Ascom

Neutral

Technology **29 March 2005**

SARASIN

Rating

New	Neutral

Price target (CHF)

New	24.0

EPS (CHF)

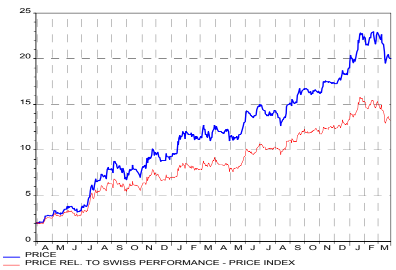
	2005E*	2006E*	2007E*
New	1.8	1.8	1.9

* Excl. annual amortisation of goodwill due to the new accounting standard IFRS 3

Stock market data

Price (CHF)			20.00
Market cap. (CHFm)			720
Accounting standard			IFRS
Free float (%)			100
SPI			4'460
Reuters/Bloomberg	ASCN		ASCN
Perf. abs. (%)	1m -13	3m 10	12m 64
Perf. rel. (SPI,%)	1m -13	3m 4	12m 54

Performance



Source: Datastream

Earnings data

CHFm	2002	2003	2004	2005E	2006E	2007E
Sales	2066	1515	1220	1181	1222	1261
EBITDA	-0.4	31.8	106.7	112.0	114.0	115.9
EPS	-10.5	-2.5	1.3	1.8	1.8	1.9
EV/EBITDA	n.m.	2.8	3.6	4.9	4.4	3.8
P/E	n.m.	n.m.	10.8	11.1	11.2	10.6
DPS (CHF)	0.0	0.0	0.3	0.4	0.4	0.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

P/B (2005E)	2.4	CAGR EPS (2005E-2008E)	4
ROE (2005E)	16.4%	PEG (2005E)	3.1

Initiation of coverage

Investment case: "Mission-Critical Communications"

Ascom is an international provider of solutions for telecommunication and revenue collection systems. Its broad range of services extends from analysis and consulting to system design and integration, project management, engineering and implementation, and goes right through to maintenance and support. In short, Ascom offers "Mission-Critical Communication", meaning that communication in time-critical situation is guaranteed.

The company is active in the core business areas Wireless Solutions (22% of total sales in 2004; high quality on-site communications solutions) and Security Solutions (21% of total sales in 2004; applications for security, communications, automation and control systems for infrastructure operators, public security institutions and the army). More than 50% of total sales is for divestment: the non-core businesses Transport Revenue (20% of total sales) and Network Integration (22%), as well as other businesses.

Positive outlook for 2005

The 2005 targets for Wireless Solutions (WS) and Security Solutions (SeSo) imply a moderate organic growth of 4-5% (combined for both Divisions), which is in line with market growth of 3-5%. Operating margin targets are 12-14% for WS (EBIT margin of 9-11%) and 6-7% for SeSo (EBIT margin of 4-5%) – Ascom defines operating profit as EBIT before other expenses/income (net) and amortisation of intangible assets. This results in an EBIT margin of 8-10% for Ascom excluding Co-operations. As the CHF 200m bond has been repaid in February 2005, interest expenses will significantly shrink.

Neutral rating despite favourable valuation

Valuation-wise Ascom has a discount of 11-24% to its international competitors on various 2006E ratios. Based on our sum-of-the-parts and DFCF model, the discount is between 16-17%. On this basis, we set our 12-month price target at CHF 24.0.

We initiate coverage with a Neutral because of the company's size and the uncertainties regarding the success of the transformation, despite a favourable valuation.

Next announcement

H1 2005 result on 6 September 2005

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Please see important information on last page

Equity Note
Brokerage Research

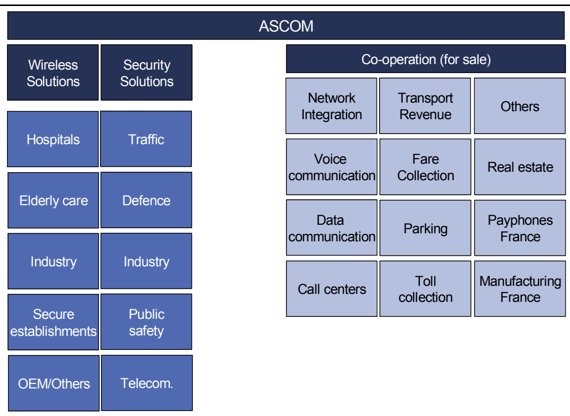
Ascom at a glance

Company description

"Mission-Critical Communication"

Ascom is an international solution supplier with comprehensive technology know-how. The company is active in the core business areas Wireless Solutions (22% of total sales in 2004; high quality on-site communications solutions) and Security Solutions (21% of total sales in 2004; applications for security, communications, automation and control systems for infrastructure operators, public security institutions and the army). More than 50% of total sales is for divestment: the non-core businesses Transport Revenue (20% of total sales in 2004; revenue collection, toll collection and parking systems) and Network Integration (22% of total sales in 2004; network solutions in the data/voice convergence market). With many years of experience in the execution of complex projects for demanding customers, the company has established itself in important key markets.

New structure (as of January 2005)



Source: Sarasin

Ascom's offering covers analysis and consulting, system design and system integration, project management, engineering and implementation, and goes right through to maintenance and support. In short, Ascom offers "Mission-Critical Communication", meaning that communication in time-critical situation is guaranteed (e.g. a patient can press a button and the relevant nurse or doctor will be alarmed, informed or noticed). The company has subsidiaries in 20 countries and has a staff of almost 3900 employees worldwide.

Key figures

CHFm	2004	2007E	CAGR
Sales:			
Wireless Solutions	273	316	5
Security Solutions	260	292	4
Transport Revenue	241	289	6
Network Integration	268	281	2
Others	178	82	n.m.
Total Sales	**1220**	**1261**	**n.m.**
Operating profit margin:			
Wireless Solutions	14.3%	13.9%	
Security Solutions	7.3%	7.9%	
Transport Revenue	9.5%	7.3%	
Network Integration	5.2%	5.2%	
Others	-10.3%	-21.9%	
Total operating profit margin	**6.3%**	**6.7%**	
Total net income	**47.2**	**68.5**	**13**

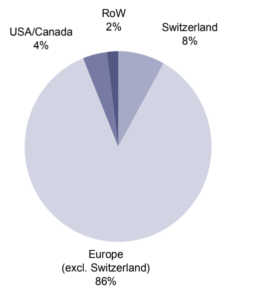
Source: Ascom, Sarasin

Market position

Ascom's core areas	Position in 2003
Wireless Solutions	no 1 (NL, UK, SE, CH)
Security Solutions	no 1 (CH)
- Security and traffic safety	no 2 (CH, AT)
- QVoice (test system for mobile networks)	no 1 (worldwide)
Ascom's non-core areas	**Position in 2003**
Transport Revenue	no 3 (worldwide)
- Revenue collection systems	no 2 (worldwide)
- Airport parking systems	no 1 (USA)
Network Integration	no 3 (CH, IT, BE)

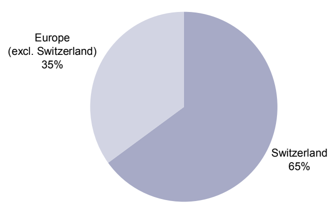
Source: Ascom, Sarasin

Wireless Solutions revenue by region (2004)



Source: Ascom

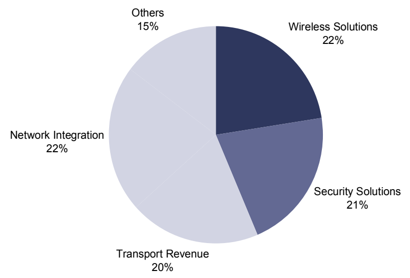
Security Solutions revenue by region (2004)



Source: Ascom

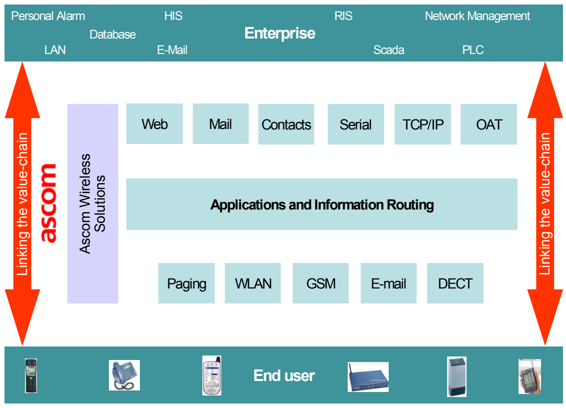
Ascom's divisions

Divisions (sales in 2004)



Source: Ascom, Sarasin

Communication solutions link end user to complete enterprise by using wireless technologies



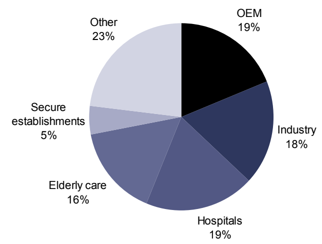
Source: Ascom, Sarasin

Wireless Solutions (WS)

The largest core business (22% of total sales)

As the market leader (no 1 in NL, UK, SE and CH) for wireless on-site communication technology and solutions for wireless telephony, messaging, alarm systems and nurse call systems, the Wireless Solutions division focuses primarily on vertical market segments with a major investment potential, such as healthcare, large industrial corporations, trade, the hotel sector and the legal community (see pie chart on the right column). The most important product groups are cordless telephone systems (e.g. Digital Enhanced Cordless Telecommunications = DECT), messaging, personal alarm and nurse call systems. In Western Europe, Wireless Solutions has a strong presence in hospitals and residential care homes for the elderly, with a market share of over 30%. Almost 20% of the division's sales are generated in the industry sector. Leading corporations such as General Motors, Unilever, Nestlé, Coca-Cola, Novartis, BMW and Glaxo Smith Kline are working with wireless on-site communication systems provided by Ascom. Prison services in France, Germany, Switzerland, the Netherlands and the United Kingdom are supported and protected in their efforts by the division's security and communications solutions. In total, more than 70'000 systems in more than 60 countries are in service. WS markets its solutions directly and/or indirectly in its principal markets of Austria, Belgium, Denmark, Finland, France, Germany, the Netherlands, Norway, Sweden, Switzerland, the UK and the USA. The division also offers its products via third parties in around 50 other countries. The distribution partnership with Ericsson will give Wireless Solutions greater critical mass in DECT business. The market for DECT handsets is concentrated mainly in Europe (90%), with Ascom commanding clear leadership with a market share of around 32-34%. The division employs around 1140 people.

Segments of WS (sales in 2004)



Source: Ascom, Sarasin

Competitors: a fragmented market

Country	Hospitals	Elderly care	Industry
Belgium	Televic	Televic	Siemens, Ericsson, Alcatel
Denmark	Best, Jenka	Jenka, Faci Condigi	Cisco, Siemens, GSM
Germany	Ackermann, Zetter, Tunstall	Ackermann, Zettler Tunstall, Bosch	Tenovis/Funkel, Siemens, DeTeWe
UK	Static, Multitone	-	ANT, Siemens, Blick
Finland	Sondi, Jenka	-	GSM
France	Ackermann, Gets, Intervox, LeGrand	Blick	NextiraOne, Tenovis, Motorola Jdcom,
Holland	Verkerk	Verkerk	Siemens, Tyco, Cisco
Italy	Ackermann, Tunstall, Nuove	-	Ericsson, Alcatel, Siemens
Norway	Best, Condigi, Nesk	EIB, Jenka, Condigi	GSM, Cisco, Motorola
Sweden	Nortel, Best	Attendo, STT	Ericsson, GSM, Nortel/Cisco
Switzerland	Gets	Gets	NextireOne, Siemens, DeTeWe
Spain	Tunstall, Egson	-	-
USA	-	-	Cisco, Nortel, Spectralink, Vocera

Source: Ascom, Sarasin

Outlook for WS:
Demand for mobile communication is still growing constantly in all the business segments targeted by the WS division. Primary client segments include hospitals, old people's homes, process industries and prisons. Healthcare is the biggest sales segment. The industry sector is likely to continue to enjoy moderate growth in the current financial year. The market that is relevant to Ascom should grow around 5% in the mid-term.

Drivers for this division are not easy to define. There is a positive correlation between GDP and sales. Sales in WS depend on the general trend towards quality in communication and the cost pressure the customer is facing (e.g. UK has backlog demand for e-mails).

Currently Ascom has a strong, complete portfolio with proven technology for core communication and messaging functionality, specialized on niche markets. A solid customer base in many European markets and a strong organisation in place enable further organic growth. From this base the company has further growth opportunities such as:

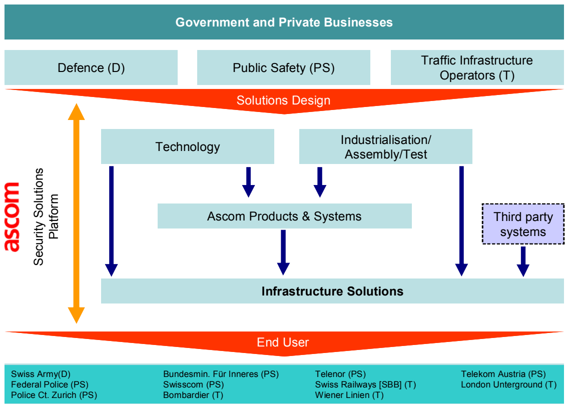
1. vertical market (hospital/elderly care needs that increase operating and process efficiency)
2. geographical (growth potential in Western Europe and USA, both through organic growth and acquisitions)
3. technology (with its IP-DECT and VoWLAN) and
4. WS is trying to expand its value chain by developing into more of a solutions provider capable of integrating third-party products quickly and efficiently with its own products and systems and able to offer complementary services as well. At the same time it is pursuing an OEM strategy by supplying large volumes of products to other system providers via third party distributors.

In the light of the order growth (+4% to CHF 283m) in 2004, we expect 2005E sales of CHF 287m (+5%) and operating profit of CHF 40.0m (+3%). For our mid-term projections please refer to table "Divisional information" on page 12.

Security Solutions (SeSo)

The second core business (21% of total sales)
Ascom offers integrated communications and information management solutions in the fields of public security and traffic safety, as well as in the industrial and personnel protection segments. For example, it has developed a new communication platform for the Swiss Railways (SBB) that brings together different systems for passenger metering, CCTV monitoring and customer information, into which future applications can also be integrated if required. SeSo is market leader in Switzerland, and also has a market presence in Austria, Germany and France. This division was originally set up in 1987 as a contracting partner for the Swiss Army and its legacy is still obvious: around 65% of sales are still generated in Switzerland, followed by Germany (17%) and Austria (12%). In Finland Ascom has been approved as official supplier to the military (approx. 4% of division sales). The division employs around 830 people in total.

Systems and solutions provide platform to enable customers to manage complex infrastructures



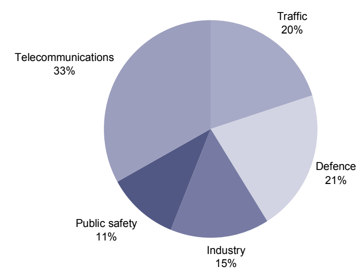
Source: Ascom, Sarasin

Competitors

Company name
Siemens
Thales
Funkwerk
Kapsch
Tadiran (mostly in defence)
Ruag (defence, but is also partner)
Motorola

Source: Ascom

Segments of SeSo (sales in 2004)



Source: Ascom, Sarasin

Outlook SeSo:
In future, Security Solutions will not only be geared to the military market but will concentrate more on the civilian market (see pie chart above). The block-

buster product is QVoice, a product that tests mobile telephone networks. 95% of Europe's mobile phone operators are clients of Ascom, as are infrastructure manufacturers such as Nokia, Ericsson and Motorola. The main drivers in this division are a geographical expansion and the spending cycle per segment. For example it is likely that the Swiss-Army will invest again in 2006/7 after reorganization. There are also plans at "Deutsche Bahn" to modernize its communication systems. A lot of opportunities are around but it remains unclear if and when they materialize. Therefore mid-term earnings visibility for this division is not very clear.

Ascom has currently a competitive technical solution platform for Command & Control in public safety as well as top C4L skills (Connexions4London serves over 200 customers, in over 15 UK datacentres, connecting over 20,000 servers and machines) and an excellent track record in Defence Switzerland. Ascom's carrier product "QVoice" is world market leading and the company has a strong know-how base. Growth opportunities are:

1. the expanding international traffic security segment especially within the railway/transportation market in Western Europe,
2. penetrating existing and selected new international (e.g. CEE) public safety markets,
3. expanding defence communication in Scandinavia and the Baltics with the acquired Tumsan know-how and
4. benefits from strong investments in QVoice which might further boost Telco sales (e.g. quality measuring of Swisscom 3G services).

In the light of decreasing orders (-27%) in 2004, we expect 2005E sales of CHF 270m and an operating profit of CHF 18.5m (-3%). Margins should enjoy higher than average growth mainly due to the integration of Carrier Products (a former segment within the Network Integration division) into SeSo with its highly profitable "QVoice"-product. For our mid-term estimates please refer to table "Divisional information" on page 12.

2005 targets for the core businesses:

The 2005 targets for WS and SeSo imply a moderate organic growth of 4-5% (combined for both Divisions), which is in line with market growth of 3-5%. Operating margin – Ascom defines operating profit as EBIT before other expenses/income (net) and amortisation of intangible assets – targets are 12-14% for WS (EBIT margin of 9-11%) and 6-7% for SeSo (EBIT margin of 4-5%). This results in an EBIT margin of 8-10% for Ascom excluding Cooperations. As the CHF 200m bond has been repaid in February 2005, interest expenses will significantly shrink. Tax rate is expected to be roughly unchanged compared to 2004.

Non-core businesses

All non-core businesses are for divestments. We expect a book-gain of around CHF 150m for TR, CHF 70m for NI and no book-gain for the others. Currently, the management is in discussion with various parties, but no divestment was announced so far.

Transport Revenue (TR, 20% of total sales)

The division works together with its customers, from providing advice, system design and development through to production, commissioning and training right up to the maintenance and modernisation of installed systems. Demand for integrated solutions for revenue collection in public transport (Fare Collection), car parks (Parking Systems) and toll booths (Toll Systems) is displaying strong growth. The devices are linked to a central management system and allow any form of payment to be used, with a strong trend towards contactless cards. There is also increasing demand for supplementary functions such as using vending machines to top up prepaid cards for mobile phones. In the USA, Ascom is market leader in complex parking systems at airports. In addition, entry and exit control systems with ticket issuing machines and payment terminals ensure smooth collection of revenues in more than 1000 car parks in almost 30 countries.

Competitors: Ascom is no 1 in Switzerland

Company name	
Cubic	(fare and parking)
Thales	(mostly fare)
Hoeft & Wessel	(fare)
Kaptsch	(toll)
ERG	(fare)
Kudelski	(parking)
Scheid & Bachmann	(fare and parking)

Source: Ascom

With its TR division, Ascom is world no. 3 in the fare, parking and toll market. In the segment revenue collection systems the company is world no. 2. In the segment parking systems for airports, Ascom is no. 2 in the USA.

Outlook TR:

The Revenue Collection market still offers stable growth potential of around 5% p.a. that is comparatively resilient to the economic cycle. The trend is continuing towards networked systems that are monitored and maintained centrally.

In the Fare Collection segment the division is attempting to expand its one-stop-shopping by integrating the latest technologies and products.

In the Parking segment Transport Revenue wants to use its existing know-how in North America and its market leadership in the airport business to expand into the area of Urban Parking. At the same time the dominant position in US airports will serve as a good reference for expanding these skills in Europe.

In the Toll segment (Maut) Ascom has entered a co-operation strategy with manufacturers of aerials and transponders, and plans to push ahead with this.

In the Service segment the focus is on expanding the maintenance business and using standard modules (as e.g. with coin systems) to further improve competitiveness.

In the light of the strong order growth (+10% to CHF 308m) in 2004 we expect 2005E sales of CHF 265m (+10%) and an operating profit of CHF 19m (-17%, 2004 included a one-off effect of a customer project).

In case of a successful divestment a book-gain of around CHF 150m is possible in our view.

Network Integration (NI, 22% of total sales)

Ascom plans, installs, maintains and operates secure voice and data networks, as well as applications and solutions of Mobile Carriers. The division's communications solutions – including business telephony, unified messaging, wireless LAN, LAN/WAN, optical networks and access – are based on the latest IP technology, and also incorporate elements of conventional voice communications. Depending on the customer's requirements, they are complemented by network management applications, call centres or comprehensive multimedia contact centres with voice recognition. The main emphasis here is on network security and availability. The service line-up of Network Integration spans the entire value chain: from providing advice through installation to the maintenance and operation of communications solutions. The division is active in four European countries and ranks among the market leaders in Italy, Belgium and Switzerland. On the European level, a network of service partners assures comprehensive support for customers with pan-European activities. Network Integration is top global provider of systems, services and Value Added Services in the area of benchmarking and monitoring for GSM, GPRS and UMTS networks to carriers and service providers. The division employs around 950 people. The client portfolio includes well-known big corporations, financial institutions, the public sector and providers of telecom services such as Vodafone, T-Mobile, Deutsche Telekom, Swisscom Mobile, Orange, Telecom Italia, O2 Group, Telefonica Moviles and telecom equipment providers such as Nortel Networks and Ericsson.

Competitors

Company name
Alcatel
Ericsson
Nortel Networks (is also a partner)
Siemens
Telindus
Getronics
Dimension Data
Nextiraone

Source: Ascom

Ascom is not one of the biggest global market players in this business segment.

Outlook NI:

The company wants to expand its market position and develop increasingly into a European migration partner for IP technology. To strengthen its position, the service business for pan-European customers will be extended to other selected countries and partners, and a modular outsourcing solution launched for business telephony.

In the light of the solid order growth (+6% to CHF 268m) in 2004 we expect 2005E sales of CHF 275m (+3%) and an operating profit of CHF 14.2m (+1%).

In case of a successful divestment a book-gain of around CHF 70m is possible in our view.

Co-operation Others (15% of total sales)

This division consists of various businesses which are for divestment. As we expect no book-gain in case of a divestment, we only shortly describe the development in 2004:

Payphones: strongly improved profit due to strong top line (cycle went up) and a leaner cost base. In addition a substantial order was signed with Telmex (Mexico). Manufacturing France (Ascodi Industries SA): small profit achieved, not included a further one-time impairment charge of CHF 11m on EBIT level. Real estate: still EBIT loss making.

All in all we expect sales to decrease from CHF 178m to CHF 84m due to divestments. However, EBIT should remain almost unchanged because of stable corporate costs.

Key issues

Financial strength

Key achievements

Ascom achieved its financial turnaround in 2004. Net revenue growth for continued activities was 3% compared to 15% in H1 2004 (yoy). The company showed a good improvement in its gross margin (up from 23% to 29%) and operating margin (up from minus 2% to plus 6%) resulting in a net income of CHF 47m after three years of heavy losses (loss of CHF 68m in 2003). The improved cash position of CHF 309m (as of 31 December 2004), allowed to repay the CHF 200m bond at its maturity on 3 February 2005. We consider the balance sheet ratios as healthy: equity ratio of 26% and an net cash position by the end of 2004.

Strategy

...additional focusing

Ascom has pursued a consistent focusing strategy since the summer of 2002. Through targeted restructuring and divestments, Ascom has created a clear corporate structure from what was originally a very broadly diversified portfolio of businesses. Since September 2004 Ascom has concentrated on two core business divisions: Wireless Solutions (WS) and Security Solutions (SeSo). For all the other companies that currently belong to the Group, Ascom is identifying and implementing solutions that will allow them to be further developed in a way that adds value. Management's primary aims here are to improve the company's financial flexibility, since a lot of capital is tied up in the former core divisions NI and TR. The NI division also lacks the critical mass required to make its way in the market.

Ascom's strategic positioning is based on four pillars:

- Mission-Critical Communication – customised solutions for communication requirements in particularly critical situations
- Organic growth through innovative products and solutions
- Targeted acquisitions in the WS and SeSo divisions
- Consistent cost management and improved operating efficiency

Acquisitions/Divestments

Acquisitions

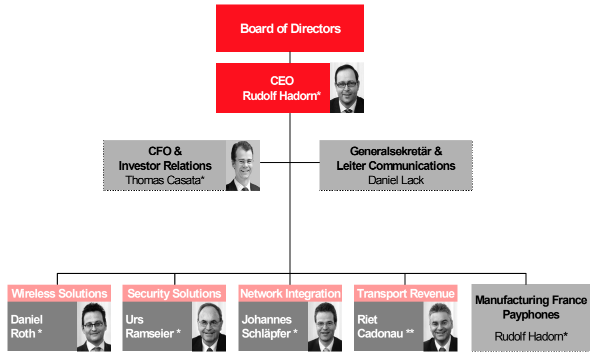
Currently the management plans no larger acquisition because the focus lies on organic growth after the recent turbulent years. Only selective smaller acquisitions to strengthen the core divisions (mainly technology buys or a distribution organisation) are not excluded. If the underlying business develops well and capital is not used for acquisitions, Ascom intends to pay back money to investors.

Divestments

All non-core businesses are for divestments. As we wrote in an earlier chapter, we expect a book-gain of around CHF 150m for TR, CHF 70m for NI and no book-gain for the others. Currently, the management is in discussion with various parties, but an exact time-table is for strategic reasons not available.

Management

Organisation



* Member of the Executive Board, ** Deputy of the CEO

Source: Ascom

Chairman: Juhani Anttila

- Studied law at the University of Helsinki, Finland (1976 Bachelor's degree, 1978 Masters degree)
- 1985 appointed Managing Director of Nokia GmbH, Zurich, and responsible for various activities for the Nokia Group. 1990 to 1995 Chairman of the Executive Board of Nokia (Germany) GmbH in Pforzheim
- 1996 to 2002 President and CEO of Swisslog
- CEO of the Ascom Group since 1 January 2003. Also Chairman of the Board of Directors of Ascom Holding Ltd since 14 May 2002. 1.6.2004 Ascom Holding Ltd, Berne, Switzerland: Chairman of the Board

CEO: Rudolf Hadorn

- Studied business administration at HSG St. Gallen (lic.oec.)
- 1989-1993: different positions at General Motors
- 1994-1999: various financial management functions at GM/Opel AG
- 2000: Krone GmbH Germany, Berlin: Speaker of the Management Board and CFO of the Krone Group
- November 2002: CFO of the Ascom Group
- June 2004: CEO Ascom

CFO: Thomas Casata

- 1991-1994: Boston Consulting Group, Munich, Germany: Consultant/Project Manager
- 1994-1998: Bally, Switzerland: Head of Purchasing
- 1998-2004: ESEC Group, Cham, Switzerland: CFO
- 2004: CFO Ascom

Head of Wireless Solutions: Daniel Roth

- 1993: Ascom Ltd: Management Assistant in PBX Division; from 1994 in Telecommunications business unit
- 1996: Ericsson Paging Systems, Hoofdoorp, the Netherlands: Vice President, Ascom/Ericsson Paging Systems joint venture
- 1997 to 2002: CEO of Ascom Nira B.V. Utrecht (Netherlands)
- Since 1 November 2002: Head Division Wireless Solutions and Member of the Executive Board

Head of Security Solutions: Urs Ramseier

- 1970: Sandoz AG, Basle: Head of Development, Electronics
- 1972: Landis & Gyr, Geneva: Head of Quality Assurance/Product Manager
- 1975: Siemens Albis AG, Zurich: Various management positions incl. Head of Sales, Radar; Assistant General Director, Head of Distribution
- 1987: Ascom Radiocom Ltd: Head of Sales, Milcom division; from 1992 Head of Milcom division
- 1994: Ascom Systec Ltd: Head of Defence & Security Division; from 1998 Head of Security Solutions Division
- from 1 November 2002 Member of the Executive Board

Shareholders

Ascom's major shareholders are Müller-Möhl <10.0% (via Tower Equity, Hyos Invest and AB Eno River) and Stiftung Hasler 9.1% (source: Bloomberg).

History

Ascom is a conglomerate built up over more than 100 years by acquiring different businesses from various market segments. After very turbulent 18 months, Ascom has completed a number of successful measures, including the sale of Energy Systems and a capital increase.

1852 Foundation of the Federal Telegraph Workshops in Berne

More than 100 years ago Gustav Adolf Hasler took over the Swiss Federal Telegraph Workshops in Berne, which had been set up to install reliable communication connections between Switzerland's main cities.

1987 Ascom AG

Switzerland's main telecommunications manufacturers (Autophon Holding AG, Hasler Holding AG, Zellweger Telecommunications AG) merge to create Ascom AG.

2001 changing market conditions

Against the backdrop of a rapidly changing telecommunications market, Ascom begins consistent implementation of its new strategy to separate the service and technology businesses. In line with this move, Ascom sells its Terminals (telephones) and Mailing Systems (franking machines) units as well as its Swiss banking automation activities. At the same time Ascom acquires Somelec Energie & Technologies, a Paris-based company specialising in DC/DC converters, thereby expanding its activities in the power supply systems field (Energy Systems). In addition, the Energy Systems Division strengthens its development know-how with the purchase of US-based Rompower Inc. with branches in Tucson/USA and Bucharest/Romania. With the takeover of NC/S based in the north of France, Ascom also strengthens its position as a leading system integrator and partner for convergent voice and data networks in Europe.

2002-2004 concentration on core business

Ascom positions itself as an international solution provider for secure, high-availability voice and data communications. The company reorganises into four business divisions – Network Integration, Security Solutions, Wireless Solutions and Transport

Revenue - each of which has a highly specialised technology base. Ascom decides to seek strategic partnerships, joint ventures or buyers for capital-intensive technology business areas.

Ascom purchases Motorola's European product unit for tunnel and in-house communications (TIC).

In line with the focus on core business, Ascom sells Ascom Transmission AG (specialising in network access products and carrier access) to Datentechnik Intercom AG, as well as the majority of the Swiss activities of IT security solution specialist IT_SEC IT-Security AG and its subsidiary iT_SEC Deutschland GmbH to Secude GmbH of Germany. The Group also sells the Electronic Transactions unit of Ascom Monétel based in Valence (France) to the French company Sagem.

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Valuation

Valuation-wise we compare Ascom to its international competitors. In addition, we have made a sum-of-the-parts analysis, a DFCF model and a SWOT analysis.

Peer Group

Compared with its competitors in the various businesses, Ascom has a discount of 11%, 19% and 24% on a P/E, EV/EBITDA and EV/EBIT 2006E basis, respectively (see table below). The company has a premium of 11% to its peer group on P/B 2005E basis. In our view, a certain discount is justified because of the size of Ascom and the uncertainties regarding the success of the transformation.

Peer group analysis (2006E, except P/B 2005E)

	Price	P/E	EV/ EBITDA	EV/ EBIT	P/B
Wireless Solutions					
Ericsson	20.1	14.6	7.2	8.2	3.4
Motorola Inc	14.9	14.8	5.7	7.3	2.2
Philips	21.3	12.7	7.0		1.7
Siemens	61.4	13.7	5.9	9.8	1.9
Alcatel	9.5	14.0	5.9	7.9	2.9
Average		14.0	6.3	8.3	2.5
Security Solutions					
Motorola Inc	14.9	14.8	5.7	7.3	2.4
Siemens	61.4	13.7	5.9	9.8	1.9
Thales	32.0	12.5	5.5	7.7	2.5
Funkwerk AG	34.4	13.2	4.8	6.7	2.4
Average		13.5	5.5	7.9	2.3
Transport Revenue					
Cubic Corp.	18.7	13.4			1.8
Thales	32.0	12.5	5.5	7.7	2.5
Hoft & Wessel AG	5.1				
Average		12.9	5.5	7.7	2.2
Network Integration					
Alcatel	9.5	14.0	5.9	7.9	2.9
Siemens	61.4	13.7	5.9	9.8	1.9
Average		13.8	5.9	8.8	2.4
Total average					
Weighted per segment		12.6	5.4	7.6	2.2
Ascom Holding	**20.0**	**11.2**	**4.4**	**5.8**	**2.4**
Premium/Discount		-11%	-19%	-24%	11%

Source: JCF, Sarasin

Sum-of-the-parts valuation

With our sum-of-the-parts model we compare each division with an EV/EBIT average of the main competitors. Our model gives Ascom a "fair" value of CHF 24.1 (see following table). However, it is not yet certain that the company will achieve the EBIT improvements that we have estimated fro 2006E.

Sum-of-the-parts model

CHFm, 2006E	Ascom's EBIT	Industry EV/EBIT	Ascom's EV
Wireless Solutions	42.0	8.3	348.3
Security Solutions	20.0	7.9	157.6
Transport Revenue	20.1	7.7	154.4
Network Integration	14.4	8.8	127.3
Others	-18.6	7.6	-141.3
EV Ascom			**646.3**
Net cash 2006E			231.2
Market value			877.5
Value per share (CHF)			**24.1**
Current share price			20.0
Upside potential			21%

Source: Sarasin, JCF

DFCF model

We have made the following assumptions in our discounted free cash flow valuation: risk free rate of 2.9%, equity risk premium of 5%, beta of 1.4, tax rate of 25%, debt rate of 4%, and long-term growth rate of 1%.

Based on our DFCF valuation, we derive a theoretical "fair" share price of CHF 23.9. This gives an upside potential of almost 20% to the current share price.

DFCF model

Year	FCF (CHFm)	WACC	PV (CHFm)
2005E	63	8.3%	65
2006E	65	9.7%	60
2007E	69	9.7%	58
2008E	73	9.7%	57
2009E	76	9.7%	53
2010E	78	10.0%	49
2011E	80	10.3%	46
2012E	83	10.7%	42
2013E	85	11.1%	38
2014E	88	11.5%	35
Terminal value	814	11.9%	287
Enterprise value			**791**
Plus excess cash			344
Less interest bearing debt			-266
Equity value			**870**
Shares outstanding (m)			36.41
Equity value per share (CHF)			**23.9**
Current share price			20.0
Potential			19.5%

Source: Sarasin

Equity Note
Brokerage Research

SWOT analysis

Strengths	Opportunities
• Leading position in niche markets • Broad client base and strong customer relationships, with a large number of installed systems (BMW, Federal Office of Police, UBS, CS, DB, Swisscom, Ericsson, Micros, SBB, SNCF, etc.) • Strong client relationship	• Data and voice networks are converging • Extensive expertise in key technologies and in handling complex projects • Strong partnerships and alliances (Microsoft, HP, Nortel Networks, Ericsson, Cisco Systems, Sun, etc.
Weaknesses	**Threats**
• Drivers for the company are not easy to define (visibility for orders is low) • Competitors such as Siemens, Ericsson, Cisco and Motorola have more market and financial power	• New technologies • Increased competition in a weak market environment

Source: Sarasin

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Divisional information

CHFm	2002	2003	2004	2005E	2006E	2007E
Net sales						
Wireless Solutions (WS)	235	276	273	287	301	316
Security Solutions (SeSo)	212	165	260	270	281	292
Transport Revenue (TR)	283	267	241	265	278	289
Network Integration (NI)	350	333	268	275	278	281
Non-Core Business	986	474	178	84	83	82
Total net sales	2066	1515	1220	1181	1222	1261
Operating profit						
Wireless Solutions (WS)	25.0	33.0	39.0	40.0	42.0	44.0
Security Solutions (SeSo)	15.0	11.0	19.0	18.5	20.0	23.0
Transport Revenue (TR)	-28.0	7.0	23.0	19.0	20.1	21.0
Network Integration (NI)	7.0	10.0	14.0	14.2	14.4	14.6
Non-Core Business	-126.0	-88.0	-18.4	-18.4	-18.6	-18.0
Amortisation	-80.5	-19.0	-13.0	0.0	0.0	0.0
Others, net	-42.8	1.0	-0.8	0.0	0.0	0.0
Group operating profit	-230.7	-45.2	62.8	73.3	77.9	84.6
Operating profit margin						
Wireless Solutions (WS)	10.6	12.0	14.3	14.0	14.0	13.9
Security Solutions (SeSo)	7.1	6.7	7.3	6.8	7.1	7.9
Transport Revenue (TR)	-9.9	2.6	9.5	7.2	7.2	7.3
Network Integration (NI)	2.0	3.0	5.2	5.2	5.2	5.2
Non-Core Business	-12.8	-18.6	-10.3	-21.9	-22.4	-21.9
Group operating profit margin	-5.2	-1.8	6.3	6.2	6.4	6.7

Source: Sarasin, Ascom

Equity Note
Brokerage Research

Financial data

CHFm	2002	2003	2004	2005E	2006E	2007E
Profit & Loss Account						
Net sales	**2066.1**	**1514.9**	**1219.9**	**1181.2**	**1221.5**	**1260.8**
Cost of sales	-1638.5	-1173.9	-864.1	-829.4	-857.7	-885.3
Gross profit	**427.6**	**341.0**	**355.8**	**351.8**	**363.8**	**375.5**
Marketing and distribution	-293.8	-205.8	-165.3	-158.7	-164.1	-169.4
Research and development	-109.3	-54.5	-35.2	-34.1	-35.2	-36.4
Administration	-131.9	-107.9	-78.7	-76.2	-78.8	-81.3
EBITDA	**-0.4**	**31.8**	**106.7**	**112.0**	**114.0**	**115.9**
EBIT	**-230.7**	**-45.2**	**62.8**	**82.8**	**85.6**	**88.4**
Net financial result	-30.7	-12.5	-12.8	-1.0	1.0	3.0
Other income/costs	0.1	0.1	0.7	0.0	0.0	0.0
Pre-tax profit	-261.3	-57.6	50.7	81.8	86.6	91.4
Taxes	-23.1	-10.2	-3.5	-16.4	-21.7	-22.8
Minorities	3.2	-0.1	0.0	0.0	0.0	0.0
Net profit	**-281.2**	**-67.9**	**47.2**	**65.4**	**65.0**	**68.5**
Growth Rates (%)						
Sales	-34.3	-26.7	-19.5	-3.2	3.4	3.2
EBITDA	-102.4	-8050.0	235.5	5.0	1.7	1.7
EBIT	-31.8	-80.4	-238.9	31.9	3.4	3.2
Net income	-28.9	-75.9	-169.5	38.7	-0.7	5.5
EPS	-28.9	-76.3	-151.9	38.7	-0.7	5.5
Margin Analysis (%)						
Gross Profit	20.7	22.5	29.2	29.8	29.8	29.8
EBITDA	0.0	2.1	8.7	9.5	9.3	9.2
EBIT	-11.2	-3.0	5.1	7.0	7.0	7.0
Net income	-13.6	-4.5	3.9	5.5	5.3	5.4
Cash flow statement						
EBITA	-107.4	-27.2	76.6	82.8	85.6	88.4
Change in NWC	243.3	97.4	27.1	1.8	-14.5	-14.6
Operating cash flow	105.4	54.2	44.9	80.8	82.5	86.3
Change in cash & equivalents	77.5	14.7	-30.5	-146.7	51.3	55.2
Free cash flow (shareholder)	359.1	231.7	57.8	63.2	64.9	68.7
Balance sheet						
Total assets	1504	1108	955	788	845	906
Equity	196	203	246	301	353	408
Equity ratio (%)	13.0	18.3	25.7	38.2	41.8	45.0
Goodwill	54	33	31	33	35	37
-As a % of equity	27.4	16.3	12.6	10.9	9.8	8.9
Net debt	264	-55	-127	-180	-231	-286
Gearing (%)	135.2	-27.1	-51.5	-59.7	-65.5	-70.2
EBITDA/net interest	0.0	-2.5	-8.3	-112.0	114.0	38.6
ROE (%)	-45.9	-22.9	14.5	16.5	13.6	12.3
ROA (%)	-11.6	-3.5	6.1	9.5	10.5	10.1
Valuation						
P/E	n.m.	-2.1	10.8	11.1	11.2	10.6
P/B	1.4	0.7	2.1	2.4	2.1	1.8
EV/Sales	0.3	0.1	0.3	0.5	0.4	0.4
EV/EBITDA	n.m.	2.8	3.6	4.9	4.4	3.8
EV/EBIT	n.m.	n.m.	6.1	6.6	5.8	5.0
EV/FCF	1.5	0.4	6.0	8.7	7.7	6.4
Per Share Data (CHF)						
EPS	(10.53)	(2.50)	1.30	1.80	1.78	1.88
Book value	7.33	7.47	6.75	8.28	9.69	11.20
Dividend	0.0	0.0	0.3	0.4	0.4	0.4
Payout ratio (%)	0.0	0.0	21.2	21.0	21.0	21.0

Disclosure information

None

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Ratings

Three ratings are possible in our universe of Swiss equities: Buy, Neutral and Reduce. The ratings are absolute and are based on the difference between the market price and the 12-month price target calculated by us (see below). SMI stocks are also allocated a risk class as a measure of their volatility (1 = average risk, 2 = increased risk, 3 = high risk). The range determines when the stock requires re-rating. The re-rating mechanisms are illustrated in the table below.

Rating depending on price potential (difference between the price target and current price) and risk class (volatility)

	Risk classes		
(%)	1	2	3
Buy	>10	>15	>20
Neutral	0-10	0-15	0-20
Reduce	<0	<0	<0
Range	+/-5	+/-7.5	+/-10

A stock in risk class 1 is basically a Buy as long as the price potential exceeds 10%. The range +/-5% specifies that: (1) A stock rated as a Buy must, all else being equal, always be downgraded to Neutral as soon as the price potential falls below 5% (=10%-5%), or (2) A stock rated as Neutral must, all else being equal, always be upgraded to Buy as soon as the price potential exceeds 15% (=10%+5%). The same principle applies to the other ratings and risk classes.

There are three ratings for non-Swiss equities as well. These ratings are relative and refer to the Industry Group (=IG) to which the company is allocated (definition according to MSCI): IG Outperformer, IG Performer and IG Underperformer. Neither risk classes nor price targets are calculated for international equities. The rating is based mainly on a comparison of the key ratios for the industry group and on a qualitative assessment of the characteristics specific to that company and industry. The rating of the relevant Industry Group must be taken into account when interpreting the rating of a non-Swiss stock.

Price targets

The calculation of the 12-month price targets is usually based on the following models: (1) Discounted Free Cash Flow (DFCF) model, (2) the usual P/E and EV ratios for the sector rating, (3) an assessment of the key ratios in a historical context. The annual growth rate at which the free cash flows are extrapolated as perpetual yield are based on the assumption that the company will grow in line with the market, whereby long-term market growth tends to normalise against the long-term rate of GDP growth. Free cash flows are discounted with a weighted average cost of capital (WACC), which is based on an estimated company-specific tax rate, as well as the estimated costs of loan capital and equity capital. The latter can be worked out using the country-specific, long-term risk-free interest rate, a market risk premium and the beta value for the company.