

## Fairness Opinion: Uster Technologies AG

20 February 2012

Reliance Restricted

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## Abbreviations

AG	Aktiengesellschaft, public company
BR	Brazil
Capex	Capital Expenditures
CAGR	Compound annual growth rate
CAPM	Capital Asset Pricing Model
CEO	Chief Executive Officer
CFIB	China Fiber Inspection Bureau
CHF	Swiss Francs
CHF XXXk	XXX thousand Swiss Francs
CN	China
Corp.	Corporation
CRP	Country Risk Premium
$c_s$	Credit spread
D	Debt ratio
DCF	Discounted Cash Flow
DE	Germany
DecXXA	Actual figures as of December 20xx
E	Equity ratio
EBIT	Earnings before Interest and Taxes
EBITA	Earnings before Interest Taxes and Goodwill Amortization
EBITDA	Earnings before Interest Taxes Depreciation and Amortization
ERP	Equity Risk Premium
EUR	Euro
EV	Enterprise Value
EY	Ernst & Young Ltd.
FCF	Free cash flow to the firm

## Abbreviations

FX	Foreign Exchange Rates
FYXXA	Actual figures for FYXX
FYXXB	Budgeted figures for FYXX
GBP	British Pounds
HR	Human Resources
HX	Semester X
i.e.	id est
IN	India
JP	Japan
JPY	Japanese Yen
$k_d$	Cost of debt
$k_e$	Cost of equity
Ltd.	Limited
LTM	Last twelve months
m	Million(s)
M&A	Mergers and Acquisitions
MRP	Market Risk Premium
MX	Mexico
n.a.	not available
NV	Naamloze Vennootschap, public company
OEM	Original Equipment Manufacturer
P&L	Profit and loss
P/E	Price/earnings ratio
plc	Public limited company
PPA	Purchase price agreement
QX	Quarter X

## Abbreviations

R&D	Research and Development
$r_f$	Risk free rate
$r_s$	Interest swap rate
RSU	Restricted stock unit
SA	Société Anonyme
SEK	Swedish Krona
SIX	Swiss Exchange
$s_p$	Size premium
$t$	Corporate income tax rate
TH	Thailand
Toyota	Toyota Industries Corporation
US	United States
USD	United States Dollar
USDA	United States Department of Agriculture
Uster Technologies	Uster Technologies AG
USTN	Reuters Ticker, Uster Technologies AG
VWAP	Volume Weighted Average Price
WACC	Weighted Average Cost of Capital
$w_d$	Debt ratio
$w_e$	Equity ratio
y-o-y	year-on-year
$\beta_l$	Adjusted levered beta
$\beta_u$	Adjusted unlevered beta

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## Introduction

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1. Background
2. Our engagement

# Background

## Company logo

Source: Company homepage



## Public tender offer from Toyota for the remaining shares in Uster

### Uster Technologies

- ▶ Uster Technologies (“Uster”) is an international manufacturer of high tech testing and measuring equipment for industrial textile quality control, from ‘fiber to fabric’. The company is headquartered in Uster, Switzerland.
- ▶ The shares of Uster are quoted on the SIX Swiss Exchange in Zurich since October 2007 (Reuters Ticker: USTN). As at 17 February 2012, 8.46 million shares, with a nominal value of CHF 9.4 per share, have been issued.

### Evolution of events with respect to the proposed transaction

- ▶ On 8 November 2011, Toyota Industries Corporation (“Toyota”) issued a pre-announcement of a public tender offer of CHF 38 for one Uster share.<sup>1</sup> The offer has been rejected by the Board of Directors of Uster on 8 November 2011.<sup>2</sup>
- ▶ On 9 February 2012, Toyota announced that all required merger control approvals have been obtained. The acquisition of the 21.88% stake in Uster from Groupe Alpha was closed on 15 February 2012.<sup>3</sup> Since then, Toyota holds 50.34% of all Uster shares and is the controlling shareholder.
- ▶ On 20 February 2012 Toyota and Uster entered into a transaction agreement with the following elements<sup>4</sup>:
  - Toyota agrees to increase the offering price from CHF 38.0 by CHF 6.0 to CHF 44.0 and Uster’s board of director agrees to recommend to Uster’s shareholders to accept Toyota’s public tender offer.
  - Toyota as shareholder agrees to approve a dividend of CHF 2.5 per Uster share, which will be proposed by the board of directors at the annual shareholder meeting on 12 April 2012.
  - The proposed dividend of CHF 2.5 will not be accounted for as a dilution effect and will not reduce the offering price.
  - Uster agrees to comply with the Best Price Rule.

<sup>1</sup> [http://www.toyota-industries.com/news/2011/uster\\_technologies/pdf/111108pre\\_announcement-e.pdf](http://www.toyota-industries.com/news/2011/uster_technologies/pdf/111108pre_announcement-e.pdf)

<sup>2</sup> [http://www.uster.com/fileadmin/customer/Investors/Media\\_Release/2011/20111108\\_Media\\_Release\\_on\\_announcement\\_final\\_E.pdf](http://www.uster.com/fileadmin/customer/Investors/Media_Release/2011/20111108_Media_Release_on_announcement_final_E.pdf)

<sup>3</sup> [http://www.toyota-industries.com/news/2011/uster\\_technologies/pdf/120209release-e.pdf](http://www.toyota-industries.com/news/2011/uster_technologies/pdf/120209release-e.pdf)

<sup>4</sup> [http://www.toyota-industries.com/news/2011/uster\\_technologies/pdf/120221release-e.pdf](http://www.toyota-industries.com/news/2011/uster_technologies/pdf/120221release-e.pdf)

## Our engagement

### Preparation of a fairness opinion on the offering price

- ▶ In this context described on the previous page, the independent board committee of Uster has engaged Ernst & Young Ltd. Switzerland (“Ernst & Young” or “us”) to prepare a fairness opinion and to determine the business enterprise value of Uster and its implied share value as at 17 February 2012.
- ▶ The following Uster board members are members of the independent board committee:
  - Max-Ulrich Zellweger, Chairman
  - Dr. Barry James Mulady
  - Dr. Geoffrey Scott
- ▶ The fairness opinion will be based on the offering price of CHF 44.0 plus the agreed dividend payment of CHF 2.5 per Uster share, amounting to a total value of CHF 46.5 per Uster share. As the dividend payments directly flow to the holder of an Uster share, it is considered an integrated part of the value of one Uster share for the purpose of this fairness opinion.
- ▶ Our engagement agreement with Uster dates 28 October 2011.
- ▶ This fairness opinion has been completed on 20 February 2012 and considered events and circumstances up to this date, including 2011 full year actual results of Uster.

## Business description

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3. Company description
4. Financial results
5. Market overview

## Company description

### Shareholder structure as at 20 February 2012

Shareholder	Percentage of share capital held
Toyota	50.34%
Management	8.41%
Other	41.25%

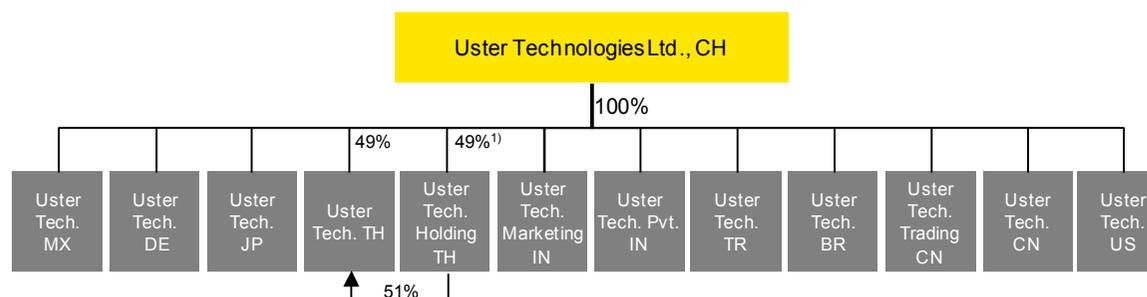
Source: SIX Swiss Exchange homepage

### Overview

- Founded in 1875, Uster has a workforce of 498 employees as at December 2011. The group is made of a number of operating entities throughout the world, as presented in the chart below.

### Group structure - Uster

Source: Company's website



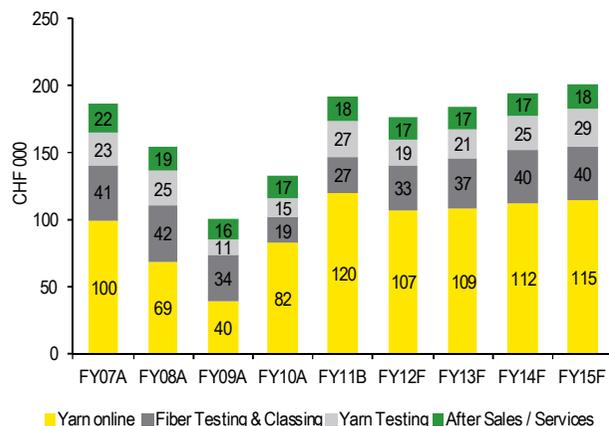
<sup>(1)</sup> As requested by Thai law, 49% of the stock is owned directly and 51% is formally held by local stockholders.

- Our valuation has been performed on a consolidated basis.
- Since August 2011, Toyota increased its shareholding in Uster to 50.34% and is at present the majority shareholder.

## Company description

### Evolution of sales by product category – FY07A – FY15F

Source: 5 year planning 2011 – 2015, Bod Meeting September 15th 2011



- Uster offers testing and monitoring instruments, systems and services for controlling quality over the entire textile production process.

### Textile value chain

Source: Management information

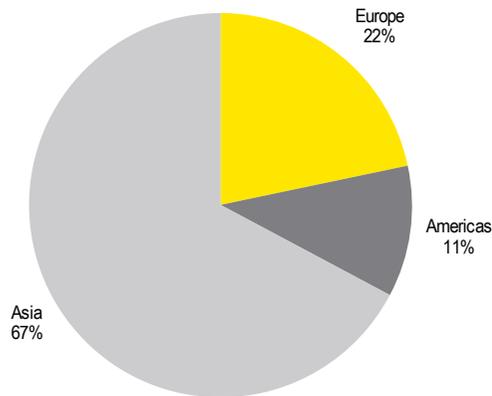


- The company's main clients are OEM, which account for approximately 62% of FY10A sales. The remaining revenues derive from fiber testing and classing (14.5%), laboratory yarn testing (11.0%) and after sales services (12.5%). The breakdown and evolution of net sales revenues is presented in the chart on the left.
- The company's products include:
  - INTELLIGIN and HVI Systems for ginning and cotton classing. USTER HVI 1000 classification is acknowledged as industry standard and Uster is the exclusive supplier for the United States Department of Agriculture ("USDA") and the China Fiber Inspection Bureau ("CFIB");
  - HVI Systems and AFIS PRO for laboratory fiber testing;
  - TESTER and CLASSIMAT for yarn testing;
  - QUANTUM for yarn cleaning and LAB-ONLINE for Total Quality Monitoring;
  - STATISTICS, a comprehensive database for quality measurement statistics, providing values used as industry benchmarks;
  - CLASSIMAT, TENSORAPID, TENSOJET, and ZWEIGLE for fabric quality assurance;
  - USTERIZED and INTELLIGENT SOURCING for intelligent sourcing;
  - Integrated Data and Expert Systems and after sales services.

# Company description

## Split of revenues by geographic area – FY10A

Source: Capital IQ



## Business model

- ▶ Uster has established a flexible business model, enabling to maintain high profitability. While core activities like key knowledge, systems and processes are kept in-house, component manufacturing and other non-key activities are outsourced. This allows Uster to manage cyclical shifts in demand, without negative impacts on profit margins.
- ▶ With three technology centres located in Switzerland, United States and China, seven regional sales and services companies and 50 agents, Uster is serving more than 4'000 customers in 75 countries.
- ▶ As shown in the graphic on the left, two thirds of Uster's revenues in FY10A have been realised in Asia. As the major invoicing currency is Swiss Francs, Uster is not heavily exposed to fluctuations in foreign exchange rates.
- ▶ "White Area Projects", listed in the table on the left, are projects in areas such as R&D, marketing or IT, aiming at improving group efficiency and supporting future growth, which can be realized at a flexible date in time.

## Conclusion

The valuation of Uster has been performed on a consolidated basis.

## Examples of White Area projects

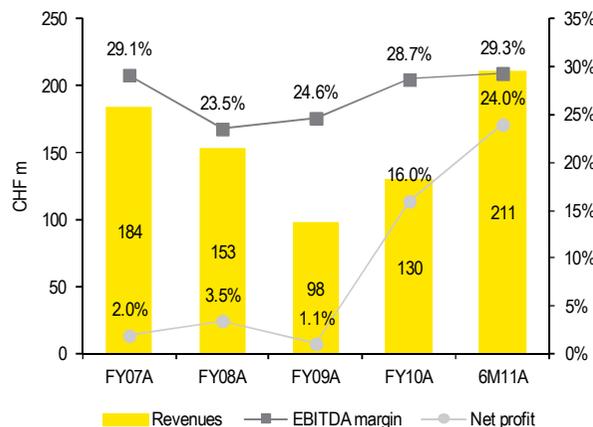
- Corporate identity refresh with new product brochures
- Web site improvement
- Management development and training
- Renewal of the Intranet to further improve internal communication
- SAP implementation in subsidiaries
- Implementation of a budget software
- Global standardization of HR procedures

Source: Management information

# Financial results

## Evolution of revenues and profit margins

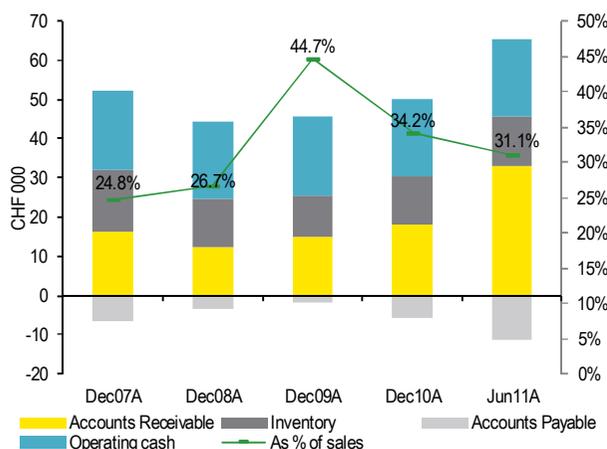
Source: Annual reports FY10A, 6M11A, Business Plan



Note: EBITDA and net profit margins have been based on net revenues (as opposed to gross revenues in the annual reports)

## Evolution of working capital

Source: Capital IQ, EY analysis



## Historical figures<sup>5</sup>

### Revenues

- ▶ During the first six months of 2011, Uster realised net revenues of CHF 105.6m, i.e. a sales growth of 72.2% compared to prior year figures (6M10A), driven mainly by increased demand from and on-going modernisation by Asian textile marketers, and high demand for the Uster QUANTUM3, launched in Q3 2010.
- ▶ Uster's sales have not been affected by the appreciation of the CHF, and translational FX effects were insignificant, as the major invoicing currency is CHF. In addition, Uster benefited from lower costs of EUR-denominated materials and components.
- ▶ The flexible business model allowed Uster to rapidly expand capacities in order to meet growing demand.

### Margins

- ▶ EBITDA amounted to 29.3% of net sales over the six-month reporting period (6M11A).
- ▶ Over the historical reporting period, Uster has generated EBITDA margins between 23.5% and 29.3% (FY07A to 6M11A).

### Cash flows

- ▶ Operating cash flows of CHF 22.5m per June 2011 have been used to reduce net debt to CHF 67.5m, compared to CHF 76.5m in December 2010.

### Trade working capital

- ▶ Historical trade working capital ranged between 24.8% and 44.7% of net sales. Higher values of working capital as a % of sales in FY09A were driven by a reduction in sales, leading to higher relative inventory levels.
- ▶ Based on management information, cash required to fund operating activities is equal to CHF 20m over the reporting and forecast period.

### Conclusion

Uster's flexible business model allows the company to rapidly adapt to changes in demand patterns. Thus in 2009, when sales decreased by 35.9% y-o-y EBITDA margins increased.

<sup>5</sup> Note: the historical analysis is based on the latest published results of Uster for the first half year 2011 as the full year 2011 figures were not yet published at the date of issuance of this report. However, for the valuation we had access to the full year 2011 actual financial statements and considered them in our valuation analysis.

## Market overview

### Market positioning

- ▶ Uster is internationally recognized as the market leader for the manufacturing of quality measurement and certification products for the textile industry.
- ▶ The company's Uster STATISTICS database has become an undisputed industry standard, providing Uster with significant market power.
- ▶ As exclusive supplier for the USDA and the CFIB, Uster has a very strong position in the classification of cotton.
- ▶ Due to its unique market positioning, Uster has a limited number of competitors and benefits from a high pricing power.
- ▶ R&D being the main driver for growth in testing and measurement markets, Uster has been continuously investing around 10% of its sales revenues in R&D activities, resulting in a strong portfolio of patents and trademarks.

### Market cycles

- ▶ Approximately 45% of Uster's sales are impacted by the textile economic cycle, corresponding to the sales of machines to OEMs.
- ▶ Based on analyst reports by Credit Suisse, Vontobel, MainFirst and Berenberg, the business cycle for textile and yarn producing machinery is expected to reach a peak in 2011, resulting in declining sales volumes in FY12. The current replacement wave of semi-automated winders which is likely to last for at least another year could partially offset the expected downturn.
- ▶ Asian markets have strongly contributed to the development of general textile and yarn producing machinery markets in 2011. Currently, many Asian companies are switching from semi-automatic to automatic winders. Nonetheless, for 2012, a contraction in revenues from Asian markets is expected, with revenues and growth rates stabilising at long-term sustainable levels.

## Market overview

### Benchmark analysis

- ▶ The table below shows the main financial ratios and margins of Uster and its group of comparable companies, based on figures for the last financial year ("LFY"). Further details on the selected peer group are provided in Appendix B of this report.

#### Benchmarking analysis – comparable companies – LFY

<i>In percentage</i>	EBITDA margin (%)*	EBITA margin (%)*	EBIT margin (%)*	Gross Profit margin (%)*	Net Profit margin (%)*	Capex (as % of sales)	Total Debt/Equity (%)	Working Capital (as % of sales)**
Picanol NV	14.0	12.0	11.8	20.7	8.9	0.9	12.7	13.9
Rieter Holding AG	8.8	4.0	3.8	52.7	1.1	3.9	57.8	15.8
OC Oerlikon Corporation AG	7.6	3.3	2.2	22.6	0.1	3.2	74.1	17.7
Schweiter Technologies AG	10.1	7.3	6.9	49.8	5.5	2.4	1.3	20.4
Intertek Group plc	20.1	16.4	15.4	20.3	9.4	4.4	80.4	15.2
SGS SA	22.2	18.2	17.7	46.6	12.4	4.8	26.4	17.3
Mettler-Toledo International, Inc.	18.9	17.4	17.1	52.7	11.8	3.8	89.0	22.8
Cognex Corporation	29.4	27.8	26.1	73.3	21.1	2.0	0 -	19.8
Oxford Instruments plc	12.2	10.7	8.9	41.7	12.3	2.2	12.8	22.6
Spectris plc	17.5	15.9	14.3	58.4	10.7	2.1	29.6	22.7
Toyota Tsusho Corp.	2.3	1.8	1.5	5.8	0.8	0.4	125.0	9.4
MTS Systems Corp.	12.8	10.2	9.7	41.0	5.0	3.0	25.1	32.8
Bureau Veritas SA	18.8	16.7	15.6	33.3	9.9	2.6	153.4	20.2
<b>Uster Technologies AG</b>	<b>28.7</b>	<b>26.8</b>	<b>15.2</b>	<b>59.3</b>	<b>16.0</b>	<b>2.6</b>	<b>43.9</b>	<b>18.8</b>
Minimum	2.3	1.8	1.5	5.8	0.1	0.4	0 -	9.4
Median	14.0	12.0	11.8	41.7	9.4	2.6	29.6	19.8
Maximum	29.4	27.8	26.1	73.3	21.1	4.8	153.4	32.8

Source: Capital IQ

Notes: \* Margins are based on net sales

\*\* Trade working capital has been computed, excluding operating cash

- ▶ Uster generates EBITDA, gross profit and net profit margins exceeding the ratios of all its major competitors, except for Cognex. High margins result from a very strong competitive position allowing for strong pricing power.
- ▶ Capital expenditures and working capital as a % of sales are in line with industry averages.
- ▶ While Uster has reduced its long-term debt during FY11, its leverage is exceeding the median value for the group of comparable companies. Nonetheless, cash flows from operating activities allow covering the interest charges on interest-bearing debts.

## Valuation foundations

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### 6. Valuation approach

## Valuation approach

### Share capital structure as at 17 February 2012

	# of shares to consider
Shares outstanding	8'460'000
Restricted share units issued (maximum number of RSU: 320'000)	295'500
<b>Total number of relevant shares on fully diluted basis</b>	<b>8'755'500</b>

Source: SIX Swiss Exchange homepage, Uster management

### Valuation approaches

Income approach (DCF method)	Primary method
Market approach (trading and transaction multiples)	Plausibility checks

Source: EY analysis

### Principles

- ▶ The purpose of our valuation is to assess the value of one share in Uster, as at 17 February 2012.
- ▶ As at the Valuation Date, the share capital of Uster consists of 8'460'000 shares outstanding. Furthermore, in May 2010, the group implemented a restricted stock units ("RSU") plan, allowing selected employees to purchase shares of Uster at a price of CHF 9.4 per share. These options will vest in 2013, or, inter alia, in the event of a change of control, whereby a change of control shall mean the acquisition by any one person, or more than one person acting in concert, of shares that, together with shares held by such person or group, constitute more than 5% of the total share capital or total voting power of all shares. In this sense, a successful public tender offer of Toyota will qualify as a change of control. As at the valuation date, 295'500 RSUs were issued and need to be considered in the number of shares on a fully diluted basis, as the option is in the money.

### Approach

- ▶ The paragraphs below set out our theoretical framework only on how we approached the valuation of on Uster share. In the subsequent chapters we show the actual application of our approach to Uster.
- ▶ To value Uster's shares, the income approach was used as the main approach, as income approaches allow to optimally consider company specific factors because the company financials have to be modeled in detail. In particular, the discounted cash flow ("DCF") method was applied as the primary valuation method for the operating business. Management confirmed that Uster does not hold any non-operating assets, except excess cash.
  - Assumptions made by Management were challenged through performing benchmarking analyses and establishing an independent view on the reasonableness of the underlying business plan.
- ▶ To further substantiate our valuation analysis, additional values of Uster's shares as at the Valuation Date were derived by applying market methods (trading and comparable transaction multiples). However, market approaches usually have limited explanation power and are only used for plausibility purposes.

### Conclusion

We have assessed the fair value of one share in Uster based on the results from the different valuation methods, whereby DCF was used as the primary valuation method.

The public offering price should lie within this range of values, to be considered as fair by us.

## Valuation analysis

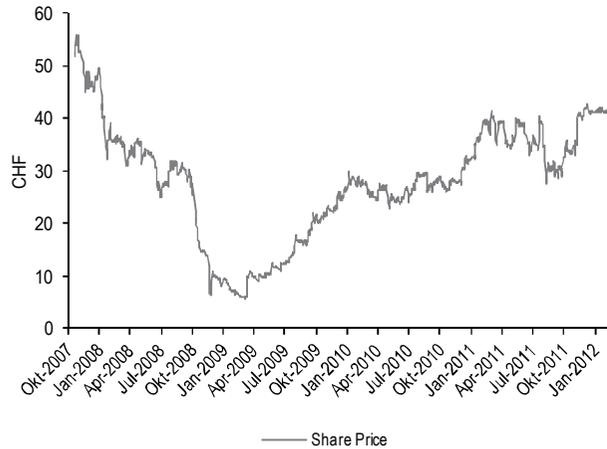
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7. Share price and liquidity analysis
8. Income approach: DCF valuation
9. Market approach: Multiples valuation

# Share price and liquidity analysis

## Evolution of Uster's share price, since October 2007

Source: Capital IQ, EY analysis



## Share price analysis

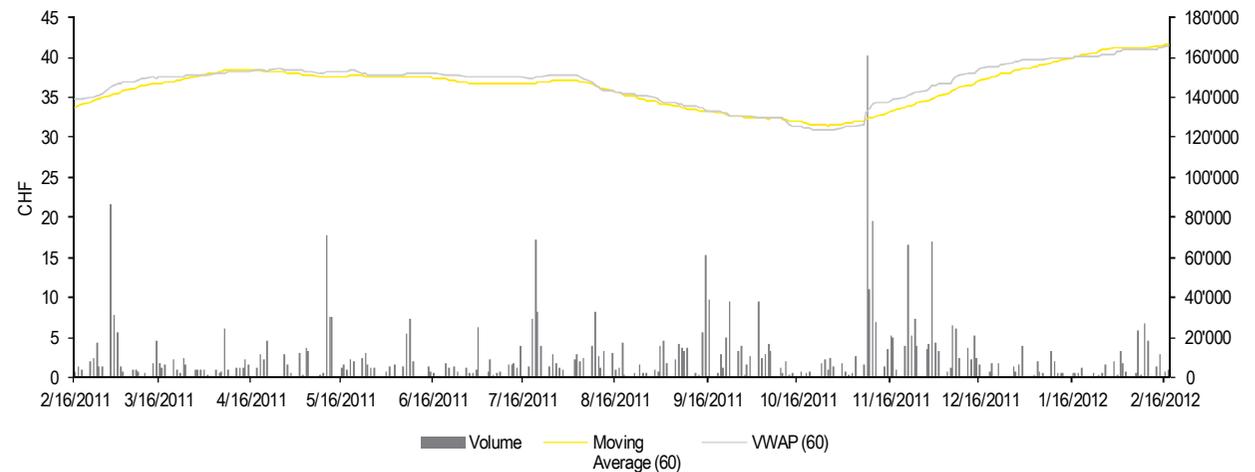
- ▶ The graph on the left shows historical stock prices since the initial public offering in October 2007. On 17 February 2012, the closing price was CHF 43.55 per share.
- ▶ The highest price over the reporting period was CHF 56.0 per share (24 October 2007), while the lowest price was CHF 5.8 (5 March 2009).

## VWAP

- ▶ In order to corroborate the share value calculated for Uster, we calculated the company's 60-day VWAP.
- ▶ The 60-day VWAP is defined as the volume weighted average price of all on-order-book-trades executed during the last 60 trading days.
- ▶ For valuation purposes, Uster's 60-day VWAP has been calculated as at 17 February 2012 and amounted to CHF 41.4. This compares to CHF 41.6 for the Group's equity weighted average daily price.

## Development of Uster's 60-day VWAP (LTM) Trading volume

Source: Bloomberg



## Share price and liquidity analysis

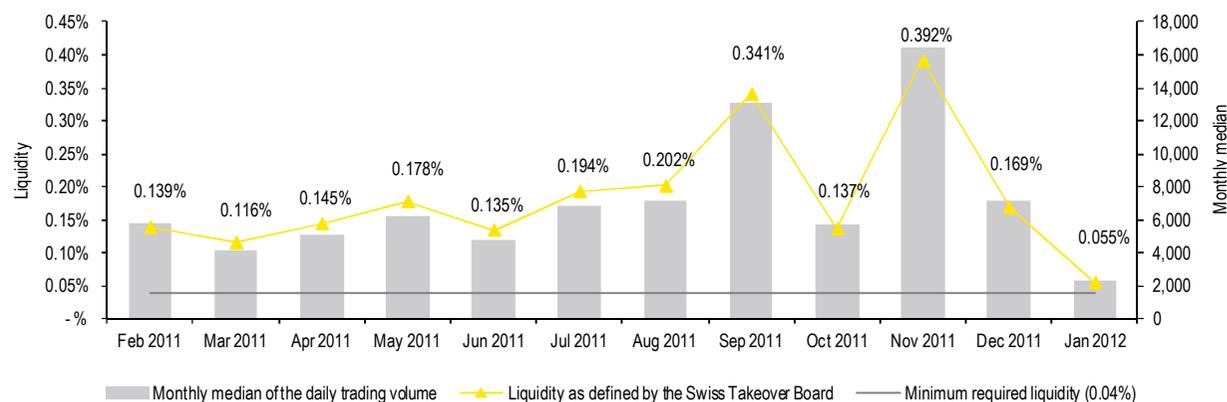
- ▶ Please note that the VWAP relevant for the best price rule would be as of the date of the pre-announcement of the public tender offer, i.e. 8 November 2011, calculated according to the rules of the Swiss Takeover Board. According to the Swiss Takeover Board, Uster's 60-day VWAP at that date was equal to CHF 31.5.

### Liquidity analysis

- ▶ The graphic below shows trading volumes for the twelve-month period between February 2011 and January 2012. Over the observation period, the trading volume of Uster's shares constantly remains above the liquidity threshold (set at 0.04% by Swiss Takeover Board in its circular No. 2 "Liquidity in the context of Takeover Law"<sup>6</sup>). Uster's shares are therefore deemed liquid.
- ▶ The data underlying our VWAP calculation was obtained from Bloomberg, which we consider a trusted source. The data underlying the liquidity analysis was obtained from SIX Swiss Stock Exchange, as required by the Swiss Takeover Board.

### Trading volume Feb11 – Jan 12

Source: SIX Swiss Stock Exchange, EY analysis

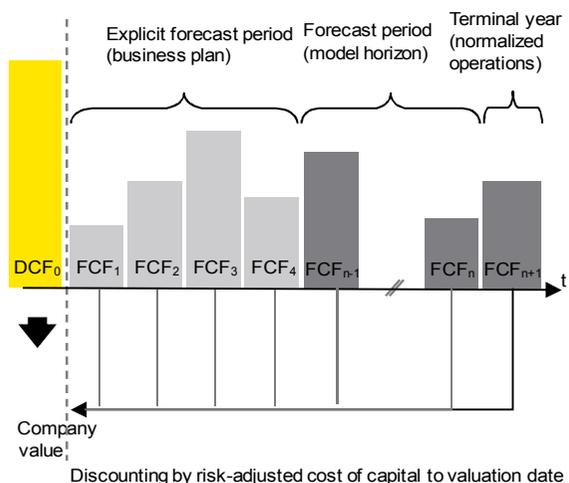


<sup>6</sup> <http://www.takeover.ch/legaltexts/overview/lang/en>

## Income approach: DCF valuation method

### Presentation of the DCF method

Source: EY



### DCF valuation method

- ▶ As mentioned earlier, the DCF method has been deemed as the most relevant and appropriate. Consequently it has been applied as our primary approach.
- ▶ The DCF involves deriving the cash flows from business activities along with the respective costs that are incurred and then discounting them at the appropriate cost of capital, as presented in the chart on the left. Our DCF model has been derived from the business plan described earlier in the report.
- ▶ All interest-bearing liabilities and minority interests contained in Uster's balance sheet as of the Valuation Date were deducted from the company's total EV to arrive at its equity value. Conversely all non-operational assets including any excess cash was added to the company's total EV to arrive at its equity value.
- ▶ To arrive at Uster's share value, its equity value was divided by the total number of shares and RSUs issued.

## Key valuation assumptions

### Main business plan assumptions

Item	Average forecast period	Terminal year
CAGR	1.0%	1.2%
EBITDA-margin	32.1%	30.0%
Trade WC / net sales	28.9%	28.4%
Capex / net sales	1.6%	1.6%

Source: Management, EY analysis

### Valuation parameters

- ▶ Our DCF model was based on the following assumptions:
  - Valuation date: 17 February 2012
  - Currency: Swiss Franc (“CHF”)
  - Corporate tax rate: effective tax rate of 17%
  - Losses carried forward: As at 17 February 2012, no losses existed to be carried forward
  - Excess cash: according to management, an amount of CHF 20m is required for operating activities, and should be included in the trade working capital. The remaining amount has been considered as excess cash
  - Non-operating assets: According to management, Uster does not hold any non-operating assets, except for excess cash
  - Revenues are expected to grow at a compound annual growth rate (“CAGR”) of 1.0% over the explicit forecast period

### Business Plan

- ▶ Our valuation, as at 17 February 2012 is based on the business plan prepared by Uster. The business plan was approved by Uster’s management and board of directors.
- ▶ The explicit forecast period consists of 4 years, i.e. the years FY12F to FY15F. As Uster’s cash flows are impacted by the cyclical nature of the textile machinery business, normalised cash flows have been derived for FY16F, based on an average of FY11A-FY15F figures. This average value is used as a basis for determining long-term cash flows.
- ▶ To account for Uster’s going concern assumption (i.e. growth into perpetuity) in the terminal year, its sustainable revenues growth rate was set equal to the weighted average of risk free rates used in the WACC calculation, based on invoiced currencies.
- ▶ Key assumptions for both the explicit forecast period and terminal value are illustrated in the table on the left.

## Key valuation assumptions

### Revenues

- ▶ The textile business cycle is expected to peak in 2011, resulting in a contraction of revenues in FY12. However, revenues from the sale of off-line laboratory systems, retrofit and fibre classing machines, services and sales of spare parts, as well as the replacement wave of semi-automated winders (likely to last for at least another year) could partially offset the expected downturn.
- ▶ As of FY13, revenues are expected to increase again.

### EBITDA

- ▶ Thanks to Uster's flexible business model, which allows the company to rapidly adjust to changes in demand patterns, EBITDA margins are expected to remain relatively constant over time.

### Investments (Capex)

- ▶ According to management assumptions, Capex has been set at an average 1.6% of net sales over the planning period.

### Working capital

- ▶ Net working capital has been derived by Ernst & Young and is based on management assumptions for forecast balance sheet figures. Cash of CHF 20m, required to fund operating activities, has been included in trade working capital over the forecast period. Over the forecasting period, net working capital amounts to an average of 16.1% of net sales (28.9% for trade working capital).
- ▶ From FY16F onwards, working capital is expected to grow in line with revenues.

### Net debt

- ▶ Uster's debt situation is expected to further improve over the forecast period, with planned loan repayments of CHF 10m per annum.
- ▶ For the valuation we considered Uster's total interest bearing liabilities less any excess cash.

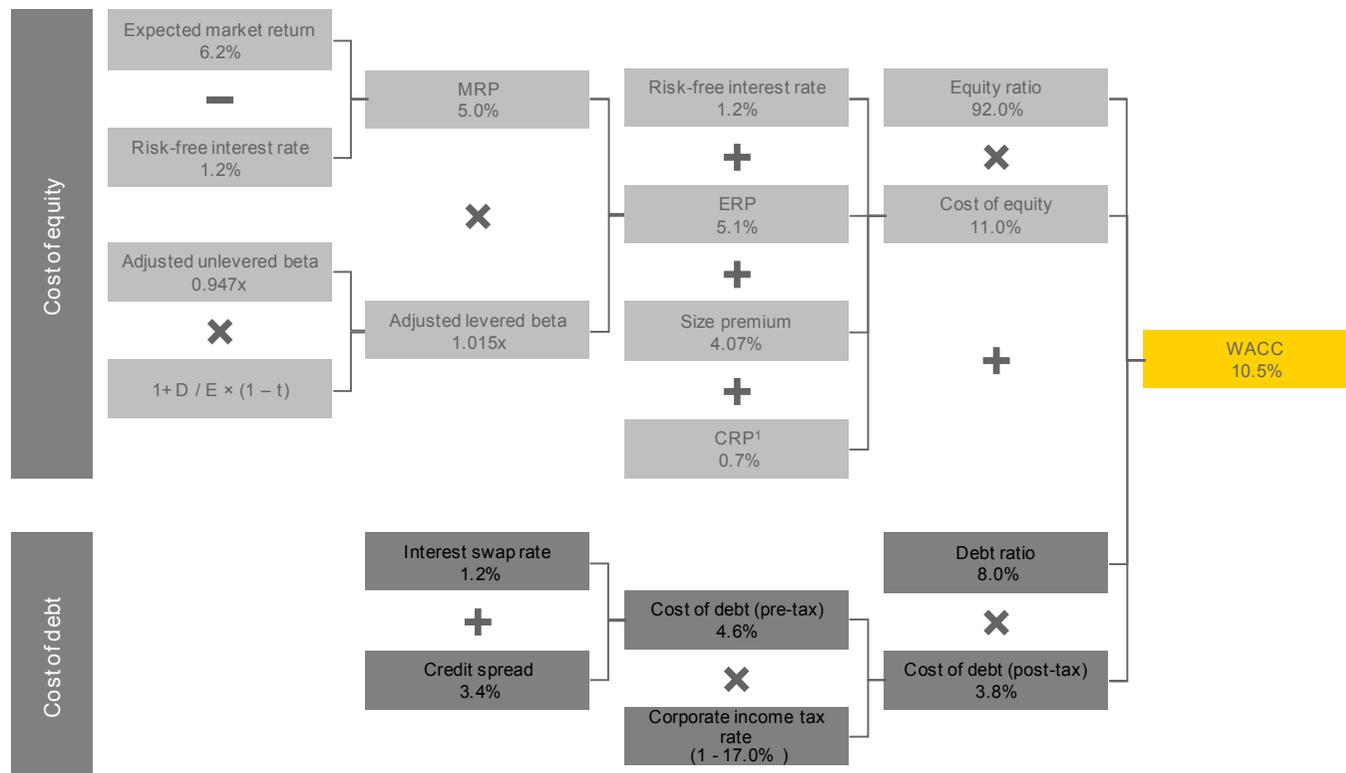
# Discount rate

## Cost of capital

- ▶ The WACC describes the weighted average return required by providers of debt and equity. Cost of equity is derived from the Capital Asset Pricing Model (“CAPM”). The cost of debt has been adjusted for the effective tax rate of 17% as in the DCF valuation the taxes are calculated based on EBIT. The WACC of Uster has been computed according to the graphic below.

### WACC calculation for Uster

Source: Ernst & Young



Notes:

- 1 A CRP is only included if uncertainty or increased risk exists with investing internationally (i.e., in developing countries)
- 2 Abbreviations: D: debt ratio / E: equity ratio / t: tax rate / MRP: market risk premium / ERP: equity risk premium / CRP: country risk premium

## Discount rate

► The following tables illustrate the underlying inputs of the WACC calculation.

### Cost of equity, as at 17 February 2012

Parameter	Input	Description	Source
Risk-free interest rate ( $r_f$ )	1.2%	The risk free rate describes the expected nominal return on risk free investments. As a nominal value, the risk free rate accounts for expected real interest rates and inflation.  The risk free rate has been computed as a weighted average of the risk free rates of the major invoicing currencies, i.e. CHF (70%) and USD (30%). $r_f = 70\% * r_{CHF} + 30\% * r_{USD}$	Implied yield on 10-year government bond of the country in local currency (Capital IQ)
Adjusted unlevered beta ( $\beta_U$ )	0.947	The beta reflects the systematic risk of a share, derived from the CAPM. These have been observed on the capital markets, and unlevered, according to their capital structure. This process of unlevering adjusts for the effects of different capital structures.	The adjusted unlevered beta has been derived from peer group median value (Capital IQ) See Appendix B for further details.
Adjusted levered beta ( $\beta_L$ )	1.015	The adjusted unlevered beta, has been relevered, according to the target capital structure. Formula: $\beta_L = \beta_U \times (1 + D / E) \times (1 - t)$	According to Modigliani and Miller
Market risk premium (MRP)	5.0%	The market risk premium corresponds to the difference between the return of the underlying capital market and the risk free rate. Formula: $MRP = E(R_m) - r_f$ (market studies)	Market risk premium (market studies)
Size premium ( $s_p$ )	4.07%	Empirical studies have shown that smaller companies (w.r.t. market capitalisation) realise higher returns, as compared to larger companies. These higher returns cannot be explained by the CAPM and can only be achieved through taking higher risks. Capital providers require to be compensated for these risks. A size premium, which increases the cost of equity accounts for this higher expected return.	Low cap status based on market capitalization as of Valuation Date (Ibbotson SBBI Yearbook 2011 – Morningstar)
Country risk premium (CRP)	0.7%	Country risk refers to the additional risk associated with investing internationally rather than domestically. To compensate for this uncertainty or increased risk, the average CRPs are weighted by FY11B sales mix	Damodaran online / Management information
<b>Cost of equity (<math>k_e</math>)</b>	<b>11.0%</b>	<b>Formula: <math>k_e = r_f + \beta_L \times MRP + s_p + CRP</math></b>	

## Discount rate

### Cost of debt, as at 17 February 2012

Parameter	Input	Description	Source
Interest swap rate ( $r_s$ )	1.2%	Swiss 10-year fixed-for-variable interest swap rate in CHF	Capital IQ
Credit spread ( $c_s$ )	3.4%	Credit spread derived from local benchmark return (BBB) and local interest swap rate	Capital IQ
<b>Cost of debt (<math>k_d</math>)</b>	<b>4.6%</b>	<b>Formula: <math>k_d = r_s + c_s</math></b>	

### Capital structure and income tax, as at 17 February 2012

Parameter	Input	Description	Source
Equity ratio ( $w_e$ )	92.0%	Derived from peer group median value (Capital IQ)	Derived from peer group median value (Capital IQ)
Debt ratio ( $w_d$ )	8.0%	Derived from peer group median value (Capital IQ)	Derived from peer group median value (Capital IQ)
Corporate income tax rate ( $t$ )	17.0%	Group corporate income tax rate (Management information)	
<b>WACC</b>	<b>10.5%</b>	<b>Formula: <math>WACC = k_e \times w_e + k_d \times w_d \times (1 - t)</math></b>	

## DCF valuation results

### Discounted cash-flow analysis

<i>Currency: CHF 000</i>	
Discounted FCFF - Forecast period	185,611
Discounted FCFF - Terminal value	325,417
<b>Enterprise value</b>	<b>511,029</b>
Non-operating assets	-
RSU vesting	2,401
Net debt	(60,491)
Deferred tax liability	(26,893)
<b>Equity value (100%)</b>	<b>426,246</b>
Number of shares	8,775,500
<b>Price per share (in CHF) (control-basis)</b>	<b>48.7</b>

Source: Uster, E&Y analysis

### Valuation results – DCF method

- ▶ The table on the left shows the results of the DCF analysis.
- ▶ Based on information provided, input from Management and our analysis, we have determined an equity value of CHF426m, as at 17 February 2012.
- ▶ To derive the equity value of Uster, enterprise value has been adjusted for:
  - Cash receipts from the exercise of stock options in FY13F (RSU vesting).
  - Net debt, consisting interest-bearing debt, net of excess cash and financial assets.
  - Deferred tax liability on amortisation of PPA intangibles. Enterprise value has been adjusted for the fair value of additional tax payments over the useful life of the assets as taxes in the business plan are based on EBIT.
- ▶ Taking into account the number of 8'460'000 outstanding shares and 295'500 issued RSUs we have determined a value of CHF 48.7 per share.
- ▶ The sensitivities of the price per share to changes in discount rates, growth rates and EBITDA margins are illustrated in Appendix C of this report.
- ▶ Based on the sensitivity analyses and our professional judgment we conclude that the DCF value of on Uster share lies within a range of CHF 46.0 and 51.0.

### Conclusion

As at 17 February 2012, the value of one share in Uster, determined according to the DCF method, is estimated at CHF 48.7.

Based on the sensitivity analyses and our professional judgment we conclude that the DCF value of on Uster share lies within a range of CHF 46.0 and 51.0.

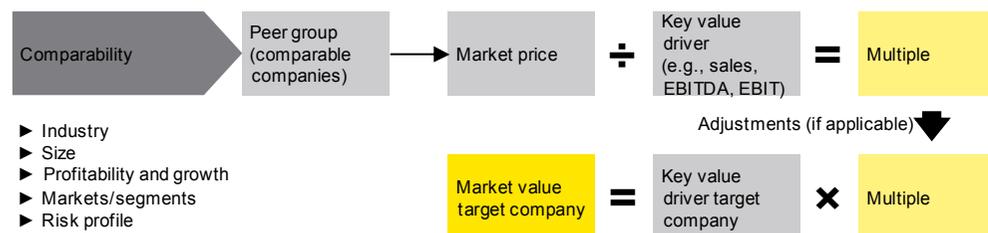
## Market approach: Multiples valuation

### Market approach: trading/transaction multiples valuation

- ▶ Market valuation approaches (i.e. trading and transaction multiples) were applied as backup methods in order to corroborate the findings obtained through the primary valuation method.
- ▶ This is a common approach to determine the company value by taking the company's main value drivers and applying a multiple to it. Market based multiples can be either trading multiples derived from comparable public companies or transaction multiples derived from comparable mergers and acquisitions in the same industry.
- ▶ The trading multiple analysis is focused on comparing the subject company to a reasonable selection of similar publicly traded companies. The basis of our analysis for the trading multiples was the identification of companies with similar business operations. This method is presented in the chart below:

#### Trading multiple method

Source: EY



- ▶ Performing a transaction multiple analysis involves comparing the subject company to a reasonable selection of corporate transactions where companies similar to the subject company were acquired or merged. Our analysis encompasses five transactions where companies with similar business operations were acquired (please refer to Appendix D for further details).
- ▶ To cross-check the DCF valuation, Ernst & Young normally chooses the EBITDA multiple for the following reasons:
  - Sales give no indications of the cost structure of a company;
  - EBIT could be influenced by different depreciation policies and levels of fixed assets.
- ▶ However, for comparable transactions, no relevant information on EBITDA was available, we have therefore used EBIT multiple.

## Multiples valuation

### Trading multiple analysis

Currency: CHF 000	FY11	FY12
EBITDA	59,690	54,653
EBITDA-Multiple	10.1x	9.7x
<b>Enterprise Value</b>	<b>601,216</b>	<b>527,672</b>
Non-operating assets	-	-
RSU vesting	2,401	2,401
Net debt	(60,491)	(60,491)
Deferred tax liability	(26,893)	(26,893)
<b>Equity Value (100%)</b>	<b>516,234</b>	<b>442,690</b>
Number of shares	8,755,500	8,755,500
<b>Value of one share CHF</b>	<b>59.0</b>	<b>50.6</b>

Source: Capital IQ, Ernst & Young calculations

### Valuation based on market multiples

- ▶ In order to further substantiate Ernst & Young's DCF calculations, the value of Uster's shares was derived based on trading as well as transaction multiples.

### Peer group

- ▶ Companies adjudged to be reasonably comparable to Uster were included in the peer group. Upon defining comparable companies, the following characteristics were taken into account: industry, size, profitability and growth, markets/segments, risk profile.
- ▶ Likewise, companies that were quoted by Uster's management as competitors or are used by the company to benchmark performance were equally considered.
- ▶ Since no direct comparables could be identified for Uster, the compiled peer group encompasses two distinct company subsets:
  - Textile machinery and equipment manufacturers
  - Testing and measurement
- ▶ We identified four publicly traded companies that are active in the textile machinery industry and nine publicly traded companies from the testing and measurement sector. The data underlying the trading multiples was retrieved from Capital IQ. The peer group and the relevant data are presented in Appendixes B and D.

### Trading multiple analysis

- ▶ The median EBITDA multiple for FY11 and forward-looking multiple for FY12 were applied to Uster's actual EBITDA in FY11 and forecast EBITDA for FY12 respectively.
- ▶ The adjacent table presents an overview of the valuation of Uster calculated by applying a trading multiple valuation approach.

## Multiples valuation

### Transaction multiple analysis

Currency: CHF 000	FY11
EBIT	41,360
EBIT-Multiple	12.0x
<b>Enterprise Value</b>	<b>496,320</b>
Non-operating assets	-
RSU vesting	2,401
Net debt	(60,491)
Deferred tax liability	(26,893)
<b>Equity Value (100%)</b>	<b>411,338</b>
Number of shares	8,755,500
<b>Value of one share (control basis) CHF</b>	<b>47.0</b>

Source: Capital IQ, Ernst & Young calculations

### Transaction multiple analysis

- ▶ To determine an appropriate transaction multiple, Ernst & Young screened *Capital IQ* and *Mergermarket* for mergers and acquisitions (“M&A”) transactions in the textile industry and the testing and measurement sector, which took place between 2006 and 2011. In addition, we referred to the “*Test and measurement report, a middle-market perspective on the test and measurement industry*” published by Baird in June 2011.
- ▶ The transaction multiple analysis encompasses a set of five completed transactions in which majority stakes in companies with similar business operations to Uster were acquired. Further details on the identified transactions are displayed in Appendix D.
- ▶ Given the lack of relevant information available on EBITDA, Ernst & Young applied the median EBIT transaction multiple to Uster EBIT in 2011. However, the information was available for one transaction only. The adjacent table presents an overview of the valuation of Uster calculated by applying a transaction multiple valuation approach.

### Valuation results – market approach

- ▶ The trading multiple analyses, reflecting actual EBITDA multiples for 2011 and forward looking EBITDA multiples for 2012 result in values for one share in Uster between CHF 50.4 and CHF 58.8.
- ▶ The transaction multiple analyses results in a value of CHF 46.9 for one share in Uster.

### Conclusion

Market approaches have limited explanation power and are only used for plausibility purposes.

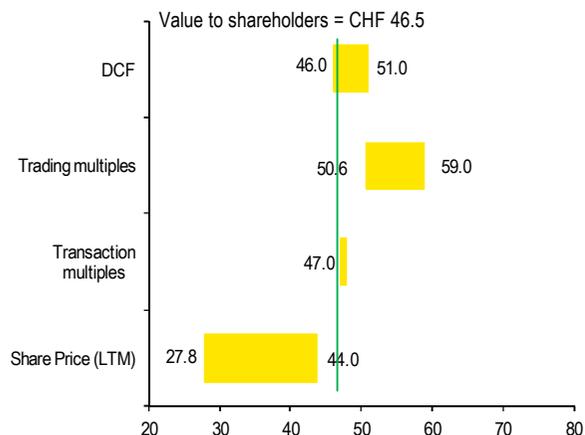
## General assessment / fairness opinion

### 10. General assessment / fairness opinion

## General assessment / fairness opinion

### Range of values for one Uster share

Source: EY analysis



### Analyst views

Report	Target price per share
Credit Suisse, 26 September 2011	CHF 50
Berenberg Bank, 18 July 2011	CHF 52
Vontobel, 19 September 2011	CHF 45
MainFirst, 19 July 2011	CHF 50

### Result of our fairness opinion

- ▶ The chart on the left summarizes the results from our valuation analyses. As outlined in the valuation foundations, we used the DCF as the primary method, whereas trading and transaction multiples, VWAP and analyst reports were considered in our final conclusion as a plausibility check.
  - The estimated value of one share in Uster, derived from the DCF method, lies within a range of CHF 46.0 and CHF 51.0.
  - The trading and transaction multiple analyses result in values for one share in Uster between CHF 47.0 and CHF 59.0. However, because of the absence of directly comparable companies and the fact that transaction multiples were available for only one comparable transaction, these additional methods have been used as plausibility checks only.
  - Uster's 60-day VWAP was calculated at CHF 41.4 whereas the Group's equity weighted average daily price was CHF 41.6.
  - As illustrated in the table on the left, the different analyst reports set target prices between CHF 45.0 and 52.0, which supports the value determined with the DCF method.
- ▶ This fairness opinion has been completed on 20 February 2012.

### Conclusion

Based on our valuation analyses, we conclude that the fair value of one share in Uster, as at 17 February 2012 lies within in a range of CHF 46.0 and CHF 51.0. We therefore consider the offering price of CHF 44.0, plus a dividend of CHF 2.5 per share, resulting in a per share value of CHF 46.5, as financially fair.

Louis Siegrist  
Partner

Stéphanie Chaumier  
Manager

## Appendix

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11. Appendix A - Sources of information
12. Appendix B - Peer group
13. Appendix C - Sensitivity analysis (DCF)
14. Appendix D - Market approach

## Sources of information

### Contact person at Uster

Name	Position
Geoffrey Scott	CEO Uster
Beat Gisin	Head of Group Controlling

### Information received

File name	Date received	File type
Assuring textile quality and value - Uster Technologies AG - Company Presentation, August 2011	28.10.2011	Hardcopy
5 year planning 2011 – 2015, Bod Meeting September 15 <sup>th</sup> 2011	28.10.2011	Hardcopy
Annual Report 2010	31.10.2011	PDF File
Interim Accounts, June 2011	31.10.2011	PDF File
December 2011 balance sheet and P&L figures, prepared by Management	17.02.2012	Excel
Analyst Reports – Credit Suisse - 19.07.11, 20.07.11, 10.08.11, 15.09.11, 26.09.11	31.10.11	PDF File
Analyst Report – Main First – 19.07.11	04.11.11	PDF File
Analyst Report – Vontobel – 19.09.11	04.11.11	PDF File
Analyst Report – Berenberg Bank – 19.09.11	04.11.11	PDF File
Test and measurement report, a middle-market perspective on the test and measurement industry – Baird - June 2011	04.11.11	PDF File
Prinzipalbesteuerung, Uster Technologies AG – Eidgenössische Steuerverwaltung – 17.02.09	04.11.11	PDF File

## Peer group

### Peer group Uster

Companies	Ticker	Country	Currency	Filing date	Minority interests	Total debt	Adjusted beta	Unlevered beta
<b>Textile machinery manufacturers</b>								
Picanol NV	ENXTBR:PIC	Belgium	EUR	30.06.2011	-	10	0.908	0.877
Rieter Holding AG	SWX:RIEN	Switzerland	CHF	30.06.2011	14	279	1.437	1.154
OC Oerlikon Corporation AG	SWX:OERL	Switzerland	CHF	30.06.2011	21	983	2.689	1.962
Schweiter Technologies AG	SWX:SWTQ	Switzerland	CHF	30.06.2011	-	6	0.781	0.776
<b>Testing and measurement companies</b>								
Intertek Group plc	LSE:ITRK	United Kingdom	GBP	30.06.2011	27	810	0.843	0.720
SGS SA	SWX:SGSN	Switzerland	CHF	31.12.2011	50	1,299	0.762	0.704
Mettler-Toledo International, Inc.	NYSE:MTD	United States	USD	31.12.2011	-	505	1.110	1.051
Cognex Corporation	NasdaqGS:CGNX	United States	USD	31.12.2011	-	-	1.072	1.072
Oxford Instruments plc	LSE:OXIG	United Kingdom	GBP	30.09.2011	-	8	0.988	0.979
Spectris plc	LSE:SXS	United Kingdom	GBP	30.06.2011	-	154	1.362	1.285
Toyota Tsusho Corp.	TSE:8015	Japan	JPY	31.12.2011	71,496	773,047	1.250	0.719
MTS Systems Corp.	NasdaqGS:MTSC	United States	USD	31.12.2011	-	41	0.980	0.947
Bureau Veritas SA	ENXTPA:BVI	France	EUR	30.06.2011	7	1,353	0.707	0.621

Source: Capital IQ as of February 9, 2012

Ref: Multiple overview - Section MU - Multiples

## Sensitivity analysis

### Sensitivity analysis

- ▶ Sensitivity analysis related to the DCF method was performed on the share price in Uster, whereby the WACC and long-term growth were modified. Similarly, the impact of a parallel shift in the assumed EBITDA margin over the entire forecast period was analyzed.
- ▶ The results are presented in the tables below.

#### Sensitivity analysis : WACC and long-term growth

Currency CHF 000		Long-term growth				
		0.2%	0.7%	1.2%	1.7%	2.2%
WACC	8.5%	57.0	60.1	63.6	67.6	72.2
	9.5%	50.3	52.6	55.2	58.2	61.6
	10.5%	44.8	46.6	48.7	50.9	53.5
	11.5%	40.3	41.7	43.4	45.1	47.1
	12.5%	36.5	37.7	39.0	40.4	42.0

Source: EY Analysis

#### Sensitivity analysis: Delta EBITDA margin and long-term growth

Currency CHF 000		Long-term growth				
		0.2%	0.7%	1.2%	1.7%	2.2%
Delta EBITDA margin	2.0%	48.3	50.3	52.5	55.0	57.7
	1.0%	46.5	48.4	50.6	53.0	55.7
	0.0%	44.7	46.6	48.7	51.0	53.6
	-1.0%	42.9	44.7	46.7	49.0	51.5
	-2.0%	41.1	42.9	44.8	47.0	49.4

Source: EY Analysis

# Trading multiples

## Trading multiples analysis

Companies	Ticker	Enterprise value (EV)	EV / Revenue FY11	EV / Revenue FY12	EV / Revenue FY13	EV / EBITDA FY11	EV / EBITDA FY12	EV / EBITDA FY13	EV / EBIT FY11	EV / EBIT FY12	EV / EBIT FY13
<b>Textile machinery manufacturers</b>											
Picanol NV	ENXTBR:PIC	146	n/a	n/a	0.3x	n/a	n/a	1.7x	n/a	n/a	2.0x
Rieter Holding AG	SWX:RIEN	772	0.6x	0.6x	0.6x	4.5x	5.4x	5.1x	6.3x	8.3x	7.7x
OC Oerlikon Corporation AG	SWX:OERL	2,431	0.6x	0.6x	0.6x	4.4x	4.6x	4.5x	6.5x	7.2x	7.1x
Schweiter Technologies AG	SWX:SWTQ	527	0.6x	0.7x	0.6x	6.6x	6.8x	5.9x	10.1x	10.4x	8.3x
<b>Testing and measurement companies</b>											
Intertek Group plc	LSE:ITRK	4,142	2.4x	2.1x	2.0x	12.1x	10.5x	9.5x	15.8x	13.4x	12.0x
SGS SA	SWX:SGSN	13,010	2.4x	2.2x	2.0x	11.0x	9.7x	8.5x	14.2x	12.4x	10.7x
Mettler-Toledo International	NYSE:MTD	6,109	2.5x	2.4x	2.3x	12.8x	11.9x	11.2x	14.3x	13.0x	12.2x
Cognex Corporation	NasdaqGS:CGNX	1,632	4.7x	4.0x	3.9x	15.6x	13.2x	14.1x	16.9x	14.4x	16.2x
Oxford Instruments plc	LSE:OXIG	601	1.8x	1.6x	1.6x	12.4x	11.0x	11.0x	15.1x	13.0x	12.1x
Spectris plc	LSE:SXS	1,979	1.8x	1.6x	1.5x	9.1x	7.9x	7.4x	10.3x	8.9x	8.2x
Toyota Tsusho Corp.	TSE:8015	1,089,560	0.2x	0.2x	0.2x	7.9x	7.3x	7.4x	11.7x	10.2x	9.6x
MTS Systems Corp.	NasdaqGS:MTSC	712	1.3x	1.3x	n/a	8.0x	n/a	n/a	8.1x	7.8x	n/a
Bureau Veritas SA	ENXTPA:BVI	7,568	2.3x	2.1x	2.0x	12.0x	11.0x	10.1x	14.4x	13.3x	12.1x
Low			<b>0.2x</b>	<b>0.2x</b>	<b>0.2x</b>	<b>4.4x</b>	<b>4.6x</b>	<b>1.7x</b>	<b>6.3x</b>	<b>7.2x</b>	<b>2.0x</b>
High			<b>4.7x</b>	<b>4.0x</b>	<b>3.9x</b>	<b>15.6x</b>	<b>13.2x</b>	<b>14.1x</b>	<b>16.9x</b>	<b>14.4x</b>	<b>16.2x</b>
Average			<b>1.8x</b>	<b>1.6x</b>	<b>1.5x</b>	<b>9.7x</b>	<b>9.0x</b>	<b>8.0x</b>	<b>12.0x</b>	<b>11.0x</b>	<b>9.8x</b>
Median			<b>1.8x</b>	<b>1.6x</b>	<b>1.5x</b>	<b>10.1x</b>	<b>9.7x</b>	<b>8.0x</b>	<b>12.9x</b>	<b>11.4x</b>	<b>10.2x</b>

Source: Capital IQ as of February 9, 2012

## Transaction multiples

### Comparable transactions analysis

Target	Description	Country	% Acquired	Acquirer	Date	Currency	Equity Value (m)	Net Debt/(cash)	Enterprise Value (m)	EV/Sales	EV/EBITDA	EV/EBIT	P/E
AB Lorentzen	Industrial machinery	Sweden	100%	ABB Participatio	10/3/2011	SEK	750		750	2.4	n.a	n.a	n.a
Omega Engineering	Electronics Equipment	US	100%	Spectris	8/15/2011	USD	475		475	2.8	n.a	12.0	n.a
Savio Machine	Industrial machinery	Italy	100%	Groupe Alpha	6/21/2011	EUR	135	165	300	0.9	n.a	n.a	n.a
Industrial Control Group	Electronics Equipment	UK	100%	Rockwell	7/2/2007	GBP	110		110	1.6	n.a	n.a	n.a
Saurer	Specialized industrial equipment	CH	74%	Oerlikon	1/10/2007	CHF	1075	247	1322	0.4	8.4	10.3	12.5
Average										<b>1.6x</b>	<b>8.4x</b>	<b>11.1x</b>	<b>12.5x</b>
Median										<b>1.6x</b>	<b>8.4x</b>	<b>11.1x</b>	<b>12.5x</b>

Source: Capital IQ, Mergermarket, Press releases