

Company Update

March 28, 2006

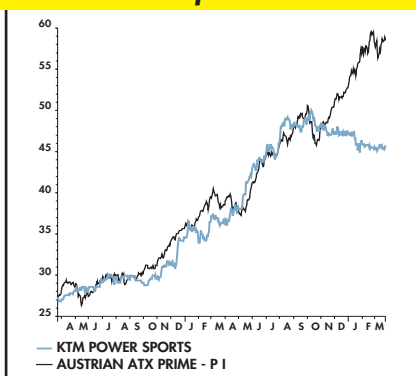
Industrials/Austria

KTM Power Sports

Hold

Ordinary share price	45.70
27.03.06	
Target Price	48.00
Volatility risk	low
Listing, Vienna	
ISIN-Code	AT0000645403
Reuters	KTMP.VI
Bloomberg	KTM AV
Homepage	www.ktm.com
Free float	20.0%
Market cap. (EUR mn)	315.6
Ø daily turnover (12m)	
EUR mn	0.4
ATX Prime Weighting	0.3%
BV/share 05/06e (EUR)	25.50

KTM Power Sports



Source: Thomson Financial Datastream

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1Q results - Houston, you have a problem

1Q results gave no hint as to the further growth course due to an act of God. But the strong on-road pipeline as well as the good sales development in the Related Products segment let us feel comfortable with our sales estimate of EUR 480 mn in 2005/06. After the steadily declining earnings trend in the last years we expect a recovery due to some economies of scale effects on the cost side as well as positive effects from the Polaris partnership. The outstanding sales momentum should continue in the following years supported by the emerging ATV and Sportscar businesses. Only the stretched valuation prevents us from issuing a "buy" recommendation.

1Q 2005/06: KTM PS's 1Q results missed our estimates due to delayed shipments of off-road motorcycles caused by the hurricanes in the south of the US (most off-road motorcycles for the US market are distributed via Houston). KTM reported sales of EUR 109.7 mn compared to our estimate of EUR 117.0 mn. The delayed shipment caused an EBIT shortfall of EUR 2.5 – 3 mn. Therefore EBIT of EUR 8.6 mn missed our estimate of EUR 11.7 mn.

Trend reversal in profitability: In 1Q, gross margin increased from 34.5% to 36.4% due to higher growth of related products and lower sales discounts. After three years of deteriorating profitability we reckon with a sustainable recovery backed also by a decreasing proportion of sales, racing and R&D expenses. But the shift in growth towards the lower-margin on-road segment will limit the upside potential.

Outlook: In 2005/06 we expect a sales increase to EUR 480 mn and an EPS increase from EUR 2.09 to EUR 3.01. Expansion of the on-road product range, the positive effects of the Polaris partnership as well as the new products ATV and Sportscars should secure the long-term growth course.

Recommendation and valuation: Currently, KTM PS trades slightly above the peer group on all valuation multiples with the exception of EV/Sales. The higher valuation level in our view reflects the expected high future sales momentum from the on-road segment and the emerging ATV business. Therefore we keep our price target of EUR 48 unchanged and confirm our "hold" recommendation.

Ratios per Share (IFRS)

in EUR	03/04	04/05	05/06e	06/07e	07/08e
Earnings	3.20	2.09	3.01	3.58	3.96
Price/earnings ratio	15.1	21.9	15.2	12.8	11.5
Cash earnings	2.14	4.68	6.28	7.10	7.71
Price/cash earnings ratio	22.6	9.8	7.3	6.4	5.9
Dividend	0.00	0.55	0.75	0.83	0.90
Dividend yield	0.0%	1.2%	1.7%	1.8%	2.0%
Payout ratio	0%	31%	25%	23%	23%
No of shares (mn)	4.1	5.8	6.9	6.9	6.9

Source: KTM, Raiffeisen Centrobank estimates

ATVs: the "missing link" between 2 and 4 wheels

Growth shift to on-road motorcycles and ATVs: In the business year 2004/05, KTM introduced the two new on-road motorcycles 950 Supermoto and 990 Superduke, which contributed to a further sales shift towards the on-road segment. The On-road segment, which in accordance with KTM PS's segmentation also includes the Dual Sport/Adventure segment, increased sales by 27% to EUR 128 mn in 2004/05 while off-road sales increased only slightly from EUR 214.5 mn to EUR 218.2 mn. In the current business year we expect a further sales boost to EUR 149 mn fuelled by a higher volume of the new models and the introduction of the new 950 Superenduro and the new 990 Adventure. These two new models mark KTM's foray into the segment of "heavy" long-distance travel enduros, which has so far been dominated by BMW in Europe. In 2006/07 we expect the sales start of the KTM ATV, which should generate sales of EUR 15 mn in the first year.

Sales Split of KTM group

in EUR mn	03/04	in %	04/05	in %	05/06e	in %	06/07e	in %	07/08e	in %	1Q 04/05	in %	1Q 05/06	in %
Offroad	214.5	53%	218.2	48%	218.0	45%	220.0	39%	222.0	36%	67.7	60%	66.9	61%
Onroad	101.0	25%	128.4	28%	149.0	31%	180.0	32%	205.0	33%	18.0	16%	14.3	13%
Sportminicycles	23.4	6%	25.9	6%	23.0	5%	25.0	4%	25.0	4%	9.0	8%	6.6	6%
Motorcycles	338.8	84%	372.4	83%	390.0	81%	425.0	75%	452.0	73%	94.8	84%	87.8	80%
ATVs and ATV engines	0.0	0%	0.0	0%	0.0	0%	25.0	4%	42.0	7%				
Related products	63.6	16%	78.8	17%	90.0	19%	115.0	20%	126.0	20%	18.0	16%	21.9	20%
Sales	402.4	100%	451.2	100%	480.0	100%	565.0	100%	620.0	100%	112.8		109.7	

Source: KTM PS, Raiffeisen Centrobank estimates

Prototype to be presented at the beginning of 2007

KTM Sportscar: Recently, KTM's CEO Pierer released the group's plans of a KTM sportscar, which should come to the market in 2008. KTM plans the development in cooperation with a car manufacturer. In the beginning, KTM intends to sell 500 cars at a price of below EUR 35,000, which would result in annual sales of EUR 17.5 mn. With the Sportscar KTM intends to offer its more mature customers a sporty yet economical 4-wheel alternative to its motorcycles. We do not include the project in our estimates at the moment. Based on the current thin information we believe that the sportscar would fit in the strategy of the group and could further strengthen the value of the KTM brand.

Related Products & Others

in % of sales	2005
Harley Davidson	19.9%
Ducati	21.9%
KTM	17.5%

Source: KTM PS, Harley Davidson, Ducati

High growth of Related Products & Others: The most profitable segment continued its strong growth course in 1Q and saw a jump in divisional sales from EUR 18.4 mn (= 16% of KTM's overall sales revenue) to EUR 21.9 mn (= 20%). The segment comprises mainly spare parts, accessoires, external sales of the group's own suspension manufacturer WP Suspension, engines and racing-related sales as well as sales discounts as a deduction. The strong growth was fuelled by the spare parts, accessoires and WP Suspension products, which have gross margins between 40% and 60%. In our opinion, the increase in the accessories business also reflects the successful performance of the KTM brand. The expansion strategy in the on-road segment and in the 4 wheel business as well as the racing activities of KTM should support further expansion of this segment. For comparison, the competitors Ducati and Harley Davidson generate roughly 20% and more of their sales revenues from spare parts, technical components and accessories as well as merchandising articles.

Break-up of Related Products & Others

in EUR mn	02/03	03/04	+/- in %	04/05	+/- in %	1Q 04/05	1Q 05/06	+/- in %
Spare Parts	30.9	32.8	6%	36.1	10%	8.3	9.2	10%
Accessoires	16.8	19.9	19%	28.4	43%	7.5	8.4	11%
WP Suspension	5.6	7.4	32%	17.0	129%	3.0	3.9	30%
Net others	3.3	3.4	n.a.	-2.7	n.a.	-0.5	0.5	n.a.
Related Products & Others	56.6	63.6	12%	78.8	24%	18.4	21.9	20%

Source: KTM Power Sports

Outlook and planning model: The weak 1Q results need some more explanation. Due to the hurricanes in the south of the U.S. the cargo ship was unable to unload the motorcycles in time. According to KTM, 2,000 off-road motorcycles were affected by the delay, representing sales of about EUR 9 mn (average price per motorcycle: EUR 4,500) at an expected gross margin of 30% - 35%. Therefore the delay caused an EBIT shortfall of an estimated EUR 3 mn, which was more or less the EBIT deviation to our estimate (EUR 11.7 mn). KTM is confident to compensate for the delay in 2Q. Therefore we keep our estimate of a sales increase from EUR 451.2 mn (comparable figures of 2004/05) to EUR 480 mn. We expect a stable gross margin due to the negative USD effect and especially the increasing portion of the lower-margin on-road business. In 2004/05 the off-road segment had a gross margin (sales discounts are not considered) of about 33% compared to 24% in the on-road segment. Although we think that the margin difference will narrow in the future due to higher onroad volumes a gap will remain since the on-road business is more price sensitive than the sports-oriented off-road segment. After the strong rise of R&D costs from EUR 8.9 mn to EUR 16.4 mn in 2004/05, we expect a decline to EUR 15 mn in 2005/06. To show the developments in the P&L account in the last few years we post some P&L figures of KTM Group on the left side, which is unaffected by the consolidation changes and the past investment activity of KTM Power Sports. We add our 2007/08 estimates, which are based on ongoing strong sales growth from the ATV and on-road businesses.

Figures of KTM Group

in EUR mn	02/03	03/04	04/05
Sales	375.7	402.4	451.2
Gross profit	141.5	140.5	140.2
Gross margin	37.7%	34.9%	31.1%
EBITDA	56.7	56.3	52.5
EBITDA margin	15.1%	14.0%	11.6%
EBIT	45	41.6	25.5
EBIT margin	12.0%	10.3%	5.7%

Source: KTM Power Sports

Risks to our planning model: The biggest risk to our planning scenario undoubtedly stems from the USD trend. A 1% decrease in the USD vs. the EUR essentially knocks on to a decline in EBIT by some EUR 1 mn. As a result of the rolling exchange rate hedges, the negative effect on the result can be postponed to buy time for strategic counter-measures. In this context the cooperation with Polaris opens up interesting perspectives, because Polaris could also perform the (partial) assembly of KTM motorcycles for the US market and vice-versa. Furthermore, market acceptance of the new on-road and ATV models will be decisive for the business performance in future, since further sales growth is strongly dependent on this segment.

Performance

in %	3M	6M	12M
KTM PS	-4.2	-7.0	25.4
Arctic Cat	16.2	15.5	-17.6
Ducati	6.0	-19.1	-11.7
Harley Davidson	-4.6	-0.1	-16.6
Polaris	5.1	9.2	-27.3
Porsche	21.8	9.6	31.4
Yamaha	-5.5	25.8	51.5
Palfinger	2.7	-2.1	58.4
Mean	6.0	5.5	9.7
Median	5.1	9.2	-11.7

Source: KTM Power Sports,
Raiffeisen Centrobank estimates

Valuation and recommendation: KTM PS shares currently trade at a premium to the peer group median in terms of EV/EBITDA. Due to the outstanding growth momentum and growth perspectives compared to its peers we consider this justified. The KTM share has outperformed most of its peers, since US leisure vehicle manufacturers were burdened by a somewhat softening demand and fears of adverse consequences of rising interest rates. We keep our price target of EUR 48 unchanged and confirm our "hold" recommendation.

Peer Group

	PER			EV/Sales			EV/EBITDA			EBITDA margin		
	2005	2006e	2007e	2005	2006e	2007e	2005	2006e	2007e	2005	2006e	2007e
Arctic Cat	15.5	17.0	15.0	0.5	0.6	0.5	6.6	6.9	6.3	8.0	8.4	8.6
Ducati	-13.1	-26.0	103.9	0.7	0.8	0.7	8.6	9.4	6.7	8.6	8.6	10.7
Harley Davidson	18.8	13.2	12.0	3.2	2.4	2.2	10.4	7.8	7.3	30.4	31.0	30.8
Polaris	15.6	15.8	13.8	1.2	1.2	1.1	7.5	7.5	6.9	15.4	15.4	15.6
Porsche	14.2	14.6	12.7	1.5	1.7	1.6	5.9	6.8	6.3	24.8	25.9	26.1
Yamaha	14.3	11.6	10.9	0.7	0.6	0.5	6.8	5.2	4.7	10.9	11.3	11.5
Palfinger	11.7	11.3	11.2	1.1	1.1	1.0	7.7	7.1	6.7	14.9	14.9	14.7
Mean	11.0	8.2	25.6	1.3	1.2	1.1	7.6	7.2	6.4	16.2	16.5	16.9
Median	14.3	13.2	12.7	1.1	1.1	1.0	7.5	7.1	6.7	14.9	14.9	14.7
KTM PS*	20.6	15.2	12.8	1.0	0.9	0.8	10.8	8.0	6.9	9.5	11.6	11.2
Polaris	15.6	15.8	13.8	1.2	1.2	1.1	7.5	7.5	6.9			
Premium/Discount to Polaris	32%	-3%	-7%	-11%	-20%	-28%	44%	6%	1%			
KTM at EUR 48		15.9	13.4		1.0	0.8		8.3	7.1			

*2005 Multiples based on KTM Group GmbH results
Source: Bloomberg, Raiffeisen Centrobank estimates

Income Statement (IFRS)

in EUR mn	03/04*	%	04/05**	%	05/06e	%	06/07e	%	07/08e	%
Consolidated sales	154.5	100.0	381.9	100.0	480.0	100.0	565.0	100.0	620.0	100.0
Cost of sales	-100.3	-64.9	-265.4	-69.5	-333.6	-69.5	-395.5	-70.0	-434.0	-70.0
Gross profit	54.2	35.1	116.4	30.5	146.4	30.5	169.5	30.0	186.0	30.0
Other operating income	0.0	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Selling expenses	-25.3	-16.4	-61.5	-16.1	-67.0	-14.0	-74.5	-13.2	-81.5	-13.1
Administrative expenses	-7.8	-5.0	-16.8	-4.4	-22.5	-4.7	-25.8	-4.6	-28.5	-4.6
Other operating expenses	-5.6	-3.6	-20.6	-5.4	-23.7	-4.9	-29.8	-5.3	-32.8	-5.3
EBITDA	21.6	14.0	32.8	8.6	55.5	11.6	63.1	11.2	68.6	11.1
Depreciation of PPE and intangibles	-6.1	-4.0	-15.2	-4.0	-22.3	-4.6	-23.8	-4.2	-25.4	-4.1
EBITA	15.5	10.0	17.7	4.6	33.2	6.9	39.4	7.0	43.2	7.0
Amortisation, impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	15.5	10.0	17.7	4.6	33.2	6.9	39.4	7.0	43.2	7.0
Investment income	3.4	2.2	1.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net interest income	-2.6	-1.7	-6.3	-1.6	-7.6	-1.6	-7.3	-1.3	-6.8	-1.1
Other financial result	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial result	1.1	0.7	-5.3	-1.4	-7.6	-1.6	-7.3	-1.3	-6.8	-1.1
Earnings before taxes	16.6	10.7	12.4	3.2	25.6	5.3	32.0	5.7	36.4	5.9
Taxes on income	-3.5	-2.3	-0.3	-0.1	-4.9	-1.0	-7.4	-1.3	-9.1	-1.5
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	13.1	8.5	12.1	3.2	20.8	4.3	24.7	4.4	27.3	4.4
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit after minorities	13.1	8.5	12.1	3.2	20.8	4.3	24.7	4.4	27.3	4.4

*38.3% of KTM included

**1Q: 38.3% of KTM, 2-4Q: 100% KTM

Source: KTM Power Sports, Raiffeisen Centrobank estimates

Cash Flow Statement (IFRS)

in EUR mn	03/04	%	04/05*	%	05/06e	%	06/07e	%	07/08e	%
Earnings before taxes	16.6	-753.0	12.4	29.1	25.6	72.2	32.0	72.2	36.4	77.2
Taxes paid	-2.6	119.0	-1.1	-2.6	-4.9	-13.7	-7.4	-16.6	-9.1	-19.3
Amortisation and depreciation	6.1	-277.2	15.2	35.7	22.3	62.7	23.8	53.6	25.4	53.9
Other non-cash items	-11.3	513.0	0.6	1.5	0.2	0.7	0.5	1.1	0.5	1.1
Cash flow from result	8.8	-398.1	27.1	63.7	43.3	121.8	48.9	110.3	53.2	112.8
Change in working capital	-11.0	498.1	15.4	36.3	-7.7	-21.8	-4.6	-10.3	-6.1	-12.8
Operating cash flow	-2.2	100.0	42.5	100.0	35.5	100.0	44.4	100.0	47.1	100.0
Capex PPE and intangible assets	-10.3	465.5	-20.6	-48.6	-27.2	-76.6	-29.0	-65.4	-29.0	-61.6
Acquisitions	0.0	0.0	-61.1	-143.8	0.0	0.0	0.0	0.0	0.0	0.0
Disposal of fixed assets	11.7	-528.9	41.3	97.2	0.0	0.0	0.0	0.0	0.0	0.0
Other items (investments)	-39.6	1798.4	-8.3	-19.6	0.0	0.0	0.0	0.0	0.0	0.0
Investing cash flow	-38.2	1734.9	-48.8	-114.8	-27.2	-76.6	-29.0	-65.4	-29.0	-61.6
Dividend payments	-2.1	30.0	0.0	0.0	-3.8	-10.7	-5.2	-11.7	-5.7	-12.1
Other changes in equity	32.9	470.1	48.5	114.2	0.0	-0.1	0.0	0.0	0.0	0.0
Change in interest-bearing financial assets	0.0	0.0	-13.6	-32.1	0.0	0.0	0.0	0.0	0.0	0.0
Other financial investments	-1.2	-17.1	-116.4	-274.0	3.2	8.9	0.0	0.0	0.0	0.0
Change net interest-bearing debt	-1.6	23.2	-87.8	-206.7	7.6	21.5	10.2	22.9	12.4	26.3

*affected by consolidation changes

Source: KTM Power Sports, Raiffeisen Centrobank estimates

Balance Sheet (IFRS)

in EUR mn	03/04*	%	04/05**	%	05/06e	%	06/07e	%	07/08e	%
Current assets	69.3	42.5	181.6	44.6	194.6	45.7	210.6	47.2	228.0	48.7
Liquid funds	9.0	5.5	15.0	3.7	17.9	4.2	19.4	4.3	21.4	4.6
Receivables	28.0	17.2	88.0	21.6	86.4	20.3	93.2	20.9	99.2	21.2
Inventories	31.8	19.5	77.7	19.1	88.8	20.9	96.1	21.5	105.4	22.5
Other assets	0.6	0.4	0.9	0.2	1.5	0.4	2.0	0.4	2.0	0.4
Fixed assets	93.8	57.5	225.9	55.4	230.8	54.3	236.1	52.8	239.7	51.3
Property, plant & equipment	24.7	15.1	65.1	16.0	65.0	15.3	66.6	14.9	67.8	14.5
Intangible assets	6.2	3.8	81.4	20.0	86.4	20.3	90.1	20.2	92.5	19.8
Goodwill	30.0	18.4	78.4	19.2	78.4	18.4	78.4	17.5	78.4	16.8
Financial assets	32.9	20.2	1.0	0.2	1.0	0.2	1.0	0.2	1.0	0.2
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total assets	163.2	100.0	407.5	100.0	425.4	100.0	446.7	100.0	467.7	100.0
Liab. & Equity, in EUR mn										
Current liabilities	37.9	23.2	122.4	34.5	120.0	32.2	121.4	30.8	120.3	29.0
Short-term borrowings	16.0	9.8	48.0	13.5	43.2	11.6	34.6	8.8	24.2	5.8
Trade payables	7.9	4.8	38.8	10.9	45.6	12.2	50.9	12.9	55.8	13.5
Short-term provisions	10.1	6.2	26.8	7.6	22.0	5.9	26.0	6.6	29.3	7.1
Other current liabilities	3.9	2.4	8.9	2.5	9.2	2.5	10.0	2.5	11.0	2.7
Long-term liabilities	55.8	34.2	106.9	30.2	110.3	29.6	110.8	28.1	111.3	26.8
Long-term borrowings	54.1	33.1	102.3	28.9	102.3	27.5	102.3	26.0	102.3	24.7
Long-term provisions	1.2	0.7	4.3	1.2	4.5	1.2	5.0	1.3	5.5	1.3
Other long-term liabilities	0.5	0.3	0.3	0.1	3.5	0.9	3.5	0.9	3.5	0.8
Shareholders' equity	67.0	41.0	158.7	44.8	175.7	47.2	195.1	49.6	216.7	52.3
Minority interests	0.1	0.0	0.2	0.0	0.1	0.0	0.1	0.0	0.1	0.0
Deferred tax liabilities	2.5	1.5	19.3	5.4	19.3	5.2	19.3	4.9	19.3	4.7
Total liabilities	163.2	100.0	407.5	100.0	425.4	100.0	446.7	100.0	467.7	100.0

*38.3% of KTM included

**1Q: 38.3% of KTM, 2-4Q: 100% KTM

Source: KTM Power Sports, Raiffeisen Centrobank estimates

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Buy: 10% or more for low/medium risk shares, 15% for high risk shares

Hold: -10% to +10% for low/medium risk shares, -15% to +15% for high risk shares

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Price targets are determined by the fair value derived from a peer group comparison and/or our DCF model. Other fundamental factors (M&A activities, capital markets transactions, share buybacks, sector sentiment etc.) are taken into account as well.

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