3U Holding

Buy (opening coverage) Target: Euro 1.10

20 | May | 10

Der Spezialist für Finanzaktien

Kurs (Euro)	**0.70**
Hoch / Tief 52 Wochen	0,38 / 0,94

Schlüsseldaten

Country	Germany
Segment	Prime Standard
WKN	516790
ISIN	DE0005157902
Symbol	UUU
Reuters	UUUG.DE
Bloomberg	UUU:GR
Internet	www.3u.net
Fiscal Year	31/12
Reporting Standard	IFRS
IPO	26.11.99
Ø Daily Turnover in € (1 month)	66,290
Market Cap (EUR million)	32.8
Number of shares (million)	46.8
Free Float	67.7%
Free Float MarketCap (Euro million)	22.2
CAGR pre tax profits 10e-13e	37.2%

Multiples	**2009**	**2010e**	**2011e**	**2012e**
MarketCap/ Sales	0.3	0.4	0.4	0.3
PE-Ratio	**886.2**	**10.8**	**7.5**	**5.7**
Dynamic PE-Ratio	0.0%	2.9%	4.3%	5.7%

Key Data per Share (Euro)	**2009**	**2010e**	**2011e**	**2012e**
Earnings per Share (EpS)	**0.00**	**0.06**	**0.09**	**0.12**
Dividends per Share (DpS)	0.00	0.02	0.03	0.04

Financial Data (Euro '000)	**2009**	**2010e**	**2011e**	**2012e**
Revenues	**92,079**	**85,633**	**87,346**	**91,713**
Total Revenues	**97,931**	**89,933**	**91,846**	**95,613**
Other operating expenses	-12,455	-12,417	-11,792	-12,381
Operating Profit (EBIT)	**4,034**	**4,557**	**6,326**	**8,558**
Pre-tax profit (EBT)	3,021	4,277	6,426	8,708
Net profit	**37**	**3,037**	**4,363**	**5,782**

Main Shareholders

Michael Schmidt	19.2%
Aktien im eigenen Bestand	6.9%
Roland Thieme	5.9%

Financial Calendar

2Q Zahlen 2010	13.08.10
Hauptversammlung	19.08.10
3Q Zahlen 2010	12.11.10

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Good results in the core business segments and further upside potential through the investments in renewable energies

Marburg-based 3U Holding AG is a private equity holding that invests in its core business segments fixed-line telephony and broadband / IP-services on the one hand, and has now started to invest in products and services in the area of new technologies on the other hand. When looking at the future technologies section, the focus here is on sustainable energy, particularly on solar energy.

The 1Q 2010 results, reported on 14 May were clearly positive. While group's revenues decreased from Euro 24.8m to Euro 21.0m, due to the declining fixed-line business, the operating result (EBITDA) remained stable at Euro 3.0m and profit after taxes even rose from Euro 0.1m to Euro 0.6m.

LambdaNet Communications could also contribute a significant share by doubling its operating result (EBITDA) from Euro 1.3m to 2.7m, after being subject to a comprehensive restructuring in 4Q 2009. Thus, the company is well on track to reach its aim to double EBITDA in 2010 (2009: almost Euro 4m).

In our valuation of the group, we only took the two main business units (fixed-line telephony and broadband/IP) into account and applied low multiples. The computed fair enterprise value derived from these two segments already matches with the current market capitalization. Besides that, the company has a very large cash position of Euro 30m at the moment and is therefore well equipped to expand its business in the area of renewable energies quickly.

The recently founded 3U SOLAR Systemhandel AG should contribute Euro 5m to 7m to the group's sales in 2010 already and is supposed to contribute to operating profit by 2011. We also see good prospects for the marketing of the solar power plants once the showcase project at the group's new headquarters is completed.

We start our coverage with a Buy rating and a target price of Euro 1.10 per share

SWOT – Analysis

Strengths

- 3U Holding AG is a financially powerful private equity firm, that used the last years to build up know-how in the promising field of renewable energies while maintaining the cash-flows in its core business units.
- Although 3U's fixed-line telephony segment (in particular call by call) is already shrinking (-22% in 2009), we expect 3U to realize veritable operational profits in the range of at least Euro 20m – Euro 25m without significantly investing frsh money in this field.
- The measures for restructuring of the 100% subsidiary LambdaNet were initiated in the 4Q of 2009 and already started to pay out in the 1Q 2010 results. The operating result (EBITDA) doubled to Euro 2.7m.
- The move into the new headquarters is imminent. In the second half of the year, the new headquarters will be equipped with its own solar power plant as proof of concept. For the 4th quarter, we already expect negotiations with municipalities for the construction of solar power plants, which means additional income starting in 2011.

Weaknesses

- The telecommunications industry has transformed itself from a growth market to a crowding out. 3U Holding is looking for profitable niches, and could increase the 2009 profit, but it is unlikely that this level will be kept. More important is the success in the new field of renewable energy.
- In the field of renewable energy 3U has no track record so far. However, the company hired a successful partner as managing director for the solar system trading division and after the third quarter, the necessary and quite important proof of concept will be provided.
- In recent years, LambdaNet influenced the group results significantly negative and was unable to develop the necessary sales force, although many well-known companies belong to the customers of the firm.

Opportunities

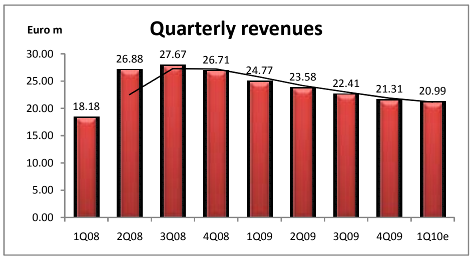
- The business unit solar system trading is supposed to contribute up to Euro 7m to 3U's total sales in 2010. Recently the first fair for craftsmen-businesses and distributors was held at the new headquarters in Marburg
- In the first quarter of 2010, several new companies (RISIMA Consulting, EuroSun Vaccuum solar system and 3U DYNAMICS) were established, thereby improving both, service and distribution sustainably. We are looking forward to seeing the first results here.

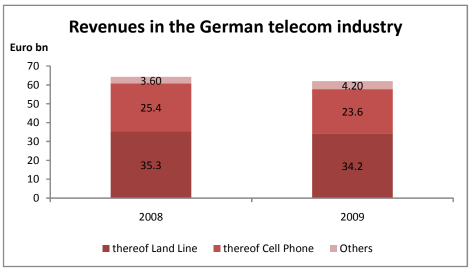
Threats

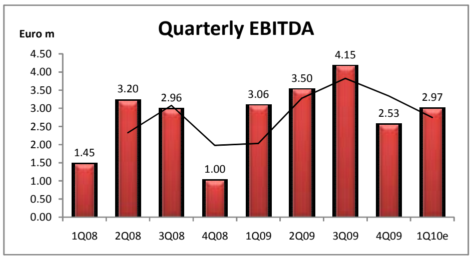
- The worst case would be when the fixed-line telephony unit shrinks even faster than expected, the LambdaNet turnaround fails and both solar system trading and the solar-power plant would flop. The good 1Q results clearly contradict this theory.

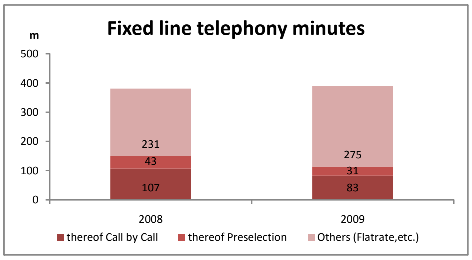
Der Spezialist für Finanzaktien

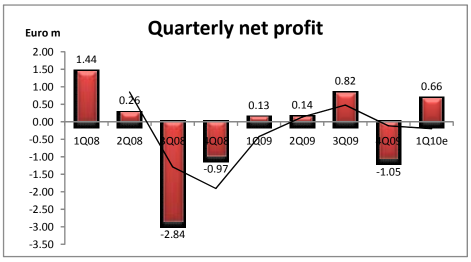
3U Cockpit

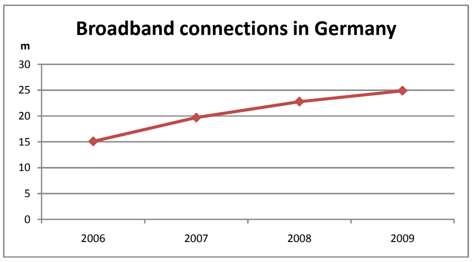


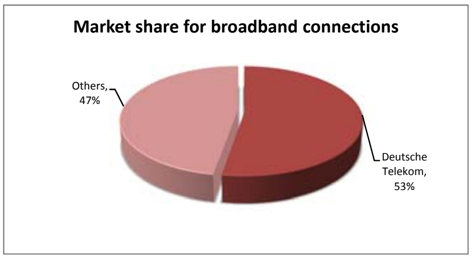


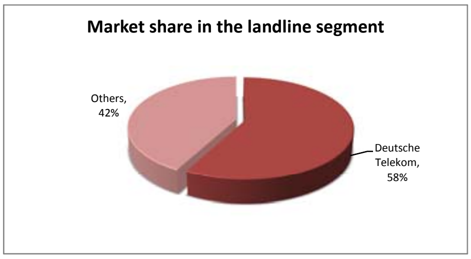




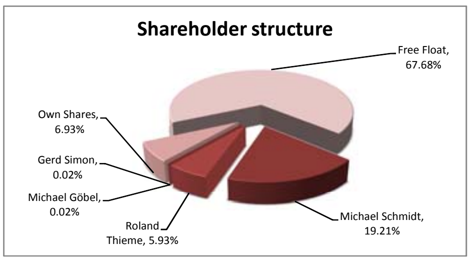


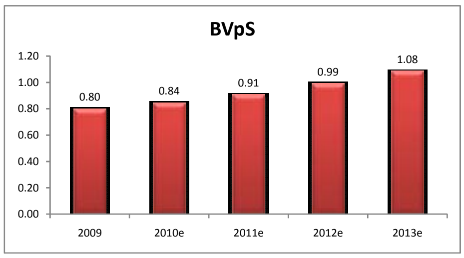




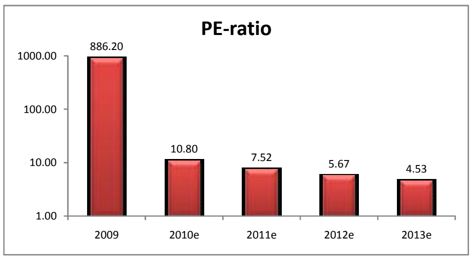


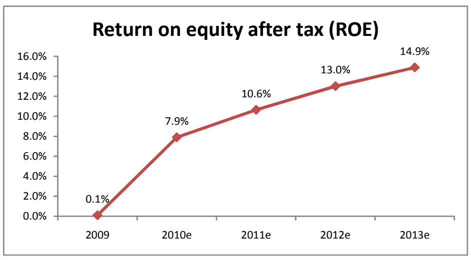
Source: 3U, SRC Research





Valuation





Source: 3U, SRC Research

The evolution from an exclusive supplier of fixed-line services to a diversified holding with focus on future technologies is in full swing.

Divisions – Set-up and Development

The 3U group is currently build of four pillars: The two core areas and main sales driver clearly are fixed line telephony and broadband / IP. Latter is the Hannover-based 100% subsidiary LambdaNet Communications Deutschland AG. Currently, there are two much smaller operations, which will contribute relatively little to the annual revenues of the group in the current fiscal year. Here, the IT service SEGAL Systems GmbH is to mention, a spin-off of the IT department of 3U Holding of which the 3U Holding still owns 75% at the moment.

Furthermore, there is the very promising renewable-energy segment that consisted of 3U Solarkraft Friedrichstraße GmbH (100% participation) and 3U SOLAR Systemhandel AG (75% participation) as of 31 December 2009. Both companies did not contribute to the 2009 total sales of 3U group. However, the 3U Solar Systemhandel AG will do so, starting in 2Q 2010 and is supposed to contribute Euro 5m to 7m to revenues of the full year 2010.

Source: 1Q 2010 quarterly report

Start-ups and acquisitions in the first quarter of 2010

In the first quarter of 2010, according to the quarterly report, other companies were founded, which includes RISIMA Consulting GmbH and the 3U DYNAMICS GmbH. EuroSun Vacuum-Solar-Systems GmbH was acquired during that time.

3U holds an 80% stake of the management consultancy RISIMA Consulting, based in Marburg. The company is focused on the target group of medium-sized businesses and provides consulting services in the areas of business and risk management as well as IT-strategy, IT-security, and knowledge management starting within the second quarter of this year. Nearly 75% of EuroSun Vacuum-Solar-Systems were acquired at the end of March. The former headquarters in Frankenhardt (Baden-Württemberg) are transferred to Marburg. The company is active in the development, production and trade of products of the electrical industry as well as environmental goods, for example for thermal solar systems and the ORC-Technology for the production of electricity from heat. We believe that the company is a very useful supplement to the overall 3U investment portfolio in renewable energies.

Finally at the end of March, 3U Holding AG founded 3U DYNAMICS GmbH, based in Marburg, where it holds a 60% stake. In the future, all sales and marketing activities of the entire group will be consolidated within 3U DYNAMICS, including the previously loss-making Hannover-based LambaNet. However, LambdaNet was able to come up with a very positive result in the first quarter of 2010 after the restructuring program was initiated in the fourth quarter of 2009.

Fixed-line telephony unit – 3U's driver of performance in the past

Fixed-line telephony unit very stable with Euro 56.8m in external sales in a difficult year 2009

The fixed telephony unit developed satisfying despite a challenging market environment in the year 2009. With almost Euro 57m the segment accounted for over 60% of total group sales. Despite a Euro 16m decline in sales compared to 2008, the operating income excluding depreciation and amortization (EBITDA), decisive for our valuation, grew by over 80%. The group's consolidated EBITDA of Euro 13.2m was therefore almost entirely contributed by this business unit, as the EBITDA contribution of Euro 3.8m from the broadband / IP division (LambdaNet Communications) and Euro -3.8m from the segment "other" (mainly personnel expenses, and investment in new headquarters and expenses for the new business areas) compensated fairly accurate over the year.

Despite ongoing diversification, the segment is still the „cash cow" of the group.

Responsible for the improved profitability were further cost-cutting measures, improved conditions of purchase as well as a streamlined fee structure in terms of call rates.

EBITDA up 80%, despite external sales decreasing 22%

Fixed-line telephony **[Euro '000]**	2008	2009	change
Total sales	99,865	73,489	-26.4%
Internal sales	-26,832	-16,661	-37.9%
External sales	**73,033**	**56,828**	**-22.2%**
Other revenues	700	4,357	522.4%
Cost of material	-55,839	-39,008	-30.1%
Net result	**17,894**	**22,177**	**23.9%**
Personnel expenses	-2,976	-3,141	5.5%
Other expenses	-7,617	-5,872	-22.9%
EBITDA	**7,301**	**13,164**	**80.3%**
Depreciation	-371	-314	-15.4%
EBIT	**6,930**	**12,850**	**85.4%**

Source: Annual Report 2009

No increase in sales expected in the mid-term – a key role will be reduction of costs again.

The market for fixed voice telephony in Germany remained highly competitive in recent years, where - as in the earlier years - the German market leader Deutsche Telekom AG once again lost market share to competitors. For the first time the competitors are running well above 40% market share (39.7% in 2008 and 2009 already 42.1%) with increasing tendency. In general, one can see a clear trend towards all-in-one connection bundles. On the other hand, both call-by-call (-22%) and pre-selection services (-27%) significantly lost in minutes. One explanation for this trend is the increasing introduction of so-called all-IP connections through German market leader Deutsche Telekom AG and its subsidiaries, not allowing to choose other operators, which is an evident threat and fatal for the 3U subsidiaries offering fixed-line services.

3U entered the market for mass SMS sending applications in 4Q 2009

In addition to the growth of internet telephony (e.g. Voice over IP, Skype) the substitution of fixed-line telephony through mobile telephony is continuing. 3U Holding has found an attractive niche in the mobile telephony sector in October 2009 and finally founded the service provider 3U MOBILE GmbH, initially as a 100% owned subsidiary. On the closing date for the fiscal year, 31 December 2009, the founding partners have acquired 75% of the company by now. Since 1Q of this year, the 3U MOBILE GmbH is active in the market for mass SMS sending applications. Via the use of existing technology platforms and other infrastructure, the 3U group expects to have significant cost- and expertise advantages compared to competitors. We consider the foundation of 3U MOBILE GmbH as a smart step to expand the service portfolio of 3U group in this segment. We particularly like the very good scalability of the business model and the connected upside in the mid-term.

Sales will be down again in 2010, but 3U knows how to find profitable niches, without investing more than necessary.

First quarter with proper results in the fixed-line segment

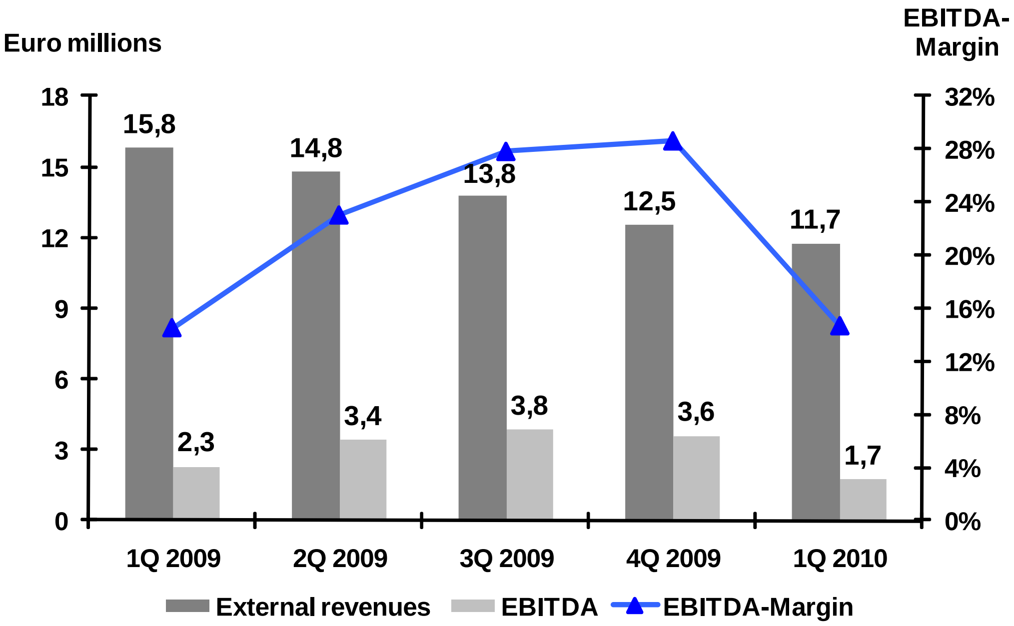
The result of the first quarter in the fixed-line telephony unit was satisfying in our opinion, and was also in line with our expectations. Total sales in this segment were declining, as in previous quarters, and decreased by 26% from Euro 15.8m to 11.7m. At least, the downward trend in the overall sales slowed down, with the fourth quarter of 2009 showing a higher decrease of almost 30% compared to the fourth quarter of 2008.

If you look at operating income excluding depreciation, it was decreasing slightly sub proportional by 25%. The EBITDA margin was 14.7%, slightly above the prior-year quarter (1Q 2009: 14.5%). As line rents have to be paid in the first quarter, the EBITDA margin in the first quarter is usually only about half as high as in the following three quarters. In 2009, the EBITDA margins in the three consecutive quarters came in between 23% and 29%.

The downtrend in sales is likely to further slow down. We expect EBITDA-margins above 20% again within the next quarters.

We expect that the downward trend in sales to further slowdown in the next few quarters and that attractive EBITDA margins above 20% still can be achieved, because the company focuses on profitable niches, for example, calls to non-European countries. Furthermore, we consider that the company does not need to invest any new funds in this business. In the first quarter, 3U Holding, on group level, invested some 0.8 million Euros, but nothing in the fixed-line telephony business unit. The lion's share of 80% of investments accounted for the group's new headquarters and newly founded start-up companies, especially in the area of renewable energy. 20% of total investment volume flowed into LambdaNet.

Downtrend in sales revenues stopped – EBITDA-Margin in 1Q 2010 slightly above 2009 level



Source: 3U Quarterly report for 1Q 2010

For the current fiscal year we project sales of Euro 37m to 41m for the fixed line unit

For the full year 2010, we expect the company in its business unit fixed-line telephony to generate sales revenues of in between Euro 37m to 41m and an EBITDA profit in the range from Euro 8m to 10m, implying an EBITDA margin of around 22% to 24% being above the 2009 level (23.2%).

Euro 20m to 25m profit on an EBITDA basis expected for 2010 to 2012

We expect that the 3U Holding AG will be able to realize veritable profits in the fixed-line division on an EBITDA level in the range of Euro 20 to 25m within the next 3 years, i.e. 2010 to 2012, even without having to invest any new funds in this segment. Forecasts for the subsequent period are naturally very difficult in an overall shrinking market with a view to the call by call segment. All in all, we set the fair value of this business at Euro 20m to Euro 25m, and leave the period after 2012 completely disregarded to be on the safe side. The conversion of the fair value of Euro 20m to Euro 25m results in a fair value of Euro 0.43 to Euro 0.53 per share on the basis of 46.8m shares. That means that the major share of market cap is already covered by the fixed-line telephony segment.

Broadband / IP - the problem child has been LambdaNet so far

The broadband / IP segment , accounting for external sales of Euro 35.2m in 2009, represents the second largest pillar of the group after the fixed-line telephony. The Hannover-based 100% subsidiary LambdaNet Communications Deutschland AG is the company being active in this segment.

The positive impact of the restructuring program are already visible in 1Q 2010

In fiscal year 2008, the division generated a proper EBITDA of Euro 4.3m, which was burdened by massive write-offs of Euro 11.6m, thus at the end of the year, a negative operating income after depreciation (EBIT) of Euro -7.2m occurred. In the light of this unsatisfying earnings trend, major restructurings were decided in the second half of 2009 and implemented promptly. The aim of the LambdaNet-board is the doubling of operating income (EBITDA) during fiscal year 2010 (EBITDA in 2009 amounted to almost Euro 4m) and furthermore significantly positive net profits for the coming fiscal year 2011.

Most negative one-off effects caused by the reduction of personnel were already realized in 4Q 2009

Besides specific measures to improve the distribution power, also the extensive use of group synergies is part of the restructuring concept. In the course of the implantation of the restructuring program, headcount was reduced by some 50% thus personnel expense could be slashed significantly so that the likelihood of a sustainable turnaround clearly increases.

LambdaNet achieved an increase in sales in 2009. EBITDA was down 11%, while a doubling of sales to Euro 8m is targeted for 2010

Broadband/IP **[Euro '000]**	2008	2009	change
Total sales	35,454	36,969	4.3%
Internal sales	-1,036	-1,720	66.0%
External sales	**34,418**	**35,249**	**2.4%**
Other revenues	258	833	222.9%
Cost of material	-19,216	-20,328	5.8%
Net result	**15,460**	**15,754**	**1.9%**
Personnel expenses	-6,189	-6,696	8.2%
Other expenses	-4,951	-5,196	4.9%
EBITDA	**4,320**	**3,862**	**-10.6%**
Depreciation	-11,553	-8,661	-25.0%
EBIT	**-7,233**	**-4,799**	**-33.7%**

Source: Annual Report 2009

Despite significant market saturation, a doubling of the EBITDA is aimed at in 2010

On the account of the major importance of broadband internet access for the business location Germany, the topic enjoys special attention by politicians. Both, the old federal government and the current government coalition pay special attention to this issue and are clearly committed to the aim of an area-wide broadband supply for the country. After consistently strong double-digit growth rates of recent years, 2009 only had a growth in broadband connections of 9.2%, showing a slowly progressive saturation of the market.

Good start for LambdaNet in 2010 - turnaround in earnings

We believe, that LambdaNet can increase sales in 2010 due to increased marketing efforts and also in the context of the newly established group-wide sales department 3U DYNAMICS, easily in the area of about 10%. Even more important for the result of the company will be that it has halved number of employees from 93 at year-end 2009 (that means before restructuring and the staff reductions became effective) to a size of approximately 50 employees by now.

EBITDA doubled in 1Q 2010 from Euro 1.3m to 2.7m

The success of the restructuring measures and the improved focus on sales activities became already visible in the first quarter of 2010, although the potential from the consolidation of the operating cost will probably only be fully visible in the second quarter. The operating profit (EBITDA) of Euro 1.3m in the first quarter of 2009 could be doubled to Euro 2.7m in the first quarter of 2010, fully corresponding to the guidance of the management of doubling the EBITDA for the full year 2010. If you look at the operating profit including depreciation (EBIT), LambdaNet managed the operational turnaround. While in the first quarter of 2009, EBIT was a negative at Euro -0.9m, LambdaNet now achieved a positive EBIT of Euro 0.6m

Revenues increased by 3% from Euro 9.0m to 9.3m. This is also a positive picture for the first quarter. The sales increase may even rise within the next few quarters, as sales efforts will be intensified in connection with the establishment of 3U DYNAMICS.

LambdaNet achieved turnaround already in 1Q 2010. Further upside from the restructuring and the increased focus on marketing and sales should be possible within the next months

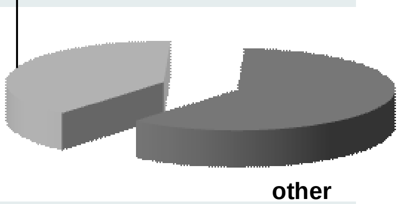
Broadband/IP (Euro m)	1Q 2009	1Q 2010	change
Revenues	9.0	9.3	3%
operational result (EBITDA)	1.3	2.7	108%
EBITDA-margin	14.3%	28.9%	
operational result (EBIT)	-0.9	0.6	turnaround
EBIT-margin	neg.	7.0%	

Source: 1Q 2010 report

For 2010 we expect LambdaNet to generate Euro 37m to 39m in revenues and an EBITDA of Euro 8m to 9m.

For the full year 2010, we project sales for LambdaNet to come in at Euro 37m to 39m, which would be an increase of 5% to 11% and roughly corresponds to our sales projection in the other major area which is fixed-line telephony. We expect Euro 8m to 9 m in EBITDA, meeting both, the company's guidance and the projected EBITDA in the fixed-line telephony segment.

This finally means that the investments for the new business unit renewable energies (production and distribution of components as well as design, planning and projection of solar power plants) can be financed not only from the current favourable cash position. Rather there are also two almost equal cash flow suppliers in the group, which can contribute relatively stable earnings at least for the next 2 to 3 years.



No cluster risks within the client base. Nevertheless some well-known clients as Telefonica, RWE Systems, Hansenet (Alice) or Grenkeleasing.

Broad service-portfolio of technology provider LambdaNet

LambdaNet has been one of the leading German providers of broadband services for years and has excellent know-how in this field. The customers of the company are well-known companies such as Telefonica, Hansenet (Alice), RWE Systems, Grenkeleasing and others. Despite important and large key accounts the customer base is still granulated, causing no cluster risks in revenues. Indeed, according to the management the ten largest customers currently account only for about 40% of total revenues. To better understand the business model of LambdaNet, we provide an overview with short explanations of the services:

- **Ethernet-VPN / Co-Location**

For communication in Virtual Private Networks (VPNs), LambdaNet offers a full range of products for transporting data, voice and video communications of the customer. This ranges from call processing via Voice gateways to IP phones and IP telephony applications. As partners of the network giant Cisco Systems, LambdaNet has also gained reputation as a specialist in the so called "Cisco Unified Communications System", it offers real-time communications in companies, including presence services, mobile and intelligent network services. All applications and services are provided thereby on the common IT network. Meanwhile, more and more service providers offer outsourcing services, which offer interesting alternatives to the operation in-house, particularly for small and medium-sized enterprises. Again, a clear trend toward rental solutions is apparent. High initial investments and associated risks are eliminated and instead, firms only pay a fixed monthly fee.

The advantages of such cost-smoothing in combination with the use of advanced technologies in the past have convinced many small and medium-sized companies. We also expect further growth here. In addition to such a conversion of investments in operating costs, they also benefit from high-end technology that, particularly in the smaller medium-sized enterprises, hardly any of these firms was able to afford on its own.

- **Virtual Private Networks (VPN)**

Virtual Private Networks (VPN) allow the connection of field workers to internal corporate networks and the connection of several networks in different locations or the extension of the corporate network to suppliers and business partners. Virtual private networks are therefore an interesting alternative to expensive leased lines and ensure a secure connection even with a restricted budget.

- **Remote Access**

The constant possibility of access to important information about the company's network as well as efficient internal company communication channels already are crucial factors of both success and productivity. Therefore LambdaNet offers its customers a non-public network through its own DSL and MPLS infrastructure for data traffic within Germany which guarantees best performance and security via the use of services such as IPsec and SSL VPN. The implementation of additional security services such as firewalls, antivirus and web-filtering is provided by AXIANS as a partner of LambdaNet.

- **Integrated voice services**

Direct voice and video contact allows the most efficient and therefore productive exchange of information in almost all situations, even in the business sector. This fact is recognized by more and more companies of almost any size. While a few years ago access to these services was almost exclusively reserved to large corporations, they became more and more available also for medium and small-sized companies in recent years. IP communication has very low demands on administration and maintenance, meaning that configuration changes can be carried out by the customer's own IT department. About the VPN structure and the transitions to the public network, calls can be processed in a high quality wether from the home office or while travelling.

Such solutions can be complemented by innovative applications such as video communications - now or at a later date. Team building and project work, independent from location increase productivity. LambdaNet offers the whole range of possible services in this important field. These include consulting, planning and implementation of IP telephony solutions within Virtual Private Networks.

- **Internet Security**

In recent years both the number and the "quality" of attacks on Internet-based services has risen sharply. With the increasing importance of corporate communication there are also changing demands for efficient and scalable network protection. One essential component in the protection of networks is having powerful and reliable routers with a sophisticated safety concept against current and future threats.

- **Storage**

To meet the growing needs of its customers in data storage and provision, LambdaNet also offers comprehensive solutions here. This includes in particular the Fiber Service Platform (FSP). The FSP is a scalable portfolio of products for the provision of data, storage, as well as voice and video applications on a single network structure. The FSP is the unifying element between geographically distributed network elements, such as servers, routers and switches. Data is 'packed' on light waves generated by lasers and sent through the line. Ranges of up to several hundred kilometres are possible with that technology.

- **Carrier Ethernet**

Carrier Ethernet stands for the technology with which the necessary development of the existing Ethernet technology is conducted. Carrier Ethernet here is filling the gap between Wide Area Networks (WANs) and Local Area Networks (LANs). LambdaNet offers Ethernet-based solutions on a MPLS basis with bandwidths of 10, 100 and 1000 Mbit/s on their own network lines since 2001.

- **Server Housing**

To complete the service portfolio for its customers, LambdaNet also offers the classic server housing service at their own 28 locations including 25 data-centers in Germany. Facilities here include redundant power supply, advanced air conditioning and fire protection measures, and separate storage areas for the customers, if needed. In addition, individual pricing models such as flat fees or usage-dependent fees are available.

3U Solar Systemhandel contributing to group's revenues as early as 2010 and first profit contributions expected in 2011

3U Holding AG has worked continuously on developing their competence in the field of advanced renewable energy in the past two years. In the fourth quarter of 2009, the 3U SOLAR Systemhandel AG was founded, which is already operating since the first quarter of 2010, but initial revenues will occur in the second quarter earliest. Anyhow, an in-house fair for craftsmen and dealers about the distribution of solar modules was held recently in early May. 3U Holding AG currently holds a 75% stake in 3U SOLAR Systemhandel AG.

Focus of the new company is the development, production and trade of modules and components in the field of renewable energy and heat production (especially solar power), heat-storage and -supply.

Furthermore, 3U Holding AG will generate future income in the field of planning, project-engineering and operation of large-scale solar power plants, mainly at public buildings, office buildings and larger residential properties. We think that the opening of the 'showcase' solar energy power plant at the new Marburg headquarters later this year will provide significant momentum in sales.

For the fiscal year 2010 we expect sales revenues of Euro 5m to 7m for 3U SOLAR Systemhandel AG and an increase to Euro 10m – 15m in 2011

For the full year, sales of Euro 5m to Euro 7m are targeted for 3U SOLAR Systemhandel AG. Regarding the profit we expect no significant contribution to the group profit in the current fiscal year due to non recurring start-up costs of businesses. For 2011, we expect sales to come in at about Euro 10 to 12m and EBITDA at roughly Euro 1.0 to 1.5m, these assumptions are of course still subject to some uncertainty because the new company does not have a track record yet. However, board member Michael Riehl, who holds the remaining 25% of the company, has a large industry-specific expertise and has been a manager in the marketing department of a leading European manufacturer of heating systems and solar modules operate for many years.

Valuation of 3U Holding reveals upside potential of 50% to 100%

Sum-of-the-parts method of valuation applied without taking the new business activities in the renewable energy field into account

We decided to evaluate the 3U Holding AG with the so-called Sum-of-the-parts method. We evaluate the fixed-line telephony segment and the broadband / IP unit, in which LambdaNet operates. The new activities in the area of renewable energy are not taken into account for precautionary reasons since there is no sales- and profit-history so far.

For the fixed-line segment we chose for a low EBITDA-multiplier of between 2.5 and 3.0 and took the lower end of our profit calculation as a basis

In the business unit of fixed-line telephony, we use a precautionary measure. Only the cash contributions of the next three years will be considered, meaning the fiscal years 2010-2012, since this is a steadily shrinking market without a reliable projection in mid- to long-term.

At this point it is quite sure, that sales will continue to decline in the future, even if we assume a slowing decline as already observed in the first quarter of 2010. Most likely scenario is a very low single-digit million Euro contribution in revenues for 2012 and beyond. Nevertheless we ignore proceeds of 2012 and following years for our evaluation.

We expect EBITDA profit for 2010 of Euro 8m to 10m, but take the lower end of the range of Euro 8m and use an EBITDA-multiplier of 2.5 to 3.0, which leads to a fair value of this business unit of Euro 20m to 24m.

LambdaNet could become a very interesting asset if the recent positive trend continues throughout the next quarters.

In evaluating LambdaNet we chose a higher EBITDA multiplier, as we regard the broad portfolio of technology-and safety-oriented products and services as highly attractive in the medium and long term. For 3U, it would also make sense to sell off LambdaNet Communications AG within the next one or two years, if the increased sales efforts and significantly reduced cost base will be reflected in the next quarterly results.

All in all, we set the multiplier for LambdaNet between 3.0 and 4.0, with respect to the current difficult general economic situation. With a brightening economic outlook and a sustainable earnings situation, slightly higher EBITDA-multipliers in the range of 5.0 are possible.

Excluding overhead costs for the group management, internal services of the SEGAL Systems GmbH and taxation at the corporate level, we see a fair value of the company, coming from the two traditional businesses only, of approximately Euro 26m to 40m, meaning approximately 0.55 to 0.85 cents per 3U share. This valuation is fully reflected in the current stock valuation on the market.

The current market valuation is backed by the fair value of the two core business units fixed-line telephony and LambdaNet alone, without taking the high cash position into account

The huge cash position of Euro 30m as of 31 March 2010 is not yet considered in this model, which is already reduced by prepayments for net rents of almost Euro 2.8m. Besides that, major investments in the new sector of renewable energies of around Euro 0.6m took place in the first quarter already, mostly related to the construction of the new corporate headquarters that includes the solar power plant showcase mentioned above, which at the same time is the proof of concept for the 3U Holding ambitions in this field of business.

Altogether there is a fair enterprise value of Euro 53m to Euro 70m, or Euro 1.13 to Euro 1.50 per share

The 3.24m shares held by the group itself were not deducted. This would allow for another 10 cent increase in value per share.

On the cash position, we use a conservative multiplier bandwidth of 0.9 to 1.0 in order to make clear that on the one hand, currently there is no income from the renewable energy sector and on the other hand investments of approximately Euro 4.5m are planned for the year (excluding potential corporate acquisitions). In return, significant proceeds from both the fixed-line telephony unit and LambdaNet are expected. Moreover, it is likely that the 3U SOLAR Systemhandel AG can contribute EBITDA starting in 2011, but - as already mentioned above – we exclude the renewable energy segment from our evaluation.

If we add the multiplier-adjusted cash position to the enterprise value of the two traditional divisions, fixed-line telephony and broadband services (LambdaNet), the result is a fair enterprise value of Euro 53m to 70m, or Euro 1.13 to Euro 1.50 per 3U Holding AG share. This means the company has – with a current price of 70 cents per share - an upside potential of 50% to 100%.

Note also, that the company holds 3.24m own shares as of 31 March 2010 (6.9% of the issued capital). We did not deduct these own shares in our model, which would have increased the fair value per share by another up to 10 cents.

The very conservative sum-of-the-parts valuation results in an 50% - 100% upside

Valuation 3U Holding AG (Group)

Segment	sustainable EBITDA ('10-'12) [Euro m]	Multiple	Fair Value Range [Euro m]		
Fixed-line	8.0	2.5 - 3.0	20.0	-	24.0
LambdaNet	8.0	3.0 - 4.0	24.0	-	32.0
Group Overhead	-4.0	4.0 - 4.5	-18.0	-	-16.0
Total			**26.0**	-	**40.0**
Cash	30.1	0.9 - 1.0	27.1	-	30.1
	Fair Value 3U Holding AG		**53.1**	-	**70.1**
	per 3U-share (46,8m shares)		**1.13 €**	-	**1.50 €**

Source: SRC calculations

We set our target price in this opening coverage for the 3U Holding AG carefully at the lower end of the given range at only Euro 1.10. Our rating is Buy.

P&L Account 3U Holding AG

31/12 IFRS (Euro '000)	2008	2009	2010e	2011e	2012e	2013e	CAGR '10e - '13e
Revenues	**107,459**	**92,079**	**85,633**	**87,346**	**91,713**	**96,299**	**4.0%**
Other income	2,296	5,852	4,300	4,500	3,900	4,300	
Total Income	**109,755**	**97,931**	**89,933**	**91,846**	**95,613**	**100,599**	**3.8%**
Cost of sales	-75,055	-59,336	-53,093	-54,155	-55,945	-58,742	
Gross Profit	**34,700**	**38,595**	**36,841**	**37,692**	**39,668**	**41,857**	
Gross Margin	*31.6%*	*41.9%*	*43.0%*	*43.2%*	*43.3%*	*43.5%*	
Personnel expenses	-11,521	-12,900	-11,304	-12,124	-12,381	-12,711	
Other operating expenses	-13,626	-12,455	-12,417	-11,792	-12,381	-13,000	
EBITDA	**9,553**	**13,240**	**13,120**	**13,776**	**14,906**	**16,145**	**7.2%**
Depreciation	-12,127	-9,206	-8,563	-7,450	-6,348	-5,310	
Operating Profit (EBIT)	**-2,574**	**4,034**	**4,557**	**6,326**	**8,558**	**10,835**	**33.5%**
EBIT margin	*neg.*	*4.4%*	*5.3%*	*7.2%*	*9.3%*	*11.3%*	
Financial result	-1,290	-1,013	-280	100	150	200	
Pre-tax Profit (EBT)	**-3,864**	**3,021**	**4,277**	**6,426**	**8,708**	**11,035**	**37.2%**
Taxes	-117	-2,983	-1,240	-1,864	-2,525	-3,200	
tax rate	*n.s.*	*98.7%*	*29.0%*	*29.0%*	*29.0%*	*29.0%*	
Earnings from continued operations before minorities	-3,981	38	3,037	4,563	6,182	7,835	
Discontinued Operations	776	0	0	0	0	0	
Net profit including discontinued operations	-3,205	38	3,037	4,563	6,182	7,835	
Other shareholder / Minorities	0	1	0	-200	-400	-600	
Net profit after minorities	**-3,205**	**37**	**3,037**	**4,363**	**5,782**	**7,235**	**33.6%**
Number of shares	46,842	46,842	46,842	46,842	46,842	46,842	
Earnings per share (EpS) (Euro)	**-0.07**	**0.00**	**0.06**	**0.09**	**0.12**	**0.15**	**33.6%**
Dividends per Share (DpS) (Euro)	**0.00**	**0.00**	**0.02**	**0.03**	**0.04**	**0.06**	
Book Value per Share (BVpS) in Euro	**0.82**	**0.80**	**0.84**	**0.91**	**0.99**	**1.08**	
Shareholders Equity after minorities and payout of dividends	**38,590**	**37,394**	**39,494**	**42,451**	**46,360**	**50,784**	
RoE after tax	**-8.3%**	**0.1%**	**7.9%**	**10.6%**	**13.0%**	**14.9%**	

Key ratios & figures

Key ratios & figures	2008	2009	2010e	2011e	2012e	2013e
Margins in %						
Gross	32.3%	41.9%	43.0%	43.2%	43.3%	43.5%
EBITDA	8.9%	14.4%	15.3%	15.8%	16.3%	16.8%
EBIT	-2.4%	4.4%	5.3%	7.2%	9.3%	11.3%
EBT	-3.6%	3.3%	5.0%	7.4%	9.5%	11.5%
Expense ratios in %						
Personnel costs quote	10.7%	14.0%	13.2%	13.9%	13.5%	13.2%
Cost of material to sales	69.8%	64.4%	62.0%	62.0%	61.0%	61.0%
Depreciation to sales	11.3%	10.0%	10.0%	8.5%	6.9%	5.5%
Tax rate	n.s.	98.7%	29.0%	29.0%	29.0%	29.0%
Profitability in %						
Net profit to sales ratio	-3.0%	0.0%	3.5%	5.0%	6.3%	7.5%
Return on equity after tax (ROE)	-8.3%	0.1%	7.9%	10.6%	13.0%	14.9%
Valuation						
PE-ratio	-10.23	886.20	10.80	7.52	5.67	4.53
Dividend yield in %	0.0%	0.0%	2.9%	4.3%	5.7%	8.6%
Market Cap/Sales	0.3	0.3	0.4	0.4	0.3	0.3
EV/EBITDA	3.4	2.5	2.5	2.4	2.2	2.0
EV/EBIT	-12.7	8.1	7.2	5.2	3.8	3.0
Data per share						
Number of shares in m	46.8	46.8	46.8	46.8	46.8	46.8
EpS	-0.07	0.00	0.06	0.09	0.12	0.15
DpS	0.00	0.00	0.02	0.03	0.04	0.06
BVpS	0.82	0.80	0.84	0.91	0.99	1.08

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Rating Chronicle:

Since this Research report is an initiating coverage there is no rating chronicle available.

Please note:
The 3U Holding AG share price mentioned in this report is from 19 May 2010. 3U Holding AG mandated SRC Research for mentoring the 3U share.

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