

**KTM BUY (EUR 65.43) WEDNESDAY, 13/02/08****First Glance**

Current fair value (EUR)	60,00
12M target price (EUR)	65,43
Expected market return	9,5%
Exp. 12M cont. comp. excess return	6,0%
Recommendation	BUY

ISIN	AT0000645403
RIC	KTMP.VI
BBG	KTM AV

Last Price (EUR)	57,10
Trading Currency	EUR
Reporting Currency	EUR mln

Number of Shares (mln)	6,9
Market Cap (EUR mln)	393,6
Number of Shares fully diluted (mln)	6,9
Market Cap fully diluted (EUR mln)	393,6

Average Volume 20d shares	5.990
Average Volume 20d value (mln)	0,341
Relative Index	ATX
Index Weight	N/A
Beta	0,457

52w high (EUR)	59,90
52w low (EUR)	49,00
Performance YTD	-0,70%
Performance 2006	19,42%
Performance 2005	4,58%

cont. CAGR sales	6,8%
cont. CAGR net profit	8,6%
cont. CAGR NOPAT	8,0%
cont. CAGR FCF	9,0%

„You look like the summertime“

(Audioslave, Man or Animal)

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Company name  
Homepage  
Sector  
Exchange

KTM  
www.ktm.com  
Motorcycle/Motor Scooter  
Vienna

**WP group sale helped 1Q while USD hurt - focus on new models**

KTM reported 1Q figures roughly in line with our expectations - but just with the book profit accounted for the sale of WP group to Cross Industries. The weak USD burdened the EBIT with around EUR 5.6 mln while the WP sale added some EUR 10.5 mln. By the end of Q1, WP group was deconsolidated. The purchase price (EUR 25 mln) for the suspension producer will then be paid in 2Q. Parts of the proceeds from the sale shall be used to early amortise the still open subordinate debentures. As a result, this will reduce both the interest load of KTM but also sales by around EUR 12 mln from, including, 2Q onwards. Werner Wilhelm was appointed to the board of management on February 1st in order to supervise the automotive division and R&D with a focus on alternative engine solutions. With this step, KTM will set a new focus on urban mobility and create concepts for adequate solutions.

**X-Bow to start in June or July, LC4 engine as a new benchmark**

KTM recently presented its LC4 engine and related bikes with great feedback from the specialised press. Also, first comments on the new RC8 were pretty positive. Especially LC4 may become a real cash cow for KTM as the engine is compatible to the high volume models. Also Polaris asked for OEM engines of this type. KTM, currently delivering older engines to Polaris is considering this option.

Also the cooperation with Bajaj adds some phantasy to the share. KTM entered a cooperation with its new 20.89% shareholder in order to jointly develop an efficient 4-cycle-engine (125 cc and 250 cc) as a basis for motorcycles in the yet to be conquered beginner street bike segment. Manufacturing and assembly of these bikes will take place in India. This offers good margin situations and establishes a natural hedge potential for the USD-exposure of KTM. Furthermore, Bajaj will become an exclusive distributor in the Asian region. KTM will receive license fees for the sold bikes. First talks about this project went well with a good understanding between the two companies. Hence we included fees from 2010 on in our planning model.

**Valuation model changed and Outlook seen better than by the market**

We changed our valuation and planning model, using now continuous returns, banned CAPM from the cost of equity calculation and implemented a new valuation method - CVA. The planning model reflects a lower sales growth and just limited margin development due to the weak USD and the skip of the capacity extension plans. ROCE is slightly enhanced by Bajaj's license payments in the last three planning years, but we limited this effect to gather a conservative forecast model.

For the fair value of KTM we blended the outcome of our newly implemented CVA model with regressions on P/BV and ROE and EV/Sales on EBITDA margins as well as classic multiples like P/E and EV/EBITDA. These valuations are backed by a CFROEV model and a ROE based Gordon growth model. The weighted average of the current fair values and the 12M fair values imply a current fair value of EUR 60.00, 5.0% higher than the current market price and a 12M price target of EUR 65.43. This offers a twelve month return of 13.6% plus 2.2% expected dividend return. Our expected market return for Austria is 9.5%, KTM offers an expected one year continuously compounded excess return against the market of 6.0%. Therefore we stick to our buy recommendation after changing the valuation model but cut our 12M price target to EUR 65.43.

EUR mln	2005/06	2006/07	2007/08e	2008/09e	2009/10e	2010/11e	2011/12e
Sales	504.48	567.01	658.39	736.79	801.12	836.48	873.09
EBITDA	54.51	66.69	82.03	91.83	104.10	111.99	117.35
EBIT	34.01	41.18	47.34	52.70	61.31	68.46	73.22
Net profit	20.04	26.02	32.58	36.17	40.63	47.12	51.81
Net debt	132.51	156.33	158.10	137.26	131.43	101.83	70.64

## Company profile

KTM is Europe's second largest motorcycle producer based in Mattighofen, Upper Austria, with a strong foothold in major markets such as the US, Italy, Germany, Australia and France. Further it is the world leader in the niche segment of ultimate off-road racing motorcycles, accelerating the presently successful development in specific fast growing on-road niche segment. The off road-motorcycles accounted for 48% and on-road for 29% of total sales in 2005/06.

**Off-road:** In the off-road-segment two types of motorcycles, Motocross and Enduro, are distinguished. Both motorcycles offer comparatively low weight and are equipped with single-cylinders. Though the motorcycle markets in Europe and North America have developed positively, KTM has succeeded to further increase its market share in these segments against the trend.

**On-road:** In the group of sportive road motorcycles KTM produces in the segment of Naked Bikes the model series Supermoto, Duke and Adventure which comply with all admission requirements for the public traffic. The abdication of any facing creates an eye-catching design and is the feature of Naked Bikes. KTM is due to launch the new superbike RC8.

**X-Bow:** The X-Bow is KTM's first light-weight sportscar, offering racing technology and an official approval and homologation for road service. The X-Bow is KTM's first step into the sports car segment and management said it should not be the last concept. A continuous evolution is planned with the long term goal to achieve Lotus' market position in the 1980s. The car was developed in cooperation with Audi and Dallora (which constructs racing cars for Nascar, Champcar and Formula 3).

## Market Prospects

Global motorcycle demand is forecast to advance 4.9% annually through 2009 to 41.6 mln units, valued at most USD 40 bln, according to a study by Freedonia. Demand for all categories of motorcycles is expected to remain strong, despite the slowdown in growth in key markets such as China, which is rapidly transitioning toward cars for its transportation needs. Increasing growth in all categories will also be seen in developed markets, such as U.S., Japan and Western Europe due to rising fuel prices and – in some countries – to continued restrictions on cars, sparking interest in the exceptional fuel economy and cost effectiveness of motorcycles. The market for expensive high-powered motorcycles is also expected to remain strong. While Asia is dominant in terms of unit volume, where motorcycles are seen as primary family and work vehicles, most manufacturers focus their efforts on developed markets such as U.S, as they generate far higher revenues per unit via sales in these developed markets. With the cooperation with Bajaj, KTM would be able to participate in the strong growing Asian countries.

## Shareholder Structure and Corporate Governance

KTM fully agnises to the Corporate Governance Codex but doesn't fulfill all rules. To say the truth, not really all of the rules are required for a mid-size company like KTM. In detail the Corporate Governance rules 18, 39, 41, 43, 49, 51, 53 and 80 are hurt. Shareholder structure is as follows: Cross Industries holds 50.2%, Bajaj Auto more than 20%, Hofer Privatstiftung more than 5%, Management around 4%. The remainder is free float (less than 20%). The total current number of shares amounts to 6.892.643. There are no options or convertibles outstanding, so the fully dilluted number of shares equals the current number of shares.

## SWOT - Analysis

### Strengths

- KTM has an accepted and positive assigned brand.
- The production at KTM follows consumer demand. Possible due to the distribution via its own network, providing high quality information on the current stock in each country. As a result, KTM provides a higher service quality and a very high production prediction for the company.
- The company has a low currency risk through hedging and a comfortable margin and pricing situation.
- Increasing commodity prices can easily be passed to the consumers as consumers are willing to pay more for KTM products.
- Very successful motor sport history; the track record of the products is excellent.
- KTM is a niche player in the premium segment.

### Weaknesses

- The liquidity situation of the share is not very pleasant at the moment.
- Margins are lower than other premium producers like Harley Davidson.
- KTM went private in a very interesting business situation, coming back to the market with a clearly higher valuation, unsettling some investors.
- Development and development risks through a constant product evolution (low for X-Bow but existing for future motor cycles).
- High USD exposure burdens margins if USD depreciates.

### Opportunities

- Returns are not really cyclical but look pretty sustainable in a foreseeable future. In addition a margin enhancement program was set up to reduce production-costs.
- Focus on a modular construction system helps to increase gross margins. The use of, for instance, one engine (LC4) for different models reduces R&D costs.
- The weight of higher margin products like ATVs and X-Bow ups gross margins.
- X-Bow and further evolution of sports cars offer interesting growth fantasies.
- Longtime and strong personal connection with Audi.

### Threats

- The share price definitely does not reflect KTM high business quality and strong cash flows – maybe also not in the future?
- As the brand is crucial for high class products and KTM is not competing on prices but on thoroughgoing quality and performance, the maintenance of the brand is very important. A deteriorating reputation (by whatever means) may hurt margins.
- Low-cost motorcycle producers may catch up market share at the high-end branded motorcycles, hurting already tight margins through pricing pressure.
- End or reverse of the shift in demand towards high quality bikes in Europe, North America and Australia as luxury consumption slows down.

Triggers for the Shareprice

+ X-Bow: This high margin product should add substantial revenue and profit growth to KTM. An own „Sports Car“ division may bring out further products and offer KTM the chance to establish a second main pillar besides the already diversified premium motorcycles.  
 + RC8: First response by media was rather positive. The market should be open for a light weighted, lower motorised superbike.  
 - USD: A continuous weak US-Dollar (above 1.40) burdens profits. Due to the high market acceptance of the current product range, the company was able to partly offset some negative effects of the weak USD. But now prices are on the top and a further weak USD can't be offset by price increasings and hence burdens operating profits.

Earnings Sensitivities

Higher production costs could partly be allocated to the customers. A shift in gross margins by one percentage point or sales rising by the same amout, at the same cost structure, changes net profit and EBIT by around EUR 7.5 mln per year in our model. On the USD-side we see a earnings sensitivity above USD 1.40 per 1 EUR of: 1% decrease in USD costs about EUR 1 mln in EBIT.

Fundamental Analysis & Forecast Model

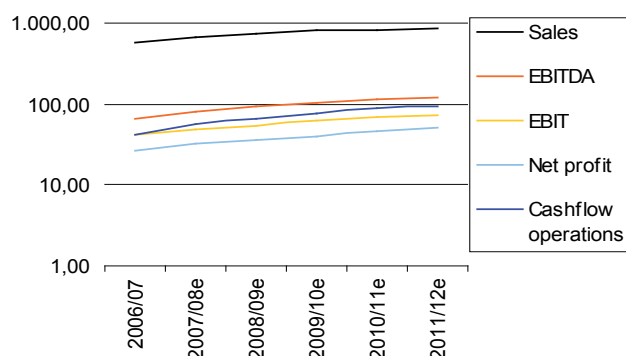
In the course of changing KTM's valuation method we also newly set up our forecast model with lower expectations to growth rates and margins. Sales growth is based on rising production of motorcycles and a shift to more expensive and higher margin bikes and boosted by the X-Bow, ATV and OEM engines for Polaris. 2009/10. Then further growth drivers are the cooperation with Bajaj (with license fee payments expected to start in 2010) and the high margin spareparts and accessories segment. As the expansion of the production capacity is skipped at the moment, we consequently limited sales-growth to a CAGR of 6.8% from 2006/07 on.

With EUR/USD peaking in 2008 we expect a more friendly environment for KTM in the next quarters after a hurting 1Q. In general, margins at KTM should increase through the focus on a modular construction system, the economy of scales for engines and a niche strategy. KTM will strengthen its niche player positions with a broader product range. For instance, the new LC4 engine will be used in five different models. In addition the weight of higher margin products like ATV and X-Bow ups margins. Working Capital rises more than revenue growth in our model, Capex is also rising steadily, not fully covered by depreciations, lasting on the CVA value. ROCE is slightly enhanced by Bajaj's license payments in the last planning years, but we limited margins and ROCE to gather a conservative forecast model.

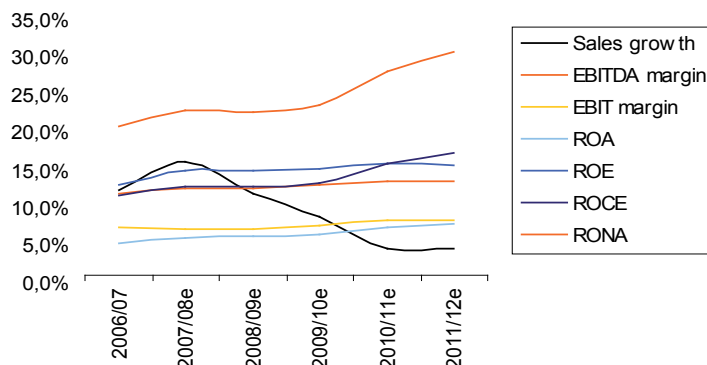
We changed our valuation model, using now continuous returns, banned CAPM from the cost of equity calculation and implemented a new valuation method - CVA. For every single method we are now calculating a current fair value and a 12M fair value. For the fair value of KTM we blended the outcome of our newly implemented CVA model with regressions on P/BV and ROE and EV/Sales on EBITDA margins as well as classic multiples like P/E and EV/EBITDA. These valuations are backed by a CFRoEV model and a ROE based Gordon growth model. The weighted average of the current fair values and the 12M fair values imply a current fair value of EUR 60.00, 5.0% higher than the current market price and a 12M price target of EUR 65.43. This offers a 12M return of 13.6% plus 2.2% expected dividend return. Our expected market return for Austria is 9.5%, KTM offers a expected one year continously compounded excess return via the market of 6.0%. Thereof we stick to our buy recommendation after the change of the valuation model but cut our 12M price target to EUR 65.43.

Fair Values	Current fair value	12M fair value	12M Upside	Weight
CVA	58,12	65,58	12,08%	50%
CFRoEV	63,96	71,27	10,83%	5%
GGM (ROE)	63,51	66,42	4,48%	5%
Multiples Equity	60,68	63,20	4,06%	20%
Multiples EV	62,17	65,57	5,33%	20%

P&L overview



Profitability overview



## Absolute Valuation - CVA Model

We use a four stage DCF model to do the absolute valuation. After the planning period we expect KTM to post NOPAT growth of 2.2% - in line with our long term inflation expectation for the competitive advantage period that lasts for ten years. During this period, the ROCE margin remains stable, while ROCE increases. During the transition period (lasting for 20 years), KTM's ROCE strives forward to the WACC without NOPAT growth. We refused to apply a further FCF growth for the perpetuity. While the WACC moves according to the Equity ratio and is fixed with 8.39% for all other periods (equals to 60% equity ratio). As we only used risk surcharges but no CAPM (surcharges can be seen below), we applied not beta for the WACC calculation. The implied beta calculated from the resulting cost of equity is 1.28.

EUR mln	07/08e	08/09e	09/10e	10/11e	11/12e	12/13e
EBIT	47.34	52.70	61.31	68.46	73.22	77.24
Tax rate	-7.59	-10.54	-15.33	-17.12	-18.30	-19.31
NOPAT	39.75	42.16	45.98	51.35	54.91	57.93
Depreciation	34.69	39.13	42.79	43.53	44.14	44.64
Δ Working Capital	-9.21	-7.90	-6.72	-3.60	-3.78	-6.66
CAPEX/OPEX	-52.90	-60.00	-60.00	-47.00	-47.00	-47.00
NIV	0.00	-19.59	-16.36	-5.88	-5.78	-8.41
FCF	12.33	13.39	22.05	44.28	48.27	48.91
DCF current	11.83	11.93	18.27	33.96	34.16	31.97
DCF 12M		12.86	19.68	36.59	36.81	34.45

Δ Capital Employed	0.00	28.77	23.93	7.07	6.65	9.02
Capital Employed	310.30	329.89	346.25	352.13	357.91	366.31
ROCE	12.8%	12.8%	13.3%	14.6%	15.3%	15.8%
ROCE margin	0.0%	12.3%	23.4%	91.3%	61.7%	35.9%
WACC	7.5%	7.4%	7.3%	7.7%	8.0%	8.0%
CoE	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
CoD	5.3%	5.0%	4.7%	5.1%	5.3%	4.7%
Risk free rate	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
Equity risk premium	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%
Credit risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Size risk premium	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Industry risk premium	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Country Risk Premium	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Equity ratio	40.1%	41.0%	42.2%	45.5%	49.2%	53.0%
Tax rate (positive)	16.0%	20.0%	25.0%	19.0%	16.0%	25.0%
implied Beta levered	1.28	1.28	1.28	1.28	1.28	1.28
Beta levered	0.47	0.47	0.46	0.48	0.50	0.49

Present Values	Current	12M	Spreading	WACC	
Planning Period	142	140	25%	24%	7.36%
Competitive advantage period	257	277	46%	47%	8.39%
Transistion period	139	150	25%	25%	8.39%
Terminal Value	20	22	4%	4%	8.39%

<b>Sum of Present Values</b>	<b>559</b>	<b>589</b>
Net debt 2007/08e / 2008/09e	158	137
Net present Value	401	452
Number of shares fully dilluted	6.893	6.893
<b>Fair Value per share</b>	<b>58.12</b>	<b>65.58</b>

## Sensitivity g / WACC

	-1.25%	-1.00%	-0.75%	-0.50%	-0.25%	0.00%	0.25%	0.50%	0.75%	1.00%	1.25%
<b>7.9%</b>	5.0%	5.1%	5.3%	5.5%	5.6%	5.8%	6.0%	6.3%	6.5%	6.8%	7.0%
<b>8.0%</b>	3.8%	4.0%	4.1%	4.3%	4.5%	4.6%	4.8%	5.1%	5.3%	5.5%	5.8%
<b>8.1%</b>	2.7%	2.8%	3.0%	3.1%	3.3%	3.5%	3.7%	3.9%	4.1%	4.3%	4.6%
<b>8.2%</b>	1.5%	1.7%	1.8%	2.0%	2.1%	2.3%	2.5%	2.7%	2.9%	3.1%	3.3%
<b>8.3%</b>	0.4%	0.5%	0.7%	0.8%	1.0%	1.1%	1.3%	1.5%	1.7%	1.9%	2.1%
<b>8.4%</b>	-0.7%	-0.6%	-0.5%	-0.3%	-0.2%	0.0%	0.2%	0.3%	0.5%	0.7%	1.0%
<b>8.5%</b>	-1.8%	-1.7%	-1.6%	-1.4%	-1.3%	-1.1%	-1.0%	-0.8%	-0.6%	-0.4%	-0.2%
<b>8.6%</b>	-2.9%	-2.8%	-2.7%	-2.5%	-2.4%	-2.3%	-2.1%	-1.9%	-1.8%	-1.6%	-1.4%
<b>8.7%</b>	-4.0%	-3.9%	-3.8%	-3.6%	-3.5%	-3.4%	-3.2%	-3.1%	-2.9%	-2.7%	-2.5%
<b>8.8%</b>	-5.1%	-5.0%	-4.9%	-4.7%	-4.6%	-4.5%	-4.3%	-4.2%	-4.0%	-3.9%	-3.7%
<b>8.9%</b>	-6.2%	-6.1%	-5.9%	-5.8%	-5.7%	-5.6%	-5.4%	-5.3%	-5.1%	-5.0%	-4.8%

## CFRoEV Model

We used our usual CFRoEV Model to back the absolute valuation. The Hurdle Rate is at 10%, the outcome is discounted with the Cost of Equity (from the DCF model) for the given year to the current date. We selected the coming business year (2008/09) as it includes already the first production year of the X-Bow. This model is rather aggressive, showing a current fair value per share of EUR 63.96 and a 12M price target of EUR 71.27. Hence we use it just for backing up the outcome of the DCF model.

EUR mln	07/08e	08/09e	09/10e	10/11e	11/12e	12/13e
<b>Years to date</b>	<b>0.55</b>	<b>1.55</b>	<b>2.55</b>	<b>3.55</b>	<b>4.55</b>	<b>5.55</b>
Sales	658	737	801	836	873	910
Cashflow operations	57	66	77	89	92	95
Hurdle Rate	10%	10%	10%	10%	10%	10%
Fair EV	573	659	767	888	923	954
Net debt	158	137	131	102	71	38
Fair Market Cap	415	521	635	786	853	916
Fair Value/share	60.23	75.63	92.18	114.05	123.69	132.96
<b>FV/share current</b>	<b>56.75</b>	<b>63.96</b>	<b>69.95</b>	<b>77.67</b>	<b>75.59</b>	<b>72.92</b>
<b>FV/share 12M</b>		<b>71.27</b>	<b>77.95</b>	<b>86.55</b>	<b>84.24</b>	<b>81.26</b>

## GGM Model

The Gordon growth model indicated a fair fair value of EUR 63.51 per share as of today and a 12M price target of 66.42. For the growth rate (6.09%) we multiplied the average ROE with the average retention rate from the planning period and the most recent two reported years. The cost of equity are the same as used in the DCF and CFRoEV Models.

assumed long-term sustainable ROE:	15.31%
assumed COE:	10.83%

## Sensitivities GGM ROE based (g/COE)

	9.33%	9.83%	10.33%	10.83%	11.33%	11.83%	12.33%
<b>5.09%</b>	18.8%	7.6%	-2.4%	-11.5%	-19.9%	-27.6%	-34.8%
<b>5.34%</b>	22.4%	10.6%	0.0%	-9.6%	-18.3%	-26.3%	-33.7%
<b>5.59%</b>	26.3%	13.8%	2.6%	-7.4%	-16.5%	-24.9%	-32.6%
<b>5.84%</b>	30.6%	17.2%	5.4%	-5.1%	-14.7%	-23.4%	-31.4%
<b>6.09%</b>	35.4%	21.0%	8.5%	-2.7%	-12.7%	-21.8%	-30.2%
<b>6.34%</b>	40.7%	25.2%	11.8%	0.0%	-10.6%	-20.1%	-28.8%
<b>6.59%</b>	46.6%	29.8%	15.5%	2.9%	-8.3%	-18.3%	-27.4%
<b>6.84%</b>	53.3%	35.0%	19.5%	6.1%	-5.7%	-16.3%	-25.9%
<b>7.09%</b>	60.9%	40.7%	23.9%	9.6%	-3.0%	-14.2%	-24.2%
<b>7.34%</b>	69.7%	47.2%	28.9%	13.4%	0.0%	-11.8%	-22.4%
<b>7.59%</b>	79.9%	54.6%	34.4%	17.6%	3.3%	-9.3%	-20.4%

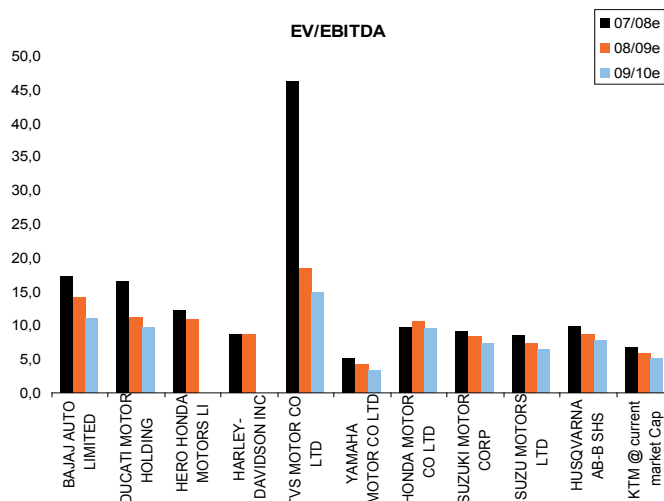
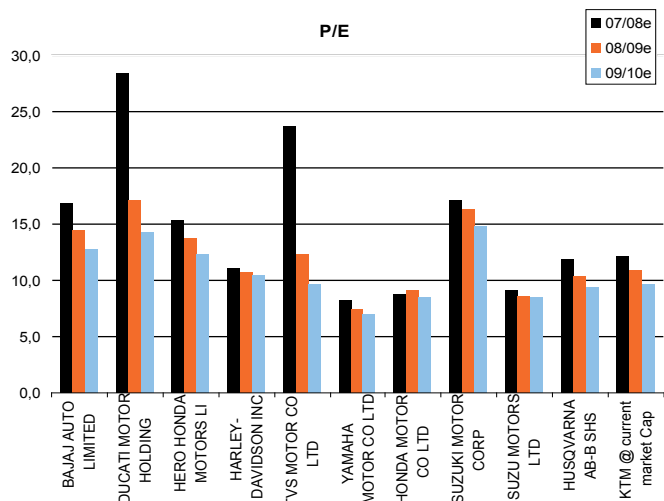
Relative Valuation

We used an extended peer group for the relative valuation, consisting of 10 companies with either a similar product or brand awareness. The peer data are displayed on the next page. We used a regression on P/BV and ROE as well as EV/Sales on EBITDA margin and added a P/E and EV/EBITDA comparison. We put more weight on the regressions and the next two years. This brought us a fair value of the Equity related multiples (fair P/BV and P/E) of EUR 61.94 per share and a fair value of the Enterprise value related multiples (fair EV/Sales and EV/EBITDA) of EUR 59.47 per share. We derived the 12M price targets (EUR 60.83 and 60.72 respectively) from the relative valuation from adding the COE and WACC for one year.

Motorcycle	Peer Data			Fair Market Cap			Weight		
	07/08e	08/09e	09/10e	07/08e	08/09e	09/10e	07/08e	08/09e	09/10e
Equity multiples									
P/E Peers	11,8	10,4	9,4	384,7	376,2	381,8	15%	15%	5%
Fair P/BV Peers	2,1	1,8	1,6	449,4	429,2	436,0	25%	25%	15%
<b>Fair Market Cap weighted:</b>				<b>418</b>			<b>Weights: 40%</b>	<b>40%</b>	<b>20%</b>

Motorcycle	Peer Data			Fair Market Cap			Weight		
	07/08e	08/09e	09/10e	07/08e	08/09e	09/10e	07/08e	08/09e	09/10e
EV multiples									
EV/EBITDA Peers	7,5	6,9	5,9	455,0	500,1	483,3	15%	15%	5%
Fair EV/Sales Peers	1,0	0,9	0,8	486,1	514,0	518,8	25%	25%	15%
<b>Fair Market Cap weighted:</b>				<b>428</b>			<b>Weights: 40%</b>	<b>40%</b>	<b>20%</b>

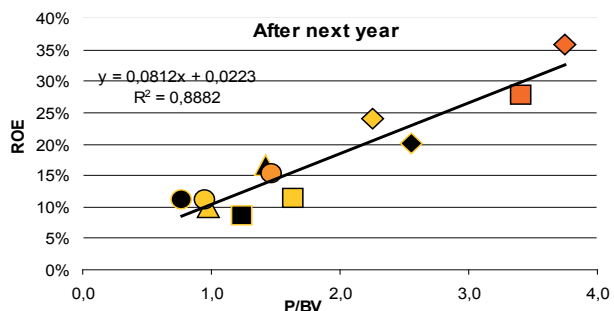
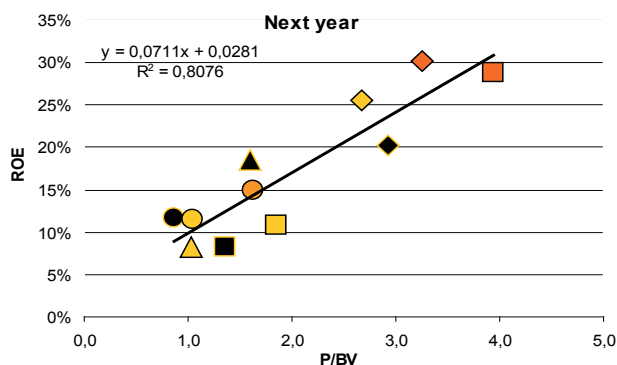
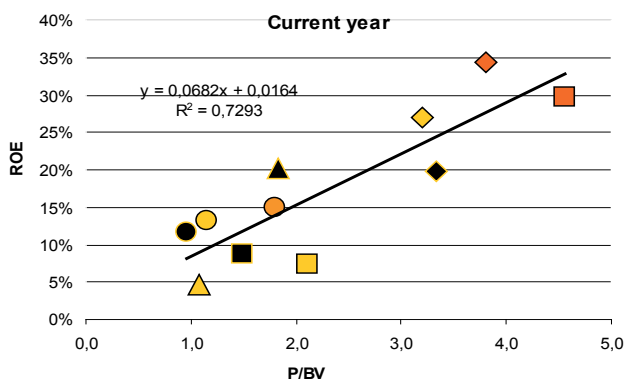
P/E watch	07/08e	08/09e	09/10e	EV/EBITDA watch	07/08e	08/09e	09/10e
	P/E current NOS	12,08	10,88		9,69	EV/EBITDA current NOS	6,73
P/E fully dilluted	12,08	10,88	9,69	EV/EBITDA fully dilluted	6,73	5,78	5,04
Fair P/E current NOS	12,69	11,43	10,18	Fair EV/EBITDA current NOS	6,97	6,00	5,24
Fair P/E fully dilluted	12,69	11,43	10,18	Fair EV/EBITDA fully dilluted	6,97	6,00	5,24
Target P/E current NOS	13,84	12,47	11,10	Target EV/EBITDA current NOS	7,42	6,41	5,59
Target P/E fully dilluted	13,84	12,47	11,10	Target EV/EBITDA fully dilluted	7,42	6,41	5,59
Mean Peer Group	13,97	11,38	10,19	Mean Peer Group	7,79	6,91	5,88
Median Peer Group	11,81	10,40	9,40	Median Peer Group	7,47	6,94	5,91
Dissected P/E	10,89	8,99	7,71	Dissected EV/EBITDA	20,06	19,18	19,94



KTM AG

Company	P/E			P/BV			EV/EBITDA			EV/EBIT		
	07e	08e	09e	07e	08e	09e	07e	08e	09e	07e	08e	09e
BAJAJ AUTO LIMITED	16,8	14,5	12,8	3,3	2,9	2,6	17,3	14,2	11,0	2,1	1,8	1,5
DUCATI MOTOR HOLDING	28,4	17,1	14,3	2,1	1,9	1,6	16,5	11,2	9,7	1,1	1,0	0,9
HERO HONDA MOTORS LI	15,3	13,7	12,3	4,6	3,9	3,4	12,3	10,9	N/A	1,3	1,1	N/A
HARLEY-DAVIDSON INC	11,1	10,8	10,5	3,8	3,3	3,8	8,7	8,8	N/A	2,0	1,9	N/A
TVS MOTOR CO LTD	23,7	12,4	9,7	1,1	1,0	1,0	46,1	18,3	14,9	0,4	0,3	0,3
YAMAHA MOTOR CO LTD	8,3	7,4	7,0	1,0	0,9	0,8	5,1	4,3	3,3	0,4	0,3	0,2
HONDA MOTOR CO LTD	8,7	9,1	8,5	1,1	1,0	1,0	9,7	10,8	9,5	0,7	0,7	0,7
SUZUKI MOTOR CORP	17,1	16,3	14,7	1,5	1,4	1,2	9,0	8,3	7,3	0,4	0,4	0,3
ISUZU MOTORS LTD	9,1	8,6	8,5	1,8	1,6	1,4	8,5	7,3	6,5	0,5	0,5	0,4
HUSQVARNA AB-B SHS	11,8	10,4	9,4	3,2	2,7	2,2	9,9	8,7	7,8	1,1	1,0	0,9
Median Peer Group	13,6	11,6	10,1	2,0	1,7	1,5	9,8	9,8	8,6	0,9	0,8	0,6
Mean Peer Group	15,0	12,0	10,8	2,4	2,1	1,9	14,3	10,3	8,8	1,0	0,9	0,7
KTM @ current market Cap	12,1	10,9	9,7	1,8	1,6	1,5	6,7	5,8	5,0	11,7	10,1	8,6
KTM @ fully dilluted Cap	12,1	10,9	9,7	1,8	1,6	1,5	6,7	5,8	5,0	11,7	10,1	8,6

Company	ROE			EBITDA margin			EBIT margin			EV/Sales		
	07e	08e	09e	07e	08e	09e	07e	08e	09e	07e	08e	09e
BAJAJ AUTO LIMITED	20%	20%	20%	14%	15%	14%	12%	13%	13%	14,6	12,0	10,2
DUCATI MOTOR HOLDING	7%	11%	11%	14%	15%	16%	7%	9%	9%	8,0	6,3	5,7
HERO HONDA MOTORS LI	30%	29%	28%	14%	12%	12%	10%	10%	10%	8,8	9,3	N/A
HARLEY-DAVIDSON INC	34%	30%	36%	28%	28%	28%	23%	22%	23%	7,2	7,0	N/A
TVS MOTOR CO LTD	5%	8%	10%	3%	4%	4%	1%	2%	2%	10,6	7,8	7,8
YAMAHA MOTOR CO LTD	12%	12%	11%	10%	11%	11%	7%	7%	7%	3,3	2,9	2,3
HONDA MOTOR CO LTD	13%	11%	11%	11%	10%	11%	8%	7%	7%	6,7	7,1	6,2
SUZUKI MOTOR CORP	9%	8%	8%	9%	9%	9%	4%	4%	5%	4,5	4,1	3,7
ISUZU MOTORS LTD	20%	19%	17%	8%	9%	9%	6%	6%	7%	6,4	5,6	5,0
HUSQVARNA AB-B SHS	27%	26%	24%	14%	14%	15%	11%	11%	12%	7,7	6,9	6,1
Median Peer Group	16%	15%	14%	12%	11%	11%	7%	8%	8%	7,5	6,9	5,9
Mean Peer Group	18%	17%	18%	13%	13%	13%	9%	9%	10%	7,8	6,9	5,9
KTM	15%	15%	15%	12%	12%	13%	7%	7%	8%	0,8	0,7	0,7

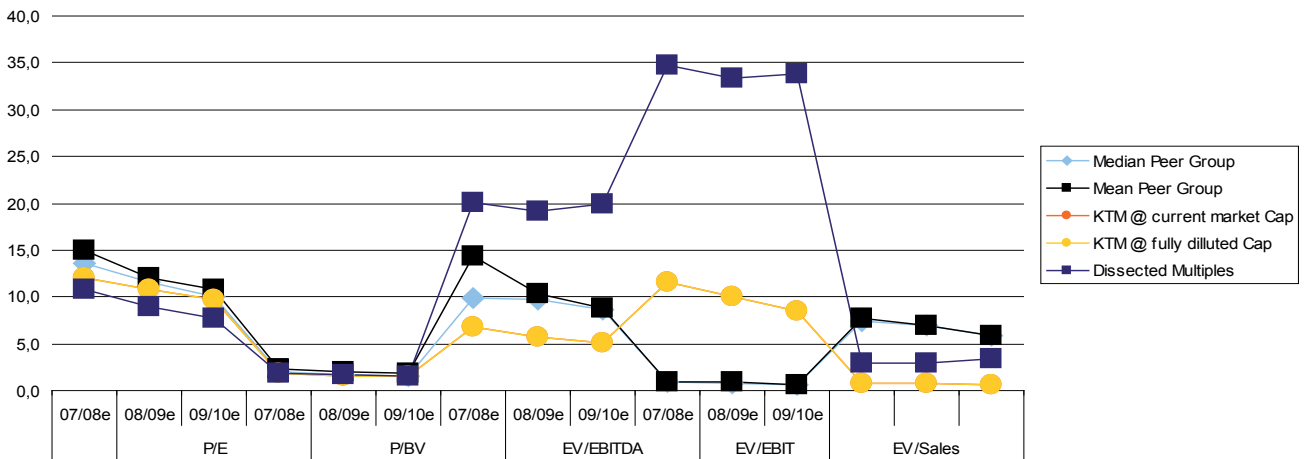


- ◆ BAJAJ AUTO LIMITED
- DUCATI MOTOR HOLDING SPA
- HERO HONDA MOTORS LIMITED
- ◆ HARLEY-DAVIDSON INC
- ▲ TVS MOTOR CO LTD
- YAMAHA MOTOR CO LTD
- HONDA MOTOR CO LTD
- SUZUKI MOTOR CORP
- ▲ ISUZU MOTORS LTD
- ◆ HUSQVARNA AB-B SHS
- KTM

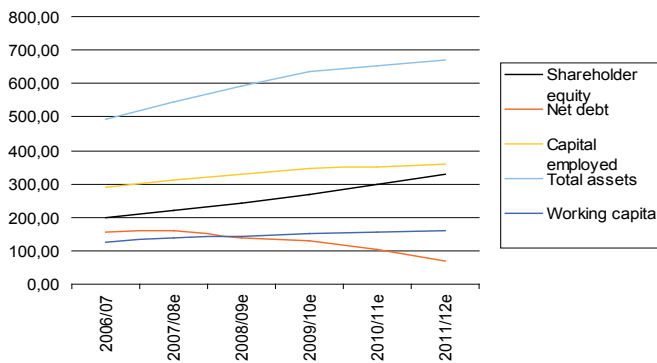
## Keyfigure Table

EUR mln	2005/06	2006/07	2007/08e	2008/09e	2009/10e	2010/11e	2011/12e
Sales	504,48	567,01	658,39	736,79	801,12	836,48	873,09
EBITDA	54,51	66,69	82,03	91,83	104,10	111,99	117,35
EBIT	34,01	41,18	47,34	52,70	61,31	68,46	73,22
Net profit	20,04	26,02	32,58	36,17	40,63	47,12	51,81
Sales growth	N/A	12,4%	16,1%	11,9%	8,7%	4,4%	4,4%
EBITDA margin	10,8%	11,8%	12,5%	12,5%	13,0%	13,4%	13,4%
EBIT margin	6,7%	7,3%	7,2%	7,2%	7,7%	8,2%	8,4%
Tax rate	25,4%	19,0%	16,0%	20,0%	25,0%	25,0%	25,0%
Shareholder equity	178,55	199,19	219,00	242,79	268,11	296,55	329,53
Non-current liabilities	150,33	143,11	155,23	161,68	165,75	155,26	141,26
Current liabilities	128,09	149,00	171,81	186,99	201,26	200,30	199,60
Non-current assets	237,02	260,38	289,15	315,64	337,48	342,22	346,25
Current assets	219,95	230,92	256,90	275,82	297,64	309,88	324,15
Total assets	456,97	491,30	546,05	591,46	635,12	652,11	670,40
Working capital	100,30	127,49	136,71	144,61	151,33	154,92	158,71
Net debt	132,51	156,33	158,10	137,26	131,43	101,83	70,64
Net assets	147,99	160,84	173,59	185,29	194,93	197,21	199,20
Capital employed	248,28	288,33	310,30	329,89	346,25	352,13	357,91
Enterprise Value	526,08	549,89	551,67	530,83	525,00	495,40	464,21
Equity Ratio	39,1%	40,5%	40,1%	41,0%	42,2%	45,5%	49,2%
Net gearing	74,2%	78,5%	72,2%	56,5%	49,0%	34,3%	21,4%
Cash ratio	27,2%	5,9%	7,4%	6,7%	5,6%	5,5%	6,1%
Quick ratio	98,3%	76,3%	78,3%	79,6%	79,3%	82,7%	87,0%
Current ratio	171,7%	155,0%	149,5%	147,5%	147,9%	154,7%	162,4%
Cashflow earnings	47,69	60,60	75,81	82,79	90,56	96,29	100,08
ΔWorking capital	0,00	-27,20	-9,21	-7,90	-6,72	-3,60	-3,78
Cashflow operations	0,00	40,83	57,32	65,86	76,68	88,80	92,32
Cashflow investment	0,00	-41,15	-52,90	-60,00	-60,00	-47,00	-47,00
Cashflow financing	0,00	-7,59	-0,47	-6,01	-17,85	-42,19	-44,14
FCFE	N/A	N/A	19,40	-6,50	15,98	19,06	25,50
EVA	N/A	11,72	16,45	17,70	20,71	28,34	32,80
EVA/EV	N/A	2,1%	3,0%	3,3%	3,9%	5,7%	7,1%
CFRoEV	0,0%	7,4%	10,4%	12,4%	14,6%	17,9%	19,9%
Earnings Quality	-11,2%	7,4%	11,3%	12,2%	13,4%	14,1%	12,3%
ΔWorking Capital / ΔSales	N/A	-43,5%	-10,1%	-10,1%	-10,4%	-10,2%	-10,3%
CFor/Net debt	0,0%	26,1%	36,3%	48,0%	58,3%	87,2%	130,7%
Depreciation as %EBITDA	37,6%	38,2%	42,3%	42,6%	41,1%	38,9%	37,6%
Reinvestment as %EBITDA	0,0%	62,1%	64,5%	65,3%	57,6%	42,0%	40,1%
Interest Cover	475,3%	453,9%	554,4%	703,6%	858,7%	1214,0%	1768,6%
Cash Realisation	0,0%	156,9%	175,9%	182,1%	188,7%	188,5%	178,2%
Asset Replacement	0,0%	162,4%	152,5%	153,3%	140,2%	108,0%	106,5%
ROA	4,4%	5,3%	6,0%	6,1%	6,4%	7,2%	7,7%
ROE	11,2%	13,1%	14,9%	14,9%	15,2%	15,9%	15,7%
ROCE	10,2%	11,6%	12,8%	12,8%	13,3%	15,8%	17,2%
RONA	17,1%	20,7%	22,9%	22,8%	23,6%	28,1%	30,9%
Dividend pay-out ratio	25,8%	23,8%	27,0%	30,0%	30,0%	30,0%	30,0%
Reinvestment Rate	0,0%	166,6%	131,2%	128,8%	108,8%	73,9%	69,4%
Retention Rate	74,2%	76,2%	73,0%	70,0%	70,0%	70,0%	70,0%
Yield (current number of shares)	1,3%	1,6%	2,2%	2,8%	3,1%	3,6%	3,9%
Yield (fully diluted)	1,3%	1,6%	2,2%	2,8%	3,1%	3,6%	3,9%
Free Cash Flow Yield	N/A	3,5%	3,7%	5,8%	12,5%	14,1%	12,6%
EPS current number of shares	2,91	3,78	4,73	5,25	5,89	6,84	7,52
EPS fully diluted	2,91	3,78	4,73	5,25	5,89	6,84	7,52
DPS current number of shares	0,75	0,90	1,28	1,57	1,77	2,05	2,25
DPS fully diluted	0,75	0,90	1,28	1,57	1,77	2,05	2,25
BPS current number of shares	25,90	28,90	31,77	35,22	38,90	43,02	47,81
BPS fully diluted	25,90	28,90	31,77	35,22	38,90	43,02	47,81

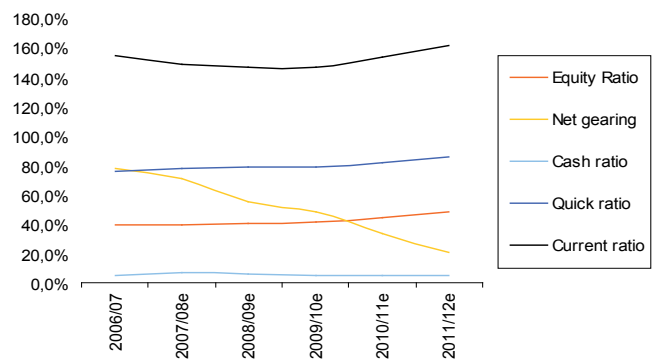
Multiple comparison



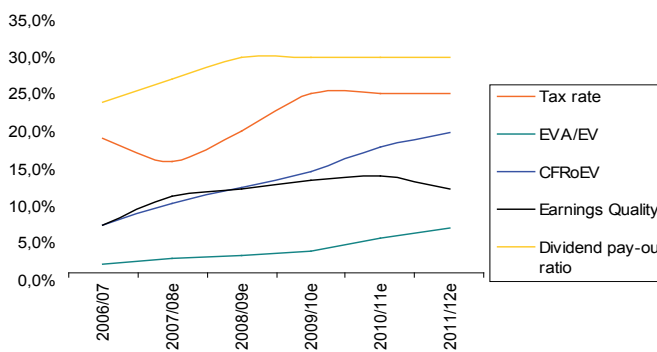
Balance overview



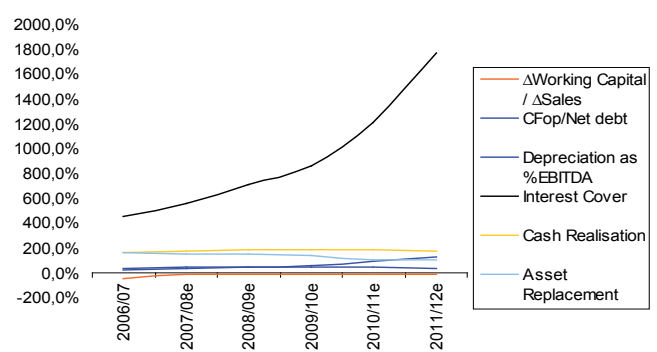
Ratio overview



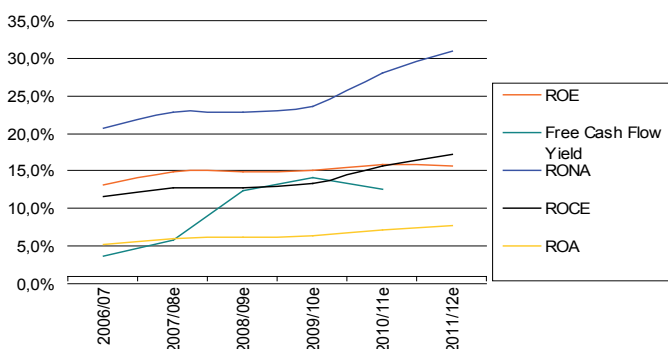
Rates overview



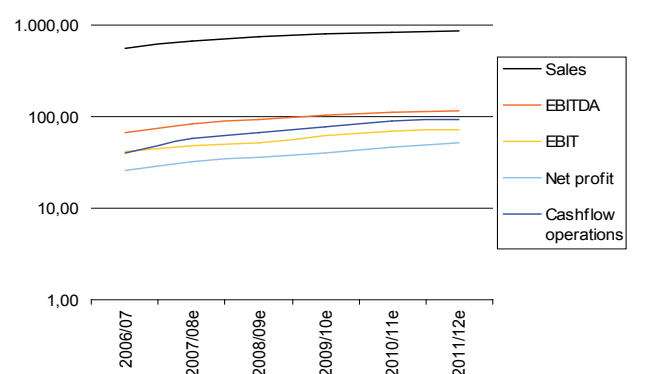
Financial strength overview



Return overview



P&L overview



## Historical Recommendations & Target Prices

09.02.07	Buy	70.00	Initial Coverage	03.10.07	Buy	67.65	Update
23.04.07	Buy	70.61	Update	13.02.08	Buy	65.43	Update

## Equity Rating Dispersion & Banking Relationships

Companies covered in Capital Bank universe: 25

Buy:	64%
Hold:	28%
Sell:	8%

Companies with banking relationship: 5

Buy:	80%
Hold:	20%
Sell:	0%

Recommendations and Stock Ratings: Capital Bank utilises a three-tier recommendation system for stocks under formal coverage: **Buy**, **Hold**, or **Sell**. The rating depends on the expected excess return of the stock against the market within the next 12 months. The expected market return is defined by the sum of risk free rate, equity risk premium and country risk premium. The expected stock return is defined by the 12 months price target plus dividend payments. If the excess return of the stock is higher than the sum of equity risk premium and country risk premium, a buy recommendation is applied. If the excess return is negative in the same amount, we apply a sell and between these boundaries a hold. Temporary movements by stocks across the boundaries of these categories due to share price volatility will not necessarily trigger a recommendation change Capital Bank will advise and when coverage of securities commences and ceases. Capital Bank has no policy or standard as to the frequency of any updates or changes to its coverage policies. Capital Bank employs three further categorisations for stocks under coverage:

**Restricted:** A rating and/or financial forecasts and/or target price is not disclosed owing to compliance or other regulatory considerations such as blackout period or conflict of interest.

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**Under review:** Stocks may be flagged as Under-review when the stock's price target and/or rating are subject to possible change in the near term.

## Measures & Multiple Definitions

**12M Price Target:** This value is also calculated as a blend from the 12M fair values derived by our models.

**Beta:** We use no Beta in the calculation of the WACC, but calculate back an implied Beta out of the COE for orientation.

**CAGR:** The underlying growth from the last reported year to the last exact planning year, divided by the number of years.

**Capital Employed:** Working Capital plus Net Assets.

**Cash Realisation:** Cash Flow operations divided by Net profit

**Cash/Quick/Current ratio:** Cash and Cash equivalents, Cash plus Receivables or Current Assets divided by Current Liabilities.

**CFop/Net debt:** Cash Flow operations divided by the company's Net debt.

**CFRoEV:** With this concept we look from the point of view of strategic investors. These investors seek to purchase assets at such Enterprise Values that the operating cash flow return exceeds the opportunity costs. We choose a hurdle rate of 10% and back other valuation outcome with this.

**DCF:** Discounted cash flow model. We use the exact duration from the date of the calculation till the end of the business year of the company for the discounting period. To calculate this period on a yearly basis, we act with 364.25 days per year. We plan at least 5 years of free cash flow exactly with some restrictions. Margin and sales growth is not allowed to peak in the last year, Capex should be higher than Depreciations. In addition a competitive advantage period in which the company generates higher returns than the WACC lasts for at least 3 years and at maximum 50 for years (basing on EVA© principles). After a transition period where the ROCE is striving towards WACC, the terminal value is calculated with a maximum g of the expected long-term inflation of 2.2%. Higher growth rates may be applied during the competitive advantage and the transition period.

**Depreciation or Reinvestment in % of EBITDA:** Portion of Depreciation or Net Capex plus change in WC on EBITDA.

**Dividend payout:** The absolute amount of dividends paid by the company for a given year.

**Dividend Yield and Free Cash Flow Yield:** Pay out ratio multiplied with net profit after minorities or FCF, divided by the actual market cap.

**Earnings Quality:** Difference between Cash Flow operations and net profit divided by the shareholders equity.

**Enterprise Value:** Market Cap plus Net debt.

**EPS/DPS/BPS:** Earnings, Dividends and Book value per share. These numbers are calculated on the basic NOS and fully diluted.

**Equity Ratio:** Shareholder Equity divided by balance sheet total.

**EV/Sales, EV/EBITDA, EV/EBIT:** Enterprise Value divided by Sales, EBITDA or EBIT.

**EVA/EV:** Economic Value Added (ROCE-WACC x capital employed) divided by the Enterprise Value to describe a real value growth rate.

**Fair Value:** This is the current fair value of the stock in our view. For this we blend the outcome of our models with discretionary weights to this price.

**Free Cash Flow (FCF):** EBIT - Tax + depreciation - change in working capital - long time accruals - Capex; **FCFE** = FCF + New debt - Repayment.

**GGM:** a one-stage ROE/COE or ROCE/WACC model is used. g is estimated by the half of ROE multiplied with the Retention Rate.

**IERP (Implied Equity Risk Premium):** A conservative valuation method to gather a fair P/BV multiple through the division of COE by ROE.

**Interest Cover:** is used to determine the implied rating of the given company. For this we divide average EBIT by the amount of interest payments.

**Interest & Discount Rates:** All calculations in the valuation models base on continuously compounded interest rates.

**Multiple methods:** We use a tight peer group, based on Bloomberg and Reuters Knowledge data. We use the mean for the calculation of average P/E, EV/EBITDA and EV/EBIT multiples. Fair P/BV and EV/Sales multiples are computed through a regression with ROE and EBITDA margin or EBIT margin to take the company's margin and return situation into account. To back this, we calculate dissected multiples basing on ROE, ROCE, mid-cycle WACC, mid-cycle growth rate (defined by the median of ROE multiplied by the median of the Retention Rate).

**Net assets:** Cash and Cash equivalents plus working capital requirement plus fixed tangible assets.

**Net debt:** Interest bearing debt (including pension obligations) minus cash and cash equivalents.

**Net gearing:** Net Debt divided by Shareholders equity.

**NOPAT:** Net operating profit after taxes (EBIT minus taxes on EBIT).

**Number of shares (fully diluted):** We use the current number of shares (NOS) for the comparison in the multiple methods but the fully diluted number of shares (including convertibles, stock options and pending capital increases) for the fair value and the 12M price target.

**P/E, P/BV:** Market cap divided by net profit after minorities or shareholders equity.

**Reinvestment Rate, Asset Replacement:** Net Capex plus change in Working Capital, divided by EBIT and Capex divided by Depreciation.

**Retention Rate:** 1-Pay out ratio in percent - the portion of net profit that remains in the company.

**ROCE, RONA, ROE, ROA:** NOPAT or Net profit divided by Capital Employed, Net Assets, shareholders equity or Total Assets.

**WACC:** For the weighted average costs of capital we blend costs of equity (COE) and cost of debt (COD) according to the debt/equity ratio. COE is calculated as the sum of the risk free rate, size differential, risk differential and the country risk premium. COD are calculated as the product of 1 minus tax rate (tax shield) and the sum of risk free rate, credit risk premium and country risk premium.

**Working Capital:** Current Assets minus Current non interest bearing debt minus Cash and Cash equivalents.

## Disclosure – KTM - Appropriate points: 2, 3, 8

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6. The analyst is on the supervisory/management board of the company they cover.
7. The analyst bought or received stakes in the company before the official emission.
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10. Capital Bank – Grawe Group AG or affiliated companies hold stakes of about 5% of the equity on the emitter.
11. The emitter holds about 5% of the equity on Capital Bank – Grawe Group AG or an affiliated company.
12. Capital Bank – Grawe Group AG or an affiliated company covered the emitter by order in the past two years.
13. The remuneration of the analyst is bound to the investment banking business of Capital Bank – Grawe Group AG or an affiliated company.
14. Capital Bank or an affiliated company expects to receive or seek compensation from the emitter for investment banking services in the next 3 months.

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