

# Company Report

February 08, 2007

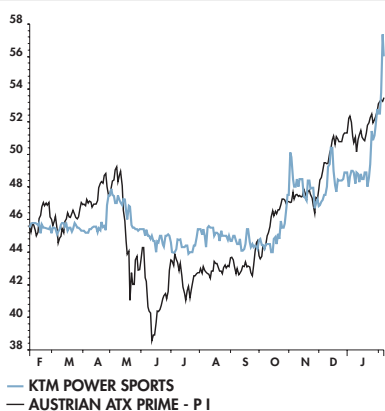
Industry/Austria

## KTM Power Sports

### Fasten seat belts and hold on tight

#### Buy

Price 07.02.07	56.01
Price target	65.00
Volatility risk	medium
Year high/low	57.38/43.71
Currency	EUR
EUR/EUR	1.00
ADR rate	n.a.
Market capitalisation	
in EUR mn	386.1
Free float	20.0%
Free float in EUR mn	77.2
Avg daily turnover (12 m)	
in EUR mn	0.2
Index	ATX Prime
ISIN code	AT0000645403
Bloomberg	KTM AV
Reuters	KTMP.VI
Datastream code	O:KTM
www.ktm.com	



Source: Thomson Financial Datastream

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Supervisory authority: Financial Market Authority

KTM Power Sports, the former off-road motorcycle specialist transfers itself more and more into a broader-diversified provider of high-performance ready-to-race leisure vehicles and hence kicks the door open to sustainable above-average growth. After the strong 1Q result we increase our EPS estimates for 2006/07 from EUR 3.45 to EUR 3.58 and for 2007/08 from EUR 3.72 to EUR 3.97 and implement EPS of EUR 4.43 for 2008/09. Based on the current favourable valuation we lift our recommendation from "hold" to "buy" with a price target of EUR 66 (previous EUR 48).

**Outstanding growth:** The motorcycle niche player KTM PS has not only demonstrated an outstanding performance in the last few years (CAGR sales 02/03 – 05/06 of 10.3%), but also set the stage for sustainable growth in the future. The full product pipeline of new "on-road" models, the market launch of the KTM ATV as well as an updated product range of off-road products should translate into sales growth of 10.9% and EPS growth of 19.8% in the years 2005/06 to 2008/09. The recently presented sportscar X-BOW could generate growth on top of these figures, as we do not include this project in our calculations due to a lack of visibility. We regard this car as a promising foray into another niche market, which also fits into KTM's brand images of purity, performance and ready-to-race engineering. A rough DCF calculation shows an additional value per share of up to EUR 4.00

**Valuation:** For the first time in the last eighteen months, the share price shows tangible valuation discounts in a peer group comparison. Due to the high growth, we continue to regard a valuation premium of about 10% as justified, which means a price target of EUR 65. Our DCF model indicates a 12-month fair value of EUR 67. Our price target represents the average of both methods.

#### Key ratios

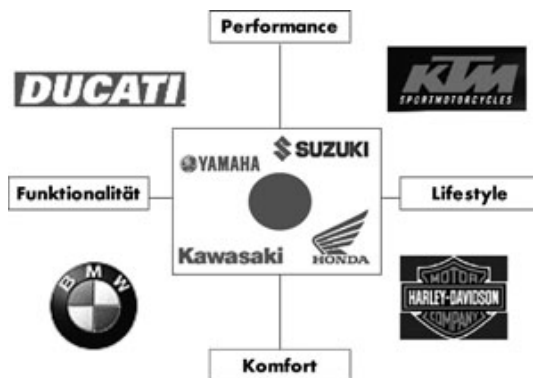
in EUR	8/2004	8/2005	8/2006	8/2007e	8/2008e	8/2009e
EPS reported	3.20	2.09	2.90	3.58	3.97	4.43
PE reported	9.4	23.1	15.5	15.7	14.1	12.6
Adjusted EPS diluted	3.21	2.09	2.90	3.58	3.97	4.43
Adjusted PE diluted	9.3	23.1	15.5	15.7	14.1	12.6
Operating cash flow per share	-0.54	7.49	5.41	7.93	6.74	7.49
Price cash flow	-55.6	6.4	8.3	7.1	8.3	7.5
Book value per share	15.22	23.02	25.88	28.71	31.78	35.21
Price book value	2.0	2.1	1.7	2.0	1.8	1.6
Dividend per share	0.00	0.55	0.75	0.90	1.00	1.10
Dividend yield	0.0%	1.1%	1.7%	1.6%	1.8%	2.0%
EV/adjusted EBITDA	7.4	14.2	8.2	7.8	7.0	6.3

Source: KTM PS, Raiffeisen Centrobank estimates

## Overview

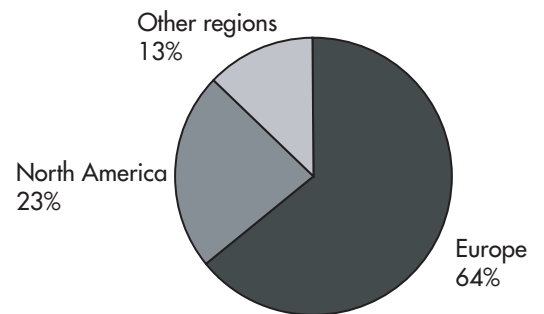
KTM Power Sports is the holding company of KTM, which is the second-largest motorcycle producer after BMW in Europe. The success of KTM is based on the former focus on the niche market of off-road "racing" motorcycles and a successful transfer of the brand attributes to the on-road business. The sale of these high-end "ready-to-race" motorcycles at a price premium is supported by a strong worldwide presence in racing competitions, for which KTM spends 5 - 6% of sales per year.

### Positioning in the competitive landscape



Source: Raiffeisen Centrobank

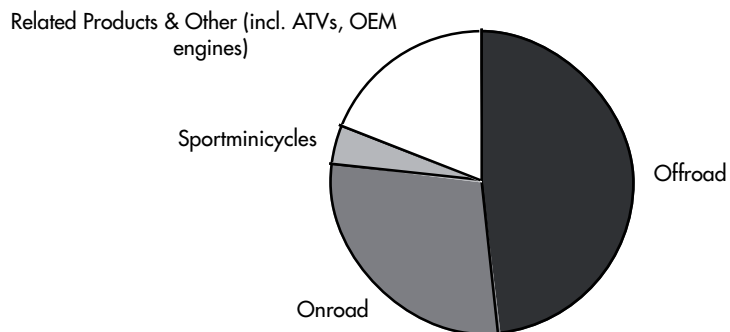
### Sales by region (2005/06)



Source: KTM PS

With this unique positioning KTM has increased its market share in Europe from about 1.7% to 3.6% of the total market and achieved leading positions in highly specialised sub-segments like Enduro Racing (KTM market share: 41%), Motocross (20%) or Supermoto (23%) in the last 5 years. In certain core-segments like KTM transformed itself from a more or less "pure" off-road motorcycles producer to a broader-based supplier of high-performance motorcycles for off-road and on-road use.

### Sales by product (2005/06)



Source: KTM PS

### KTM – rollercoaster ride on the stock exchange

KTM looks back on a colourful but successful history on the stock exchange, as the company was listed under different names and structures. Since the first listing, the value of the company has quadrupled from a capitalisation of EUR 86 mn (1996) to

currently about EUR 365 mn. The only two constants are the majority owners and members of the management board, Dr. Pierer and Dr. Knünz. Together they have constantly held the majority (> 50%) of the shares.

Due to the former strategic investment of Polaris (25%) the free float of KTM PS is only < 20%. With the planned placement of a 20% stake, which is currently held by Polaris, the free float will more than double to < 40% and should boost the current low liquidity of the share with a daily volume of EUR 0.2 mn in the last 12 months.

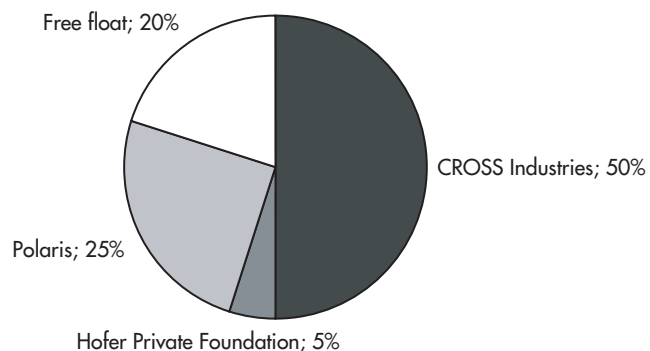
## KTM history on the stock exchange

Date	Action	# of shares (in mn)	MCap EUR mn	Free Float	CROSS Industries*	Polaris
Dec. 96	IPO of KTM at EUR 43	2.000	86	47.6%		
July. 99	Delisting at EUR 65	2.000	130	0%	51%	
Dec. 03	IPO of KTM PS (as CROSS Holding); at EUR 25	4.400	110	< 30%	> 70%	
Dec. 04	Issue of 1.9 mn new shares at EUR 30	6.300	189	< 30%	> 50%	
Jul. 05	10.8% capital increase (Hofer Privat foundation)	6.893	313	< 30%	> 50%	
Jul. 19	Polaris purchased 24% of KTM PS from the investor Swisspartners	6.893	312	< 20%	> 50%	24%
Mar. 06	Polaris increased its stake to > 25%	6.893	314	< 20%	> 50%	>25%
2007	Cross Industries bought back a 20% stake from Polaris	6.893	365	< 20%	> 70%	5%

\* CROSS Industries or Pierer/Knünz

Source: Raiffeisen Centrobank

## Shareholder structure



Source: KTM PS

## KTM – Polaris – just good friends in the future

In July 2005, Polaris, a leading producer of snowmobiles and ATVs with sales of about USD 1.9 bn, took over a 24.9% equity stake in KTM PS held by the financial investor Swisspartners and announced a strategic partnership with KTM PS. Both parties entered into a call option agreement that enabled CROSS Industries to buy back the KTM stake at predefined conditions. If CROSS Industries had not exercised its option,

Polaris would have had the option to exchange Polaris shares for KTM PS shares. In September 2006 KTM ended the speculation on the future of KTM PS with the announcement of the intention to exercise its option and to buy back 20% of KTM PS, which will take place until June 2007. Polaris will keep 340,000 shares or 5% of KTM PS and will co-operate with KTM on the following projects:

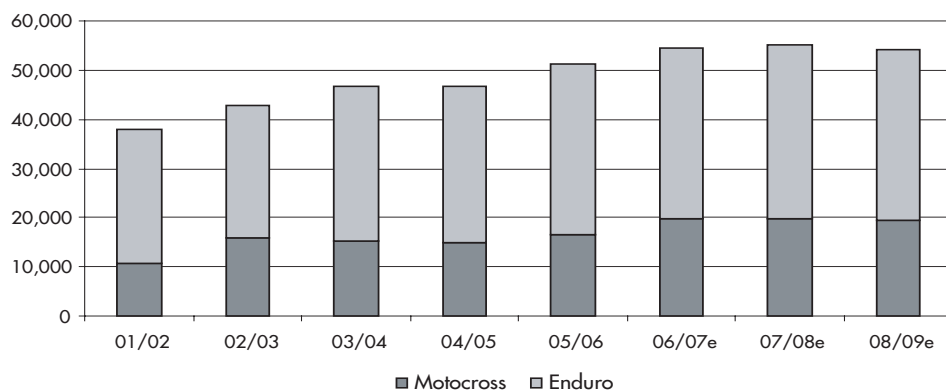
- OEM-supply of KTM engines to Polaris: The long-term supply contract started in October 2006 and comprises annual sales of up to 15,000 engines per year.
- Common sourcing project in order to achieve cost reductions in engine and chassis parts
- Dealer net expansion project in the US: Polaris/Victory dealers will be encouraged to carry also complementary KTM products.
- Marketing of Polaris ATV in Germany: The former co-operation agreement included the sale of Polaris ATVs through the KTM sales network in Germany. In 2005/06 KTM sold 210 ATVs generating sales of EUR 1.4 mn. Sales of Polaris ATVs should rise to 300 units in 2006/07. But due to the low value added for KTM and the missing strategic fit KTM will stop selling Polaris ATVs at the end of the running business year.

## Strategy Update – Off-road

In the offroad sub-segments Motocross and Enduro Racing KTM holds leading market shares of 20% and 40% in Europe as well as 5% and 34% in the US, respectively. For a premium supplier selling products with price premiums of 5 to 10% based on the group's technology and quality leadership, these markets therefore leave hardly any growth opportunities. Therefore the long-term strategy in this segment is to defend these leading market shares and to secure the superior gross margin of about 35% - 40% (compared to about 20-25% in the on-road business). Regarding the short-term development we are rather positive due to the very good market acceptance of the newly designed high-volume Enduro 20 EXC and the ongoing high demand for the SX 250, which were already responsible for the high growth in 2005/06. After 2006/07 we expect slowing growth momentum and even declining unit sales in 2008/09 since the most popular off-road models will be approaching the end of their product lifecycles. Currently the main impetus for growth in the off-road segment derives from the USA, whereas off-road models were facing a slight decline in market shares in Europe of late. However, the legal restrictions regarding off-road motorbikes in Spain and particularly France – which had a negative impact last year – have meanwhile largely been relaxed again.

**Growth through innovation  
ensures the highest performance**

## Offroad (sales in units)

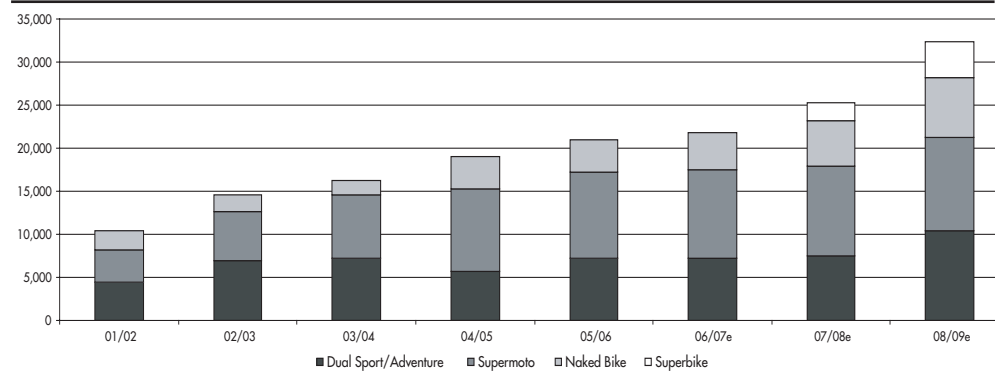


Source: KTM PS

## Strategy Update – On-road

As can be seen in the table above, growth was strongly driven by the expansion of on-road motorcycle sales. A closer look at the on-road segment shows that this growth was solely achieved by new models. In this time-frame KTM launched the new models Adventure LC8 (2002/03), Supermoto LC8 (2004/05), Superduke LC8 (2004/05) and Hard Enduro LC8 (2005/06), which are all based on the same engine platform. In our view, all new models with exception of the Superduke 990 developed successfully and underline KTM's ability to expand its product portfolio in new motorcycle sub-segments. On the other hand, the Superduke 990 - which represents the first "real" on-road motorcycle from an optical point of view, while all other new models strongly resemble off-road models – failed to achieve the expected sales figures in its second year due to some "teething problems" (e.g. the tank was too small, etc.). Regarding the new, improved and redesigned Superduke 990 we expect an increase in unit sales from 2,694 to about 4,000 units in 2006/07. In the next three business years KTM will launch around 15 new on-road models, including a Superbike product family, and will introduce two new engine platforms with 690 ccm and 1190 ccm. Growth in the on-road business will also be accelerated by the introduction of the product families Naked Bike and Superbike in the USA. The rest of the on-road motorcycles will continue to be solely marketed in Europe. The On-road offensive and the expansion of KTM's product portfolio increase the attractiveness of KTM for dealers and enables KTM to gradually improve the density and quality of the dealer network.

### On-road (sales in units)



Source: KTM PS, Raiffeisen Centrobank estimates

### On-road product pipeline

03/04	04/05	05/06	2006/07e	2007/08e	2008/09e
Supermoto 4 Stroke	Supermoto LC8	Superenduro 950	Supermote 690	SMR 450/250	Superbike RC 8/R 1190
	990 Superduke		990 Superduke R	Supermoto 990	Venom 1190
	Adventure LC8			Hard Enduro 690	Superbike RC 4
				Rally 690	Adventure Dakar 1190
				Superbike RC8 1190	Adventure Travel 1190
				Supermoto 690	Superduke R 990 new
				Duke 690	

Source: KTM PS

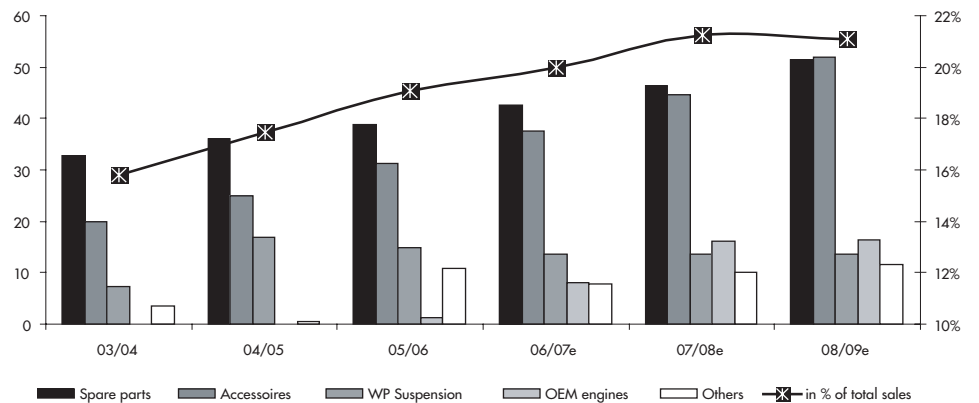
## **Strategy Update – ATV**

As a leading specialist for off-road motorcycles the entrance into the ATV business seems to be a logical step. The global market is estimated at about 1.2 million units and is dominated by the Japanese motorcycle manufacturers (Honda, Yamaha, Suzuki, Kawasaki) and the three North American producers Polaris, Arctic Cat and Bombardier. In line with its strategy, KTM will focus on the fast growing high-performance racing market in the US, which is estimated at about 60,000 units per year. Competitors are only the Japanese producers, as the US competitors have no know-how in racing. KTM will enter the market with a volume of 300 ATVs in the current business year and expects to raise the volume to about 3,000 in 2007/08 and to about 4,000 (sales revenue of about EUR 32 mn) in 2008/09. This would imply a market share of about 5%, which does not seem too aggressive regarding KTM's excellent off-road reputation in the US. Contrary to previous plans, KTM will not market the Racing-ATV in Europe due to a lack of market potential and the current lack market acceptance. But this downsized plan was already implemented in our previous updates.

## **Related products and accessories**

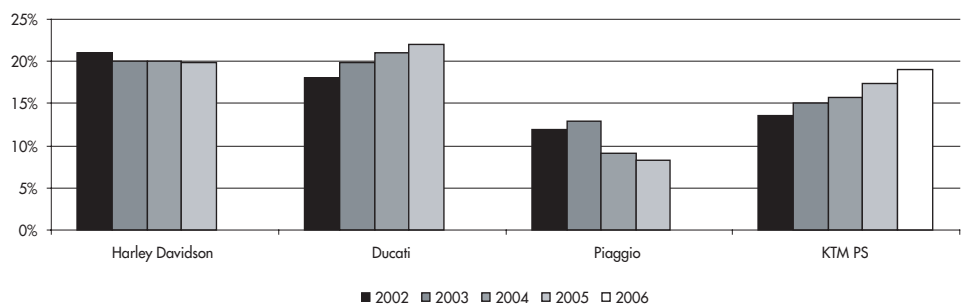
The most profitable segment achieved overproportionate growth in recent years and increased its portion of total sales from 15% in 2002/03 to 19.1% in 2005/06. The segment comprises mainly spare parts, accessories, OEM sales of suspension products (from the group's own suspension producer WP Suspension) and engines and racing-related sales as well as sales discounts. Up to the business year 2005/06 the segment also included the racing-related sponsorship income of about EUR 7.6 mn, which will be deducted directly from the racing expenses as from the beginning of 2006/07. The segment will be positively influenced by the delivery of KTM engines to Polaris, which will contribute estimated sales of EUR 8 mn in 2006/07 (based on an estimated 5,900 engines), EUR 16 mn (2007/08) and EUR 16 mn (2008/09), respectively. For comparison, the competitors Ducati and Harley Davidson generate roughly 20% and more of their sales revenues from spare parts, technical components and accessories as well as merchandising articles. The strong increase of accessories sales, which was the strongest sales driver in recent years in this segment, underlines not only the successful expansion of the product portfolio but also the increasing brand value of KTM and the successful racing activities. Besides the volume growth additional growth impulses should come from a sales offensive of safety products and increasing emphasis on marketing "special edition" motorcycles with an associated accessories package in the next years. Starting with 2006/07 KTM will supply Polaris with engines, which will be used in sportive Polaris-ATVs. We reckon with a delivery volume of about 5,900 engines in 2006/07 (at a price of USD 1,700 each), which should expand to about 13,600 engines in 2007/08 and beyond based on management forecasts.

## Split up of related products/services (in EUR mn)



Source: KTM PS, Raiffeisen Centrobank estimates

## Related products & others compared to competition



Source: KTM PS, Raiffeisen Centrobank estimates

## Sportscar X-BOW

One year ago, KTM announced the production of a sportscar, which was recently presented to the public. The X-BOW will be positioned as a separate segment between car and motorcycle and is to appeal to drivers with an inclination to racing, who are looking for a 4-wheel alternative to a motorbike. The basic version comes with an engine with 220 HP, an acceleration to 100 km/h (62 miles/h) in 4 seconds and a price planned to start in the region of EUR 45,000 – EUR 55,000. However, a large package of accessories should raise the average price significantly above that level. The sportscar was developed by KTM's majority owner Cross Industries and caused development expenses of some EUR 3.5 mn. Cross Industries developed the car together with the Italian racing powerhouse Dallara and Audi, which supplies the engine. A main feature that sets the X-BOW apart from existing extreme sportscars is its carbon fibre monocoque. After the Geneva motor show in March the group will decide whether the car will go into batch production. In case of a positive decision, KTM PS will acquire the project for EUR 3.5 mn from Cross Industries and will sell the first 100 units in the course of next year (2007/08). The first regular production series is to comprise 500-700 units, while the medium-term sales target is about 1,000 units. To outline the potential of the project we have performed an isolated DCF calculation, according to which the X-BOW could provide additional value per share of about EUR 4 on the basis of annual sales of about 1,000 cars. However, this potential value increase is not incor-

porated in our calculations at present. In our opinion, the likelihood that this extremely exciting project will materialise is above 50%, and we are confident that the management and the company would be able to implement a successful market development. Our optimism is based on the high R&D competence, the secured supply network for this project and, most importantly, the experience of KTM in developing new niche segments and marketing innovative high-performance leisure vehicles. Even if KTM were to discontinue the project at a loss, the advertising effectiveness and media presence of this project would probably be significantly higher than the loss.

## X-BOW - rough model

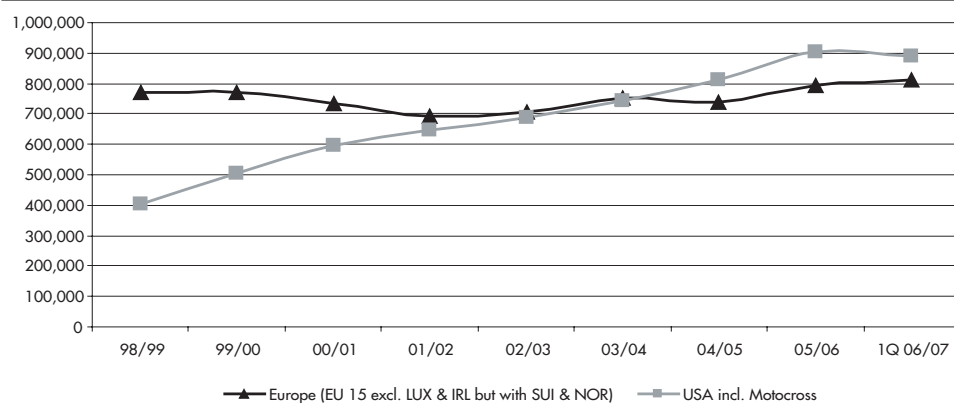
in EUR mn	2007/08e	2008/09e	2009/10e	2010/11e	2011/12e	TV
Units	100	500	800	1,000	1,000	1,000
Price in EUR	45,000	46,000	47,000	48,000	49,000	50,000
Sales	4.5	23.0	37.6	48.0	49.0	50.0
Related products	0.5	2.3	3.8	4.8	4.9	5.0
Total sales	5.0	25.3	41.4	52.8	53.9	55.0
EBIT-Marge	-10%	3%	5%	7%	8%	8%
EBIT	-0.5	0.8	2.1	3.7	4.3	4.4
Taxes	25%	25%	25%	25%	25%	25%
NOPLAT	-0.4	0.6	1.6	2.8	3.2	3.3
CAPEX/Deprec.	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
NWC/sales	-0.2	-1.0	-0.8	-0.6	-0.1	-0.1
Free Cash Flow	-0.9	-0.7	0.4	1.9	2.9	2.9
WACC	8.3%	8.2%	8.0%	8.0%	8.0%	8.0%
Present value	-0.8	-0.6	0.4	1.4	2.0	32.9
Total PV	35.1					
Net Debt	-7.5					
DCF fair value per share in EUR	4.01					

Source: Raiffeisen Centrobank estimates

## Motorcycle market update

After several weak years the European motorcycle market showed slight signs of an upswing starting in 2005/06, which continued in 1Q 2006/07 (on a 12-month rolling basis). Based on the overall favourable economic development in Europe we expect a growth rate of about 5% in 2006/07. The US motorcycle market, which marked impressive growth in the last years, is estimated to continue its growth at slightly flattening growth rates in the current year.

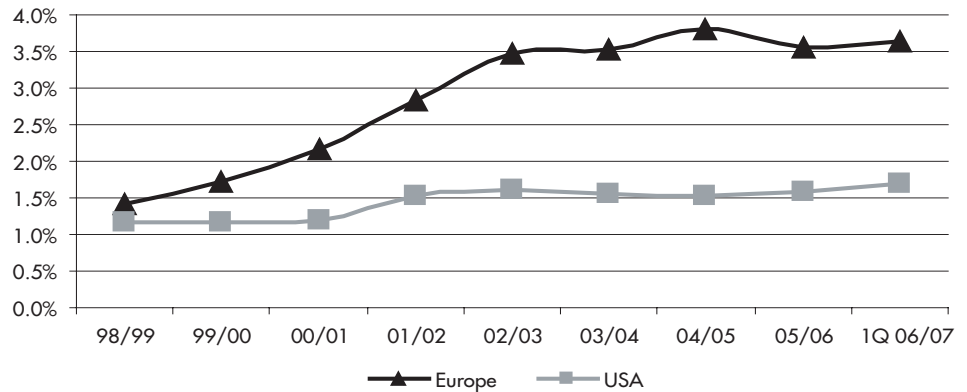
## Motorcycles - market development (12 months rolling)



Source: KTM PS, giral, MIC



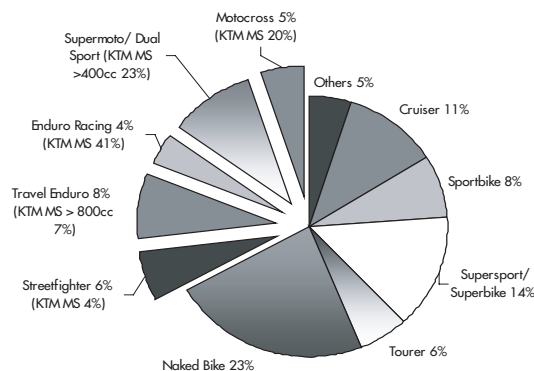
## KTM's market shares



Source: KTM PS

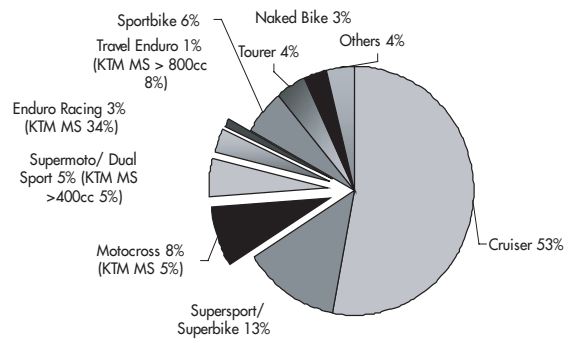
Following the strong market share gains in the years 1998/99 to 2002/03, KTM only registered marginal market share increases in the recent past, but the market shares do not reflect the shift towards higher-quality and more expensive models. Average sales per motorcycle increased by 18% between 2001/02 and 2005/06. The market share graphs show the high growth potential of KTM: with the exception of the segments Enduro Racing (where KTM already achieved a dominant market position in Europe as well as the USA) and Motocross as well as Supersmoto in Europe (market shares of 23% and 20%, respectively), sustainable high growth rates can be generated by boosting market shares in existing on-road segments and by entering new sub-segments (as is planned for the new on-road models). Growth potential also derives from a possible lasting recovery of the German market, which shrank by about 8% between 2003/04 and 2005/06 and roughly halved in the past 10 years. In CEE KTM currently sells about 1,400 motorcycles or about 1.7% of unit sales, mainly in the countries CZ, SK, POL, HUN. Due to this low base and strong economic growth we expect double-digit sales growth in these countries next year.

## EU - market split and KTM's market shares



Source: KTM PS

## U.S. - market split and KTM's market shares



Source: KTM PS

## 1Q results 2006/07

KTM Power Sports released a good set of results. Headed by higher than expected sales of EUR 129.5 mn (RCB estimate: EUR 125.0 mn) all figures exceeded our estimates. Due to delayed shipments in the previous year's 1Q (in September 2005 the hurricanes in the South of the U.S. affected the shipment of 1,900 off-road motorcycles), the company increased sales by 18.1% (adjusted for the delivery delays: +11.4%). Off-road sales increased from 13,875 units to 17,247 units in 1Q, reflecting the strong acceptance of new off-road models. Related products and others were reported without racing sponsorship income (EUR 1.6 mn, which was deducted from the racing expenses) for the first time. Despite that, sales of related products increased by 11.2% to EUR 29.8 mn mainly due to a sales increase of EUR 3.9 mn in the high-margin sub-segment accessories. Economies of scale enabled an overproportionate EBIT growth of 34% to EUR 11.5 mn. The EBIT margin of 8.9% was more or less in line with our estimate of 8.8%. 1Q net profit of EUR 7.3 mn (EPS: EUR 1.06) slightly surpassed our estimate of EUR 7.0 mn.

### 1Q 2006/07 of KTM PS

in EUR mn	1Q 05/06	1Q 06/07	+/- %	RCB est.	+/- %	Comment
Sales	109.7	129.5	18.1%	125.0	3.6%	stronger offroad sales in US
EBIT	8.6	11.5	34.0%	11.0	4.5%	
EBIT margin	7.8%	8.9%		8.8%		slightly better due to higher volume
EBT	7.0	9.4	34.7%	9.2	2.2%	
Net profit	5.7	7.3	28.5%	7.0	4.3%	

Source: KTM PS, Raiffeisen Centrobank estimates

## ■ Planning model

Following the strong 1Q results and a meeting with the management we updated our estimates. Based on expected stronger sales of off-road motorcycles and the segment related products and others we increase our sales forecast for 2006/07 from EUR 542 mn to EUR 548 mn and for 2007/08 from EUR 605 mn auf EUR 616 mn. Please bear in mind that the estimated sales growth of 8.6% for 2006/07 is somewhat distorted by the accounting change of racing sponsorship income of about EUR 7.5 mn, which is balanced with racing expenses as from the beginning of the business year 2006/07.

### Sales model

	04/05	in %	05/06e	in %	06/07e	in %	07/08e	in %	08/09e	in %
Sportminicycles	25.4	5.6	22.2	4.4	18.1	3.3	16.7	2.7	14.8	2.2
Offroad	212.9	47.2	240.3	47.6	257.3	47.0	265.4	43.1	263.1	38.2
Onroad	122.5	27.1	144.6	28.7	158.4	28.9	180.5	29.3	234.8	34.1
ATVs	0.0	0.0	1.4	0.3	4.2	0.8	22.5	3.7	30.2	4.4
OEM engine	3.3	0.7	1.4	0.3	8.1	1.5	16.1	2.6	16.3	2.4
Related products & others	87.3	19.3	94.5	18.7	101.5	18.5	114.6	18.6	128.7	18.7
<b>Total</b>	<b>451.2</b>	<b>100.0</b>	<b>504.5</b>	<b>100.0</b>	<b>547.7</b>	<b>100.0</b>	<b>615.7</b>	<b>100.0</b>	<b>688.0</b>	<b>100.0</b>

Source: KTM PS, Raiffeisen Centrobank estimates

In addition to the increase of our sales estimates for the high-margin business Off-road racing (gross margin: 35 – 40%) and Related Products & Others we also increase our EBIT estimates slightly. Furthermore we adjust our EUR/USD assumption for the business year 2007/08 from 1.32 to 1.30, since Raiffeisen Research adjusted its estimates accordingly and KTM has already hedged a third of the planned USD sales volume at EUR 1.30. This more favourable EUR/USD rate means a positive EBIT impact of about EUR 2 mn based on USD sales of USD 150 mn (without any price adjustments). Despite strong volume growth we continue to expect a declining EBIT margin due to the estimated strong growth in the lower-margin On-road business. Therefore our EPS estimates rise from EUR 3.45 to EUR 3.58 for 2006/07 and from EUR 3.72 to EUR 3.97 for 2007/08. We implement an EPS estimate of EUR 4.43 for 2008/09.

## Changes to forecasts

in EUR mn	old		new			Comment
	06/07e	07/08e	06/07e	07/08e	08/09e	
Hedged USD rate	1.25	1.32	1.25	1.30	1.30	USD 07/08 hedged at 1.30, Change of Raiffeisen Research forecasts
Sales	542.0	605.0	547.7	615.7	688.0	Stronger offroad sales
EBIT	38.3	40.4	39.2	43.6	47.9	
EBIT margin	7.1%	6.7%	7.2%	7.1%	7.0%	Higher margin of offroad sales, change of EUR/USD estimate
EBT	30.7	33.1	31.4	35.6	39.6	
Net profit	23.8	25.7	24.7	27.4	30.5	
EPS	3.45	3.72	3.58	3.97	4.43	
DPS	0.80	0.85	0.90	1.00	1.10	Commitment to a payout ratio of 25%

Source: Raiffeisen Centrobank estimates

## Risks to our planning model

The biggest risk to our planning scenario stems from the USD trend (see below). Furthermore, market acceptance of the new on-road and ATV models as well as the sportscar (which is still not included in the planning model) will be decisive for the business performance in future, since further sales growth is strongly dependent on these segments/products.

## Types of risk and their impact

Type of risk	Change	Effect	Impact/Significance	Volatility
USD	Weaker USD to EUR	Decline in sales and margins	roughly 23% of sales in USD	high
YEN	Stronger JPY to EUR	Higher material costs	roughly EUR 25 net per year	high
US interest rates	Increasing interest rates	Negative impact on US sales	roughly 23% of sales from Northamer	medium
Model planning	Deviations from the plans	Higher production costs and dealer rebates		medium
Trends	Fashion/lifestyle trends	Demand behaviour, price adjustments		low
Restrictions	Restricted Offroad riding	Declining attractiveness of Offroad bikes	roughly 48% of sales	low

Source: Raiffeisen Centrobank estimates

## Excursus USD exchange rate

Since KTM's competitors in North America are mainly the Japanese, who produce above all in Yen, KTM cannot increase its prices parallel to movements in the EUR/USD exchange rate. The policy of KTM is to hedge the EUR/USD for the next 12-15 months, so KTM wins time to react. A 1% depreciation of the USD vis-à-vis the EUR essentially leads to a decline of roughly EUR 1.2 mn in pre-tax earnings. Therefore, since the business year 2002/03 KTM has had to compensate for a hedged EUR/USD deviation from 0.90 to 1.25 (hedged rate for 2006/07), which would have caused a negative EBIT change of about EUR 40 mn (based on average USD sales of about EUR 100 mn). KTM in fact managed to offset roughly half of the depreciation effect via price hikes. KTM sees the USD business as equally profitable as sales in EUR when the EUR/USD exchange rate is about 1.26, while 3 years ago this rate was 1.08. At the moment, 75% of the forecast USD sales in the current business year 2006/07 are hedged at about 1.25 and some 33% of expected USD sales in 2007/08 are hedged at 1.30.

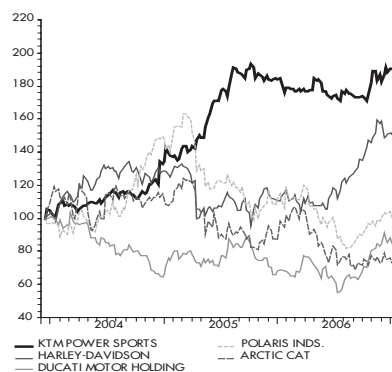
## Valuation

Our price target calculation is based on a peer group comparison and a DCF model. The project X-BOW is not included in our planning model or our valuation considerations.

### Peer group comparison

Since the strong share price increase following the SPO of Cross Holding in November 2004, the KTM PS share has constantly been traded at significant price premiums of 7-30% compared to its peers. The valuation premiums were hence partly substantially above the 10% premium which we consider fair to reflect the above-average sales and earnings growth of KTM PS. This means that the share price largely anticipated the positive growth expectations. As a result of the sideways trend in the range of EUR 40-52 (EUR 40-58 considering the 15% share price boost of the last two weeks) in the past 18 months, the valuation of KTM PS has narrowed the peer valuation and even turned from premiums to slight discounts based on PER. Since the liquidity of the KTM PS share will more than double from the current low level of 20% we regard a 10% valuation premium even more justified. Based on a peer group comparison we calculate a fair value of EUR 62.60 from the average of EV/EBITDA and PER multiples after consideration of a 10% premium. The PEG ratio of KTM PS of 1.1 (median: 1.7) confirms our view that the current valuation does not price in the expected strong growth in future.

### KTM PS share vs. peers



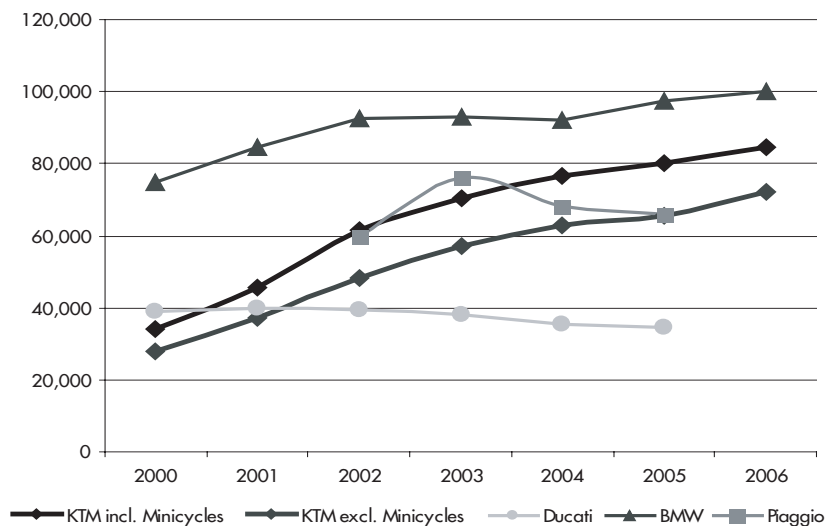
Source: Thomson Financial Datastream

## Peer group

	PER			EV/Sales			EV/EBITDA		
	2006e	2007e	2008e	2006e	2007e	2008e	2006e	2007e	2008e
Arctic Cat	16.7	17.0	15.9	0.5	0.5	0.4	6.1	5.5	5.1
Ducati	neg.	307.6	30.8	1.2	1.2	1.1	12.3	10.2	7.8
Harley Davidson	17.8	16.0	14.5	3.3	3.1	2.7	10.5	9.6	8.5
Polaris	17.6	16.7	14.3	1.3	1.3	1.1	8.9	8.4	7.6
Porsche	17.5	11.4	13.0	1.8	1.8	1.6	5.4	5.8	6.2
Yamaha	13.4	12.5	11.5	0.7	0.7	0.7	6.2	5.9	5.7
Palfinger	17.6	16.1	15.3	1.4	1.5	1.4	8.6	9.4	8.7
Piaggio	22.5	16.4	13.7	1.0	0.9	0.8	7.1	6.7	5.9
<b>Average</b>	<b>17.6</b>	<b>51.7</b>	<b>16.1</b>	<b>1.4</b>	<b>1.4</b>	<b>1.2</b>	<b>8.2</b>	<b>7.7</b>	<b>6.9</b>
<b>Median</b>	<b>17.6</b>	<b>16.2</b>	<b>14.4</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>	<b>7.9</b>	<b>7.6</b>	<b>6.9</b>
<b>KTM PS</b>	<b>15.5</b>	<b>15.6</b>	<b>14.1</b>	<b>0.9</b>	<b>0.9</b>	<b>0.8</b>	<b>8.2</b>	<b>7.8</b>	<b>7.0</b>
<b>Premium/Discount to Median</b>	<b>-11.6%</b>	<b>-3.6%</b>	<b>-2.2%</b>	<b>-31.3%</b>	<b>-24.2%</b>	<b>-25.0%</b>	<b>3.9%</b>	<b>3.2%</b>	<b>1.0%</b>

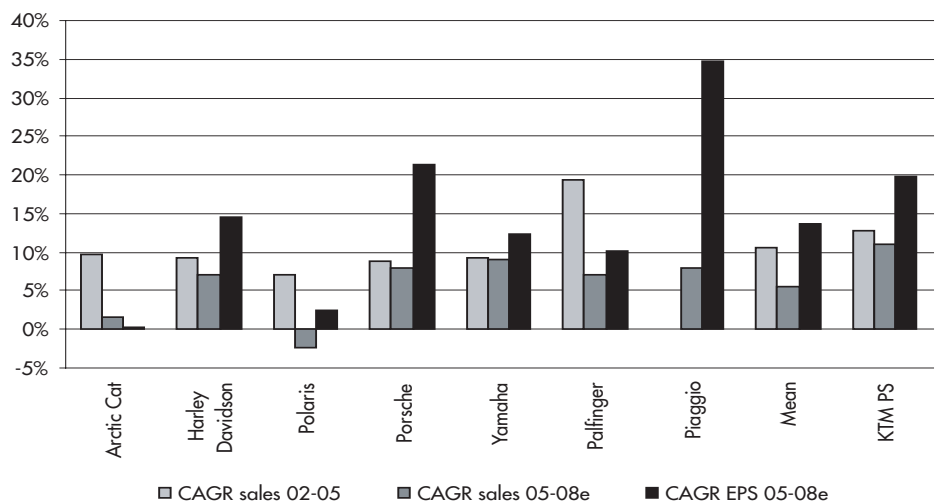
Source: IBES, Raiffeisen Centrobank estimates

## Volume growth vs. European competitors (in units)



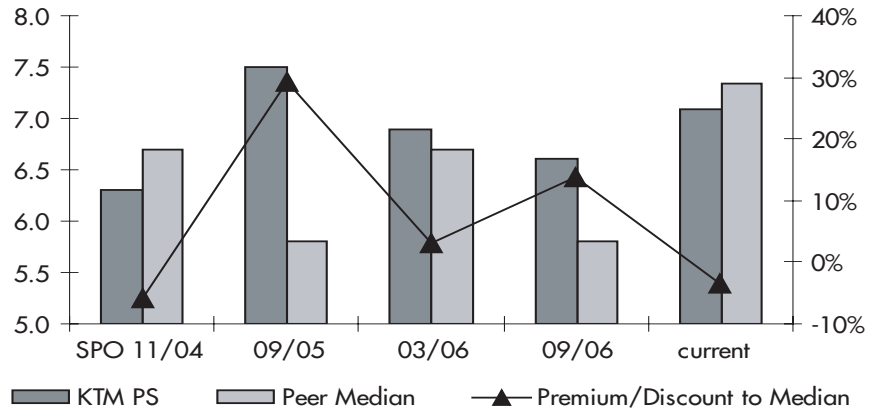
Source: KTM PS, Ducati, BMW, Piaggio

## Growth vs. peers



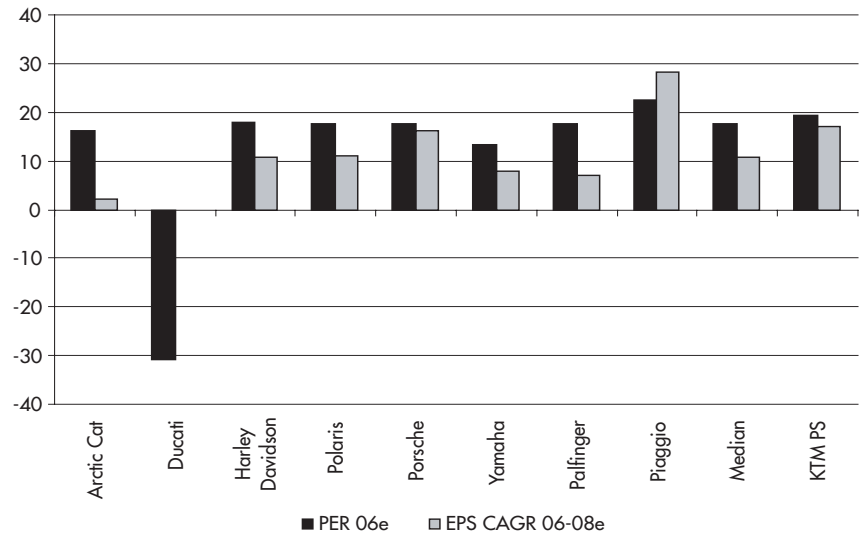
Source: annual reports, IBES, Raiffeisen Centrobank estimates

## Valuation history (based on EV/EBITDA multiples +2 years)



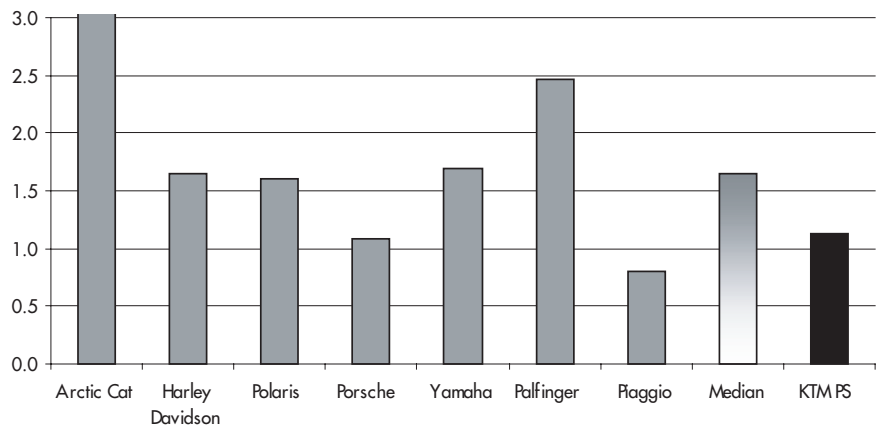
Source: IBES, Raiffeisen Centrobank estimates

## PER 06e vs. CAGR 06-08e (PER based on current share price)



Source: IBES, Raiffeisen Centrobank estimates

## PEG ratio



Source: IBES, Raiffeisen Centrobank estimates

The DCF valuation seems to be very accurate for KTM PS since the business model is characterized by a highly visible growth path and sustainable profitability based on the strong brand, which enables fast adaptation in case of adverse currency fluctuations.

We calculate the terminal value for our DCF model with an EBIT margin of 7.0% and a terminal value growth of 2%. The EV/EBITDA multiple of the terminal value is therefore 7.2, which is still below the current peer group multiple of 7.6. Based on a WACC of 8.0% we calculate a fair value of EUR 68.30 as of September 1, 2007 and a 12-month price target of EUR 68.70. For our price target calculation we weight both valuation methods with 50% and set our price target at EUR 65.00.

## SWOT

### Strengths/Opportunities

- No. 2 motorcycle manufacturer in Europe and No. 1 in terms of growth dynamics
- Outstanding organic growth in the last few years
- KTM is a force for innovation in the motorcycle industry
- Sales diversification of recent years reduced dependency on the off-road segment
- KTM secures its long-term growth path by expanding the on-road and ATV businesses
- Strong pipeline of new products (mainly in the on-road segment)
- Successful off-road and on-road racing presence strengthens the brand
- Sportscar X-BOW could become a value-driver
- Strong growth in the highly profitable accessories and spare parts business
- The brand is strengthened through motor racing and a broadening of the product range
- European motorcycle market is only at the beginning of an upswing after several years of stagnation
- Experienced management (simultaneously majority owners) that transformed KTM from a case for reorganisation into a growth leader
- Growing product portfolio improves KTM's attractiveness for dealers
- Favourable valuation in view of the outstanding growth
- Expected doubling of free float would boost liquidity and attractiveness of the share

### Weaknesses/Threats

- Strong dependence on the USD
- Weak JPY supports the globally leading Japanese manufacturers (Honda, Yamaha, Kawasaki, Suzuki)
- Growth potential in high-margin off-road motorcycles largely exhausted
- Lower profit margins in the growth market for on-road motorcycles
- High goodwill and brand value of a total of EUR 138.4 mn in the balance sheet
- Growth of the European ATV market below expectations
- Environmental issues and legal restrictions could adversely affect the attractiveness of motorbiking in general
- As a leisure vehicle/product KTM's products or the whole industry could suffer from changing lifestyle/fashion trends
- Mistakes in model planning could lead to extra costs due to higher production costs (if too few units were produced) or dealer rebates (if too many units were produced)
- Weaknesses in the dealer network, as seen in Germany, can only be improved slowly (due to contractual relations)



## DCF valuation

<b>FCF projection (EUR mn)</b>	<b>2007e</b>	<b>2008e</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>	<b>TV CF</b>
NOPLAT	30.8	33.6	36.9	39.7	42.6	45.1	47.6
Adj. NOPLAT	30.8	33.6	36.9	39.7	42.6	45.1	47.6
Depreciation of PPE & intangibles	26.5	30.2	33.0	34.0	35.0	36.0	37.5
Gross investment in PPE & intangibles	-45.0	-40.2	-40.5	-41.0	-42.0	-42.5	-42.6
Change in working capital	3.1	-12.6	-13.4	-11.1	-9.1	-8.5	-3.2
NWC/Sales	17.7%	17.6%	17.6%	17.6%	17.5%	17.5%	17.5%
Change in LT provisions other than tax	0.1	0.5	0.5	0.0	0.0	0.0	0.0
Net acquisitions & disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow to firm	15.4	11.5	16.5	21.6	26.5	30.1	39.7
<b>Adj. free cash flow to firm</b>	<b>15.4</b>	<b>11.5</b>	<b>16.5</b>	<b>21.6</b>	<b>26.5</b>	<b>30.1</b>	<b>39.3</b>
<b>EV DCF, mid-year assumption</b>		<b>590.7</b>	<b>627.5</b>				
MV of non-operating assets		0.1	0.1				
MV of net debt		127.4	127.3				
MV of minorities		0.2	0.2				
Adjustments to EV		0.0	0.0				
<b>Fair value of equity</b>		<b>469.5</b>	<b>506.7</b>				
Shares outstanding (mn)		6.9	6.9				
<b>Price target per share per 01/09 (in EUR)</b>		<b>68.1</b>	<b>73.5</b>				

<b>Value drivers</b>	<b>2007e</b>	<b>2008e</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>	<b>TV CF</b>
Consolidated sales yoy	8.6%	12.4%	11.7%	9.0%	7.5%	6.0%	2.0%
EBITDA margin	12.0%	12.0%	11.8%	11.5%	11.3%	11.2%	11.2%
Rate of taxes paid	-21.5%	-23.0%	-23.0%	-24.0%	-24.0%	-24.5%	-25.0%
Working capital/sales	17.7%	17.6%	17.6%	17.6%	17.5%	17.5%	17.5%
Capex/depreciation	169.8%	133.1%	122.8%	120.6%	120.0%	118.1%	113.6%
Free cash flow margin	2.8%	1.9%	2.4%	2.9%	3.3%	3.5%	4.4%

<b>WACC</b>	<b>2007e</b>	<b>2008e</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>	<b>2012e</b>	<b>TV CF</b>
Target capital structure (at MV)	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%
Debt/equity ratio (at MV)	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Risk free rate (local)	4.0%	4.4%	4.3%	4.3%	4.3%	4.3%	4.3%
Equity market premium	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Levered beta	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Cost of equity	8.8%	9.2%	9.1%	9.1%	9.1%	9.1%	9.1%
Cost of debt	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Tax rate	-21.5%	-23.0%	-23.0%	-24.0%	-24.0%	-24.5%	-25.0%
<b>WACC</b>	<b>7.8%</b>	<b>8.2%</b>	<b>8.0%</b>	<b>8.0%</b>	<b>8.0%</b>	<b>8.0%</b>	<b>8.0%</b>

## Sensitivity analysis

<b>Growth sensitivity (EUR)</b>	<b>Terminal growth rate</b>						
	<b>0.5%</b>	<b>1.0%</b>	<b>1.5%</b>	<b>2.0%</b>	<b>2.5%</b>	<b>3.0%</b>	<b>3.5%</b>
<b>WACC</b>							
6.5%	73.0	80.6	89.7	100.8	114.8	132.7	156.6
7.0%	65.1	71.4	78.8	87.7	98.6	112.3	129.9
7.5%	58.3	63.5	69.7	77.0	85.8	96.5	109.9
8.0%	52.4	56.9	62.1	68.1	75.3	83.9	94.4
8.5%	47.3	51.1	55.5	60.6	66.6	73.6	82.0
9.0%	42.7	46.1	49.9	54.2	59.2	65.0	71.9
9.5%	38.8	41.7	44.9	48.7	52.9	57.8	63.5

<b>Margin sensitivity (EUR)</b>	<b>FCF margin TV</b>						
	<b>2.9%</b>	<b>3.4%</b>	<b>3.9%</b>	<b>4.4%</b>	<b>4.9%</b>	<b>5.4%</b>	<b>5.9%</b>
<b>WACC</b>							
6.5%	64.1	76.4	88.6	100.8	113.1	125.3	137.5
7.0%	55.5	66.2	77.0	87.7	98.5	109.2	120.0
7.5%	48.4	57.9	67.5	77.0	86.6	96.1	105.7
8.0%	42.5	51.0	59.6	68.1	76.7	85.2	93.8
8.5%	37.5	45.2	52.9	60.6	68.3	76.0	83.7
9.0%	33.2	40.2	47.2	54.2	61.2	68.2	75.2
9.5%	29.5	35.9	42.3	48.7	55.0	61.4	67.8

Source: Raiffeisen Centrobank estimates

## Peer group comparison Risk/return analysis

	Currency	Price	MCap.	Performance(%)			Vola (%)	EPS CAGR
		8.2.	EUR mn	1M	3M	12M	250D	3-year
Arctic Cat	USD	18.07	270	5.9	1.4	-21.2	n.a.	-1.4%
Ducati	EUR	0.92	293	1.9	8.8	32.2	n.a.	neg.
Harley Davidson	USD	70.00	13,838	0.6	0.9	35.6	n.a.	14.3%
Polaris	USD	48.09	1,446	5.2	8.2	-4.1	n.a.	2.2%
Porsche	EUR	974.00	17,045	0.1	8.2	55.8	n.a.	18.8%
Yamaha	JPY	3580.00	6,527	4.2	16.9	29.4	n.a.	12.9%
Palfinger	EUR	112.00	987	22.8	30.9	76.6	n.a.	10.1%
Piaggio	EUR	3.36	1,302	7.6	4.1	n.a.	n.a.	34.8%
<b>Mean</b>				<b>6.0</b>	<b>9.9</b>	<b>25.5</b>	<b>n.a.</b>	<b>13.1%</b>
<b>Median</b>				<b>4.7</b>	<b>8.2</b>	<b>32.2</b>	<b>n.a.</b>	<b>12.9%</b>
KTM PS	EUR	56.01	386	17.1	18.3	25.0	n.a.	19.8%
ATX Prime		2,343.57		5.4	12.5	18.2		

## Peer group valuation

	P/E adjusted				Dividend Yield			
	2005	2006e	2007e	2008e	2005	2006e	2007e	2008e
Arctic Cat	17.2	16.4	16.7	15.7	1.4%	1.6%	1.5%	1.5%
Ducati	neg.	neg.	307.6	30.8	0.0%	0.0%	0.0%	0.0%
Harley Davidson	18.8	17.8	16.0	14.5	1.1%	1.2%	1.3%	1.6%
Polaris	16.0	17.7	16.8	14.4	2.7%	2.9%	2.8%	2.7%
Porsche	13.6	17.5	11.4	13.0	1.0%	0.7%	0.8%	0.8%
Yamaha	14.3	13.4	12.5	11.5	0.9%	1.0%	1.1%	1.2%
Palfinger	11.7	17.6	16.1	15.3	2.8%	2.3%	2.1%	2.1%
Piaggio	n.a.	22.5	16.4	13.7	n.a.	0.7%	0.9%	1.0%
<b>Mean</b>	<b>15.2</b>	<b>17.6</b>	<b>51.7</b>	<b>16.1</b>	<b>1.7%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.6%</b>
<b>Median</b>	<b>15.1</b>	<b>17.6</b>	<b>16.2</b>	<b>14.4</b>	<b>1.1%</b>	<b>1.1%</b>	<b>1.2%</b>	<b>1.4%</b>
KTM PS	23.1	15.5	15.7	14.1	1.1%	1.7%	1.6%	1.8%

	P/BV				ROE			
	2005	2006e	2007e	2008e	2005	2006e	2007e	2008e
Arctic Cat	2.1	1.7	1.9	1.8	12.7%	11.1%	10.7%	12.8%
Ducati	2.5	1.6	1.5	1.5	neg.	neg.	neg.	4.8%
Harley Davidson	5.1	6.2	6.2	6.2	30.5%	34.7%	38.4%	41.2%
Polaris	5.2	9.6	7.8	5.8	37.3%	39.9%	51.2%	41.2%
Porsche	3.1	3.1	2.5	2.1	24.7%	31.1%	24.9%	18.9%
Yamaha	2.3	2.2	2.0	1.7	18.9%	18.1%	16.4%	15.8%
Palfinger	2.9	3.5	3.6	3.1	27.5%	26.5%	24.2%	21.7%
Piaggio	n.a.	2.9	2.6	2.2	12.5%	17.2%	19.0%	18.8%
<b>Mean</b>	<b>2.9</b>	<b>3.9</b>	<b>3.5</b>	<b>3.0</b>	<b>20.5%</b>	<b>25.5%</b>	<b>26.4%</b>	<b>21.9%</b>
<b>Median</b>	<b>2.9</b>	<b>3.0</b>	<b>2.5</b>	<b>2.2</b>	<b>24.7%</b>	<b>26.5%</b>	<b>24.2%</b>	<b>18.9%</b>
KTM PS	2.1	1.7	2.0	1.8	10.7%	11.9%	13.1%	13.1%

	EV/Sales				EV/EBITDA			
	2005	2006e	2007e	2008e	2005	2006e	2007e	2008e
Arctic Cat	0.6	0.5	0.5	0.4	7.8	6.1	5.4	5.0
Ducati	1.2	1.2	1.2	1.1	13.4	12.3	10.2	7.8
Harley Davidson	2.7	3.3	3.1	2.7	8.7	10.5	9.6	8.5
Polaris	1.0	1.3	1.3	1.1	7.2	8.9	8.4	7.6
Porsche	1.6	1.8	1.8	1.6	5.9	5.4	5.8	6.2
Yamaha	0.8	0.7	0.7	0.7	6.9	6.2	5.9	5.7
Palfinger	1.1	1.4	1.5	1.4	7.7	8.6	9.4	8.7
Piaggio	n.a.	1.0	0.9	0.8	n.a.	7.1	6.7	5.9
<b>Mean</b>	<b>1.3</b>	<b>1.4</b>	<b>1.4</b>	<b>1.2</b>	<b>8.2</b>	<b>8.2</b>	<b>7.7</b>	<b>6.9</b>
<b>Median</b>	<b>1.1</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>	<b>7.7</b>	<b>7.9</b>	<b>7.6</b>	<b>6.9</b>
KTM PS	1.2	0.9	0.9	0.8	14.2	8.2	7.8	7.0

Source: IBES, Reuters, Raiffeisen Centrobank estimates

## Financial statements (IFRS)

<i>Income statement (EUR mn)</i>	<i>8/2004</i>	<i>8/2005</i>	<i>8/2006</i>	<i>8/2007e</i>	<i>8/2008e</i>	<i>8/2009e</i>
<b>Consolidated sales</b>	<b>154.5</b>	<b>381.9</b>	<b>504.5</b>	<b>547.7</b>	<b>615.7</b>	<b>688.0</b>
Cost of sales	-100.3	-265.4	-338.2	-370.6	-423.0	-476.9
<b>Gross profit</b>	<b>54.2</b>	<b>116.4</b>	<b>166.3</b>	<b>177.1</b>	<b>192.7</b>	<b>211.1</b>
Other operating income	0.0	0.2	1.0	0.0	0.0	0.0
Selling expenses	-25.3	-61.5	-83.1	-79.0	-87.0	-95.0
R&D expenses	-3.4	-14.6	-15.0	-21.0	-22.3	-26.0
Administrative expenses	-7.8	-16.8	-25.9	-27.0	-27.9	-29.2
Other operating expenses	-2.2	-5.9	-8.3	-10.9	-11.9	-13.0
<b>EBITDA</b>	<b>21.6</b>	<b>32.8</b>	<b>53.9</b>	<b>65.7</b>	<b>73.8</b>	<b>80.8</b>
Depreciation of PPE and intangibles	-6.1	-15.2	-19.9	-26.5	-30.2	-33.0
<b>EBITA</b>	<b>15.5</b>	<b>17.7</b>	<b>34.0</b>	<b>39.2</b>	<b>43.6</b>	<b>47.9</b>
Amortisation, impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>15.5</b>	<b>17.7</b>	<b>34.0</b>	<b>39.2</b>	<b>43.6</b>	<b>47.9</b>
Investment income	3.4	0.9	0.7	0.0	0.0	0.0
Net interest income	-2.6	-6.4	-7.8	-7.8	-8.0	-8.2
Other financial result	0.3	0.2	-0.1	0.0	0.0	0.0
<b>Financial result</b>	<b>1.1</b>	<b>-5.3</b>	<b>-7.2</b>	<b>-7.8</b>	<b>-8.0</b>	<b>-8.2</b>
<b>Earnings before taxes</b>	<b>16.6</b>	<b>12.4</b>	<b>26.9</b>	<b>31.4</b>	<b>35.6</b>	<b>39.6</b>
Taxes on income	-3.5	-0.3	-6.8	-6.8	-8.2	-9.1
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net profit before minorities</b>	<b>13.1</b>	<b>12.1</b>	<b>20.0</b>	<b>24.7</b>	<b>27.4</b>	<b>30.5</b>
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net profit after minorities</b>	<b>13.1</b>	<b>12.1</b>	<b>20.0</b>	<b>24.7</b>	<b>27.4</b>	<b>30.5</b>

<i>Balance sheet (EUR mn)</i>	<i>8/2004</i>	<i>8/2005</i>	<i>8/2006</i>	<i>8/2007e</i>	<i>8/2008e</i>	<i>8/2009e</i>
<b>Current assets</b>	<b>69.3</b>	<b>181.6</b>	<b>219.9</b>	<b>211.4</b>	<b>233.7</b>	<b>257.1</b>
Liquid funds	9.0	15.0	34.9	17.7	17.8	17.7
Receivables	28.0	88.0	102.9	104.1	115.4	127.3
Inventories	31.8	77.7	81.3	87.6	98.5	110.1
Other assets	0.6	0.9	0.9	2.0	2.0	2.0
<b>Fixed assets</b>	<b>93.8</b>	<b>225.9</b>	<b>237.0</b>	<b>255.5</b>	<b>265.5</b>	<b>273.0</b>
Property, plant & equipment	24.7	65.1	68.7	81.9	88.7	94.4
Intangible assets	6.2	81.4	89.0	94.3	97.5	99.3
Goodwill	30.0	78.4	78.4	78.4	78.4	78.4
Financial assets	32.9	1.0	0.9	0.9	0.9	0.9
<b>Deferred tax assets</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total assets</b>	<b>163.2</b>	<b>407.5</b>	<b>457.0</b>	<b>466.9</b>	<b>499.3</b>	<b>530.1</b>
<b>Current liabilities</b>	<b>37.9</b>	<b>122.4</b>	<b>128.1</b>	<b>118.5</b>	<b>129.1</b>	<b>135.8</b>
<b>Long-term liabilities</b>	<b>55.8</b>	<b>106.9</b>	<b>130.8</b>	<b>130.9</b>	<b>131.4</b>	<b>131.9</b>
<b>Shareholders' equity</b>	<b>67.0</b>	<b>158.7</b>	<b>178.4</b>	<b>197.9</b>	<b>219.1</b>	<b>242.7</b>
<b>Minority interests</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
<b>Deferred tax liabilities</b>	<b>2.5</b>	<b>19.3</b>	<b>19.5</b>	<b>19.5</b>	<b>19.5</b>	<b>19.5</b>
<b>Total liabilities</b>	<b>163.2</b>	<b>407.5</b>	<b>457.0</b>	<b>466.9</b>	<b>499.3</b>	<b>530.1</b>

<i>Cash flow statement (EUR mn)</i>	<i>8/2004</i>	<i>8/2005</i>	<i>8/2006</i>	<i>8/2007e</i>	<i>8/2008e</i>	<i>8/2009e</i>
<b>Earnings before taxes</b>	<b>16.6</b>	<b>12.4</b>	<b>26.9</b>	<b>31.4</b>	<b>35.6</b>	<b>39.6</b>
Taxes paid	-2.6	-0.3	-6.8	-6.8	-8.2	-9.1
Amortisation and depreciation	6.1	15.2	19.9	26.5	30.2	33.0
Other non-cash items	-11.3	0.6	0.8	0.1	0.5	0.5
<b>Cash flow from result</b>	<b>8.8</b>	<b>27.9</b>	<b>40.7</b>	<b>51.2</b>	<b>58.1</b>	<b>64.0</b>
Change in working capital	-11.0	15.4	-3.4	3.4	-11.6	-12.4
<b>Operating cash flow</b>	<b>-2.2</b>	<b>43.3</b>	<b>37.3</b>	<b>54.7</b>	<b>46.5</b>	<b>51.6</b>
Capex PPE and intangible assets	-10.3	-20.6	-31.8	-45.0	-40.2	-40.5
Acquisitions	0.0	-61.1	0.0	0.0	0.0	0.0
Disposal of fixed assets (total)	11.7	41.3	1.2	0.0	0.0	0.0
Other items (investments)	-39.6	-8.3	0.5	0.0	0.0	0.0
<b>Investing cash flow</b>	<b>-38.2</b>	<b>-48.8</b>	<b>-30.1</b>	<b>-45.0</b>	<b>-40.2</b>	<b>-40.5</b>
Dividend payments	-2.1	0.0	-3.5	-5.2	-6.2	-6.9
Other changes in equity	32.9	48.5	0.0	0.0	0.0	0.0
Change in interest-bearing financial assets	0.0	-13.6	-0.1	0.0	0.0	0.0
Other items	-1.2	-130.9	-1.0	0.0	0.0	0.0
<b>Change in NIBD</b>	<b>-1.6</b>	<b>-87.8</b>	<b>2.7</b>	<b>4.5</b>	<b>0.1</b>	<b>4.2</b>

Source: KTM Power Sports, Raiffeisen Centrobank estimates

## Financial ratios

<b>Changes yoy</b>	<b>8/2004</b>	<b>8/2005</b>	<b>8/2006</b>	<b>8/2007e</b>	<b>8/2008e</b>	<b>8/2009e</b>
Consolidated sales yoy	6.6%	147.1%	32.1%	8.6%	12.4%	11.7%
EBITDA yoy	-4.8%	51.8%	64.3%	21.8%	12.3%	9.5%
EBITA yoy	-11.4%	13.9%	92.3%	15.3%	11.2%	9.8%
EBIT yoy	4.7%	13.9%	92.3%	15.3%	11.2%	9.8%
EBT yoy	6.4%	-25.5%	117.3%	17.0%	13.3%	11.4%
Net profit after minorities yoy	19.1%	-7.8%	65.7%	23.2%	11.1%	11.4%

<b>Margins</b>	<b>8/2004</b>	<b>8/2005</b>	<b>8/2006</b>	<b>8/2007e</b>	<b>8/2008e</b>	<b>8/2009e</b>
Gross profit margin	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBITDA margin	14.0%	8.6%	10.7%	12.0%	12.0%	11.8%
EBITA margin	10.0%	4.6%	6.7%	7.2%	7.1%	7.0%
EBIT margin	10.0%	4.6%	6.7%	7.2%	7.1%	7.0%
EBT margin	10.7%	3.2%	5.3%	5.7%	5.8%	5.8%
Net margin	8.5%	3.2%	4.0%	4.5%	4.4%	4.4%

<b>Balance sheet (EUR mn)</b>	<b>8/2004</b>	<b>8/2005</b>	<b>8/2006</b>	<b>8/2007e</b>	<b>8/2008e</b>	<b>8/2009e</b>
Net working capital	38.5	92.1	100.3	96.9	108.5	120.8
Net interest-bearing debt	46.7	134.6	131.9	127.4	127.3	123.1
Capital employed	137.1	309.1	345.9	343.7	364.9	384.2
Market capitalisation	131.8	332.9	310.2	386.1	386.1	386.1
Enterprise value	160.1	467.5	442.1	513.5	513.4	509.1

<b>Financing (x)</b>	<b>8/2004</b>	<b>8/2005</b>	<b>8/2006</b>	<b>8/2007e</b>	<b>8/2008e</b>	<b>8/2009e</b>
Interest cover	8.3	4.8	6.7	8.1	9.0	9.6
Internal financing ratio	-0.2	-2.1	1.2	1.2	1.2	1.3
Net gearing	69.7%	84.7%	73.9%	64.3%	58.1%	50.7%
Quick ratio	1.0	0.8	1.1	1.0	1.0	1.1
Fixed assets cover	1.3	1.2	1.3	1.3	1.3	1.4
Capex / depreciation	1.7	1.4	1.6	1.7	1.3	1.2
Equity ratio	41.1%	39.0%	39.1%	42.4%	43.9%	45.8%

<b>Profitability</b>	<b>8/2004</b>	<b>8/2005</b>	<b>8/2006</b>	<b>8/2007e</b>	<b>8/2008e</b>	<b>8/2009e</b>
Return on assets	18.6%	6.6%	6.0%	6.7%	7.0%	7.2%
Return on equity	39.2%	10.7%	11.9%	13.1%	13.1%	13.2%
Return on capital employed	22.9%	8.5%	8.6%	9.5%	10.1%	10.4%

<b>Per share data (EUR)</b>	<b>8/2004</b>	<b>8/2005</b>	<b>8/2006</b>	<b>8/2007e</b>	<b>8/2008e</b>	<b>8/2009e</b>
Weighted avg. no. of shares (mn)	4.1	5.8	6.9	6.9	6.9	6.9
EPS reported	3.20	2.09	2.90	3.58	3.97	4.43
EPS pre-goodwill	3.20	2.09	2.90	3.58	3.97	4.43
Adjusted EPS diluted	3.21	2.09	2.90	3.58	3.97	4.43
Operating cash flow per share	-0.54	7.49	5.41	7.93	6.74	7.49
Book value per share	15.22	23.02	25.88	28.71	31.78	35.21
Dividend per share	0.00	0.55	0.75	0.90	1.00	1.10
Payout ratio	0.0%	31.4%	26.0%	25.1%	25.2%	24.9%

<b>Valuation (x)</b>	<b>8/2004</b>	<b>8/2005</b>	<b>8/2006</b>	<b>8/2007e</b>	<b>8/2008e</b>	<b>8/2009e</b>
PE reported	9.4	23.1	15.5	15.7	14.1	12.6
PE pre-goodwill	9.4	23.1	15.5	15.7	14.1	12.6
Adjusted PE diluted	9.3	23.1	15.5	15.7	14.1	12.6
Price cash flow	-55.6	6.4	8.3	7.1	8.3	7.5
Price book value	2.0	2.1	1.7	2.0	1.8	1.6
Dividend yield	0.0%	1.1%	1.7%	1.6%	1.8%	2.0%
Free cash flow yield	-30.7%	-1.6%	2.3%	2.5%	1.6%	2.9%
EV/sales	1.0	1.2	0.9	0.9	0.8	0.7
EV/EBITDA	7.4	14.2	8.2	7.8	7.0	6.3
EV/EBIT	10.3	26.4	13.0	13.1	11.8	10.6
EV/operating cash flow	-72.6	10.8	11.9	9.4	11.0	9.9
Adjusted EV/CE	n.a.	1.1	1.0	1.1	1.1	1.2
Adjusted EV/CE vs. ROCE/WACC	n.a.	1.5	1.4	1.4	1.3	1.2

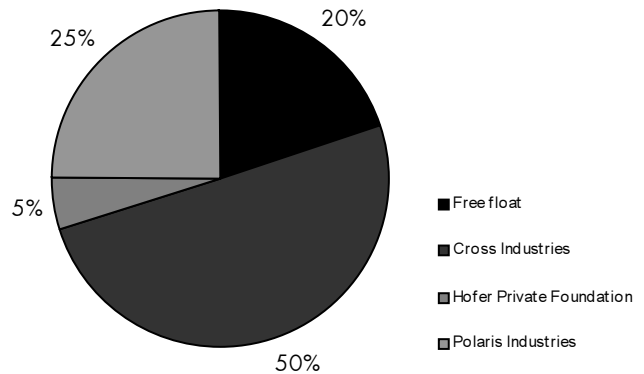
Source: KTM Power Sports, Raiffeisen Centrobank estimates

## Fact Sheet

### Company description

KTM Power Sports AG (formerly CROSS Holding AG) has been listed on the semi-official market on the Vienna Stock Exchange since December 12, 2003 and in the prime market segment since December 15, 2004. KTM Power Sports owns 100% of the KTM group, which represents the only investment of KTM Power Sports. KTM's premium brand in the offroad sport motorcycle market and its entry into the sporty onroad segment made KTM Europe's second-largest sport motorcycle producer behind BMW. In 2004/05 KTM sold more than 84,000 motorcycles. In the offroad motorcycles segment, which accounts for about 48% of sales revenue, KTM is gradually reaching the limits of growth as it is a high-quality niche manufacturer. Therefore, an expansion of the product range in the onroad segment (about 30% of sales revenue) and the market entry into the ATV sector (All Terrain Vehicles, quads) is to ensure the long-term growth path.

### Shareholder structure



### Strength/Opportunities

- No. 2 motorcycle manufacturer in Europe and No. 1 in terms of growth dynamics
- Secures its long-term growth path by expanding the onroad and ATV businesses
- Sportscar X-BOW could become a value-driver
- Strong growth in the highly profitable accessories and spare parts business
- The brand is strengthened through motor racing and a broadening of the product range

### Weaknesses/Threats

- Strong dependency on exchange rate trends; USD weakness significantly burdens profitability
- Growth potential in the high-margin offroad motorcycles largely exhausted
- Lower profit margins in the growth market for onroad motorcycles

Income statement (EUR mn)	8/2006	8/2007e	8/2008e	8/2009e
Consolidated sales	504.5	547.7	615.7	688.0
EBITDA	53.9	65.7	73.8	80.8
EBIT	34.0	39.2	43.6	47.9
EBT	26.9	31.4	35.6	39.6
Net profit bef. min.	20.0	24.7	27.4	30.5
Net profit after min.	20.0	24.7	27.4	30.5

Balance sheet	8/2006	8/2007e	8/2008e	8/2009e
Total assets	457.0	466.9	499.3	530.1
Shareholders' equity	178.4	197.9	219.1	242.7
Goodwill	78.4	78.4	78.4	78.4
NIBD	131.9	127.4	127.3	123.1

Cash flow statement	8/2006	8/2007e	8/2008e	8/2009e
Operating cash flow	37.3	54.7	46.5	51.6
Investing cash flow	-30.1	-45.0	-40.2	-40.5
Change NIBD	-2.7	-4.5	-0.1	-4.2

Source: KTM Power Sports, Raiffeisen Centrobank estimates

Per share data (EUR)	8/2006	8/2007e	8/2008e	8/2009e
EPS pre-goodwill	2.90	3.58	3.97	4.43
Adj. EPS diluted	2.90	3.58	3.97	4.43
Operating cash flow	5.41	7.93	6.74	7.49
Book value	25.88	28.71	31.78	35.21
Dividend	0.75	0.90	1.00	1.10
Payout ratio	26.0%	25.1%	25.2%	24.9%

Valuation (x)	8/2006	8/2007e	8/2008e	8/2009e
PE pre-goodwill	15.5	15.7	14.1	12.6
Adj. PE diluted	15.5	15.7	14.1	12.6
Price cash flow	8.3	7.1	8.3	7.5
Price book value	1.7	2.0	1.8	1.6
Dividend yield	1.7%	1.6%	1.8%	2.0%
FCF yield	2.3%	2.5%	1.6%	2.9%
EV/EBITDA	8.2	7.8	7.0	6.3
EV/EBIT	13.0	13.1	11.8	10.6
EV/operating CF	11.9	9.4	11.0	9.9

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

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

Sell: < -10% for low/medium risk shares, < -15% for high risk shares

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

Upon the release of a research paper, investment ratings are determined by the ranges described above. Interim deviations from the above mentioned ranges will not cause a change in the recommendation automatically but will become subject to review.

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5. RCB or an affiliated company has agreed to render (and to receive compensation for) other investment banking services to the issuer within the last 12 months.
6. The analyst owns securities of the issuer analysed by him.
7. The analyst is on the Supervisory Board/Board of Directors of the issuer analysed by him.
8. The analyst has received or acquired securities of the issuer before launch of the public offering of such securities.
9. The remuneration of the analyst is linked to investment banking services rendered by RCB or an affiliated company.

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