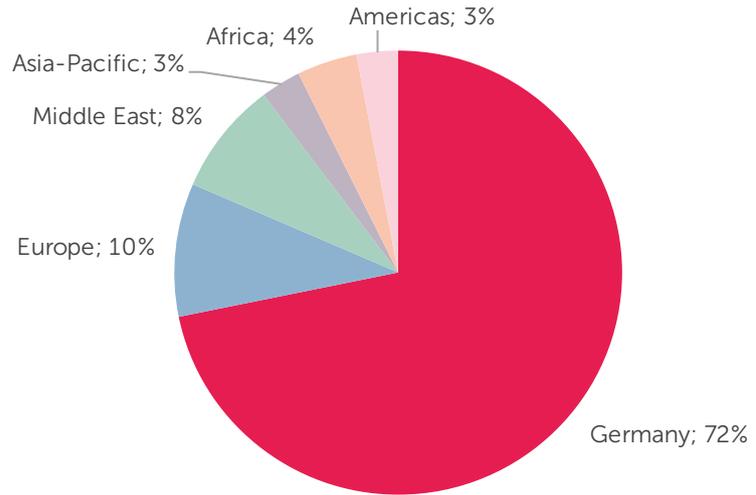
BAUER Resources GmbH comprises several different business divisions and subsidiaries. Within its Resources segment BAUER has set its focus on the development, production and execution of innovative products and services for the water, mining and environmental industries. More precisely in this division BAUER acts as a service provider in the fields of drilling services and water wells, environmental services, constructed wetlands, mining and remediation. The core competencies in the Resources segment include water extraction and drilling technologies, brownfield remediation and waste management along with water treatment and building remediation. The Environment division offers a broad range of services for all environment issues such as the remediation of waste sites, disposal of contaminated waste from construction and industry as well as the cleaning of ground and site water. The company also owns plants for the biological and mechanical cleaning of soil and waste all over Germany and in Austria.

Main clients in the Segment Resources are dominantly industrial and government clients. The Resources segment has very heterogeneous business divisions which have different regional footprints which are mostly independent from construction cycles.

Project volumes are between EUR 50k to above EUR 5m in the field of environmental services. In 2017 Bauer was contracted to expand the world's biggest industrial constructed wetland in Oman with a project volume of around EUR 300m. The project will run 20-25 years. In the field of mining services project duration is around 5 to 10 years and the order backlog is ca. EUR 150m.

As of 9m 2021 the main part of Total Group Revenues in the Resources segment was realized in Germany (72%), followed by Europe (10%) and Middle East (8%).

Resources segment: Total Group Revenues by region (as of 9m 2021)



Source: BAUER, Quirin Privatbank

The Resources segment was characterized by restructuring measures in the last years. In 2020 restructuring measures were already carried out such as the sale of the subsidiary Esau & Hueber specializing in brewery and beverage technology as well as the financial restructuring of the subsidiary in Jordan. The restructuring also included the Management spin-off of Bauer Water Systems (BWS) which was active in the complete technical treatment of water and wastewater for industrial use. As a result of the restructuring measures the former divisions of Water, Environment and Natural Resources were replaced by new division names. The Resources segment is now separated into the following business fields: Drilling Services and Water Wells, Environmental Services, Constructed Wetlands, Mining Services and Rehabilitation.

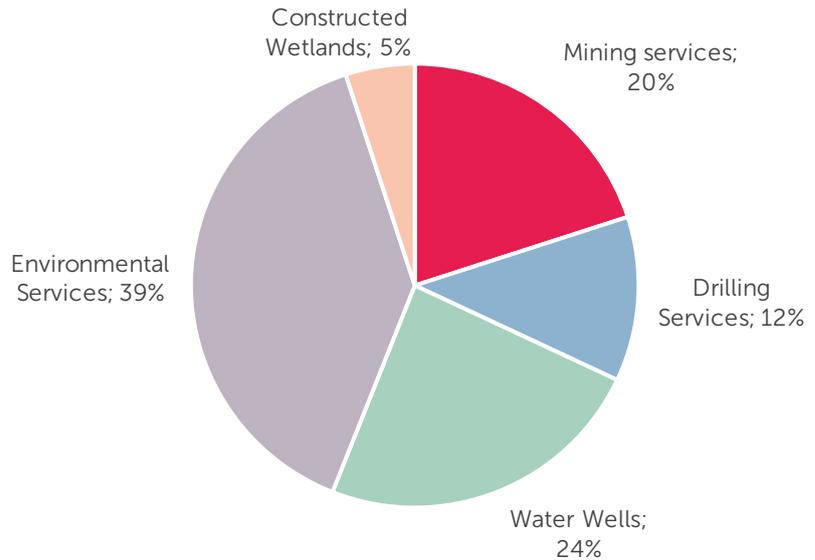
Resources division: Overview Business fields

Drilling Services & Water Wells	Environmental Services	Constructed Wetlands	Rehabilitation	Mining Services
<ul style="list-style-type: none"> ▪ Drilling Services <ul style="list-style-type: none"> ▪ Exploration Drilling ▪ Water Well Drilling ▪ Service Drill Holes ▪ Water Well Construction <ul style="list-style-type: none"> ▪ Design ▪ Well Construction Materials ▪ Borehole Pumps 	<ul style="list-style-type: none"> ▪ Remediation <ul style="list-style-type: none"> ▪ Brownfield Remediation ▪ Groundwater Treatment ▪ Excavation Pits ▪ Demolition ▪ Landfill Remediation ▪ Treatment & Disposal <ul style="list-style-type: none"> ▪ Soil & Sludge ▪ Construction Debris ▪ Mineral Industrial Waste ▪ Landfill Disposal 	<ul style="list-style-type: none"> ▪ Produced Water ▪ Industrial Waste Water ▪ Sewage and Sewage Sludge 	<ul style="list-style-type: none"> ▪ Concrete rehabilitation ▪ Restoration of historical buildings ▪ Slope stabilization and rock consolidation ▪ Revitalization of consumer markets 	<ul style="list-style-type: none"> ▪ Mineshafts ▪ Restoration ▪ Safekeeping

bundled in Resources in 2020

Source: BAUER

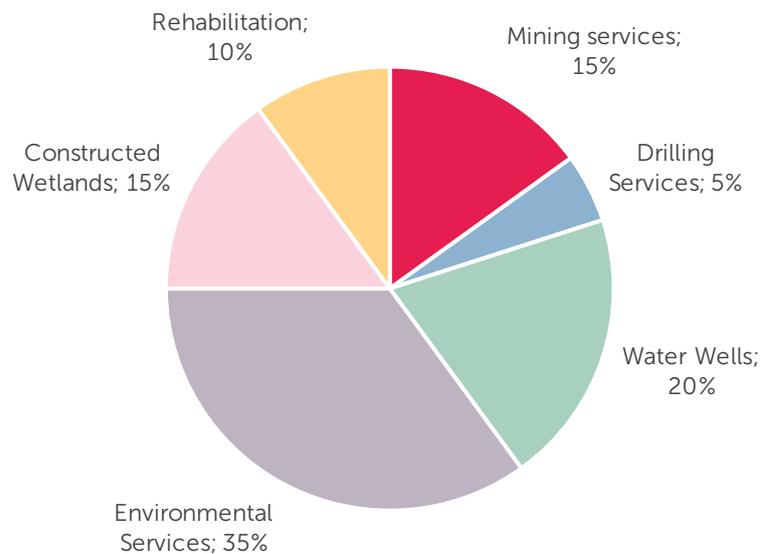
Business Fields Segmentation in 2020 (in terms of total group revenues)



Source: BAUER, Quirin Privatbank

In the long-term the contribution to Total Group Revenues will be mainly driven by Environmental Services (35%), Water Wells (20%), Constructed Wetlands (15%), Mining Services (15%), Rehabilitation (10%) and Drilling Services (5%). The main growth drivers in the Resources segment should be Environmental Services and Constructed Wetlands. Note that Rehabilitation is the newest business field.

Business Fields Segmentation long-term



Source: BAUER, Quirin Privatbank

Business field drivers

Drilling Services & Water Wells

An even more sensitive use of water and related energy to produce or treat water is required due to the climate change. Clean resources can mainly be found in deeper aquifers as shallow groundwater resources are often polluted.

Environmental Services

Remediation is needed for the long-term health of the environment. Due to the recycling of mineral waste the use of natural raw materials such as sand and gravel can be significantly reduced.

Constructed Wetlands

By use of Constructed Wetlands the carbon footprint of wastewater treatment systems can be fully reduced. New ecosystems can be created where natural systems have been destroyed.

Rehabilitation

The rehabilitation of building and concrete structures help to reduce the use of natural raw materials. Modern infrastructure often needs the safeguarding of natural structures.

Mining services

Markets like e-cars require new materials and their exploration needs specialized services. The search for safe and long-term underground storage facilities for hazardous wastes is of high importance.

Overview of Chances in the core businesses

Environmental Services division

In the segment of Remediation significant profits were realized in the last years. BAUER plans to extend the business in the US, China and Kuwait. The Treatment and Disposal segment is a solid market and generated significant profits in the past. The footprint is being increased with additional infrastructure like in Regensburg or Duisburg. New projects are expected on Industrial Waste.

Constructed Wetlands

The business is characterized by long running projects. Currently the segment includes one big project as BAUER was contracted to build the world's biggest industrial constructed wetland in Oman in 2010 with three expansion contracts in the following years. The total project volume was around EUR 300m. The project will run 20-25 years. The red bed treatment plant in Oman, biological cleaning of polluted water from oil production, is one of the most significant projects in the Resources segment. Around 370m³ of water has already been cleaned and ca. 1.3m tons of CO₂ has already been saved. In total 4.5m tons of CO₂ will be saved by the end of the project. The project is realized with a partner.

A further project in the Middle East (Bahrain) is expected to come soon as it is shortly before awarding.

Mining

BAUER is the market leader for specialized mining services. BAUER plans to increase its international footprint in Kazakhstan. Especially the Repositories business in Germany is a stable business.

Strategy

While top line growth is not the dominant focus of BAUER the company aims sustainable profit improvement for the next years. Due to ongoing effects of the Corona pandemic BAUER adjusted its FY 2021 targets in November 2021. BAUER plans to achieve a healthy and strong balance sheet. Note that recent capital increases helped BAUER to reduce leverage and to strengthen its equity ratio.

Revenue growth targets

BAUER targets total Group revenues in the range of between 3-5% yearly which should be reached organically. The growth business drivers in the construction segment are dam projects, soil improvement and renewable energy projects. Growth business areas in the Equipment segment are: parts & service business, new products and China and in the Resources segment the environment business and constructed wetlands should be a growth business area.

EBIT margin targets

BAUER plans to achieve EBIT margin in the range of between 7% and 9% (mid-term perspective for year-end 2023). EBIT margin of the Construction segment is planned in the range of between 4% and 6%, the Equipment segment 10-12% and the Resources segment by 6%-8%. The company has set its target to build a slim and flexible global project execution organization with smaller local company setups. The local footprint should be reduced and BAUER plans the expansion of flexible network of equipment workforce moving with projects worldwide. Overhead costs should be reduced by using synergies within the company and the implementation of a supply chain management should help to reduce production time per rig in the Equipment segment. The higher margin parts & service business in the Equipment segment is also planned to increase and the business with long-term DBOOT constructed wetland projects in the Resources segment should also increase.

Sustainable profits and healthy balance sheet as key targets

Net debt targets

Net debt/EBITDA ratio is planned to be below 2.5x and interest bearing liabilities to banks should be less than EUR 300m. The measures should be reached with the help of the receivables management, i.e. consistent contract management to avoid future overdue receivables. The contract management aims to focus on positive project cashflows. With help of the inventory management inventories should be reduced and production flow and procurement should be optimized. An unused property in the US is planned to be sold for around EUR 35m.

Equity ratio targets

BAUER targets an equity ratio of above 30% which should also be reached through sustainable profits. Recent capital increases helped BAUER to reduce leverage and to increase its equity ratio.

Dividend payment

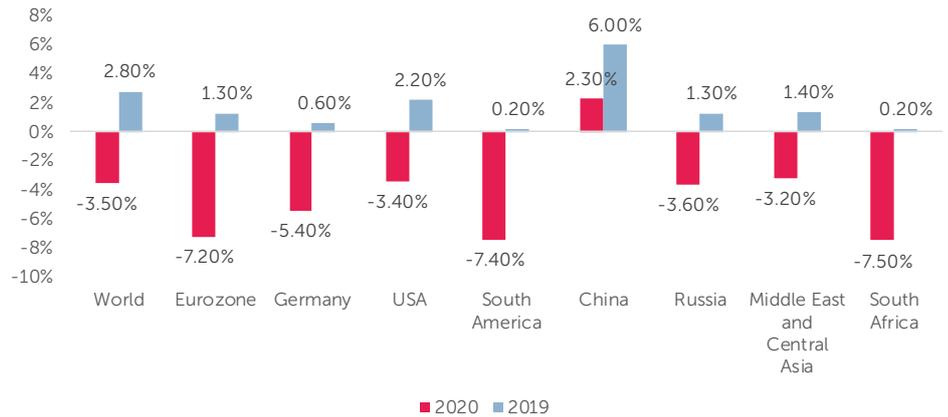
BAUER plans to come back to a sustainable and reliable dividend policy and it targets a dividend ratio of around 25 to 30% of Group earnings after taxes in its mid-term targets for 2023.

Market environment

Economic development

As a result of the ongoing effects of the Corona pandemic the global economy plunged into a recession in 2020. In 2020 global GDP decreased by 3.5% in 2020, compared to an increase of 2.8% in 2019. The economy in the eurozone decreased by -7.2% in 2020 (vs. 2019: +1.3%) while the US economy decreased by -3.4% in 2020, compared to +2.2% in the previous year. The German economy decreased by -5.4% in 2020 (vs. 2019: +0.6%), mainly driven by major downturns in the retail and services sectors while the economy benefited from its strong industrial sector. The chinese economy still reported a growth of 2.3%, compared to 6.0% in the previous year.

Real GDP development (yoy change in %)*



Source: IMF, Quirin Privatbank
*as of January 2021

IMF expects the global economy to grow from 5.9% in 2021 to 4.4% in 2022 due to the rapid spread of Omicron and the high inflation.

Real GDP development (yoy change in %), as of January 2022



Source: IMF, Quirin Privatbank
*estimate, ** projections

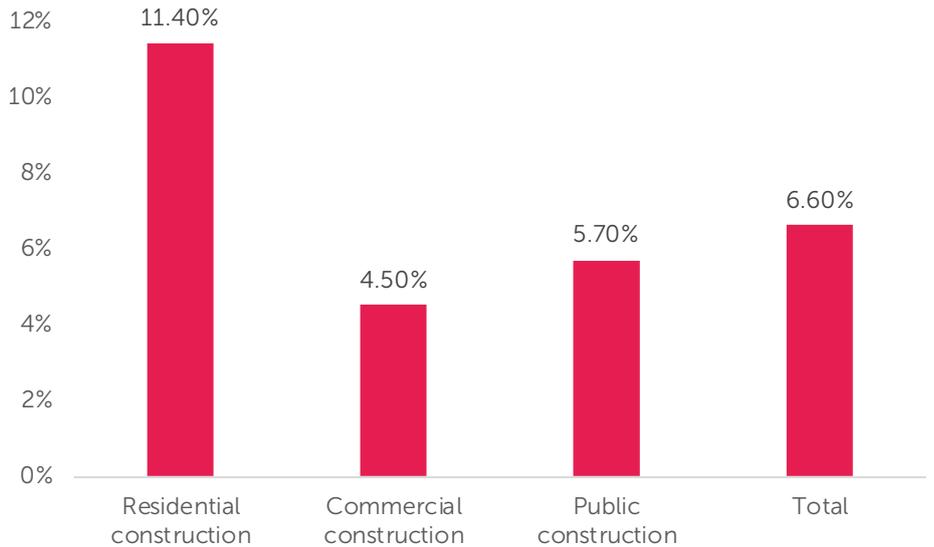
GDP growth impacted by the pandemic

Construction spending should remain positive

Construction market in Germany

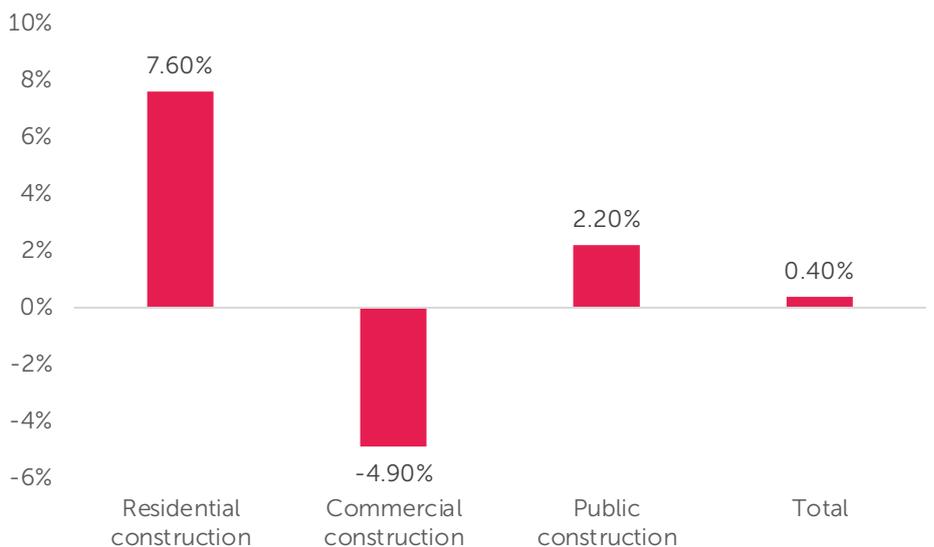
Despite the pandemic the construction market in Germany remained largely robust. The construction sector was positively affected by the low interest rate environment, state subsidies and the high backlog demand in urban areas, especially in residential construction which showed an increase in revenues of 11.4% yoy in 2020 (order intake +7.6% yoy), compared to commercial construction 4.5% yoy (order intake -4.9% yoy). The deficit in infrastructure was beneficial for the public sector construction. Revenues in public construction increased by 5.7% yoy in 2020 and order intake increased by 2.2% yoy. However, there was a reluctance to invest due to the uncertainty relating to the ramifications of the pandemic. The debate about Co2 consumption and the effects of the climate change should increase construction spending.

Revenues of the construction market in Germany (2019/ 2020 yoy change)



Source: Central Federation of the German Construction Industry, Quirin Privatbank

Order intake of the construction market in Germany (2019/ 2020 yoy change)

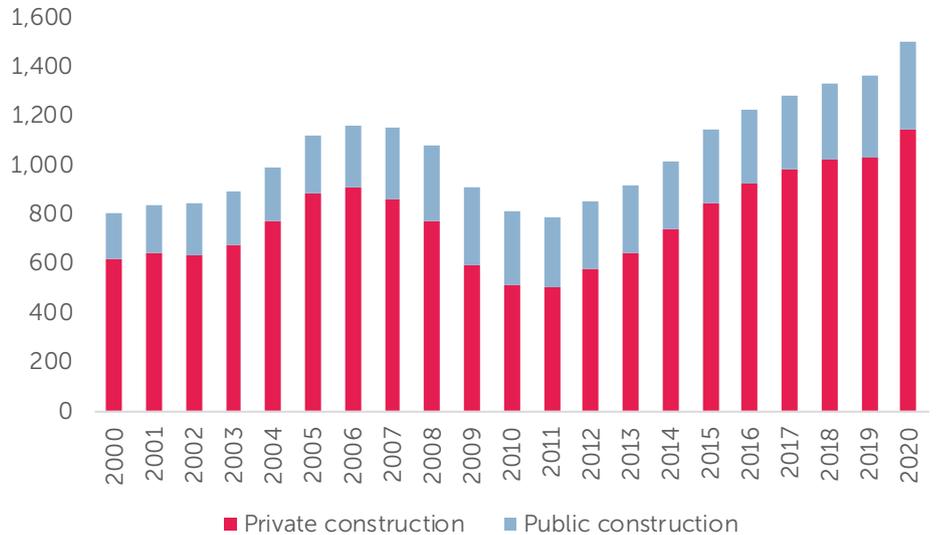


Source: Central Federation of the German Construction Industry, Quirin Privatbank

Construction spending US economy

The Corona pandemic did not negatively impact the construction sector as around USD 1,500bn were spent (+10% yoy), of which c. USD 1,141bn related to private construction and EUR c. 360bn to public construction). With c. USD 791bn the low point was reached in 2011. Since 2012 construction spending steadily increased.

Development of US construction spending economy (in bn USD)

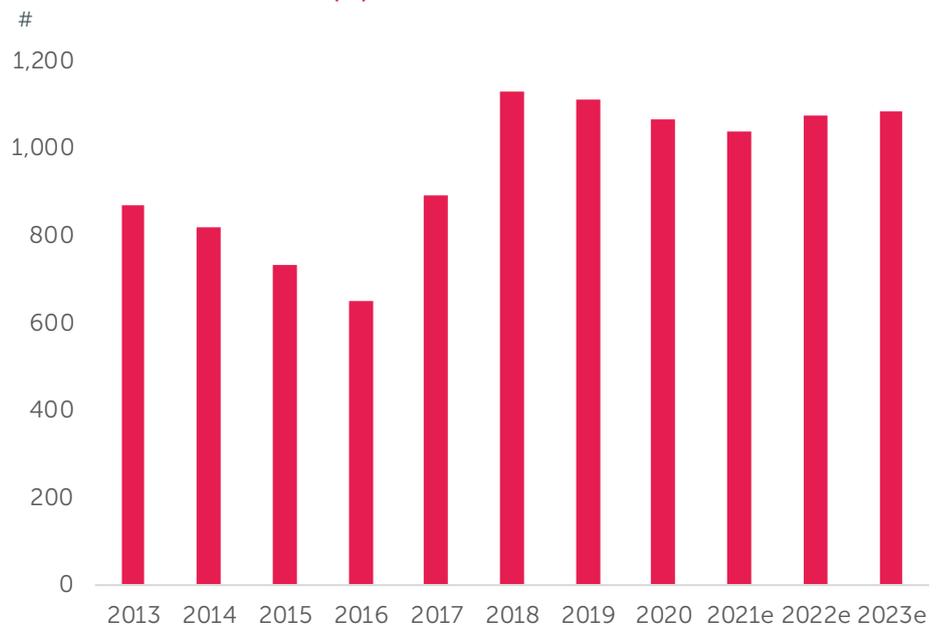


Source: Statista, Quirin Privatbank

Construction equipment industry

On a global scale the sales development on the construction equipment market was positively affected by strong growth in China (+30% yoy in 2020). Sales dropped by 3% yoy, excl. China -17% yoy). In Germany and Europe, the compact machine business was relatively robust (-3% yoy), while the large machine business recorded a significant decline of 18% which can be explained by higher required investments. In Germany, sales decreased by 7% (source: VDMA).

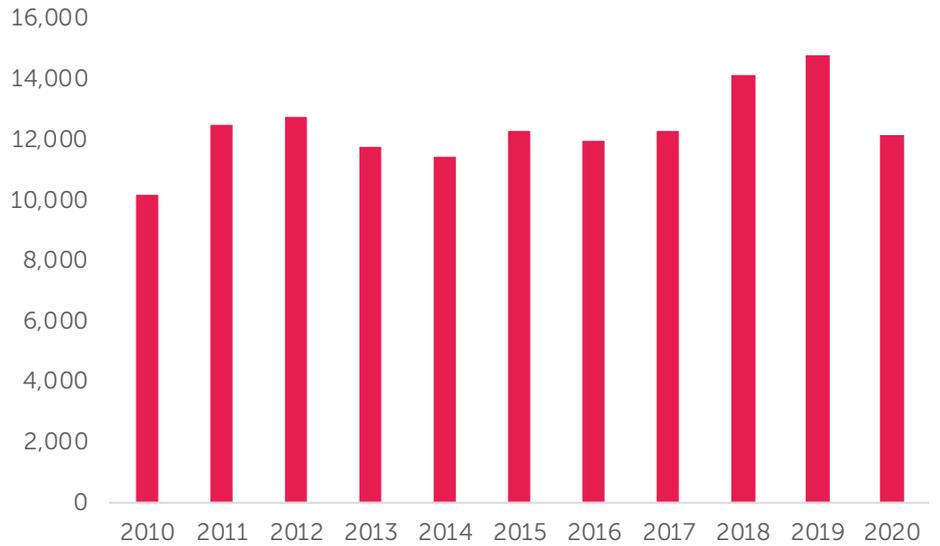
Global sales of construction equipment in '000#



Source: Statista, Quirin Privatbank

Strong sales of construction equipment in China in 2020

Sales development construction equipment in Germany (in EURm)



Source: Statista, Quirin Privatbank

The development of sales of the construction equipment manufacturing industry in the US declined by c. 9% yoy in 2020 but is expected to recover in the coming years.

Sales development of the construction equipment manufacturing industry in the US (in EUR bn)



Source: Statista, Quirin Privatbank

Environmental awareness to increase

Environmental technology sector and resource efficiency

Environmental technology and resource efficiency is expected to become more important as market volumes are expected to increase.

Market volume in the environmental technology sector and resource efficiency according to lead markets (in EUR bn)



Source: Statista, Quirin Privatbank

Construction and Equipment segments impacted by the pandemic

Financials

BAUER 9m 2021 results

As of 9m 2021 Total Group Revenues increased by 4.7% yoy to 1,149.6m, driven by the Construction (10.5% yoy) and Equipment segments (6.4% yoy). EBIT decreased from EUR 29.8m as of 9m 2020 to EUR 24.1m (-19.1% yoy), influenced by ongoing effects of the pandemic, particularly in the Construction and Equipment segments as well as due to some project delays. Net profit (after minorities) improved from EUR -14.0m to EUR -8.3m as of 9m 2021 which resulted from an improved financial result. Driven by an increased order backlog in the Construction and Equipment segments the order backlog of the Group increased by 5.9% yoy to EUR 1,270.9m.

BAUER 9m 2021 results (EURm)

	9m 2020	9m 2021	yoy
Construction segment			
Total Group Revenues	468.3	517.6	10.5%
EBIT	7.4	-1.8	n.a.
<i>EBIT margin</i>	1.7%	n.a.	
Order intake	618.5	595.5	-3.7%
Order backlog	761.3	799.2	5.0%
Equipment segment			
Total Group Revenues	456.1	485.2	6.4%
EBIT	14.3	17.8	24.4%
<i>EBIT margin</i>	4.1%	4.7%	
Order intake	466.3	505.7	8.5%
Order backlog	118.6	139.4	17.6%
Resources segment			
Total Group Revenues	224.4	208.2	-7.2%
EBIT	3.2	8.1	151.5%
<i>EBIT margin</i>	1.6%	4.5%	
Order intake	236.0	218.1	-7.6%
Order backlog	319.8	332.3	3.9%
Bauer Group			
Order intake	1270.2	1258.0	-1.0%
Order backlog	1199.7	1270.9	5.9%
Sales revenues	990.8	1044.3	5.4%
Total Group Revenues	1098.2	1149.6	4.7%
EBITDA	106.5	102.4	-3.9%
EBIT	29.8	24.1	-19.1%
<i>EBIT margin</i>	3.0%	2.3%	
EBT	-1.5	12.2	n.a.
Net profit	-13.2	-5.9	n.a.
Net profit after minorities	-14.0	-8.3	n.a.

Source: BAUER, Quirin Privatbank

P&L

Profit & loss statement in EURm

	2019	2020	yoy	2021e	yoy	2022e	yoy	2023e	yoy
Construction segment									
Total Group Revenues	628.8	669.0	6.4%	685.0	2.4%	736.0	7.4%	752.0	2.2%
EBIT	-17.4	24.3	n.m.	-3.0	n.m.	18.0	n.m.	25.0	38.9%
EBIT margin	n.m.	4.0%		n.m.		2.5%		3.4%	
Equipment segment									
Total Group Revenues	713.7	610.7	-14.4%	664.0	8.7%	675.0	1.7%	700.0	3.7%
EBIT	58.7	30.1	-48.8%	30.0	-0.2%	38.0	26.7%	58.0	52.6%
EBIT margin	9.6%	6.1%		5.6%		6.8%		10.2%	
Resources segment									
Total Group Revenues	314.8	268.8	-14.6%	258.0	-4.0%	264.0	2.3%	277.0	4.9%
EBIT	-5.1	1.9	n.m.	9.0	381.5%	10.0	11.1%	13.0	30.0%
EBIT margin	n.a.	0.8%		3.7%		4.0%		5.2%	
Bauer Group									
Sales revenues	1470.9	1343.2	-8.7%	1436.3	6.9%	1524.3	6.1%	1568.3	2.9%
Total Group Revenues	1594.7	1453.6	-8.8%	1532.0	5.4%	1600.0	4.4%	1653.5	3.3%
EBITDA	134.3	165.2	23.1%	149.4	-9.6%	181.4	21.4%	212.4	17.1%
EBIT	33.7	55.5	64.8%	36.4	-34.5%	66.4	82.4%	96.4	45.2%
EBIT margin	2.3%	4.1%		2.5%		4.4%		6.1%	
Financial result	-45.0	-39.2		-21.0		-24.6		-24.5	
EBT	-11.3	16.3		15.4		41.8		71.9	
Taxes	-25.2	-24.6		-20.0		-25.1		-27.3	
Net profit	-36.6	-8.2		-4.6		16.7		44.6	
Non-controlling interests	0.6	0.2		2.5		2.5		2.5	
Net profit after minorities	-37.1	-8.4		-7.1		14.2		42.1	

Source: BAUER, Quirin Privatbank

Revenues

We expect Sales Revenues to increase from EUR 1343.2m to 1436.3m in 2021e (+6.9% yoy) and by 6.1% yoy to EUR 1524.3m in 2022e (2023e: EUR 1568.3m, +2.9% yoy).

Total Group Revenues should increase by 5.4% yoy to EUR 1532.0m and by 4.4% yoy to EUR 1600.0m in 2022e (2023e: EUR 1653.5m, +3.3% yoy). As the Resources segment was unaffected by the COVID-19 pandemic the Construction and Equipment segments were burdened by the pandemic. The Construction segment was hit by curfews as well as travel and exit restrictions. Customer reluctance to invest mainly in China and countries of the Far East weighed on profitability of the high-margin Equipment segment. For the Construction and Equipment segments we expect a recovery of the Far East markets and also expect that the huge order backlog of the Construction segment will be worked down efficiently.

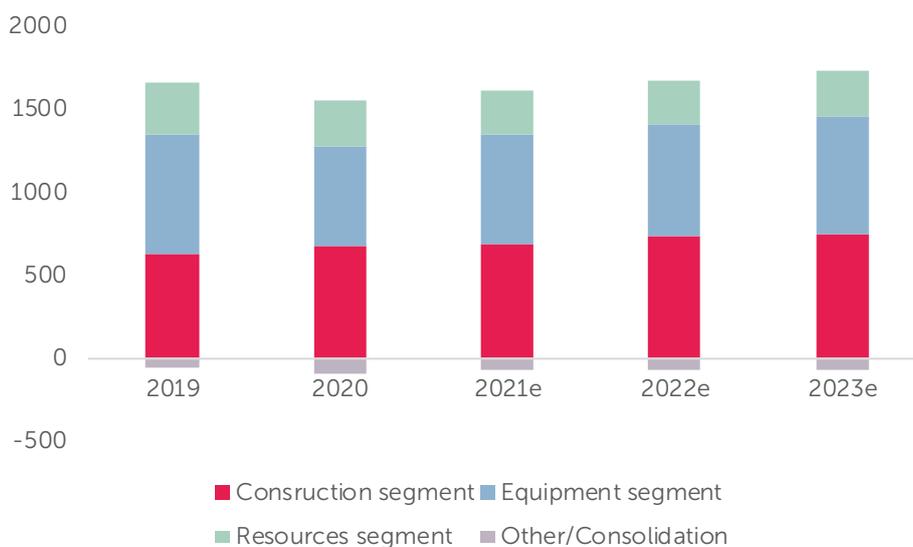
Total Group Revenues in the **Construction segment** are expected to increase by 2.4% to EUR 685.0m in 2021e and should show stronger growth in 2022e as we forecast an increase of 7.4% to EUR 736.0m, driven by a recovery of the Far East markets and the execution of delayed projects.

The increase of Total Group Revenues in 2021e will be mainly driven by the strong growth in the Equipment segment as we foresee Total Group Revenues of EUR 664m (+8.7% yoy). For 2022e we forecast Total Group Revenues in the **Equipment segment** of EUR 675.0m (+1.7% yoy) and EUR 700.0m in 2023e (+3.7% yoy).

Compared to FY 2020 we expect slightly lower Total Group Revenues in the **Resources segment** (2021e: EUR 258.0m, -4.0% yoy). Note that FY 2020 results included Kesslergrube project which was handed over to the client in July 2020. We expect steady growth from 2022e onwards (2022e: EUR 264.0m, +2.3% yoy and 2023e: EUR 277.0m, +4.9% yoy).

Recovery of Far East markets and huge order backlog should be worked down efficiently

Development of Total Group Revenues in EURm

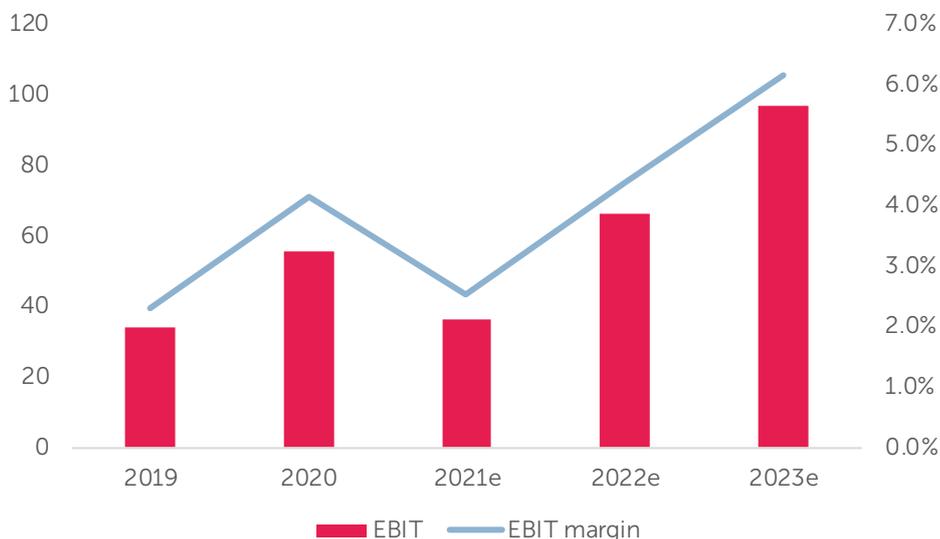


Source: BAUER, Quirin Privatbank

*EBIT margin will further improve***EBIT**

For 2021e EBIT should reach EUR 36.4m and is expected to increase to EUR 66.4m in 2022e (+82% yoy) and to EUR 96.4m in 2023e. Based on the results expected for 2021e, 2022e and 2023e EBIT margin should improve from 2.5% in 2021e to 6.1% in 2023e. Main margin driver should be the Equipment segment followed by the Resources segment.

Development of EBIT in EURm and EBIT margin



Source: BAUER, Quirin Privatbank

EBIT in the **Construction segment** is expected to amount to EUR -3.0m in 2021e and should increase to EUR 18.0m in 2022e (2023e: EUR 25.0m), driven by a recovery of the Far East markets and by working down projects that has been delayed due to the pandemic. Note that 2022e should be seen as a transition year in the Construction segment as BAUER is reviewing its locations in the Construction segment. While the footprint in the US is planned to be expanded it is possible that locations especially in the Far East, Middle East and Europe will be closed. Thus we have taken into account higher other operating expenses and an increase of personnel expenses in 2022e.

EBIT in the **Equipment segment** is expected to reach EUR 30.0m in 2021e (2022e: EUR 38.0m, 2023e: EUR 58.0m).

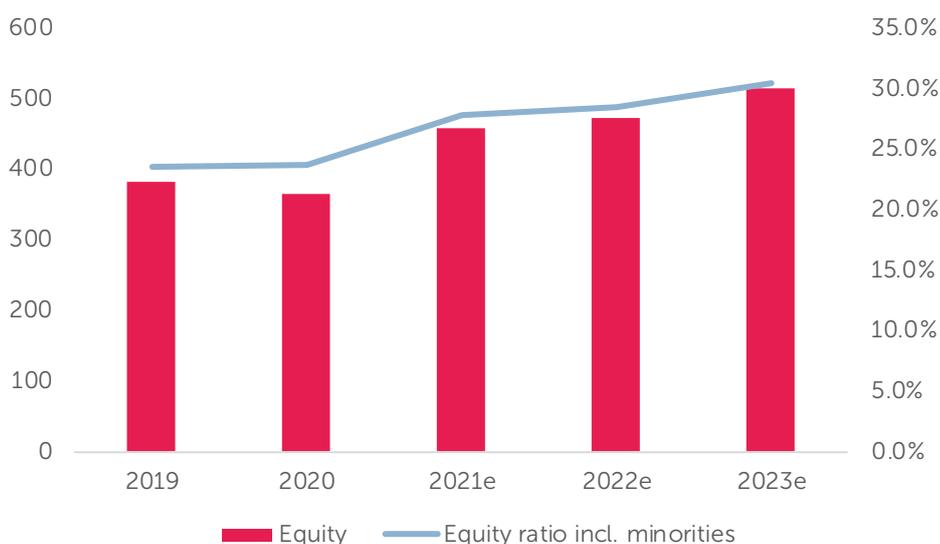
We expect the **Resources segment** to grow on a profitable basis and forecast EBIT of EUR 9.0m in 2021e, EUR 10.0m in 2022e and EUR 13.0m in 2023e. Profit drivers are expected to be mainly driven by the areas Constructed Wetlands and Environmental Services as new projects are likely and new markets are planned to be entered such as US and China.

Balance sheet structure

Equity (incl. minorities) significantly increased from EUR 365.5m to EUR 454.8m as of 9m 2021, mainly driven by the capital increases (EUR 16m capital increase from authorized capital and EUR 76.1m capital increase with subscription rights). The equity ratio (excl. minorities) increased to 27.1% as of 9m 2021 (vs. FY 2020: 23.6%). Driven by an improved profitability we expect BAUER to be able to further increase the equity ratio (2021e: 27.7%, 2022e: 28.5%, 2023e: 30.4%).

Strengthened equity ratio

Development of Equity in EURm and Equity ratio

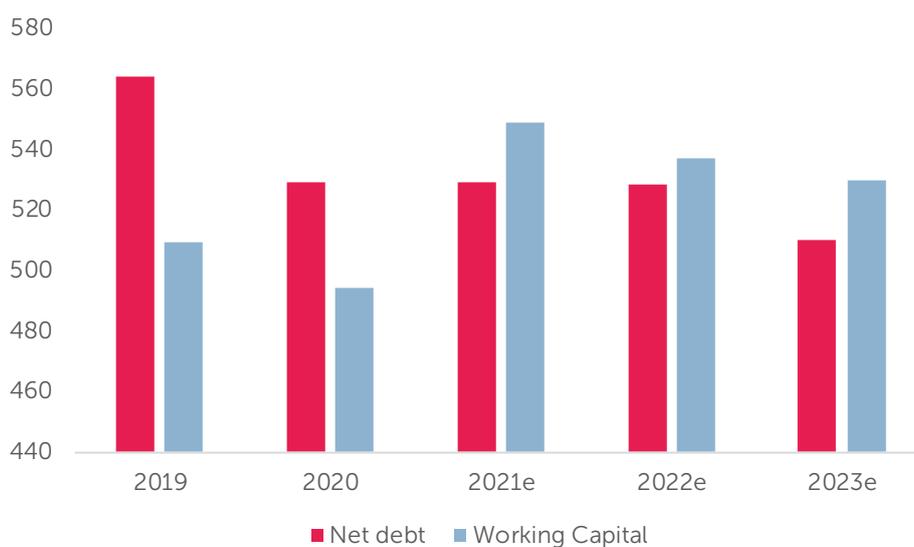


Source: BAUER, Quirin Privatbank

Net debt development largely depends on working capital

The level of Net debt largely depends on working capital. BAUER's business is characterized by a relatively high level of working capital. Over the duration of the construction site a negative cash flow is generated until completion, i.e. pre-financings are required. Advance payments are not the standard in the business, however BAUER is focusing on optimizing cash flows at construction projects. As customers expect short delivery lead times in the Equipment segment as they order once they have a contract to fulfill BAUER has to hold finished machinery which is reflected in the inventories. Overall, Working Capital is expected to grow mainly in line with Net debt. We expect Working Capital to increase in 2021e as a result of Total Group Revenues growth. Over time the implementation of a new supply chain management system should help BAUER to reduce the production time per rig and reduce inventories as well as production flow and procurement should be optimized.

Net debt and Working Capital development in EURm



Source: BAUER, Quirin Privatbank

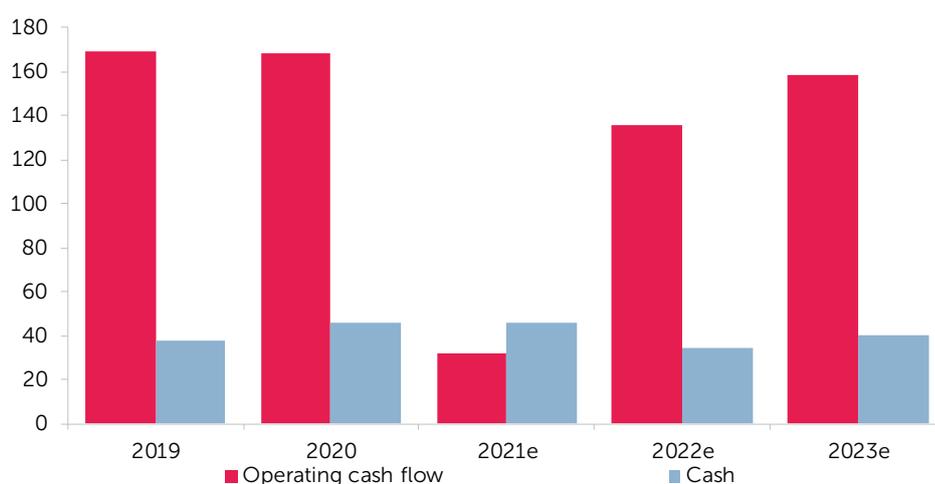
Cash flow description

We expect the operating cash flow to improve in line with an increased profitability and in line with the development of Working Capital.

We forecast the cash flow from investing activities to remain broadly stable in the short to mid-term.

Cash flow from financing will be mainly influenced by financial debt as we do not forecast any dividend payments. However, BAUER plans to come back to a sustainable and reliable dividend policy and it targets a dividend ratio of around 25 to 30% of Group earnings after taxes in its mid-term targets for 2023.

Operating cash flow and Cash development in EURm



Source: BAUER, Quirin Privatbank

Outlook

For FY 2021 BAUER expects to achieve total Group Revenues of between EUR 1,530m and EUR 1,570m and EBIT of between EUR 35 and EUR 45m.

Financial targets vs. qb estimates

	BAUER results and forecast			qb estimates
	2019	2020	2021e	2021e
Total Group Revenues EURm	1594.7	1453.6	1530-1570	1532.0
EBIT EURm	33.7	55.5	35-45	36.4

Source: BAUER, Quirin Privatbank

Management board

The management board of BAUER consists of three members: Michael Stomberg (CEO), Peter Hingott (CFO) and Florian Bauer.



Michael Stomberg (CEO)

Michael Stomberg is the CEO of BAUER AG and is Chairman on the Management Board. Starting in consulting work in strategic and operational projects, he then transitioned to the Industrial Service Industry, where Stomberg worked as project manager and eventually became one of the Management Directors.



Peter Hingott (CFO)

Peter Hingott is on the Executive Board of BAUER AG and is responsible for Finance.

Peter Hingott has over 20 years of experience in management of medium-sized construction companies, focusing primarily on commercial areas. After his arrival to BAUER in 2006 he worked for 6 years as a managing director of BAUER UMWELT and then as Commercial Managing Director of BAUER Resources. In 2016, he was appointed to the Executive Board of BAUER AG and in 2022 became CFO.



Florian Bauer

Florian Bauer is a member of the Management Board of BAUER Spezialtiefbau GmbH and is responsible for Digitalization and Technology in the BAUER Group.

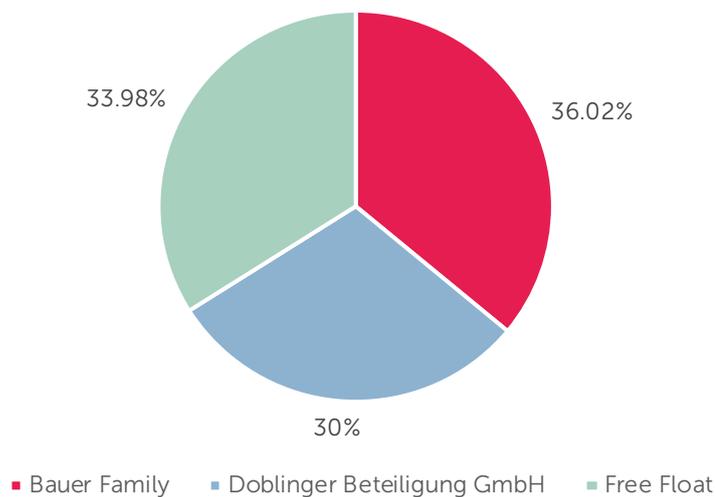
Florian Bauer has gained over 15 years of first-hand industry experience since his degree in Civil Engineering. Upon finishing, he began working abroad in construction and eventually came to BAUER Spezialtiefbau as a project engineer in 2011. In his early time with the company, he served as manager of large-scale construction projects in Europe and Asia.

In 2018 he was appointed to the Executive Board of BAUER AG. He is now responsible for the Technical Division specifically "Digital Building" and research and development.

Shareholder structure

As of February 2022 main shareholders of BAUER were BAUER Family (stake of c 36%), followed by Doblinger Beteiligungs GmbH (stake of c. 30%). Free float amounted to c. 34%. As part of carrying out the capital increase in June 2021 Doblinger Beteiligungs GmbH increased its stake from c. 19.8% to c. 30%.

Shareholder structure of BAUER



Source: BAUER, Quirin Privatbank

Appendix

Selected Construction projects

Dead Sea: Cut-off wall rehabilitation



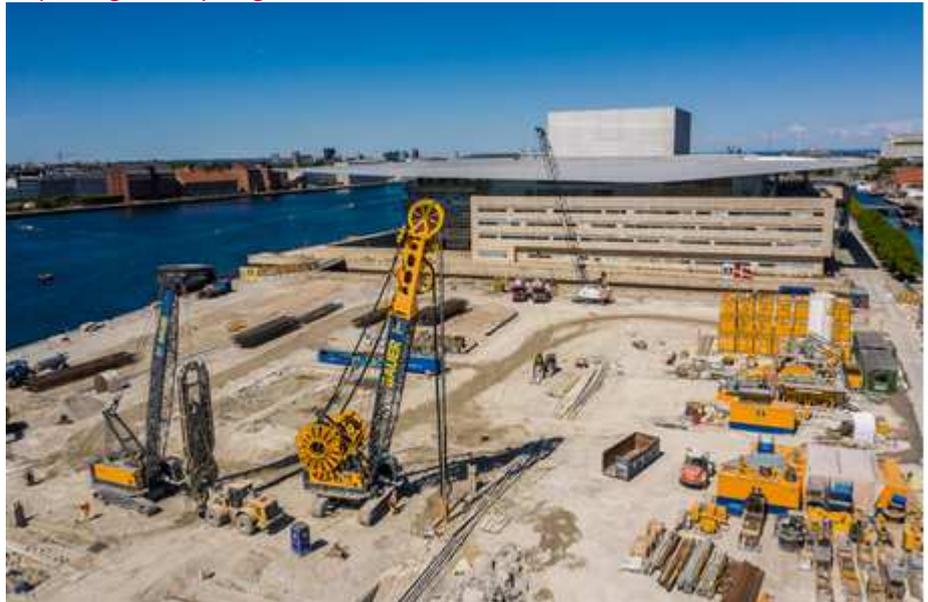
Source: BAUER

Herbert Hoover Dike in Florida: Construction of c. 309,000 sqm cut-off wall to a depth of c. 20m



Source: BAUER

Copenhagen: Diaphragm wall works



Source: BAUER

Selected projects in the Equipment segment

Berlin: Newly developed BG 23 H compact version successfully completed its first practical application on an urban construction site in Berlin (Charlottenburg)



Source: BAUER

United Arab Emirates: Dynamic Soil Compaction with a BAUER MC 96 duty-cycle crane



Source: BAUER

France: French construction company used a BAUER BG 36 to construct a water retention reservoir



Source: BAUER

Selected projects in the Resources segment

Germany: Remediation work for innovative iCampus in Munich



Source: BAUER

Oman: World's biggest reed bed treatment plant in operation for 10 years



Source: BAUER

Germany: large-scale remediation (Schwarze Pumpe industrial park in Saxony)



Source: BAUER

Profit & loss statement

Profit & loss statement (EUR m)	2019	YOY	2020	YOY	2021e	YOY	2022e	YOY	2023e	YOY
Sales	1,470.9	n.a.	1,343.2	-8.7 %	1,436.3	6.9 %	1,524.3	6.1 %	1,568.3	2.9 %
Unfinished Goods	32.4		-16.8		-18.0		-18.0		-18.0	
Other own work capitalized	9.5		8.1		8.0		8.0		8.0	
Other operating earnings	24.9		66.8		54.4		37.4		40.9	
Cost of goods	-783.1		-626.1		-746.0		-760.0		-780.0	
Gross profit	1,537.7		1,401.3		1,480.7		1,551.7		1,599.2	
Personnel expenses	-418.8		-394.9		-420.0		-430.0		-435.0	
Depreciation	-100.6		-109.7		-113.0		-115.0		-116.0	
Other operating expenses	-212.7		-224.8		-174.3		-189.3		-180.8	
EBITDA	134.3	n.a.	165.2	23.1 %	149.4	-9.6 %	181.4	21.4 %	212.4	17.1 %
EBITDA margin (%)	9.13		12.30		10.40		11.90		13.54	
EBIT	33.7	n.a.	55.5	64.8 %	36.4	-34.5 %	66.4	82.4 %	96.4	45.2 %
EBIT margin (%)	2.29		4.13		2.53		4.36		6.15	
Net interest	-45.0		-39.2		-21.0		-24.6		-24.5	
Income from Participations	11.2		9.8		9.0		9.0		9.0	
Net financial result	-33.8		-29.4		-12.0		-15.6		-15.5	
Exceptional items	0.0		0.0		0.0		0.0		0.0	
Pretax profit	-11.3	n.a.	16.3	n.m.	15.4	-5.7 %	41.8	171.4 %	71.9	72.0 %
Pretax margin (%)	-0.77		1.22		1.07		2.74		4.58	
Taxes	-25.2		-24.6		-20.0		-25.1		-27.3	
Tax rate (%)	-222.94		150.36		130.00		60.00		38.00	
Earnings after taxes	-36.6		-8.2		-4.6		16.7		44.6	
Minorities	0.6		0.2		2.5		2.5		2.5	
Group attributable income	-37.1	n.a.	-8.4	n.m.	-7.1	n.m.	14.2	n.m.	42.1	195.9 %
No. of shares (m)	15.1		18.8		26.1		26.1		26.1	
Earnings per share (EUR)	-2.17	n.a.	-0.48	n.m.	-0.32	n.m.	0.54	n.m.	1.61	195.9 %

Source: Company data, Quirin Privatbank estimates

Balance sheet

Balance sheet (EUR m)	2019	YOY	2020	YOY	2021e	YOY	2022e	YOY	2023e	YOY
Assets										
Cash and cash equivalents	37.6		46.0		45.6		34.4		39.9	
Accounts receivables	271.3		249.0		264.0		258.0		256.0	
Inventories	458.3		424.6		489.6		483.6		478.6	
Other current assets	163.3		180.5		180.5		180.5		180.5	
Tax claims	5.3		2.4		5.0		4.0		4.0	
Total current assets	935.8	n.a.	902.4	-3.6 %	984.7	9.1 %	960.4	-2.5 %	959.0	-0.1 %
Fixed assets	460.5		452.5		469.5		489.5		513.5	
Goodwill	0.0		0.0		0.0		0.0		0.0	
Other intangible assets	16.9		14.6		14.6		14.6		14.6	
Financial assets	0.0		0.0		0.0		0.0		0.0	
Deferred taxes	67.3		66.9		66.9		66.9		66.9	
Other fixed assets	148.1		107.5		119.5		128.5		137.5	
Total fixed assets	692.8	n.a.	641.5	-7.4 %	670.5	4.5 %	699.5	4.3 %	732.5	4.7 %
Total assets	1,628.5	n.a.	1,544.0	-5.2 %	1,655.3	7.2 %	1,660.0	0.3 %	1,691.5	1.9 %
Equity & Liabilities										
Subscribed capital	73.0		80.3		111.2		111.2		111.2	
Reserves & other	38.4		47.1		117.1		117.1		117.1	
Revenue reserves	270.4		237.4		237.4		237.4		237.4	
Accumulated other comprehensive	0.0		0.0		-7.1		7.1		49.2	
Shareholder's equity	381.8	n.a.	364.7	-4.5 %	458.5	25.7 %	472.7	3.1 %	514.8	8.9 %
Minorities	5.1		0.8		3.3		5.8		8.3	
Shareholder's equity incl. minorities	386.9	n.a.	365.5	-5.5 %	461.8	26.3 %	478.5	3.6 %	523.1	9.3 %
Long-term liabilities										
Pension provisions	0.0		0.0		0.0		0.0		0.0	
Financial liabilities	97.4		280.5		268.5		260.5		253.5	
Tax liabilities	27.1		20.6		20.6		20.6		20.6	
Other liabilities	202.6		210.9		200.9		200.9		200.9	
Total long-term debt	327.1	n.a.	512.0	56.5 %	490.0	-4.3 %	482.0	-1.6 %	475.0	-1.5 %
Short-term debt										
Other provisions	23.7		32.9		32.9		32.9		32.9	
Trade payables	220.3		179.6		204.6		204.6		204.6	
Financial debt	445.2		235.3		247.3		243.3		237.3	
Other liabilities	225.3		218.6		218.6		218.6		218.6	
Total short-term debt	914.5	n.a.	666.4	-27.1 %	703.4	5.6 %	699.4	-0.6 %	693.4	-0.9 %
Total equity & liabilities	1,628.5	n.a.	1,544.0	-5.2 %	1,655.3	7.2 %	1,660.0	0.3 %	1,691.5	1.9 %

Source: Company data, Quirin Privatbank estimates

Financial key ratios

Key ratios	2019	2020	2021e	2022e	2023e
Per share data (EUR)					
EPS	-2.17	-0.48	-0.32	0.54	1.61
Book value per share	25.3	19.4	17.6	18.1	19.7
Free cash flow per share	2.6	2.1	-3.8	0.0	0.7
Dividend per share	0.00	0.00	0.00	0.00	0.00
Valuation ratios					
EV/Sales	0.56	0.55	0.55	0.52	0.49
EV/EBITDA	6.1	4.5	5.3	4.3	3.6
EV/EBIT	24.4	13.4	21.7	11.9	8.0
P/E	n.m.	n.m.	n.m.	18.3	6.2
P/B	0.4	0.5	0.6	0.5	0.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Growth					
Sales growth (%)	n.a.	-8.7	6.9	6.1	2.9
EBITDA growth (%)	n.a.	23.1	-9.6	21.4	17.1
EBIT growth (%)	n.a.	64.8	-34.5	82.4	45.2
EPS growth (%)	n.a.	-77.6	-33.5	-268.6	195.9
Profitability ratios					
EBITDA margin (%)	9.1	12.3	10.4	11.9	13.5
EBIT margin (%)	2.3	4.1	2.5	4.4	6.1
Net margin (%)	-2.5	-0.6	-0.5	0.9	2.7
ROCE (%)	4.7	6.3	3.8	6.9	9.7
Financial ratios					
Total equity (EUR m)	381.8	364.7	458.5	472.7	514.8
Equity ratio (%)	23.4	23.6	27.7	28.5	30.4
Net financial debt (EUR m)	563.7	528.8	529.2	528.5	509.9
Net debt/Equity	0.2	0.2	0.3	0.3	0.3
Interest cover	0.4	0.8	0.6	1.1	1.6
Net debt/EBITDA	4.2	3.2	3.5	2.9	2.4
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Working Capital (EUR m)	509.3	494.0	549.0	537.0	530.0
Working capital/Sales	0.35	0.37	0.38	0.35	0.34

Source: Company data, Quirin Privatbank estimates

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HOLD <=-10% and < = +10%

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Date	Price target-EUR	Rating	Initiation
23.02.2022	13.00	Buy	23.02.2022

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