

Bond Research

Initial Coverage

Outperformer

Industry Employment Services
 Country Germany
 ISIN DE000A1K0QR1
 BBID EI8798668
 Website:
www.hkw-personalkonzepte.de

Bond issue

Coupon 8.25
 Pay Date 15, November
 Interest Payment Annually
 Accumulated Interest Yes
 Issue Volume 10.00 m
 Issue Currency EUR
 Yield in % (last price) 8.96
 Yield in % (ask) 8.95
 Accrued interest in % 5.72
 Accrued Interest days 253

Price

Current Price 97.45
 52-week High 99.59
 52-week Low 94.1

Performance

1 month 2.0%
 3 month -0.1%
 6 month -1.5%

hkw personalkonzepte bond price chart



Analyst Coverage:

Dr. Norbert Kalliwoda
 Email: nk@kalliwoda.com

Dr. Piotr Arendarski
 Email: pa@kalliwoda.com

Phone: +49 69 97 20 58 53
www.kalliwoda.com

hkw personalkonzepte GmbH

- The company has one bond issue outstanding of 6 074 000 euro, issued at 11/07/2011 and 30/06/2012 with maturity date of 14/11/2016. The issue pays fixed coupon of 8.25% per year every 15 November. Current debt rating equals "BBB" issued by Creditreform Rating AG.
- The hkw personalkonzepte GmbH is focused on acquiring new targets within employment industry. The recent acquisition of two Dutch companies is a signal that the issuance of additional capital will be focused on the group development by acquiring smaller competitors with highly regarded skills.
- Despite of the negative trend on the stock market, the sentiment towards employment services industry is positive. It is noticeable that around 63% of the reports are positive and recommend to allocate equity in this industry.
- Management is able to react changing economic environment and maintain profitability during time of lower demand. The company business model is flexible and can quickly be adopted to market changes.
- High profitability and strong liquidity position against the peers in the industry. One of few firms in the industry which has not experienced negative net income during financial crisis in 2008 - 2009.
- Taking account positive outlook for the industry development, the management's effectiveness, high profitability and safe current liquidity ratio we believe that the current debt rating "BBB" reflect correctly the company's financial position.

EUR ('000)	2011	2010	2009	2008	2007	2006
Income statement:						
Revenue	13 215	10 680	7 052	9 432	8 988	6 988
EBITDA	784	1 347	487	1 626	1 029	930
EBIT	699	1 306	442	1 582	981	913
Net income	558	870	382	568	680	546
Balance sheet						
Fixed Assets	5 986	89	112	156	86	45
Current Assets	5 083	2 886	2 051	2 358	2 709	2 207
Equity	5 577	904	637	605	1 070	895
Profitability:						
ROA	5%	29%	18%	23%	24%	24%
EBITDA Mgn	6%	13%	7%	17%	11%	13%
Net Income Margin	4%	8%	5%	6%	8%	8%
Capacity to pay debt:						
EBITDA / Interest exp.	7,76	57,06	-	-	-	-
Current Ratio	1,34	2,26	1,96	2,20	2,23	2,24

Table of content:

1. SWOT analysis.....	3
2. Business risk profile	4
3. Financial analysis and capacity to pay obligations.....	9
4. Industry outlook.....	12
5. Company outlook.....	14
6. Peer comparison	16
7. Current credit rating reconciliation.....	16
8. Appendix	19

1. SWOT Analysis

Opportunities / Strengths

- *Macro perspective*
 - Increasing demand for skilled workers
 - Recruitment process outsourcing is still a growth market
- *Micro perspective*
 - 30 years of experience and a good reputation in the market
 - Growing investment activity
 - Business strategy that quickly adapt to market changes
 - Solid capital base and high profitability margins
 - Stable and safe liquidity ratios
 - Broadly diversified portfolio in regional und sectorial respect

Threats / Weaknesses

- *Macro perspective*
 - Websites that cater for a specific group of individuals diversifying into recruitment are competition for recruitment companies
 - Low barrier to entry the market – high competition in temporary and permanent staffing services business
 - The industry is highly vulnerable to changes in employment patterns
 - The industry suffers from a high staff turnover
 - Global Economic Slowdown
- *Micro perspective*
 - Reliance on German Region
 - Acquisition risk

2. Business risk profile

2.1 General information

The hkw personalkonzepte GmbH was founded in 1979 in Munich. The company is located in seven towns in Germany: Nuremberg, Ulm, Schwäbisch Gmünd, Leipzig, Munster, Köthen and Munich. Additionally, there are two subsidiaries in the Netherlands located in Epe and Hoofddorop. The hkw personalkonzepte provides wide range of employment services which include: temporary employment, permanent employment, outsourcing of HR, on-site management.

2.2 History

The company started in 1979 operating initially in the Munich area. In 2006 hkw personalkonzepte open two offices in Nuremberg and Ulm. Other locations: Munster and Schwäbisch Gmünd were established in mid of 2011 to achieved greater presence on Market. On 1 August 2011 hkw personalkonzepte acquired two companies in the Netherlands: hkw personeelsdiensten B.V. and hkw engineering B.V. Through the acquisitions the company acquired skills in the engineering field of employment services, as well as, broadened its services into foreign market. Furthermore, in October 2011, the company acquired Permonta Montage GmbH with its two locations: Leipzig and Köthen.

2.3 Products and services

The hkw personalkonzepte provides a suite of workforce solutions and services for the entire business cycle, including:

- recruitment and assessment
- training and development
- career management
- outsourcing
- workforce consulting
- on-site management

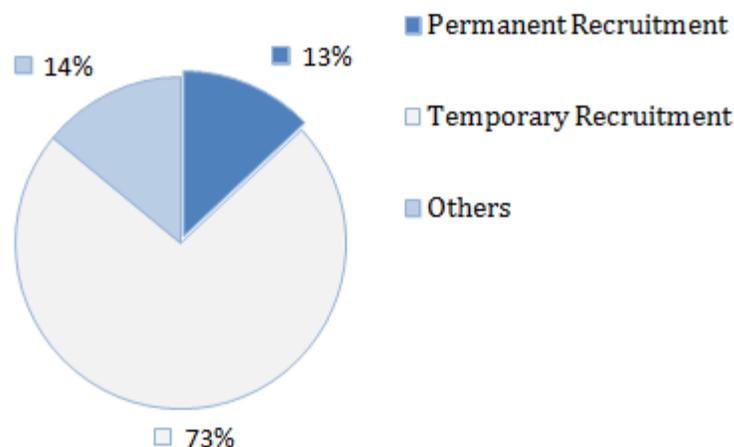
2.4 Market Position / Market

The aggregated HR solution industry mainly comprises:

- Permanent recruitment
 - Temporary recruitment
 - Other segments
-
- *Temporary recruitment* (staffing) has the largest share at 73% of the market, since it includes pass through salary costs.
 - *Permanent recruitment* has a 13% share and only includes the net fees from each successful referral.
 - *The others categories* primarily include small and emerging offerings such as the following:
 - ✓ Payroll administration (producing checks, handling taxes, dealing with sick-time and vacations), employee benefits (health, medical, life insurance, cafeteria, etc.)
 - ✓ Recruitment process outsourcing,
 - ✓ HR management and consulting (benefit consulting, hiring and firing, background interviews, exit interviews and wage reviews),
 - ✓ Employment training
 - ✓ Online job portals (sourcing of candidates)

The following figure presents graphical representation of the shares of the industry's products.

Figure 1. Market size of HR solutions in 2011.



Dr. Kalliwoda | Research © 2012

The global human resources and employment services market has seen fairly consistent rates of growth over the past four years, although it did dip into negative figures in 2008. The rate of growth is set to increase again over the coming five years.

The US is the largest among all the regional recruitment markets, with more than one-third share of the global market share. Meanwhile, the decline witnessed by the US recruitment market in 2009 was calculated to be much greater than that of the global market.

Adecco is the largest player in the global recruitment market, followed by Randstad and Manpower. Randstad became the second largest player after its acquisition of Dutch staffing firm Vedior NV. The other players in the market are USG People, Allegis People, Kelly Services, Radia Holdings, Hays, Robert Half International and Staff Services Co.

The following figure shows the largest players in the industry based current on revenues.

Figure 2. Top companies in the industry by revenues (in '000 us dollars).

	Name	Head Quarters	Revenue	Market share in revenue	Gross profit	Gross Margin	Market share in Gross Profit
1.	Adecco	Switzerland	18.531	7.00%	3.405	18.40%	6.90%
2.	Randstad	Netherlands	16.131	6.10%	3.058	19.00%	6.20%
3.	Manpower	United States	14.380	5.40%	2.483	17.30%	5.10%
4.	Allegis	United States	5.049	1.90%	923	18.30%	1.90%
5.	Recruit	Japan	4.046	1.50%	759	18.80%	1.50%
6.	Kelly Services	United States	3.740	1.40%	600	16.00%	1.20%
7.	Hays	United Kinqdom	3.476	1.30%	722	20.80%	1.50%
8.	USG People	Netherlands	3.099	1.20%	676	21.80%	1.40%
9.	Robert Half	United States	2.399	0.90%	902	37.60%	1.80%
10.	Temp Hoidnqs	Japan	1.942	0.70%	364	18.80%	0.70%
11.	Advantage	Japan	1.662	0.60%	346	20.80%	0.70%
12.	Pasona	Japan	1.541	0.60%	289	18.80%	0.60%
13.	Express Employment	United States	1.331	0.50%	200	15.00%	0.40%
14.	Select Family	United States	1.320	0.50%	198	15.00%	0.40%
15.	Impellam	United Kinqdom	1.299	0.50%	213	16.40%	0.40%
16.	Synergie	Ranee	1.268	0.50%	181	14.30%	0.40%
17.	Skilled Group	Australia	1.241	0.50%	279	22.50%	0.60%
18.	Volt	United States	1.209	0.50%	199	16.50%	0.40%
19.	Groupe Crit	France	1.169	0.40%	170	14.50%	0.30%
20.	Trenkwalder	Austria	1.000	0.40%	221	22.10%	0.50%

Dr. Kalliwoda | Research © 2012

The total worldwide recruitment market is estimated to be valued at over US\$526 billion and has grown at an average 12% per annum during the last decade and 6% during 2004-2011.

The HR solutions market was affected by the global economic slowdown and slowed a year on year (y-o-y) rate of 34%1 in FY09 to 13%1 in FY11. The slowdown forced customer organizations to defer their hiring plans and reduce their spending on HR.

Understanding the business.

Demand for services in the global human resources and employment market is dependent upon a number of global trends, such as demand for skilled workers, as well as economic growth. Recent difficult economic situation and mass staff reductions, especially in labor intensive industries mean, players must compete more intensely to keep certain level of revenues.

We conduct *Porter's Five Forces Analysis* to highlight the industry characteristics – Figure 3.

Figure 3. *Porter's Five Forces of Employment Services Industry.*

<i>Strong</i> buyer power.
<ul style="list-style-type: none"> Switching costs are not of significant meaning here and buyers have the ability to utilize multiple agencies in advertising a specific position Online job websites
Supplier power is <i>moderate</i> .
<ul style="list-style-type: none"> Companies invest large sums of money in IT technology -> contracts with large technology providers -> incur raised switching costs Changing suppliers can incur significant costs in terms of staff training Large base of IT suppliers
<i>Strong likelihood</i> of new entrants entering the market
<ul style="list-style-type: none"> Few barriers to entry exist for companies at the local level Access to potential employees and employers has been made easier by the Internet
Threat of substitutes to and employment services is <i>strong</i>
<ul style="list-style-type: none"> web-based operations
Rivalry in the global market <i>moderate high</i>
<ul style="list-style-type: none"> Fragmented market – revenues of four largest companies account for 20%. Internet provided services reduced barrier to entry – pressure put on existing players Companies try to diversify portfolios

Dr. Kalliwoda | Research © 2012

Critical factors for the success of recruitment firms.

1. Network of client relationships

Having strong ties with companies and maintaining them in this crowded space is the key to obtaining business. This industry is characterized by low entry barriers and large volumes. Therefore, companies need to build on their existing relationships to prevent their market share from shrinking. They should also foster new relationships to grow.

2. Track record of delivery

Quick turnaround time and quality of candidates sourced are important factors on which the track record of delivery is measured. This track record is critical for increasing business from existing clients and also to attract new clients.

3. Quality of sales team

Permanent recruitment is a relationship-driven business. Having a quality sales team to source mandates from companies and to be able to successfully make a pitch to the right candidates is critical for the success of companies.

2.5 Capital Structure

Currently hkw personalkonzepte has one bond issue outstanding of 1 415 000 EURO which were issued 11/07/2011 and has maturity date of 11/14/2016. The company has recently issued additional corporate bonds and total outstanding bond issue amounts to 6 074 000 euro. The issue pays fixed coupon of 8.25% per year every 15 November. The bond covenants include restrictions on the issuer's retained earnings – no more than 50% of retained earnings can be pay out. hkw personalkonzepte is pledged not to payout more than 50% of earning into shareholders. The following table presents actual debt obligations held by the company. The following table presents long-term debt obligations of the company.

Figure 4. Outstanding debt obligations.

Debt obligations ('000 euro)	2011
Debt	1415
Bank loan	327.8

Dr. Kalliwoda | Research © 2012

3. Financial Analysis. Capacity to pay obligations.

The hkw personalkonzepte prepares the financial statement according to IFRS. The reporting currency is euro. The following tables present the financial statements of the hkw personalkonzepte.

Figure 5. Income statement.

Income Statement ('000 euro)	2011	2010	2009	2008	2007	2006
Revenues	13 215	10 680	7 052	9 432	8 988	6 988
Personnel expenses	(11 180)	(8 832)	(6 118)	(7 733)	(7 257)	(5 644)
Other operating income	131	60	74	5	42	43
Other operating expenses	(1 382)	(561)	(520)	(78)	(745)	(457)
EBITDA	784	1 347	487	1 626	1 029	930
Depreciation	(85)	(41)	(46)	(44)	(48)	(16)
EBIT	699	1 306	442	1 582	981	913
Interest expenses	(52)	(24)	(1)	(1)	(0)	(4)
Interests income	1	5	3	3	233	14
Extraordinary items	(123)	-	143		-	-
Earnings before taxes (EBT)	525	1 288	446	952	1 009	927
Taxes on income and other taxes	(33)	(424)	(207)	(41)	(329)	(381)
Net income	558	870	382	568	680	546

Dr. Kalliwoda | Research © 2012

Figure 6. Balance sheet and capital structure

Balance Sheet ('000 euro)	2011	2010	2009	2008	2007	2006
Fixed Assets	5 986	89	112	156	86	45
Intangible fixed assets	318	0	1	2	77	37
P&E	82	89	111	154	6	6
Financial assets	5 586	-	-	-	3	3
Current Assets	5 083	2 886	2 051	2 358	2 709	2 207
Receivables	1 805	1 366	898	895	1 231	1 187
Other Assets	2 825	48	269	349	338	388
Cash and cash equivalents	453	1 472	884	1 114	1 139	633
Total Assets	11 069	2 987	2 164	2 514	2 798	2 259
Equity	5 577	904	637	605	1 070	895
Provisions	1 074	1 261	1 039	1 033	1 170	980
Operating liabilities	330	15	7	40	44	6
Other Liabilities	4 088	807	480	835	514	378
Total liabilities and equity	11 069	2 987	2 164	2 514	2 798	2 259

Dr. Kalliwoda | Research © 2012

Figure 7. Cash flow development

Cash Flow figures ('000 euro)	2011	2010	2009	2008	2007
Net income	558	870	382	568	680
Depreciation	(85)	(41)	(46)	(44)	(48)
CFO	(3 508)	1 210	477	766	1 100
CFI	(142)	(18)	(2)	(114)	(89)
CFF	1 192	(604)	(705)	(677)	(505)
Total CF	(2 458)	588	(230)	(25)	506

Dr. Kalliwoda | Research © 2012

3.1 Analysis of financial statements with regards to capacity to pay debt.

The following table shows evolution of financial figures across time. We show the most important ratios with regards to capacity to pay debt.

Figure 8. Evolution of financial figures across time

Item	2011	2010	2009	2008	2007	2006
Revenue ('000 euro)	13 215	10 680	7 052	9 432	8 988	6 988
EBITDA Margin	5.9%	12.6%	6.9%	17.2%	11.4%	13.3%
Net Income Margin	4.2%	8.1%	5.4%	6.0%	7.6%	7.8%
Asset turnover	0.8	0.28	0.31	0.27	0.31	0.32
Receivables turnover	7.3	7.82	7.85	10.54	7.30	5.89
EBITDA / Interest expenses	7.76	57.06	406.00	1626.00	3430.33	265.63
Current Ratio	1.3	2.26	1.96	2.20	2.23	2.24
Item	2011					
Net Margin Avg (2011-2006)	7%					
EBITDA Margin Avg (2011-2006)	11%					
EBITDA / Gross LT Debt	0.4					
Equity / Gross LT Debt	3.2					
EBITDA/ Interest Expense	7.8					
Capitalization / LT Debt	4.2					
Current Ratio	1.3					

Dr. Kalliwoda | Research © 2012

3.2 Key futures of hkw personalkonzepte's *capacity* to pay debt obligations.

- Profitability ratios are *stable* across time.

Even during the financial crisis 2008-2009 the company maintains positive net profit. The average EBITDA margin equals 11.2% with very standard deviation of 4.2%. The Net margin equals 6.5% with extremely low standard deviation of 1.6%. The numbers show that the management is able to react changing economic environment and maintain profitability during time of lower demand.

- Stable and safe level of current ratio.

The company is able to maintain enough liquid assets. The lower figure in 2011 is temporary and is caused by the change in capital structure.

- Interest coverage ratio.

Safe level of EBITDA / Interest Ratio. The company earns on operating activity almost eight times more than is obligated to pay every year.

- Long term debt coverage ratio.

Safe level of Capitalization / LT Debt. The company hold capital which is four higher than outstanding long term obligation (bank loans and debt).

- Management ability to push for more clients.

It is noticeable that the level of current revenues is higher than before the financial crisis. The management can handle the increasing competitiveness within the industry while still gaining high margins.

- Strong and stable operating cash flow.

The last year negative operating cash flow is extraordinary event because of change in capital structure. We anticipate positive operating cash flow for year 2012.

3.3 Bond issue and changes in the capital structure.

The 2011 year was breakthrough in the financial position of the company. The hkw personalkonzepte issued bonds worth 6 074 000 euro and there have been major changes in the equity structure. The company acquired two Dutch companies: hkw Engineering BV and hkw Personeelsdiensten BV, the book value of the transactions amounted to 5 586 000 euro. The funds came from bonds and shares issuance.

This transaction should be carefully regarded by investors. The return on equity (ROE) for 2011 is misleading. The increase in equity always decreases ROE in the year of the increase. Additionally, the company reported goodwill – 316 937 euro. This amount increased equity.

4. Industry outlook.

4.1 The permanent employment.

Growth drivers and emerging trends in this sector:

- Mid-level recruiters have ready access to a database of relevant profiles and therefore have a quick turnaround time.
- Recruitment agencies can have higher margins because they do not need to share their revenues with online portals to source profiles.
- Companies now focus on human resource more than ever. There is an increasing cost implication in finding and hiring talent, which is exerting considerable pressure on most businesses, especially people-intensive ones. HR budgets are growing as the quality of talent, attraction and retention concerns drive business growth more than ever before.

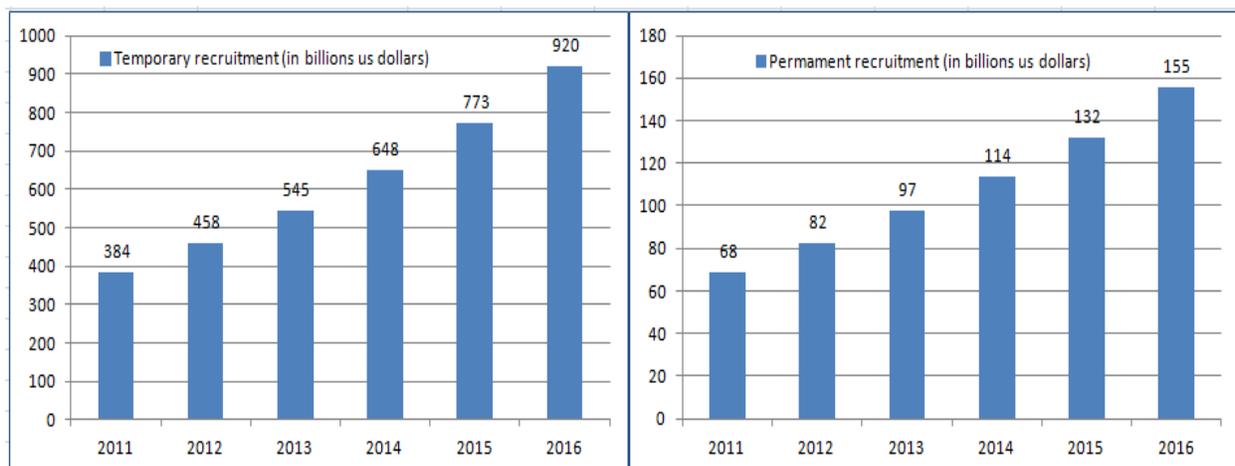
4.2 Temporary employment

Growth drivers and emerging trends in this sector:

- IT companies are gradually increasing the share of temporary staff in their total workforce.
- Training is the starting point for developing a temporary work-force. A company with training facilities has an edge in terms of an employment-ready and local temporary workforce.
- Recruitment-focused companies are entering the temporary recruitment segment to build a healthy top line. A large balance sheet makes them attractive from the perspective of investors and banks and helps them to obtain funds required for their future growth.

The following tables shows forecast of growth in the both segments.

Figure 9. Temporary and permanent employment services growth forecast.



Dr. Kalliwoda | Research © 2012

The employment services industry is changing constantly because of new technology, increasing mobility and people growth changes across the world. The changes in technology and demography are connected with the increasing global mismatch in employment industry. The following figure shows the arguments behind our hypothesis.

Figure 10. Different work-related issues in different regions create global mismatch.



Ernst and Young, 2011.

We can anticipate that the global mismatch is a competitive advantage of the employment industry. This is opportunity especially for the global brands. The main benefit for the companies within the employment services industry will be increase in demand for the staff services.

Challenges to the labor market.

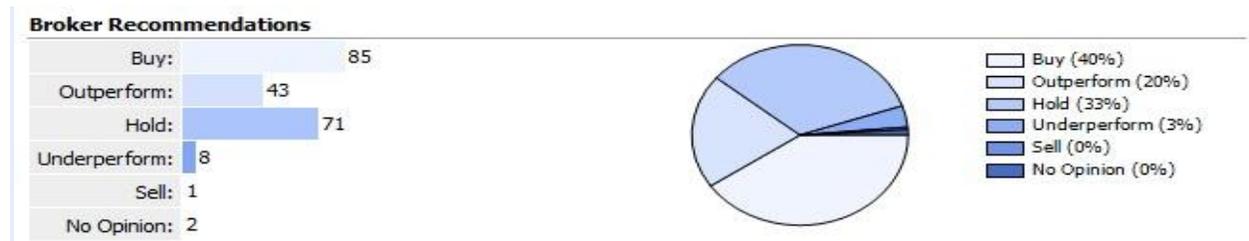
- Acceleration in need for flexibility driven by increased demand volatility and globalization of competition
- Persistent high level of unemployment vs. increasing mismatch between supply and demand of skills
- Job security increases mobility which drives need for permanent placements
- Stronger segmentation of the labor market
- New forms of contractual arrangements not well regulated nor organized (e.g. outsourcing)

We believe that hkw personalkonzepte is well-positioned in this changing environment. The permanent and employment sectors which are likely to grow in the future is a core business for the company. The company is developing by acquiring small competitors (large balance sheet argument). There is also possibility to enter more broadly into high margin IT sector by acquisition.

The latest acquisition of the Dutch firms shows that the company is trying to materialize the need for foreign diversification.

Despite of the negative trend on the stock market, the sentiment towards employment services industry is positive. The following figure presents how the industry is regarded by analysts. It is noticeable that around 63% of the reports are positive and recommend allocate equity in this industry.

Figure 11. Broker recommendations of the employment services industry.



Dr. Kalliwoda | Research © 2012

5. Company outlook

5.1 Financial projections.

We believe that after utilizing acquisition process of the two Dutch profitable companies the company will increase EBITDA margin to double digit. Considering current business exposition, we expect next year revenues will increase to around € 27 million per year during next two years. After the next expected acquisitions the company revenues are projected to equals around € 70 million. This would locate the company within top 25 players in the industry.

5.2 Recent operating developments.

Prospects, M&A activity

The group will be oriented in the future on *temporary* and *permanent* employment services. The company is focus on acquiring new targets within employment industry. The recent acquisition of two Dutch companies is a signal that the issuance of additional capital will be focused on the group development by acquiring smaller competitors with highly regarded skills.

Loyalty bonus concept

To improve the cohesion and sense of belonging, the company introduced loyalty bonus system. Each employee will receive bonus points for long track record with the company as well as for birthdays and special achievements.

New Products.

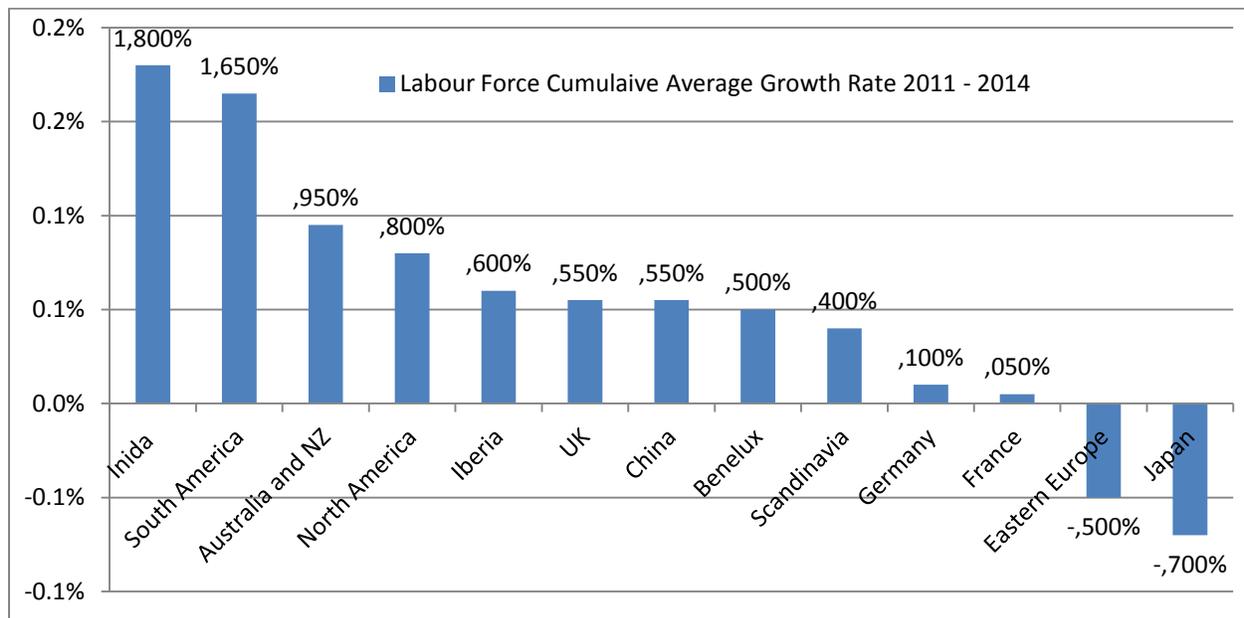
The goal of the company is to expand its portfolio of products. There are plans to expand the portfolio into the energy, engineering, facility and medicine and nursing sector.

Modernization.

The hkw personalkonzepte works on the cutting edge of technology. The staff relies on advanced technique to optimize not only the costs but also to accelerate the processes. The company aim in the future, not only for video conferencing and mobile technology, but also for electronic the personnel file and accounting.

The strategy of the company is well considered with respect to the new outlook for the employment services industry. The following Figure 12 presents the forecast of population growth across different countries.

Figure 12. Forecast of labour force population growth.



Dr. Kalliwoda | Research © 2012. Randstand, 2011.

The graph shows that it is likely to be only slightly increase in labour force in Germany in contrast to the Benelux where it is expected that the labour force will increase in 2011-2014 by 0.5%. Therefore we regard the acquisition of two Dutch companies as a good strategic look-ahead step.

6. Peer comparison – Manpower Inc

The goal of peer comparison is to find comparable company which has similar revenues structure and business model as well as has “BBB” rating of outstanding bonds. The company which meets the criteria is Manpower Inc, membership of S&P 400 Mid Cap. The current rating of the outstanding bonds is “BBB-“ issued by Standard and Poors. Manpower offers global employment services. The company strong EMEA segment provides a scope to generate high revenues and its balanced geographical mix minimizes the risk associated with any particular region.

The following table presents the ratio comparison between hkw personalkonzepte and Manpower for the year of 2011.

Table 13. Peer comparison: hkw personalkonzepte – Manpower Inc.

Items : 2011	hkw	Manpower	More favorable ratio
Net Mgn Avg (2011-2006)	7%	0.8%	hkw
EBITDA Mgn Avg (2011-2006)	11%	2.4%	hkw
EBITDA / Gross LT Debt	0.45	2.36	Manpower
Equity / Gross LT Debt	3.20	9.33	Manpower
EBITDA/ Intrest Expense	7.76	14.69	Manpower
Capiatalization / LT Debt	4.20	0.10	hkw
Current Ratio	1.34	1.35	equal

Dr. Kalliwoda | Research © 2012

The table 13 shows that there is evidence of higher profitability of hkw personalkonzepte. However Manpower has more favorable ratios with respect to interest and debt coverage. Current ratio is on the same level. We argue that at given high level of coverage ratios the most important factor regarding capacity to pay is stability of profitability ratios across time. The hkw personalkonzepte has had positive net and operating profits across the time of financial crisis in contrast to Manpower which has negative net results in 2009 and 2010.

7. Current credit rating reconciliation.

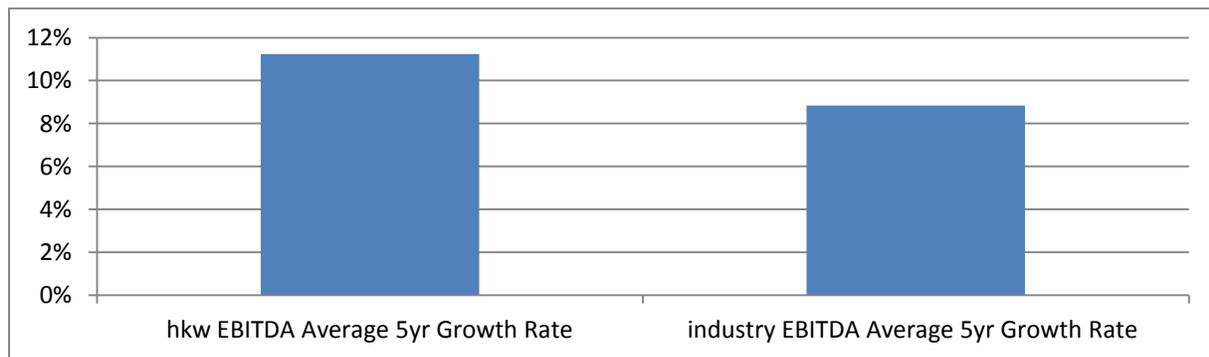
Altman “Z-Score” is a model that is widely used to predict bankruptcy of firms. We compare the model’s outcome for hkw personalkonzepte and the peer. The results that we obtain are consistent with US Bond Equivalent based on “Z-Score”. *Please see the appendix 1.* The value of hkw personalkonzepte (5.67) is equivalent to BBB- rating, while the value of the peer (5.92) is equivalent to “BBB”.

Figure 14. Altman Model for bankruptcy prediction.

Altman Model	Altman Decomposition	
6.56 * X1 = working capital / total assets	0.76	1.24
3.26 * X2 = retained earnings / total assets	0.16	0.46
6.72 * X3 = EBIT / total assets	0.42	0.51
1.05 * X4 = equity / total liabilities	1.07	0.46
3.25 - constant	3.25	3.25
Dr. Kalliwoda Research © 2012	5.67	5.92

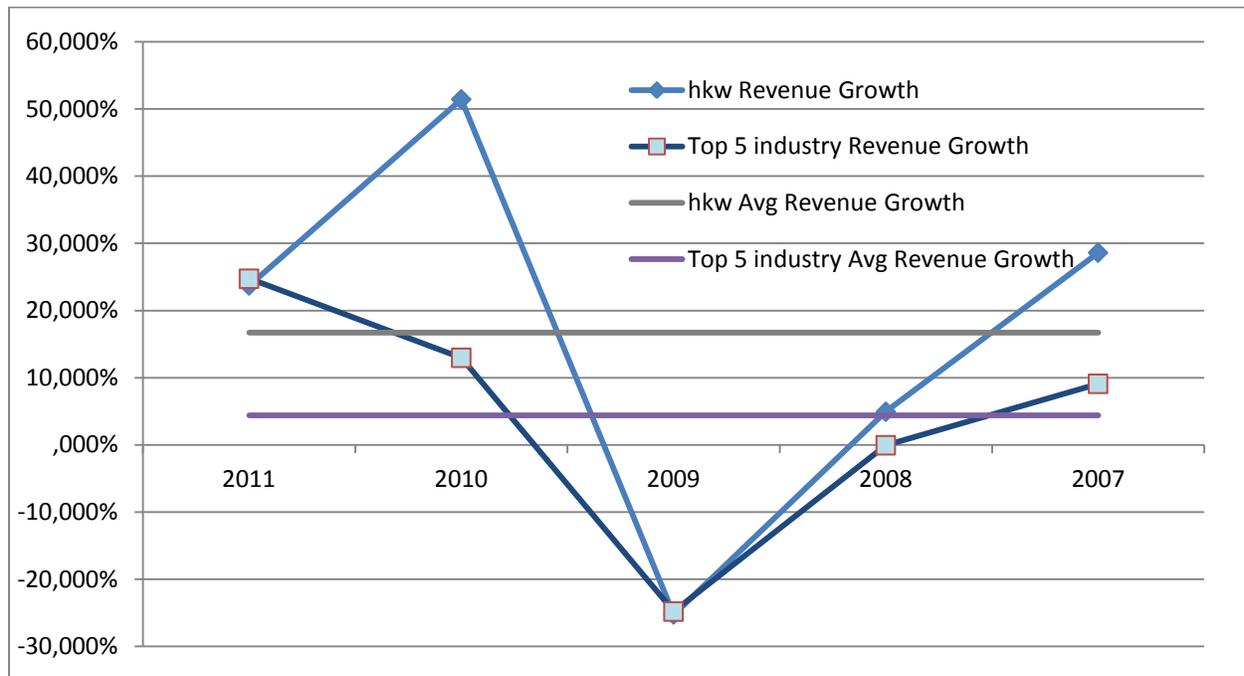
Hkw personalkonzepte in comparison to industry.

We analyze the hkw personalkonzepte fundamentals with respect to the whole industry. The following figure presents average EBITDA margin of hkw personalkonzepte and the industry which consists of 109 companies in the Reuters Knowledge database.

Figure 15. Average 5 yr growth of EBITDA margin.

Dr. Kalliwoda | Research © 2012

We also compare hkw personalkonzepte to top 5 players in the industry with regards to growth of revenues which presents the following figure. The top 5 companies were selected based on market capitalization.

Figure 16. Revenue growth of hkw personalkonzepte and top 5 companies of the industry.

Dr. Kalliwoda | Research © 2012

The above charts shows that hkw personalkonzepte is more profitable than the industry on average and additionally the company is able to growth fester than the top players in the industry. We expect that this combination is a prospect of management ability to gain market share more efficiently than competitors.

Taking account positive outlook for the industry development, the management's effectiveness, high profitability and safe current liquidity ratio we believe that the current "BBB" reflect *correctly* the company's financial position.

Additionally, we believe that the company has chance to outperform the peers with regards to gaining the market share in the future.

Appendix 1.

US equivalent rating	Average Z''-Score	Sample size
AAA	8.15	8
AA+	7.60	–
AA	7.30	18
AA–	7.00	15
A+	6.85	24
A	6.65	42
A–	6.40	38
BBB+	6.25	38
BBB	5.85	59
BBB–	5.65	52
BB+	5.25	34
BB	4.95	25
BB–	4.75	65
B+	4.50	78
B	4.15	115
B–	3.75	95
CCC+	3.20	23
CCC	2.50	10
CCC–	1.75	6
D	0.00	14

Average based on over 750 US industrial corporates with rated debt outstanding; 1994 data.

Source: Dr. Kalliwoda | Research © 2012

Contact

DR. KALLIWODA RESEARCH GmbH		Rüsterstraße 4a 60325 Frankfurt Tel.: 069-97 20 58 53 www.kalliwoda.com
Primary Research Fair Value Analysis International Roadshows		
Head: Dr. Norbert Kalliwoda E-Mail: nk@kalliwoda.com	CEFA-Analyst; University of Frankfurt/Main; PhD in Economics; Dipl.-Kfm.	<u>Sectors:</u> IT, Software, Electricals & Electronics, Mechanical Engineering, Logistics, Laser, Technology, Raw Materials
Dr. Peter Arendarski E-Mail: pa@kalliwoda.com	Senior-Analyst, Msc & Ph.D in Finance (Poznan Univers. of Economics), CFA Level 2 Candidate	<u>Sectors:</u> Technology, Raw Materials, Banks & Insurances, Financial-Modelling (Quant., Buyside)
Patrick Bellmann E-Mail: pb@kalliwoda.com	Junior-Analyst; WHU - Otto Beisheim School of Management, Vallendar (2012)	<u>Sectors:</u> Support Research and Quantitative Approach
Andreas Braun E-Mail: rb@kalliwoda.com	Junior-Analyst; University of Frankfurt/Main (2012)	<u>Sectors:</u> Support Research and Quantitative Approach
Michael John E-Mail: mj@kalliwoda.com	Dipl.-Ing. (Aachen)	<u>Sectors:</u> Chemicals, Chemical Engineering, Basic Metals, Renewable Energies, Laser/Physics
Maximilian F. Kaessens E-Mail: mk@kalliwoda.com	Bachelor of Science in Business Administration (Babson College (05/2012), Babson Park, MA (US))	<u>Sectors:</u> Financials, Real Estate
Adrian Kowollik E-Mail: ak@kalliwoda.com	Dipl.-Kfm.; Humboldt-Universität zu Berlin, CFA Candidate	<u>Sectors:</u> Media, Internet, Gaming, Technology, Eastern European stocks
Dr. Thomas Krassmann E-Mail: tk@kalliwoda.com	Dipl.-Geologist, M.Sc.; University of Göttingen & Rhodes University, South Africa;	<u>Sectors:</u> Raw Materials, Mining, Precious Metals, Gem stones.
Maximilian F. Kaessens E-Mail: mk@kalliwoda.com	Bachelor of Science in Business Administration (Babson College (05/2012), Babson Park, MA (US))	<u>Sectors:</u> Financials, Real Estate
Dr. Christoph Piechaczek E-Mail: cp@kalliwoda.com	Dipl.-Biologist; Technical University Darmstadt; Univ. Witten-Herdecke.	<u>Sectors:</u> Biotech & Healthcare; Medical Technology Pharmaceutical
Hellmut Schaarschmidt; E-Mail: hs@kalliwoda.com	Dipl.-Geophysicists; University of Frankfurt/Main.	<u>Sectors:</u> Oil, Regenerative Energies, Specialities Chemicals, Utilities
Dr. Erik Schneider E-Mail: es@kalliwoda.com	Dipl.-Biologist; Technical University Darmstadt; Univ. Hamburg.	<u>Sectors:</u> Biotech & Healthcare; Medical Technology Pharmaceutical
David Schreindorfer E-Mail: ds@kalliwoda.com	MBA, Economic Investment Management; Univ. Frankfurt/ Univ. Iowa (US).	<u>Sectors:</u> IT/Logistics; Quantitative Modelling
Nele Rave E-Mail: nr@kalliwoda.com	Lawyer; Native Speaker, German School London,	<u>Legal adviser</u>

Also view Sales and Earnings Estimates:

DR. KALLIWODA | RESEARCH on Terminals of
Bloomberg, Thomson Reuters, vwd group and Factset

Analyst of this research:

Dr. Norbert Kalliwoda,
CEFA



DISCLAIMER

Stock-Analysis and Credit Research

Investment Suggestion stock-research

DR. KALLIWODA | RESEARCH GmbH has established a 5-level stock-rating system. As the analysis is published the investment suggestion is based on the following classifications considering the expected yield return. If the stock price is temporary located beyond the defined thresholds there is no necessarily change of the rating. Nevertheless it might be an occasion to modify the original suggestion.

BUY	On a basis of our prognoses the stock should have a performance of at least 10% in the following 12 months.
ACCUMULATE	On a basis of our prognoses the stock should have a performance of between 5% and 10% in the following 12 months.
HOLD	On a basis of our prognoses the stock should have a performance of between minus 5% and plus 5% in the following 12 months.
REDUCE	On a basis of our prognoses the stock should have an underperformance of between minus 5% and minus 10%.
SELL	On a basis of our prognoses the stock should have an underperformance of at least minus 10%

DR. KALLIWODA | RESEARCH GmbH substantiates the fair value of the analyzed company based on a fundamental research. This includes a discounted cash flow analysis, Sum-of-the-parts-method as well as a Peer-Group-comparison.

Rating - Credit Research

As a part of the CREDIT RESEARCH analysis DR. KALLIWODA | RESEARCH GmbH provides a bond-rating.

Outperformer: The credit standing of the bond is above average.

Marketperformer: The credit standing of the bond is comparable with the average market.

Underperformer: The credit standing of the bond is worse than comparable bonds.

Additional Disclosure/Erklärung

DR. KALLIWODA | RESEARCH GmbH prepared this analysis on the basis of broadly accessible sources, which are regarded as reliable. We work as precisely as possible. We cannot however guarantee for the balance, precision, correctness and wholeness of the information and opinions. This study does not replace personal advice. This study is not regarded as invitation to the purchase or sale of the installation-instruments discussed in this study. Therefore, DR. KALLIWODA | RESEARCH GmbH advises to turn to your bank-advisor or trustees before an investment-disposition.

In the United Kingdom this document is only intended for distribution to persons described in Section 11(3) of the Financial Services Act 1986 (Investments Advertisements) (Exemptions) Order 1996 (in the latest amended version), and may not be passed on either directly nor indirectly to another group of persons. Neither this document nor a copy thereof may be sent or taken to or distributed in the United States of America, Canada or Japan or their territories or possessions nor may it be distributed to a US person as defined by the terms of the US Securities Act 1933 or to persons resident in Canada or Japan. Distribution of this document in other jurisdictions may be limited by law and persons in possession of this document should inform themselves of any restrictions and comply with these. Any failure to comply with these restrictions may represent a breach of a current securities act.

DR. KALLIWODA | RESEARCH GmbH as well as co-workers may hold positions in any securities mentioned in this study or in connected investments and may increase or sell their holdings in these securities or connected investments.

Possible conflicts of interest

Neither DR. KALLIWODA | RESEARCH GmbH nor any affiliated company

- a) hold an interest of 1 percent or more of the equity capital of the company being covered in this report;
- b) were involved in an emission of investments that is object of this study;
- c) hold a net-sale position of the shares of the analyzed business of at least 1 percent of the share capital;
- d) have serviced the analyzed investments based on any contract with the emitter on the stock exchange or in the market.

There is a contractual relationship only with the business of hkw Personalkonzepte GmbH and DR. KALLIWODA | RESEARCH GmbH for the preparation of research studies.

Through the assumption of this document, the reader / recipient accepts the obligations in these disclaimers.

DISCLAIMER

The information and opinions in this analysis were prepared by DR. KALLIWODA | RESEARCH GmbH. The information herein is believed by DR. KALLIWODA | RESEARCH GmbH to be reliable and has been obtained from public sources believed to be reliable. With the exception of information about DR. KALLIWODA | RESEARCH GmbH, DR. KALLIWODA | RESEARCH GmbH makes no representation as to the accuracy or completeness of such information.

Opinions, estimates and projections in this report constitute the current judgement of the author as of the date of this analysis. They do not necessarily reflect the opinions, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, except if research on the subject company is withdrawn. Prices and availability of financial instruments also are subject to change without notice. This report is provided for informational purposes only. It is not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction. The financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decision using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the price or value of, or the income derived from, the financial instrument, and such investor effectively assumes currency risk. In addition, income from an investment may fluctuate and the price or value of financial instruments described in this report, either directly or indirectly, may rise or fall. Furthermore, past performance is not necessarily indicative of future results.

This report may not be reproduced, distributed or published by any person for any purpose without DR. KALLIWODA | RESEARCH GmbH's prior written consent. Please cite source when quoting.