# COMPANY NOTE

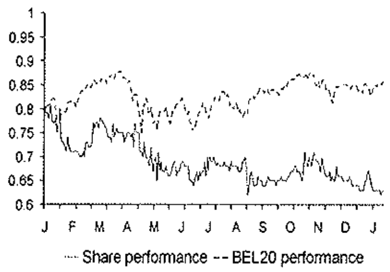
KBC Securities

25 January 2011

# SPECTOR

## Transition from analog to digital

CONSUMER GOODS
BELGIUM




Source: Thomson Financial Datastream

| | |
|---|---|
| CURRENT PRICE | € 0.63 |
| TARGET PRICE | € 0.75 |

**ACCUMULATE**
RATING UNCHANGED

| FY/e 31.12 | 2009 | 2010E | 2011E | 2012E |
|---|---|---|---|---|
| Sales (€ m) | 244.0 | 225.4 | 227.8 | 234.2 |
| REBITDA (€ m) | 8.8 | 9.0 | 10.2 | 10.7 |
| Net earnings (€ m) | -3.8 | -1.1 | -0.3 | 0.8 |
| Diluted adj. EPS (€) | -0.08 | 0.00 | -0.01 | 0.02 |
| Dividend (€) | 0.00 | 0.00 | 0.00 | 0.00 |
| P/E | | | | 26.65 |
| EV/REBITDA | 5.48 | 5.30 | 4.59 | 4.32 |
| Free cash flow yield | 29.3% | -20.2% | -2.7% | -2.5% |
| Dividend yield | 0.0% | 0.0% | 0.0% | 0.0% |

Source: KBC Securities

| | |
|---|---|
| Bloomberg | SPEC BB |
| Reuters | SPET.BR |
| www.spectorphotogroup.com | |
| Market Cap | € 23m |
| Shares outst. | 36.6m |
| Volume (Daily) | € 0.01m |
| Free float | 61.31% |

Next corporate event

Trading update 10: 8 February 2011

| Performance | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | -2% | -6% | -23% |
| Rel. BEL20 | -3% | -5% | -29% |

| | |
|---|---|
| 12-m Hi/Lo | € 0.81/0.62 |

**After some difficulties earlier in the company's history caused by the transition of the photo market from analog to digital, Spector currently has two core activities: photofinishing and multimedia.**

**We have an Accumulate rating and a € 0.75 price target.**

- The market in which the Imaging Group trades has been transformed by the transition from analog to digital photography and the associated challenges and opportunities that this created.
- Thanks to the implementation of the automation and integration projects, production costs will fall from 2H10.
- The strategy of the Retail Group is centred on growth from new products. For the coming years, we expect the integration of PC and TV to be a focus for technology-driven innovation. Demand for home systems and their complexity are increasing. But economic factors are still preventing a strong recovery of consumer spending. In addition, price deflation in most product groups continues to weigh on revenues. The first signs of recovery are nevertheless visible in the market, but this potential recovery still needs to be confirmed in 2H10.
- Our DCF model points to a fair value of € 0.84 per share. At our target price of € 0.75, Spector would trade at EV/EBITDA 2011E of 5.0 and EV/EBIT 2011E of 13.5.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## COMPANY PROFILE

### TWO CORE ACTIVITIES

After some difficulties earlier in the company's history due to the transition of the photo market from analog to digital, Spector currently has two core activities: photofinishing and multimedia.

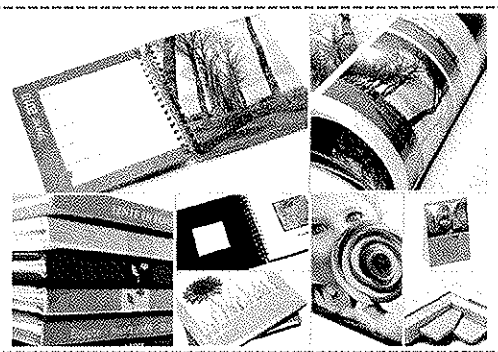
**The Imaging Group**

The Imaging Group processes analog and digital photos and prints them onto a variety of media and in the format of the customer's choice. This business also offers photo-related goods for resale.

**The Retail Group**

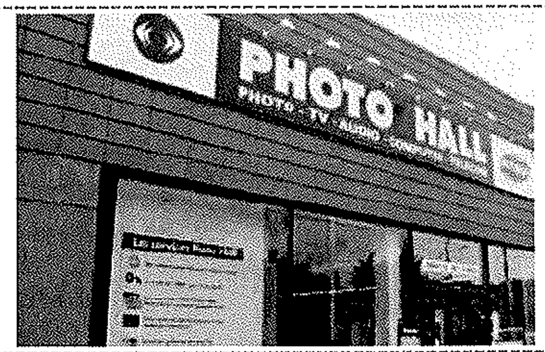
In Multimedia (the Retail Group), Photo Hall is the current market leader in terms of the number of outlets. Spector intends to expand this lead further within the channel of specialized store chains in Belgium and Luxembourg.

THE IMAGING GROUP : PHOTOFINISHING



Source: Spector, KBC Securities

THE RETAIL GROUP : MULTIMEDIA

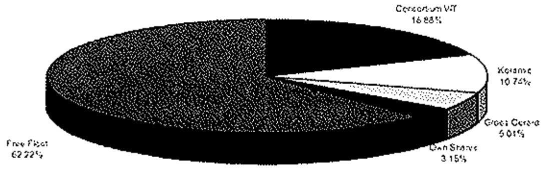



Source: Spector, KBC Securities

**Shareholder structure**

The current shareholder structure has changed mainly as a result of the capital increase at the end of 2005, when Spector raised € 41.8m from selling 29,857,142 new shares at € 1.4 per share. This operation made Consortium VIT, which regroups several Belgian investors, the reference shareholder with a combined stake of 18.88%, while Koramic Investment Group holds 10.74%.

SHAREHOLDER STRUCTURE




Source: Spector, KBC Securities

TWO CORE ACTIVITIES

Imaging

ExtraFilm.com

SPECTOR

Retail

PHOTO HALL MULTIMEDIA

HIFI International

Source: Spector, KBC Securities

## THE IMAGING GROUP

**Transition from analog to digital**

The market in which the Imaging Group trades has been characterized by the transition from analog to digital photography and the challenges and opportunities this creates. Spector wants to offer innovative digital products (ready-made photo books, photo greeting cards, photo calendars, photo on canvas and photo gifts) and to be the leader in the Web-to-post-photofinishing market in Western Europe and the entire photofinishing market for all distribution channels – analog and digital photo prints – in the Benelux. At the same time, Spector will optimize its profitability in the analog photofinishing market in Belgium and France by tailoring its offer to niches in the market.

The Imaging Group has a direct presence in ten countries but its e-commerce activities reach many others.

**ACTIVITIES OF THE IMAGING GROUP**

| Segment/niche | | Brand | Segment as % of market | Main Competitors | Est. % of Spector in this segment |
|---|---|---|---|---|---|
| Belgium | - B2B via Retail Networks | Spector | 40% | Minilabs at photo trade specialist, CeWE (via retail chains such as Kruidvat,...) | 20% |
| | - B2C via Home Delivery | ExtraFilm | 15% | Pixum, foto.com, myPix | 60% |
| The Netherlands | – B2B | Spector | 50% | Minilabs, CeWE (via retail chains such as Kruidvat,...) Fujifilm (e.g. Hema) | 10% |
| | – B2C | ExtraFilm | 15% | ColorMailer, Pixum, Kruidvat, Albumprinter... | 40% |
| France | – B2C | ExtraFilm | 15% | Photoways, PyPix, Photo Service, PhotoBox, Snapfish, Photoweb | 15% |
| Sweden | | ExtraFilm | 55% | Apport, Fujidirekt | 70% |
| Norway | | ExtraFilm | 45% | Foto Knudsen, Foto Preus | 50% |
| Finland | | ExtraFilm | 35% | Ifotor | 30% |
| Denmark | | ExtraFilm | 10% | Pixum, Fotolabor | 60% |
| Switzerland | | ExtraFilm | 50% | Ifotor, Colomailer, Migros | 20% |
| Italy | | FLT, ExtraFilm * (B2C) | 40% | Color 24, Fincolor, Unicolor | 10% |
| Germany | | ExtraFilm | 10% | Pixum, Fastlab, Foto Quelle, CeWe, ... | <5% |
| Spain | | ExtraFilm | 15% | myPix, foto.com, ... | <5% |
| United Kingdom | | ExtraFilm * | 15% | Snapfish, Photobox, Photoweb | <5% |

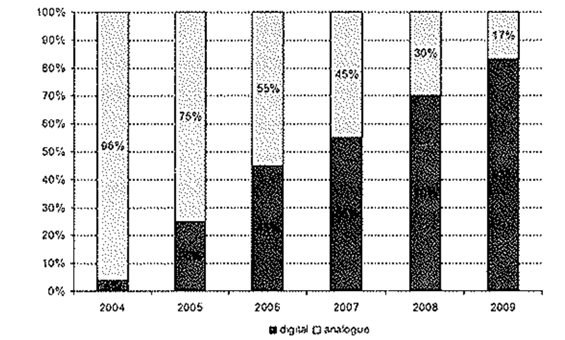
Source: Spector (*exclusively via an e-commerce website)

**Different positioning from main rivals**

Spector positions itself differently from its main rivals. CeWe Color, its primary competitor in the photo imaging market, concentrates mainly on the mass market via wholesale distribution chains and is thus very strongly volume and price-oriented. Finally there is a category of competitors that profile themselves mainly as Internet enterprises and not as photofinishing enterprises. This category includes firms such as Photoways, Pixum, Colormailer, and Snapfish.

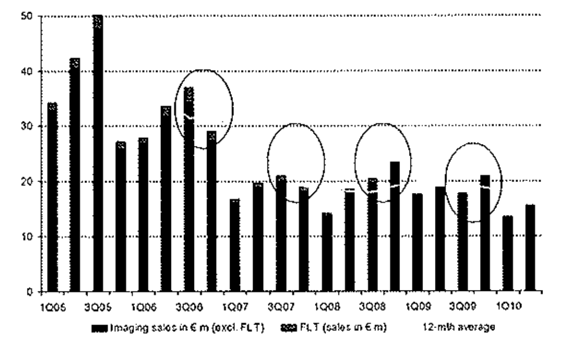
The digital photo market is maturing fast. The number of digital cameras is still increasing, more photos are being taken than ever before and a large proportion of consumers taking digital photos also want to print them. In short, the market for digital photo prints is growing and there is more focus on innovative photo products.

**IMAGING GROUP: DIGITAL/ANALOG BREAKDOWN**




Source: Spector, KBC Securities

**IMAGING GROUP: SEASONAL PATTERNS (Q3 VS. Q4)**




Source: Spector, KBC Securities

**Focus on innovative photo products**

The share of turnover from new products in the Imaging Group is growing steadily.

- Photo books. Digital technology based on user-friendly software enables us to immediately incorporate digital photos in ready-to-use photo books. The Imaging Group wants to make the production of these more user-friendly.
- Photo greeting cards, photo calendars and diaries. Specific modules on the websites and in the Offline Ordering Software offer the consumer the option to integrate photos in cards, calendars and diaries.
- Photo gifts. Thanks to digital technology, it is also possible to print on a large scale and profitably on various types of material (such as T-shirts, coffee cups, wall tiles, etc.)
- Photo on canvas was already contributing a large portion of the Imaging Group's digital turnover, supported by a specially focused marketing approach.

## THE RETAIL GROUP

The Retail Group operates in Belgium and Luxembourg. In Belgium this takes place under the Photo Hall brand name, while in Luxembourg it is Hifi International. The Retail Group opts for controlled growth in its own outlets. At end-1H10, only 3 shops were franchised.

**Specific positioning: Photo Hall positions itself as a solutions provider**

Retail Group: Positioning

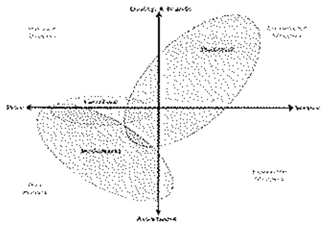
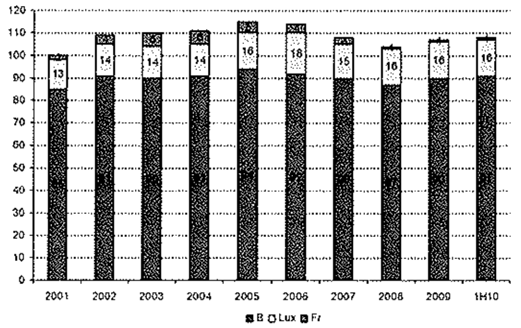


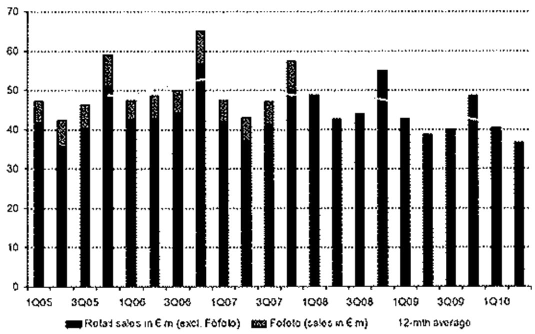
Photo Hall deliberately restricts the range to four product groups: cameras and photo-related products, PCs, telecom and telephony and televisions. This positioning enables Photo Hall to reach a specific type of consumer who feels less comfortable with rival concepts. Photo Hall offers the customer solutions based on an "advanced selection". This means that a range of high-quality A-class brands is offered, but no own brands or white products. This approach differentiates Photo Hall from the large chains. This means it is not a player in the lower price ranges of B- and C- brand products.

RETAIL GROUP: NUMBER OF STORES




Source: Spector, KBC Securities

RETAIL GROUP: LONG TERM EVOLUTION




Source: Spector, KBC Securities

**Photo Hall strategy: to become channel leader in four markets**

The strategy of the Retail Group is centred on growth from new products, new outlets in existing markets and growth in new geographic markets. This should allow the unit to remain channel leader in its four (core) product lines.

**Each of the four product lines show growth potential**

The strategy is based on the expected growth prospects in all of the segment's four product lines. It's clear that the sector must rely on new and innovative technology-driven products. In general, photo equipment will be driven by the replacement sales of digital cameras while the telecom and PC markets benefit from the increased demand for mobile computing. Finally, the media product line should feel a favourable impact from the shift to digital HDTV, 3D TVs and higher sales of flat screens and home cinema installations.

For the coming years, we expect the integration of PC and TV to be one of the drivers of technological innovation. Demand for home systems and their complexity are growing. This will increase demand for after-sales services and Photo Hall looks to be well positioned.

# SWOT ANALYSIS

## STRENGTHS

In the Imaging Group
- One of the market leaders in Mail order
- Profound know-how in analog photofinishing
- Strong growth in digital photo prints
- High-quality production output
- Existing databases on consumer behaviour.

In the Retail Group
- Successful Retail model
- Strong market position in BeLux
- Long-term track record of the Photo Hall business model
- Proven financial stability and efficient financial control

## WEAKNESSES

In the Imaging Group
- Reaction to market shifts must be shortened
- Lessons on effective marketing spend in digital market are still to be learned
- Mail order production costs are still too high
- Analog photofinishing declines >15% p.a.
- Costs in production support must be reduced

In the Retail Group
- Integration of the retail IT System

## OPPORTUNITIES

In the Imaging Group
- Consolidation and partnerships in Mail Order market
- Success of innovative digital photo-related products
- Retain and improve market position

In the Retail Group
- Continue the success of a range of products
- Continued renewal of the products by responding to customer demand and needs
- Extending shop offerings
- Optimising shop premises in current market
- Growth potential in Luxemburg
- Geographic expansion

## THREATS

In the Imaging Group
- Price evolution for digital prints
- Unknown customer loyalty pattern in digital
- Risk of remaining a "me too" company due to lack of speed in product/business development
- Risk of limited financial resources to invest in future opportunities
- Loss in photofinishing to home printing
- Strategy to build digital consumer base may fail

In the Retail Group
- Competition with pressure on margins (Mediamarkt)
- Weak consumer confidence in retail market
- Spector's financial situation may affect PhotoHall's reputation with suppliers, and leaves little room for extra working capital (stock build for Xmas, high priced new products like 3D flatscreen TVs, etc)

# FINANCIALS

## RESULTS OVERVIEW

In 1H10, Spector realised € 105.55m revenue from continuing operations, of which € 77.00m was realised by the Retail Group and € 28.86m by the Imaging Group.

HALF YEAR RESULTS (€ m)

| Summary | 2008 | 1H09 | 2H09 | 2009 | 1H10 | 2H10E | 2010E |
|---|---|---|---|---|---|---|---|
| **Sales** | **266.16** | 117.15 | **126.83** | **243.98** | 105.55 | **119.86** | **225.41** |
| *% growth* | | | | *-8.3%* | *-9.9%* | *-5.5%* | *-7.6%* |
| **Gross profits** | **75.32** | **31.12** | **36.93** | **68.06** | **28.20** | **33.79** | **61.99** |
| *Gross margin* | *28.3%* | *26.6%* | *29.1%* | *27.9%* | *26.7%* | *28.2%* | *27.5%* |
| **EBITDA** | **15.58** | **1.83** | **7.02** | **8.84** | **1.36** | **8.07** | **9.43** |
| *EBITDA margin* | *5.9%* | | | | | | |
| **EBIT** | **5.76** | **-2.27** | **2.89** | **0.62** | **-4.14** | **6.41** | **2.26** |
| *EBIT margin %* | *2.2%* | *-1.9%* | *2.3%* | *0.3%* | *-3.9%* | *5.3%* | *1.0%* |
| **Pretax profits** | **-2.61** | **-3.89** | **0.22** | **-3.67** | **-6.29** | **4.81** | **-1.48** |
| *Pretax margin %* | *-1.0%* | *-3.3%* | *0.2%* | *-1.5%* | *-6.0%* | *4.0%* | *-0.7%* |
| **Net profits** | **-3.52** | **-4.51** | **0.72** | **-3.79** | **-6.32** | **5.21** | **-1.11** |
| *Net margin %* | -1.3% | -3.8% | 0.6% | -1.6% | -6.0% | 4.3% | -0.5% |
| *% Change* | | | | *7.7%* | *40.3%* | *626.1%* | *-70.7%* |
| **Basic EPS (€)** | **-0.22** | **-0.13** | **0.02** | **-0.11** | **-0.18** | **0.15** | **-0.03** |

Source: Spector, KBC Securities

**€ 1.3m non-recurring costs due to closure of Swedish lab in 1H10**

EBIT declined from € -2.27m to € -4.14m but REBIT was quasi-stable at € -2.86m as a result of a € 1.3m non-recurring cost related to the closure of the Swedish lab.

DIVISIONAL BREAKDOWN (€ m)

| | 2008 | 1H09 | 2H09 | 2009 | 1H10 | 2H10E | 2010E |
|---|---|---|---|---|---|---|---|
| **Sales** | | | | | | | |
| Retail | 190.41 | 81.34 | 88.58 | 169.92 | 77.00 | 86.37 | 163.37 |
| Imaging | 76.51 | 36.19 | 38.63 | 74.82 | 28.86 | 33.94 | 62.80 |
| Other (incl. Inter-segment) | -0.77 | -0.38 | -0.38 | -0.76 | -0.32 | -0.45 | -0.76 |
| **Total** | **266.16** | **117.15** | **126.83** | **243.98** | **105.55** | **119.86** | **225.41** |
| | | | | | | | |
| **EBIT** | | | | | | | |
| Retail | 7.63 | 0.15 | 2.98 | 3.13 | 0.57 | 3.32 | 3.89 |
| Imaging | -2.13 | -1.99 | 0.01 | -1.98 | -4.48 | 3.31 | -1.17 |
| Other (incl. Inter-segment) | 0.25 | -0.43 | -0.10 | -0.53 | -0.23 | -0.23 | -0.46 |
| **Total** | **5.76** | **-2.27** | **2.89** | **0.62** | **-4.14** | **6.41** | **2.26** |

Source: Spector, KBC Securities

The financial result fell from € -1.62m in 1H09 to € -2.15 in 1H10. The decrease in interest expense (€ 0.56m) was fully offset by the increase in exchange losses on CHF and SEK (€ -1.06m).

In 1H10 Spector realised a slightly negative tax result in contrast to a positive € 0.43m in 1H09, when the company was able to benefit from a reversal of a tax claim, as well as the offsetting of tax losses against profits from previous years, related to ExtraFilm France.

Net profit fell to € -6.32m (€ -0.18 per share) from € -4.51m in 1H09, which was affected by the negative result of € -1m (discontinued operations) related to the costs and losses associated with the sale of the Hungarian activity Föfoto.

**Retail Group**

Persistently low consumer confidence in Belgium and Luxemburg as well as price deflation continued to weigh on the performance of the **Retail Group** in 1H10, with revenue down 5.3% (-5.5% in 1Q10, -5.1% in 2Q10). EBITDA of the Retail Group rose from € 1.12m in 1H09 to € 1.64m. EBIT rose in 1H10 from € 0.15m to € 0.57m. The better results in the Retail Group came on the back of significant savings in variable costs.

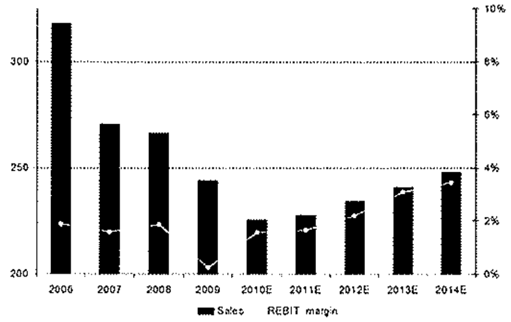
As in 2009, 1H10 saw revenue decline in most product groups, with the exception of TVs, hi-fi equipment and cameras in Belgium; and for hi-fi, cameras, and large and small household appliances in Luxemburg. Photo Hall's strong position in IT suffered under the increasing 'trivialisation' from netbooks and notebooks.

**3Q10 results**

In 3Q10, persistent price deflation continued to squeeze revenues in the Retail Group. In 3Q10, REBITDA declined by 4.6% to € 1.26m. For 4Q10E we expect revenue of € 47.28 m (-2.6% q/q) and REBITDA of € 3.06 m (6.5% REBITDA margin). As far as major product groups are concerned, we see the sale of digital cameras continuing to grow and revenue from sales of mobile phones rising slightly thanks to smart phones. We also expect sales of televisions and hifi equipment to remain stable and those of computer equipment and video DVDs to fall. In 2010, the Retail Group added two shops in Belgium (111 shops on 30 September of which 93 in Belgium (3 in franchise) and 18 in Luxembourg).

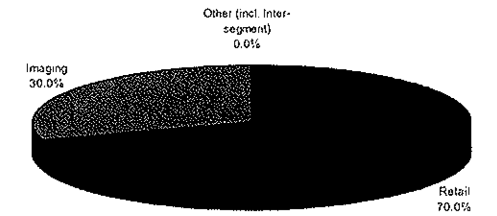
Due to the focus on the various automation projects, the further decline of analog prints and the termination of the trading activity in photo paper, revenues of the Imaging Group fell 19.5% in 3Q10 to € 14.29m. The automation of production and logistics and the integration of the Swedish lab were successfully completed during 3Q10. As a result REBITDA rose to € 1.47m. This improvement was nevertheless insufficient to compensate for the backlog incurred during the first 6 months of the year. In digital mail order, the emphasis in terms of marketing is shifting towards the very important 4Q. We bank on € 19.65m sales bringing total revenues for the Imaging Group in E2010 to € 62.80m. We see 4Q10 REBITDA rising to € 2.50m (REBITDA margin of 12.7% up from 11.3% in 4Q09).

### SALES (€ m) AND REBIT MARGIN



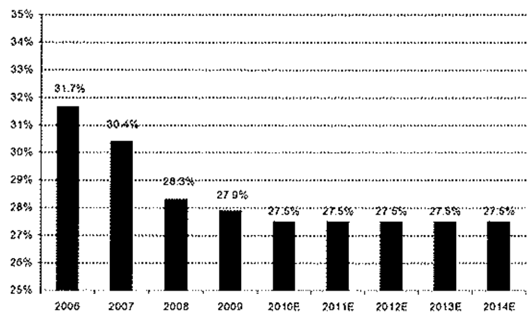

Source: Spector, KBC Securities

### 2009 SALES BREAKDOWN



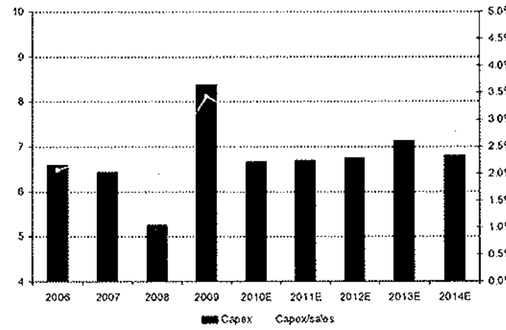

Source: Spector

### GROSS MARGIN (%)



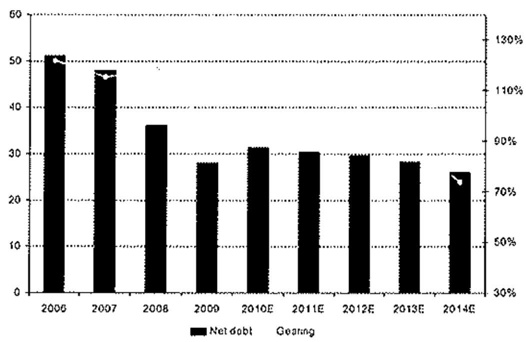

Source: Spector, KBC Securities

### CAPEX (€ m) AND CAPEX/SALES (%)



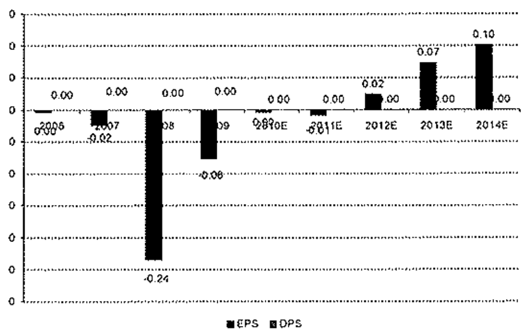

Source: Spector, KBC Securities

### NET DEBT AND GEARING




Source: Spector, KBC Securities

### ADJUSTED FULLY DILUTED EPS AND GROSS DPS (€)




Source: Spector, KBC Securities

# VALUATION

## OUR DCF MODEL POINTS TO A FAIR VALUE OF € 0.84 P/S

**Our DCF model points to a fair value of € 0.84 per share**

Our **DCF valuation** is based on an explicit 10-year forecast period from 2010-2019 and terminal free cash flow growth of 0% thereafter. The assumptions underlying our **free operating cash flow** (FOCF) are a sales CAGR 2010-2019 of 2.9%%, operating profit at 3.45% of sales, a tax rate of 25% and capex of 2.75% of sales.

**DCF MODEL: CASH FLOWS (€ m)**

| Summary | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 225.41 | 227.81 | 234.25 | 240.91 | 247.81 | 254.92 | 262.24 | 269.77 | 277.51 | 285.48 |
| Operating Profit | 2.26 | 3.77 | 5.17 | 7.44 | 8.53 | 8.79 | 9.05 | 9.31 | 9.57 | 9.85 |
| Taxes | -0.57 | -0.94 | -1.29 | -1.86 | -2.13 | -2.20 | -2.26 | -2.33 | -2.39 | -2.46 |
| Depreciation/provisions | 7.16 | 6.46 | 5.54 | 5.70 | 5.86 | 6.03 | 6.20 | 6.38 | 6.57 | 6.75 |
| Operation C/F | 8.86 | 9.29 | 9.42 | 11.28 | 12.26 | 12.63 | 12.99 | 13.36 | 13.75 | 14.14 |
| Capex | -6.67 | -6.69 | -6.75 | -7.12 | -6.80 | -7.01 | -7.21 | -7.42 | -7.63 | -7.85 |
| Changes working capital | -3.92 | -0.07 | -0.19 | -0.20 | -0.21 | -0.21 | -0.22 | -0.22 | -0.23 | -0.24 |
| Free Cash Flow | -1.73 | 2.53 | 2.48 | 3.96 | 5.25 | 5.40 | 5.56 | 5.72 | 5.88 | 6.05 |
| **Present Value Free Cash Flow** | **-1.74** | **2.34** | **2.10** | 3.09 | **3.77** | **3.57** | **3.38** | **3.19** | **3.02** | **2.85** |

Source: Spector, KBC Securities

**DCF MODEL: FAIR VALUE (€ m)**

| Enterprise value | 59.0 | Period | 59.0 | % of value |
|---|---|---|---|---|
| - Net financial debt | -28.0 | Years 1-5 | 9.6 | 16% |
| - Minority interests | 0.0 | Years 6-10 | 16.0 | 27% |
| - Pension provisions | -0.1 | Infinity | 33.5 | 57% |
| | | | | |
| **Equity Value** | **30.9** | | | |
| / Number of shares (m) | 36,619,505 | Terminal growth (p.a.) | 0% | |
| **= Value per share (€)** | **0.84** | | | |

Source: Spector, KBC Securities

**We use a (post-tax) WACC of 8.78%**

Our model uses a risk free rate of 4.00%, an equity risk premium of 5.00%, a beta of 1.35, and cost of debt of 7.13%. This translates into a WACC of 8.78% (post-tax).

## DCF SENSITIVITY ANALYSIS

Our sensitivity analysis shows how the fair value changes with different assumptions and changes in input for WACC (base scenario = 8.78%) and terminal growth (base scenario = 0%).

**DCF SENSITIVITY ANALYSIS**

| | | Terminal growth | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | -0.60% | -0.40% | -0.20% | **0.00%** | 0.20% | 0.40% | 0.60% |
| WACC | 8.25% | 0.89 | 0.92 | 0.94 | 0.96 | 0.99 | 1.01 | 1.04 |
| | 8.50% | 0.84 | 0.86 | 0.88 | 0.90 | 0.93 | 0.95 | 0.98 |
| | 8.75% | 0.79 | 0.81 | 0.83 | 0.85 | 0.87 | 0.89 | 0.92 |
| | **8.78%** | 0.78 | 0.80 | 0.82 | **0.84** | 0.86 | 0.89 | 0.91 |
| | 9.00% | 0.74 | 0.76 | 0.78 | 0.80 | 0.82 | 0.84 | 0.86 |
| | 9.25% | 0.70 | 0.71 | 0.73 | 0.75 | 0.77 | 0.78 | 0.80 |
| | 9.50% | 0.65 | 0.67 | 0.68 | 0.70 | 0.72 | 0.73 | 0.75 |

Source: Spector, KBC Securities

## RATIO ANALYSIS BASED ON A TARGET PRICE OF € 0.75

We have an **ACCUMULATE** rating and a € 0.75 **price target**. This target price is based on stable top line growth (€ 248m in 2014E) and growth in the EBIT margin by 2014E of 3.4% (€ 8.53m). Our target price is supported by a DCF (€ 0.84).

**Our target price: € 0.75**

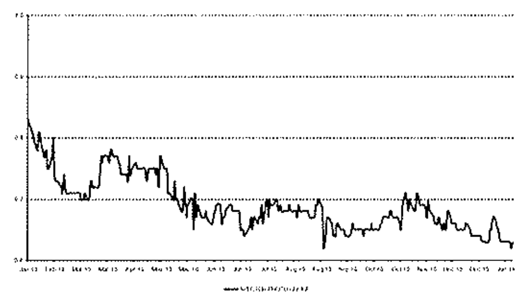
At our target price of € 0.75, Spector would trade at EV/EBITDA 2010E of 5.5 and EV/EBIT 2010E of 22.8. For 2011E, these numbers would be respectively 5.0 and 13.5.

RATIO ANALYSIS

| | 2006 | 2007 | 2008 | 2009 | 2010E | 2011E | 2012E | 2013E | 2014E |
|---|---|---|---|---|---|---|---|---|---|
| **Ratios based on target price of € 0.75** | | | | | | | | | |
| P/E | | | | | n.r. | -88.0 | 31.8 | 10.2 | 7.5 |
| EV/EBITDA | | | | | 5.5 | 5.0 | 4.7 | 3.9 | 3.6 |
| EV/ EBIT | | | | | 22.8 | 13.5 | 9.7 | 6.5 | 5.4 |
| Div. Yield (gross) | | | | | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |

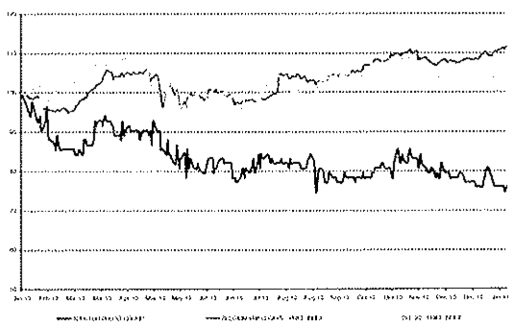
Source: KBC Securities

SPECTOR (1Y)



Source: Thomson Reuters Datastream

SPECTOR VS BELGIAN SMALLCAPS AND BEL20 (3Y)



Source: Thomson Reuters Datastream

## FINANCIAL DATA

| Income statement (€ m) | 2007 | 2008 | 2009 | 2010E | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|---|---|
| Sales | 270.4 | 266.2 | 244.0 | 225.4 | 227.8 | 234.2 | 240.9 |
| COGS | -188.2 | -190.8 | -175.9 | -163.4 | -165.2 | -169.8 | -174.7 |
| Gross profit | 82.2 | 75.3 | 68.1 | 62.0 | 62.6 | 64.4 | 66.3 |
| Operating costs | -76.5 | -70.4 | -68.2 | -59.7 | -58.9 | -59.2 | -58.8 |
| Other income & costs | -1.0 | 0.8 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 4.8 | 5.8 | 0.6 | 2.3 | 3.8 | 5.2 | 7.4 |
| Net interest | -5.2 | -8.4 | -4.3 | -3.7 | -4.2 | -4.1 | -4.0 |
| Other non-operating | - | - | - | - | - | - | - |
| Pre-tax earnings | -0.4 | -2.6 | -3.7 | -1.5 | -0.4 | 1.1 | 3.5 |
| Taxes | -0.2 | -0.9 | 0.9 | 0.4 | 0.1 | -0.3 | -0.9 |
| Associates | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Discontinued & other | 0.0 | -4.2 | -1.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Consolidated earnings | -0.5 | -7.7 | -3.8 | -1.1 | -0.3 | 0.8 | 2.6 |
| Minority interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net earnings | -0.5 | -7.7 | -3.8 | -1.1 | -0.3 | 0.8 | 2.6 |
| | | | | | | | |
| Depreciation and amortisation | -13.7 | -9.8 | -8.2 | -7.2 | -6.5 | -5.5 | -5.0 |
| Amortisation other intangibles/ Impairments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non recurring elements included in EBIT | 0.5 | 0.8 | 0.0 | -1.3 | 0.0 | 0.0 | 0.0 |
| | | | | | | | |
| REBITDA | 18.0 | 14.8 | 8.8 | 9.0 | 10.2 | 10.7 | 12.5 |
| EBITDA | 18.5 | 15.6 | 8.8 | 9.4 | 10.2 | 10.7 | 12.5 |
| REBITA | 4.3 | 5.0 | 0.6 | 3.6 | 3.8 | 5.2 | 7.4 |
| EBITA | 4.8 | 5.8 | 0.6 | 2.3 | 3.8 | 5.2 | 7.4 |
| Net earnings from continued operations | -0.5 | -7.7 | -3.8 | -1.1 | -0.3 | 0.8 | 2.6 |
| Adjusted net earnings | -0.9 | -8.3 | -2.7 | -0.1 | -0.3 | 0.8 | 2.6 |

| Balance sheet (€ m) | 2007 | 2008 | 2009 | 2010E | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|---|---|
| Intangible assets | 36.9 | 31.8 | 29.1 | 29.1 | 29.1 | 29.1 | 29.1 |
| Tangible assets | 27.0 | 18.3 | 20.6 | 18.8 | 17.7 | 17.7 | 18.8 |
| Financial assets | 9.2 | 7.3 | 7.3 | 7.3 | 7.3 | 7.3 | 7.3 |
| Other assets | 8.4 | 9.9 | 1.2 | 6.8 | 6.8 | 7.0 | 7.2 |
| Inventories | 40.4 | 36.6 | 28.7 | 25.9 | 26.2 | 26.9 | 27.7 |
| Receivables | 25.6 | 20.1 | 16.1 | 14.9 | 15.1 | 15.5 | 15.9 |
| Cash & equivalents | 13.5 | 12.4 | 18.4 | 17.0 | 17.2 | 17.7 | 18.2 |
| TOTAL ASSETS | 161.0 | 136.5 | 121.5 | 119.9 | 119.5 | 121.3 | 124.4 |
| | | | | | | | |
| Equity | 41.6 | 30.6 | 29.1 | 28.0 | 27.8 | 28.7 | 31.5 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Provisions | 2.2 | 2.0 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| LT financial debt | 38.1 | 32.7 | 16.3 | 16.3 | 16.3 | 16.3 | 16.3 |
| Other liabilities | 7.4 | 9.7 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Payables | 48.3 | 45.6 | 42.4 | 40.1 | 40.5 | 41.7 | 42.9 |
| ST financial debt | 23.5 | 15.9 | 30.1 | 31.9 | 31.2 | 31.0 | 30.1 |
| TOTAL LIABILITIES | 161.0 | 136.5 | 121.5 | 119.9 | 119.5 | 121.3 | 124.4 |
| | | | | | | | |
| Net working capital | 17.7 | 11.2 | 2.4 | 0.7 | 0.7 | 0.7 | 0.7 |
| Capital employed | 82.6 | 61.4 | 51.3 | 53.4 | 52.4 | 52.6 | 53.9 |
| Net debt | 48.0 | 36.2 | 28.0 | 31.2 | 30.3 | 29.6 | 28.2 |
| Net debt, incl. off-balance items | 48.0 | 36.2 | 28.0 | 31.2 | 30.3 | 29.6 | 28.2 |

| Cash flow statement (€ m) | 2007 | 2008 | 2009 | 2010E | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|---|---|
| Consolidated earnings | -0.5 | -7.7 | -3.8 | -1.1 | -0.3 | 0.8 | 2.6 |
| Depreciation, amortisation & impairment | 12.7 | 10.6 | 8.9 | 7.2 | 6.5 | 5.5 | 5.0 |
| Other cash flow from operations | 2.7 | 7.2 | 3.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in working capital | -7.1 | 4.7 | 7.6 | -3.9 | -0.1 | -0.2 | -0.2 |
| CASH FLOW FROM OPERATIONS | 7.8 | 14.9 | 16.1 | 2.1 | 6.1 | 6.2 | 7.4 |
| | | | | | | | |
| Net capital expenditure | -6.4 | -5.3 | -8.4 | -6.7 | -6.7 | -6.7 | -7.1 |
| Acquisitions / disposals | 2.1 | 1.9 | 0.1 | 1.3 | 1.3 | 1.2 | 1.0 |
| Other cash flow from investments | 0.3 | 0.0 | 0.0 | 0.2 | 0.1 | 0.1 | 0.1 |
| CASH FLOW FROM INVESTMENTS | -4.1 | -3.4 | -8.3 | -5.1 | -5.2 | -5.5 | -6.0 |
| | | | | | | | |
| Dividend payments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Shares issues | 0.0 | -1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| New borrowings / reimbursements | 1.4 | 1.0 | 3.7 | 1.5 | -0.7 | -0.2 | -0.9 |
| Other cash flow from financing | -12.7 | -11.9 | -5.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| CASH FLOW FROM FINANCING | -11.3 | -12.0 | -2.2 | 1.5 | -0.7 | -0.2 | -0.9 |
| | | | | | | | |
| Fx and changes to consolidation scope | -0.2 | -0.5 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| CHANGE IN CASH & EQUIVALENTS | -7.9 | -1.1 | 6.0 | -1.4 | 0.2 | 0.5 | 0.5 |
| | | | | | | | |
| Free cash-flow | 1.3 | 9.6 | 7.7 | -4.5 | -0.6 | -0.6 | 0.3 |
| Change in net debt | -3.1 | -11.8 | -8.1 | 3.2 | -0.9 | -0.7 | -1.4 |

| Performance criteria | 2007 | 2008 | 2009 | 2010E | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|---|---|
| Sales growth | -14.9% | -1.6% | -8.3% | -7.6% | 1.1% | 2.8% | 2.8% |
| Gross profit growth | -18.3% | -8.4% | -9.6% | -8.9% | 1.1% | 2.8% | 2.8% |
| REBITDA growth | -12.3% | -17.9% | -40.2% | 2.1% | 13.2% | 4.7% | 16.3% |
| EBITDA growth | -9.9% | -15.8% | -43.3% | 6.6% | 8.5% | 4.7% | 16.3% |
| REBITA growth | -27.9% | 15.6% | -87.5% | 472.7% | 6.0% | 37.3% | 43.9% |
| EBIT growth | 124.5% | 20.3% | -89.2% | 265.1% | 66.3% | 37.3% | 43.9% |
| Pe-tax earnings growth | -75.5% | 599.7% | 40.7% | -59.7% | -72.7% | -376.2% | 211.8% |
| Net earnings growth | -82.5% | 1364.5% | -51.1% | -70.7% | -72.7% | -376.2% | 211.8% |
| Earnings growth from continued operations | -82.5% | 1364.5% | -51.1% | -70.7% | -72.7% | -376.2% | 211.8% |
| Adjusted earnings growth | 521.6% | 834.6% | -67.3% | -94.7% | 108.9% | -376.2% | 211.8% |
| Gross margin | 30.4% | 28.3% | 27.9% | 27.5% | 27.5% | 27.5% | 27.5% |
| REBITDA margin | 6.7% | 5.6% | 3.6% | 4.0% | 4.5% | 4.6% | 5.2% |
| EBITDA margin | 6.8% | 5.9% | 3.6% | 4.2% | 4.5% | 4.6% | 5.2% |
| REBITA margin | 1.6% | 1.9% | 0.3% | 1.6% | 1.7% | 2.2% | 3.1% |
| EBIT margin | 1.8% | 2.2% | 0.3% | 1.0% | 1.7% | 2.2% | 3.1% |
| Net working capital / sales | 6.5% | 4.2% | 1.0% | 0.3% | 0.3% | 0.3% | 0.3% |
| CAPEX/ Sales | 2.4% | 2.0% | 3.4% | 3.0% | 2.9% | 2.9% | 3.0% |
| FCF / Sales | 0.5% | 3.6% | 3.1% | -2.0% | -0.3% | -0.2% | 0.1% |
| Depreciation / Capital Expenditure | 212.9% | 187.0% | 98.1% | 107.5% | 96.7% | 82.1% | 70.4% |
| Capital expenditure / EBITDA | 34.8% | 33.7% | 94.8% | 70.7% | 65.4% | 63.0% | 57.2% |
| Net debt / Equity + Minorities | 115.4% | 118.3% | 96.3% | 111.5% | 109.1% | 103.1% | 89.7% |
| Net debt / EBITDA | 2.6 | 2.3 | 3.2 | 3.3 | 3.0 | 2.8 | 2.3 |
| EBITDA / net interest | 3.6 | 1.9 | 2.1 | 2.5 | 2.5 | 2.6 | 3.1 |
| Pay-out ratio | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Net earnings margin | -0.2% | -2.9% | -1.6% | -0.5% | -0.1% | 0.4% | 1.1% |
| x CE turnover (Sales / avg. CE) | 3.2 | 3.7 | 4.3 | 4.3 | 4.3 | 4.5 | 4.5 |
| x Leverage (avg. CE / avg. equity) | 2.0 | 2.0 | 1.9 | 1.8 | 1.9 | 1.9 | 1.8 |
| = Return on Equity (avg) | -1.3% | -21.5% | -12.7% | -3.9% | -1.1% | 3.0% | 8.7% |
| Return on Equity - adjusted (avg) | -2.1% | -23.1% | -9.1% | -0.5% | -1.1% | 3.0% | 8.7% |
| Return on Capital Employed (avg) | 8.1% | 10.8% | 0.8% | 3.2% | 5.3% | 7.4% | 10.5% |
| Return on Capital Employed - adjusted (avg) | 7.2% | 9.3% | 0.8% | 5.1% | 5.3% | 7.4% | 10.5% |

| Per share data (€) | 2007 | 2008 | 2009 | 2010E | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|---|---|
| weighted average # shares (m) | 36.49 | 35.41 | 35.54 | 35.54 | 35.54 | 35.54 | 35.54 |
| weighted average # shares, diluted (m) | 36.49 | 35.41 | 35.41 | 35.41 | 35.41 | 35.41 | 35.41 |
| Basic EPS | -0.03 | -0.22 | -0.11 | -0.03 | -0.01 | 0.02 | 0.07 |
| Adjusted EPS | -0.02 | -0.24 | -0.08 | 0.00 | -0.01 | 0.02 | 0.07 |
| Diluted EPS | -0.01 | -0.22 | -0.11 | -0.03 | -0.01 | 0.02 | 0.07 |
| Diluted, adjusted EPS | -0.02 | -0.24 | -0.08 | 0.00 | -0.01 | 0.02 | 0.07 |
| Diluted EPS: y/y growth | - | - | - | - | - | - | 211.8% |
| Diluted EPS: CAGR 3Y | - | - | - | - | - | - | -100.0% |
| Adjusted, diluted EPS: y/y growth | - | - | - | - | - | - | 211.8% |
| Adjusted, diluted EPS: CAGR 3Y | - | - | - | - | - | - | -100.0% |
| REBITDA / share | 0.49 | 0.42 | 0.25 | 0.26 | 0.29 | 0.30 | 0.35 |
| EBITDA / share | 0.51 | 0.44 | 0.25 | 0.27 | 0.29 | 0.30 | 0.35 |
| REBITA/share | 0.12 | 0.14 | 0.02 | 0.10 | 0.11 | 0.15 | 0.21 |
| EBIT/ share | 0.13 | 0.16 | 0.02 | 0.06 | 0.11 | 0.15 | 0.21 |
| Net book value / share | 1.14 | 0.86 | 0.82 | 0.79 | 0.78 | 0.81 | 0.89 |
| Free cash flow / share | 0.04 | 0.27 | 0.22 | -0.13 | -0.02 | -0.02 | 0.01 |
| Dividend (€) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

| Valuation data | 2007 | 2008 | 2009 | 2010E | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|---|---|
| Max share price (€) | 1.54 | 1.26 | 1.16 | 0.88 | 0.67 | - | - |
| Min share price (€) | 0.95 | 0.35 | 0.35 | 0.62 | 0.62 | - | - |
| Reference share price (€) | 1.28 | 0.90 | 0.74 | 0.63 | 0.63 | 0.63 | 0.63 |
| Reference market capitalisation (€ m) | 47.1 | 32.8 | 27.0 | 23.1 | 23.1 | 23.1 | 23.1 |
| Enterprise value (€ m) | 87.9 | 62.5 | 48.4 | 47.8 | 47.0 | 46.3 | 44.9 |
| P/E | - | - | - | - | - | 26.6 | 8.5 |
| EV/sales | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| EV/REBITDA | 4.9 | 4.2 | 5.5 | 5.3 | 4.6 | 4.3 | 3.6 |
| EV/EBITDA | 4.7 | 4.0 | 5.5 | 5.1 | 4.6 | 4.3 | 3.6 |
| EV/REBITA | 20.4 | 12.6 | 78.1 | 13.5 | 12.5 | 9.0 | 6.0 |
| EV/EBIT | 18.4 | 10.9 | 78.1 | 21.1 | 12.5 | 9.0 | 6.0 |
| EV/Capital employed | 1.1 | 1.0 | 0.9 | 0.9 | 0.9 | 0.9 | 0.8 |
| P/ NBV | 1.1 | 1.0 | 0.9 | 0.8 | 0.8 | 0.8 | 0.7 |
| Free cash flow yield | 2.8% | 30.3% | 29.3% | -20.2% | -2.7% | -2.5% | 1.4% |
| Dividend yield | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |

Source: KBC Securities — *Historic valuation data are based on historic prices

## DISCLOSURE & DISCLAIMER SECTION

The company disclosures can also be consulted on our website http://www.kbcsecurities.com/disclosures.

KBC Securities uses an absolute rating system including terms such as Buy, Accumulate, Hold, Reduce and Sell (see definitions below).

| | Definition |
|---|---|
| BUY | Expected total return (including dividends) of 10% or more over a 6-month period |
| ACCUMULATE | Expected total return (including dividends) between 0% and 15% over a 6-month period |
| HOLD | Expected total return (including dividends) between -5% and 5% over a 6-month period |
| REDUCE | Expected total return (including dividends) between –15% and 0% over a 6-month period |
| SELL | Expected total return (including dividends) of -10% or worse over a 6-month period |

Due to external factors and in exceptional cases, KBC Securities allows the use of ratings such as Accept the Offer, Black Out, No Recommendation or Suspended.
Our analysts assign one of those ratings based on their investment outlook and valuation for the concerned stock. The valuation can be based on different methodologies such as DCF (discounted cash flow), absolute multiples, peer group multiples, sum-of-parts or NAV (Net Asset Value). The valuation is reflected in a 6-month target price. Occasionally, the expected total return may fall outside of these ranges because of price movement and/or volatility. Such deviations will be permitted but will be closely monitored. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the report contains more complete information concerning the analyst's view, investors should carefully read the entire report and not infer its contents from the rating alone. KBC Securities discloses the recommendations of its reports to the issuers before their dissemination. In case the recommendation has been amended following this disclosure, such amendments will be indicated in the concerned report.

| Stock rating | % of covered universe | % of covered universe with investment banking relationship during last year |
|---|---|---|
| BUY | 30.60% | 0.00% |
| ACCUMULATE | 37.10% | 0.00% |
| HOLD | 30.60% | 100.00% |
| REDUCE | 1.60% | 0.00% |
| SELL | 0.00% | 0.00% |

Spector Photo Group is active as photo finisher for the private consumer market. The group also operates Photo Hall, a retail chain for leisure electronics.
The price target for Spector Photo Group is based on following parameters: Discounted Cash Flow (DCF), Sum of Parts
The risks which may impede the achievement of our price target are: Decline in analogue photography, management has to prove the viability of the Imaging business model, cyclicality in Retail, cash drain and sustained losses.
Any reference made to a DCF valuation for Spector Photo Group is based on the following parameters: a forecast period from 2007 until 2016, a perpetual growth rate of 2% and a calculated WACC of 8.8%.

Below is an overview of the stock ratings and target price history in the last 12 months for the stock described in this report.

| Date | Rating | Target price |
|---|---|---|
| 08-NOV-10 | Accumulate | € 0.75 |

KBC Securities will provide periodic updates on companies/industries based on company-specific developments or announcements, market conditions or any other publicly available information.

# COMPANY NOTE

KBC Securities

25 January 2011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