

Initiated with Neutral; TP EUR 100

Great industrial internet position diluted by everything else

We initiated coverage of Siemens with a target price of EUR 100 and a Neutral rating.

- **Growth:** The breadth of Siemens's portfolio provides diversification and dilution to group growth prospects. Mixed end-market prospects are driven by weak developed market utility spend, and declining O&G investment offsets recovery in European early-cycle business and healthcare end markets. Europe remains the dominant region, while growth markets offer mixture of growth (India) and slowdown (China, Russia, Brazil).
- **Secular trends:** Siemens is at the forefront of the industrial internet, developing the government-sponsored Industrie 4.0. It has well-established leading positions throughout the industrial automation hierarchy, while on the operational side it has established global benchmarks in terms of Smart factories.
- **Profitability:** Vision 2020 envisages margin improvement across the board with productivity gains offsetting pricing. Structural cost reductions of EUR 1bn are targeted, but FY15 is likely to remain a transition year. Management asserts that execution and risk management have improved, but risk remains of one-off charges (44% of backlog is project business).
- **Sentiment:** QE-catalysed European recovery, gains on disposals, buy-back and potential HC spin all continue to provide support for the share. YTD the stock has underperformed owing to lacking underlying EPS growth.
- **Valuation:** Disparity in relative valuation (EV/EBIT and P/E) suggests balance of risk/reward. Sum-of-the-parts implies upside in an independent HC business, but this is unlikely to be imminent. We estimate 4% underlying EPS growth drives P/EG above 2x.
- We believe the balance of the portfolio detracts from the appeal of the industrial internet exposure, while the valuation and stock trading range is not compelling from a risk/reward perspective.
- Please see [Investing in industrials in the digital age](#) for full details.

Year-end: Sep	2014	2015E		2016E		2017E	
Currency (EUR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	71,920	76,405	76,405	80,836	80,836	83,580	83,580
Organic revenue growth (%)	0.6	0.7	0.7	2.4	2.4	3.5	3.5
Adj. EBITA (mn)	8,522	8,848	8,848	9,015	9,015	9,784	9,784
Adj. EBITA margin (%)	11.8	11.3	11.3	10.9	10.9	11.4	11.4
Adj. EPS	7.13	8.38	8.38	7.60	7.60	8.30	8.30
EV/sales (x)	1.10	1.12	1.15	1.02	1.05	0.95	0.98
Adj. EV/EBITA (x)	9.32	9.68	9.92	9.19	9.42	8.16	8.37
Adj. P/E (x)	13.11	N/A	12.02	N/A	13.25	N/A	12.13

Source: Company data, Nomura estimates

Key company data: See page 2 for company data and detailed price/index chart

Global Markets Research

12 March 2015

Rating Remains	Neutral
Target price Remains	EUR 100.00
Closing price 11 March 2015	EUR 102.10
Potential downside	-2.1%

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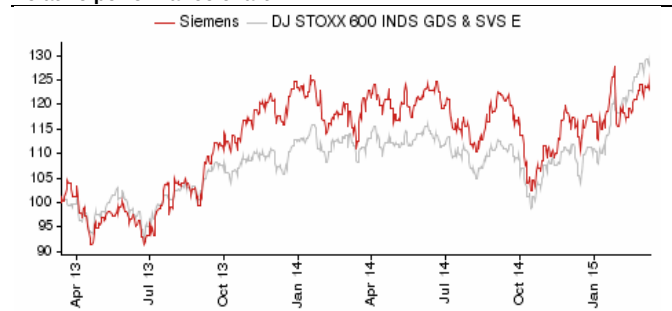
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Key data on Siemens

Rating

Stock	Neutral
Sector	Neutral

Relative performance chart



Source: Thomson Reuters, Nomura research

Performance

(%)	1m	3m	12m	YTD
Absolute	8.2	8.8	9.8	8.9
Relative to sector	0.2	-12.0	-7.1	-8.9

Enterprise value

Year-end: Sep	2014A	2015E	2016E	2017E
Avg/curr share price (EUR)	94.40	102.10	102.10	102.10
Avg shares outstanding (mn)	843.45	823.21	812.30	812.30
Market cap (EUR bn)	79.62	84.05	82.94	82.94
Net debt/(cash) (EUR bn)	12.01	16.47	14.84	11.84
Pension deficit (EUR bn)	9.32	9.32	9.32	9.32
Other EV adj (EUR bn)	(21.51)	(22.10)	(22.16)	(22.23)
Enterprise value (EUR bn)	79.44	87.75	84.93	81.87

Free float: 85.9%

Valuation

Year-end: Sep	2014A	2015E	2016E	2017E
P/E (x)	13.1	12.0	13.2	12.1
EV/revenue (x)	1.1	1.1	1.1	1.0
EV/EBITDA (x)	8.7	9.0	8.1	7.3
EV/EBIT (x)	9.9	10.5	9.9	8.8
EV/CE (x)	1.6	1.7	1.6	1.4
EV/EBITA (x)	9.3	9.9	9.4	8.4
FCF yield (%)	8.7	5.2	6.8	8.0
Dividend yield (%)	3.5	3.4	3.6	3.7

Growth (%)

Year-end: Sep	2014A	2015E	2016E	2017E
Revenue	(2.1)	6.2	5.8	3.4
EBITDA	12.8	7.0	7.3	7.1
EBIT	27.1	10.5	9.5	9.0
EPS	25.4	21.6	(6.0)	9.7
DPS	10.0	4.5	4.3	4.2

Margins & returns

Year-end: Sep	2014A	2015E	2016E	2017E
Gross margin (%)	28.9	30.0	30.2	30.8
EBITDA margin (%)	12.7	12.8	13.0	13.4
EBIT margin (%)	9.4	9.7	10.1	10.6
ROE (%)	19.6	21.9	18.0	17.8
ROCE (%)	17.2	17.4	16.8	17.1
ROCE/WACC (x)	2.0	1.5	1.5	1.5

Source: Company data, Nomura estimates; please see the appendix at the back of this report for more detailed financial statements.

Summary income statement (EUR mn)

Year-end: Sep	2014A	2015E	2016E	2017E
Revenue	71,920	76,405	80,836	83,580
COGS	(51,165)	(53,494)	(56,394)	(57,851)
Gross profit	20,755	22,911	24,442	25,729
Operating expenses	(11,616)	(13,132)	(13,947)	(14,491)
EBITDA	9,139	9,779	10,495	11,238
Depreciation & amortization	(2,411)	(2,346)	(2,355)	(2,364)
EBIT	6,728	7,433	8,140	8,874
Adj EBIT	8,024	8,380	8,547	9,316
Net interest expense	699	160	165	227
Pre-tax profit	7,427	7,594	8,305	9,101
Income tax	(2,028)	(2,202)	(2,242)	(2,457)
Minorities	(134)	(122)	(145)	(150)
Extraordinary items	0	0	0	0
Net income	5,373	6,379	5,918	6,494
Adj net income	6,073	6,992	6,260	6,835
EPS (EUR)	6.37	7.75	7.29	7.99
Adj EPS (EUR)	7.13	8.38	7.60	8.30
DPS (EUR)	3.30	3.45	3.60	3.75
Dividend payout ratio (%)	51.8	44.5	49.4	46.9

Summary cash flow statement (EUR mn)

Year-end: Sep	2014A	2015E	2016E	2017E
Net income	5,373	6,379	5,918	6,494
Depreciation & amortization	2,411	2,346	2,355	2,364
Change in working capital	782	(3,100)	(1,458)	(903)
Other non cash items	(3,331)	0	0	0
Cash flow from operations	5,235	5,625	6,815	7,955
Capital expenditure	(1,831)	(1,658)	(1,667)	(1,677)
Free cash flow	6,889	4,357	5,677	6,643
Net acquisitions	(31)	0	0	0
Net disposals	112	0	0	0
Cash flow from investing	(4,421)	(4,855)	(2,170)	(2,182)
Cash dividends received/(paid)	(2,658)	(2,783)	(2,840)	(2,924)
Share (buyback)/issuance	(1,086)	0	0	0
FX & others	401	0	0	0
Net cash in/(out)flow	(1,177)	(3,863)	1,824	3,191
Net cash/(debt)	(12,008)	(16,471)	(14,837)	(11,838)

Summary balance sheet (EUR mn)

Year-end: Sep	2014A	2015E	2016E	2017E
Fixed assets	9,638	9,718	9,799	9,880
Goodwill	17,783	21,150	20,682	20,214
Other intangible assets	4,560	4,560	4,560	4,560
Other fixed assets	24,822	23,884	24,087	24,292
Total fixed assets	56,803	59,312	59,127	58,945
Cash & equivalents	8,938	5,075	6,899	10,090
Inventories	15,100	16,592	17,554	18,150
Receivables	14,526	15,644	16,551	17,113
Other current assets	9,512	9,512	9,512	9,512
Total current assets	48,076	46,823	50,516	54,865
Total assets	104,879	106,135	109,644	113,811
Long term liabilities	36,767	37,367	37,557	37,749
Short term liabilities	36,598	36,108	36,520	36,775
Provisions	13,395	13,395	13,395	13,395
Other Liabilities	4,046	4,046	4,046	4,046
Minorities	560	682	827	977
Shareholders' equity	30,954	31,978	34,740	38,309
Total liabilities & equity	104,879	106,135	109,644	113,811

Financial ratios

Year-end: Sep	2014A	2015E	2016E	2017E
Interest cover (x)	15.6	19.4	18.8	18.0
Net debt/EBITDA (x)	0.1	0.5	0.3	0.0
Net debt/equity (%)	4.3	16.0	9.5	0.5

Source: Company data, Nomura estimates

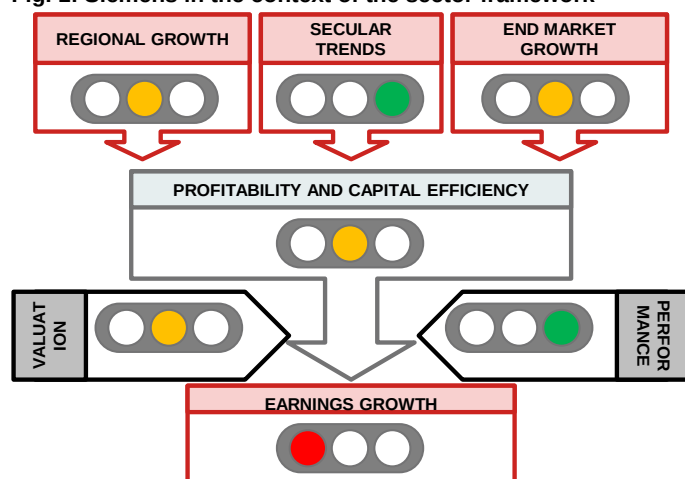
Note: The following is reproduced from our report *Investing in industrials in the digital age*, priced as at close of 5 March 2015.

Siemens			NEUTRAL	PRICE TARGET (EUR)				100
Market data (EURm)	2015E	2016E	Headline data (EURm)	2013	2014	2015E	2016E	2017E
Share price (EUR)	100		Sales	73,445	71,920	76,405	80,836	83,580
NOSH	823		Gross profit	(53,309)	(51,165)	(53,494)	(56,394)	(57,851)
Market capitalisation	81,942	80,856	Nomura EBITA	7,235	8,522	8,848	9,015	9,784
Adj. net debt (inc pension)	5,216	3,392	EBIT (reported)	5,295	6,728	7,433	8,140	8,874
Enterprise value	85,640	82,854	EPS (reported) (EUR)	5.1	6.4	7.7	7.3	8.0
Share price as of 5 th March, 2015			EPS (Nomura) (EUR)	6.0	7.1	8.4	7.6	8.3
Multiples	2015E	2016E						
EV/Sales	1.10	1.00	Reported sales growth	-6%	-2%	6%	6%	3%
EV/EBITDA (clean)	8.0	7.6	Organic sales growth	-1%	1%	1%	2%	3%
EV/Nomura EBITA	9.7	9.2	Gross margin	27.4%	28.9%	30.0%	30.2%	30.8%
EV/IC	1.9	1.8	Nomura EBITA margin	9.6%	11.8%	11.3%	10.9%	11.4%
P/E (reported)	12.8	13.7	EPS growth (reported)	0%	25%	22%	-6%	10%
P/E (Nomura)	11.7	12.9	EPS growth (Nomura)	-4%	19%	17%	-9%	9%
Dividend yield	3.5%	3.7%	FCF conversion	111%	113%	62%	91%	97%
FCF yield	5.3%	7.0%	RoIC	14.0%	15.6%	14.1%	14.0%	15.0%

Note: EV and P&L items above EPS are industrial business only. Consolidated group numbers used for EPS and P/E.

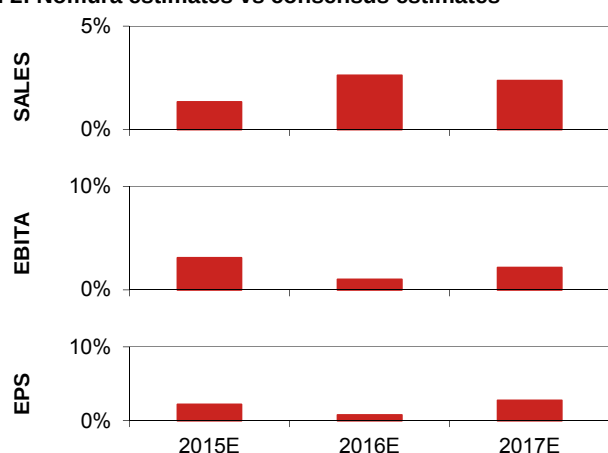
Source: Company data, Nomura estimates

Fig. 1: Siemens in the context of the sector framework



- We initiate coverage of **Siemens** with a target price of **EUR 100** and a **Neutral** rating.
- **Growth:** Europe remains >40% of sales, with early-cycle exposure a key element to accelerating momentum. N. America (26%) is likely to slow, while growth markets remain mixed. O&G (11% for DRC) is likely to slow. Utility remains weak.
- **Secular trends:** Industrie 4.0 is pioneering; Siemens has the industrial software and installed base to harness big data, but fast-growth niche markets are offset by sluggishness in the balance of the portfolio.
- **Profitability:** Vision 2020 aims should drive margins up, but FY15 is still a transition year. Investors are concerned that execution issues unresolved, while R&D and SG&A investment is likely to weigh on margins in the near term.
- **Valuation:** EV/industrial sales of 1x is in line with historical discount to industrial margins. We think FY15 remains a year in transition, with muted underlying EPS development driving P/EG above 2x. Ongoing buy-back offers some technical support.

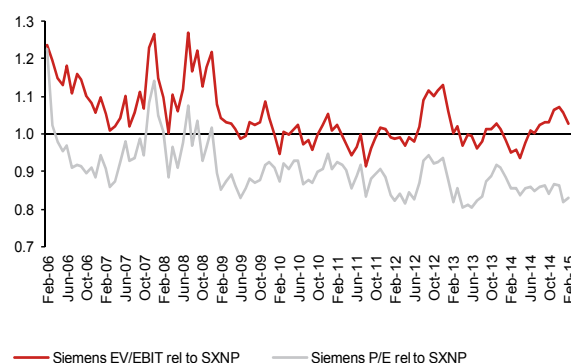
Fig. 2: Nomura estimates vs consensus estimates



Source: Bloomberg, Nomura estimates

Fig. 3: Relative valuation

12-month forward EV/EBIT and P/E relative to S&P 500



Source: Bloomberg, Nomura research

Great industrial internet position diluted by everything else

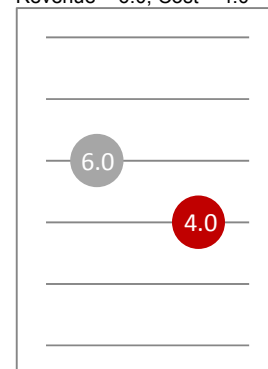
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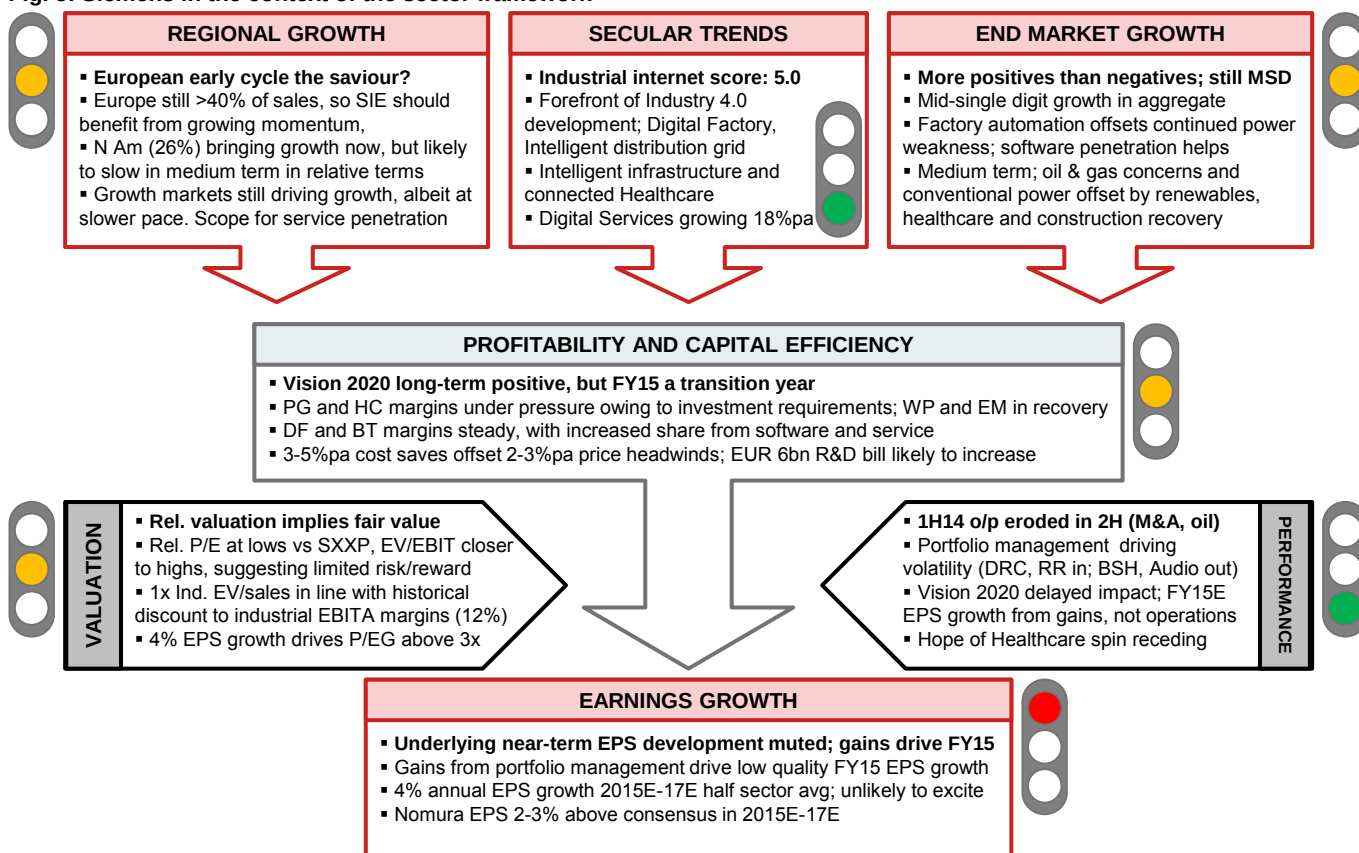
Fig. 4: Industrial internet score

Revenue = 6.0; Cost = 4.0



Source: Nomura research

Fig. 5: Siemens in the context of the sector framework



Source: Nomura estimates

Industrial software position strength offset by balance of the portfolio

At the risk of being accused of stating the obvious, GE's big-data analytics crusade and industrial internet research could have been rewritten with a 'find/replace' for Siemens (apart from the aerospace piece). Only with its established industrial software businesses and industrial automation market dominance is Siemens better positioned to take advantage of developments in the industrial internet. Siemens enjoys strong market positions in automation across most of Nomura's Smart Sectors, whether it is factory or process automation, power automation for smart grids, smart trains for urban transport networks, smart medical technologies or building management systems for smart buildings.

Given Siemens' industrial internet positioning and the importance this theme will have for the sector as a whole, we would have liked to be more bullish on the stock but the lack of growth in key end markets (such as power), perpetual restructuring, lack of investment in critical technologies (think industrial gas turbines) and potential for further execution issues detract from the quality of the industrial internet portfolio. In addition, investors are, rightly, questioning the price and merit of the Dresser Rand deal. M&A is often about timing, and, unfortunately for Siemens, the timing of this deal is not ideal. In the long term, we see the industrial logic, but the price of that logic looks very rich.

You say Internet of Things, I say Industrie 4.0

Regardless of what term one uses, the industrial internet will be critical to industrial companies' development over the coming decade and Siemens is positioned very well to take advantage of that. We will not be drawn into a Siemens vs GE comparison (yet) as the strength of Siemens' current automation market positions speak for themselves.

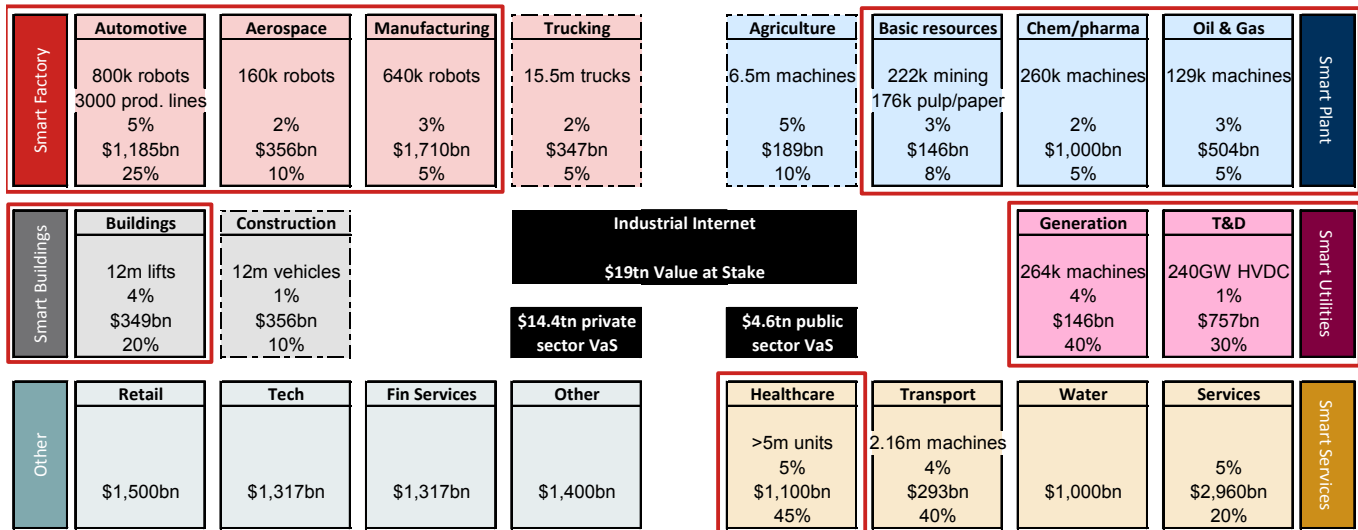
Fig. 6: Siemens is well positioned at the top of the industrial automation end-market spectrum

EUR bn; end market CAGR 2012-18E

PROCESS				HYBRID			DISCRETE		
Power	Gen Proc	Oil & gas	Petrochem	Food & bev	Pulp & paper	Mining	Aero	Gen Man	Auto
EUR 32bn 3%	EUR 9bn 4%	EUR 25bn 6%	EUR 12bn 5%	EUR 16bn 4%	EUR 3bn 3%	EUR 10bn 6%	EUR 4bn 3%	EUR 50bn 5%	EUR 11bn 3%
Siemens 5.0	Siemens 2.9	Emerson 3.9	Emerson 1.8	Siemens 1.9	ABB 0.86	ABB 3.6	Siemens 0.9	Siemens 4.0	Fanuc 1.5
Schneider 3.2	ABB 2.5	ABB 2.4	Yokogawa 1.5	Fanuc 0.9	Siemens 0.77	Siemens 1.4	GE 0.4	Schneider 2.9	Kuka 1.4
ABB 2.0	Emerson 1.5	Siemens 2.0	ABB 1.0	ABB 0.7	Valmet 0.34	Rockwell 1.4	ABB 0.4	Emerson 2.6	Siemens 1.4
GE 1.3	Schneider 0.9	Rockwell 1.4	Siemens 1.0	Schneider 0.4	Honeywell 0.26	SAP 0.9	Dassault 0.3	SAP 2.3	Bosch 1.1
SAP 1.0	SAP 0.4	GE 1.0	Honeywell 0.9	Bosch 0.3	SAP 0.25	Bosch 0.6	Bosch 0.3	Rockwell 2.2	ABB 1.0
Emerson 1.0	Oracle 0.3	Honeywell 1.0	SAP 0.7	Oracle 0.3	Bosch 0.11	Schneider 0.4	Infor 0.3	Omron 2.2	Dassault 0.6
Bosch 0.6	Honeywell 0.2	SAP 1.0	GE 0.4	Microsoft 0.2	IBM 0.01	Oracle 0.3	PTC 0.2	Bosch 2.2	Rockwell 0.6
Oracle 0.5	Fanuc 0.2	Yokogawa 0.5	Oracle 0.3	Infor 0.2	Aveva 0.01	Honeywell 0.2	Hexagon 0.2	ABB 1.9	SAP 0.5
Hexagon 0.4	Microsoft 0.1	Schneider 0.5	Bosch 0.2	GE 0.1		Yaskawa 0.2	SAP 0.2	Yaskawa 1.7	Infor 0.4
Yokogawa 0.2		Bosch 0.4	Infor 0.2	Dassault 0.1		Autodesk 0.1	IBM 0.1	Fanuc 1.1	Yaskawa 0.4

Source: Company data, Nomura estimates

Siemens's product portfolio encompasses at least EUR 7.2trn of the EUR 19bn VaS covered by Nomura Smart Sectors and stretches from healthcare markets to mines and back to factories and commercial buildings. The growth rates in the Smart Sectors that Siemens is exposed to range from 5% to 40%, which when compared with the 3-5% pa growth in the broader automation markets, helps illustrate how industrial internet niche exposure can drive above-market growth, even in an anaemic growth environment more broadly.

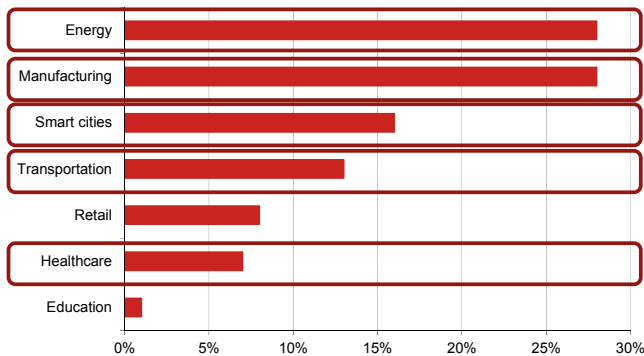
Fig. 7: Siemens's product portfolio encompasses some 40% of the Nomura Smart Sectors' VaS

Source: GE, Cisco, Bosch, Machina Research, Nomura estimates

The most recent Internet of Things World Forum ran several surveys, the results of which further support the positive outlook for these areas of the Siemens portfolio. IoT World Forum participants believe energy and manufacturing sectors will be the quickest to adopt IoT, with Siemens exposed to the top four sectors. 1,230 respondents also considered which sectors would see increased investment directed towards IoT over the next three years and Siemens's portfolio exposure covers the top four sectors there too.

Fig. 8: Which vertical is most likely to adopt IoT faster?

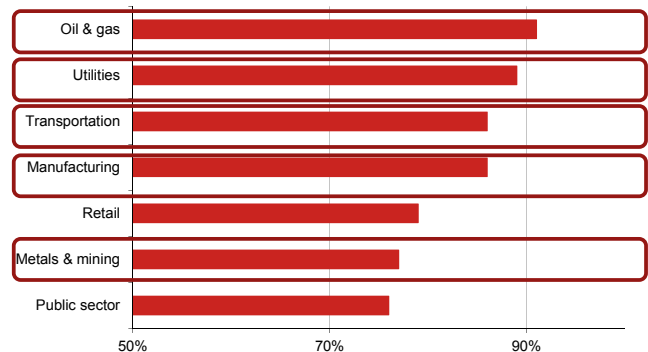
Attendees were asked to pick one sector



Source: Internet of Things World Forum, December 2014

Fig. 9: Percentage of respondents increasing IoT investments in the next three years

1,230 survey respondents



Source: Cisco Internet of Things Survey, 2014

Like its peers ABB and Schneider Electric, Siemens is well positioned throughout the control levels of the industrial automation hierarchy. Arguably, its software and automation positions are even better than Schneider Electric's in some respects, with capabilities throughout manufacturing execution systems ((MES)) itself as well as next computer-aided design and product lifecycle management systems) and the operational level too (with DCS and SCADA systems). Siemens also supplies Programmable Logic Controllers (PLCs) and has established positions in the human machine interface (HMI) market too. We believe those companies with established automation market positions and software capabilities are best positioned to exploit the growth and developments offered by the industrial internet.

Fig. 10: Siemens is positioned throughout all control levels of the industrial automation hierarchy

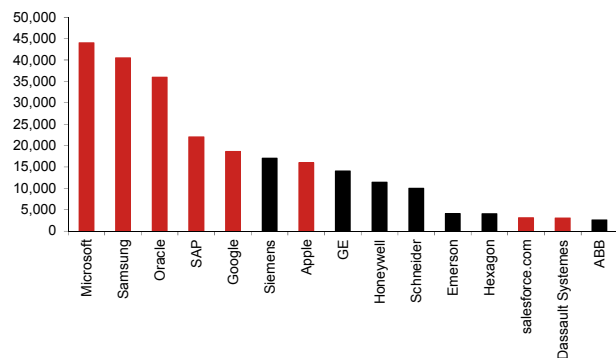
Enterprise Resource Planning	EAM			ERP/SCM	
	ABB	SAP	Dassault	SAP	PTC
Manufacturing Execution Systems	IBM	Schneider	Siemens	ABB	Microsoft
	Infor	AspenTech	Oracle	IBM	AspenTech
Operational Level	GE	Rockwell	PTC	Oracle	
	MES			CAX	PLM
Control level	Siemens	Dassault		Siemens	Dassault
	SAP	Schneider		PTC	Siemens
Field/plant floor level	ABB	GE		Autodesk	PTC
	Honeywell	Rockwell		Aveva	Hexagon
	DCS			SCADA	
	ABB	Schneider		GE	
	Honeywell	Metso		Schneider	
	Yokogawa	Siemens		Siemens	
	Emerson	Hollysys		Emerson	
	Valmet			ABB	
	PLCs		CNC		HMI
	Siemens	Omron	Fanuc	Bosch	Schneider
	Schneider	Mitsubishi	Siemens	Mitsubishi	Rockwell
	Rockwell	Amada	Yaskawa		Siemens
	Motion Control			Metrology	
	Bosch	Emerson	Fanuc	Hexagon	Weir
	Siemens	ABB	ABB	Renishaw	Sulzer
	Festo	Siemens	Kuka	Carl Zeiss	Flowserve
	Rockwell	Yaskawa	Yaskawa	Faro Tech	Pentair
	Schneider	Rockwell		Mitutoyo	Metso
	Yaskawa	Mitsubishi		Nikon	Ebara
	Keyence	Eaton			Toroshima
	Robots			Pumps	
	Regal Beloit			Dover	Parker
	Machine tools			Valves	
				Weir	Metso
				Actuators	
				Rotork	Atlas Copco
				Compressors	
				Tyco	Gardner Denver
				Emerson	Ingersoll Rand
				Nabtesco	Ebara
				Yaskawa	Siemens (DRC)
				SMC	Dover
				Parker	Mitsubishi
				Flowserve	

Source: Company data, Nomura research

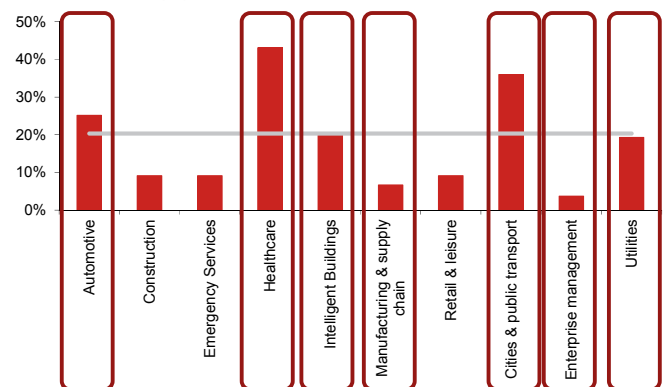
Siemens has more software engineers than Apple and the expected growth in connected devices by sector plays strongly to Siemens's end-market positions.

Fig. 11: Surprisingly, Siemens has more software engineers than Apple

Number of software engineers



Source: Company data

Fig. 12: Growth in connected devices by sector
CAGR 2012-22E (%)

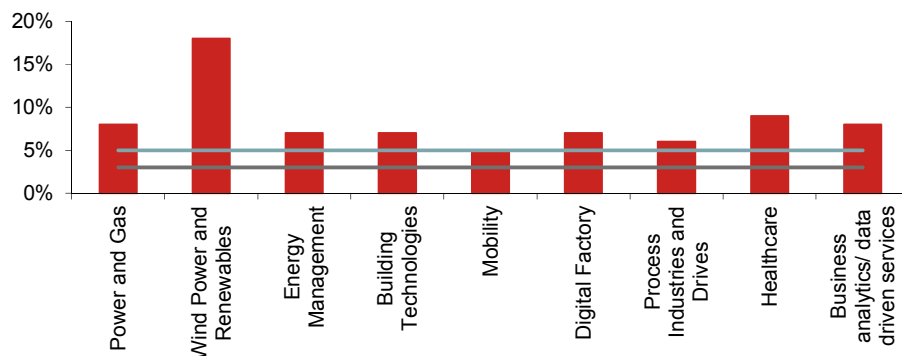
Source: Bosch ConnectedManufacturing White Paper, Sep 2014

Good end-market growth for the long term

The core of Siemens's Vision 2020' is the identification of growth trends and points of exploitation along the themes of automation, digitalisation and electrification. These niches offer strong growth within its existing markets and show that Siemens has good opportunities to drive above-market growth. However, in the context of a company with EUR 80bn of revenue and the muted growth in the balance of the portfolio offsets the above-market growth in the niches.

Fig. 13: Siemens has identified niche markets where it expects growth to be much stronger than the 3-5% longer-term market growth it expects from its end markets

CAGR 2013-20

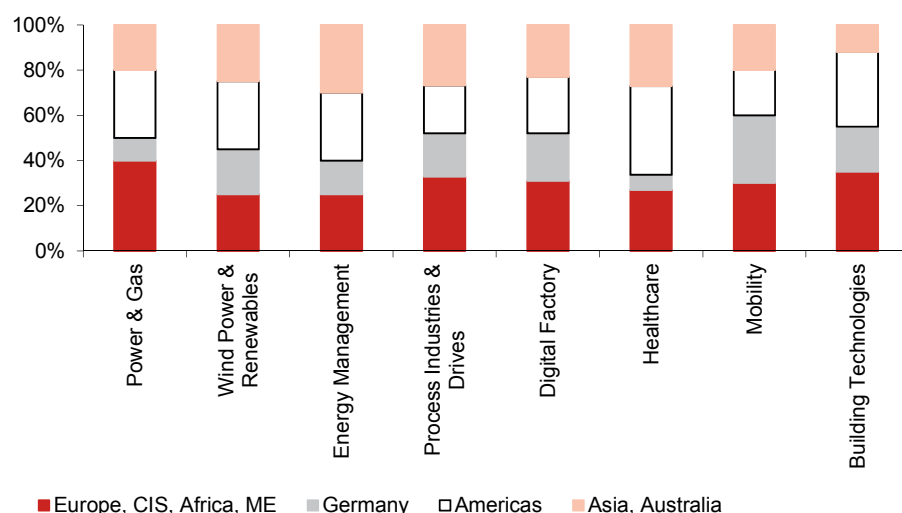


Source: Company data, Nomura research

Siemens estimates its total addressable market at EUR 520bn, growing at 3-4% pa. The balance of the business beyond the niche growth fields is not as appealing and this is in part attributable to the weakness of some of its key end markets. Utility spending, particularly in Europe, remains muted at best. Construction markets remain in nascent recovery and healthcare spending may be beginning to improve with the relaxation of budget austerity and the greater clarity of understanding around Obamacare.

Fig. 14: Siemens's divisional revenue is relatively well balanced, but Europe remains the dominant market, and Germany especially

2014 revenue by region, by division



Source: Company data, Nomura research

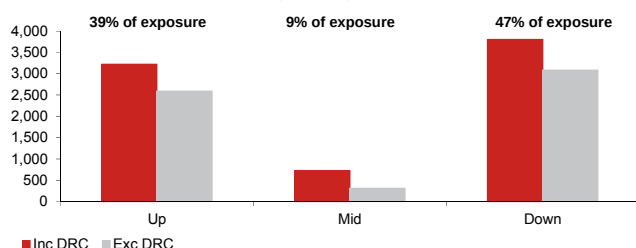
European exposure still dominates Siemens's revenue base, which means the past couple of years have seen a drag on the group growth rates. However, as the ECB's QE policy flows through, the early-cycle exposure in Siemens's Digital Factory business should regain some momentum. Offsetting this is the continued weakness in European utility demand on both the newbuild generation side and the aftermarket business – power-generation service in Europe has been weak as utilisation rates of the installed base have fallen off.

US exposure has increased over the past decade, helped by acquisition, the latest of which is Dresser Rand (DRC). Although the timing of the deal is not ideal and hence the price looks very rich, we see the industrial logic in combining the businesses, particularly the access to installed equipment that the deal brings to Siemens. However, Siemens has bought at the top of the cycle and paid a commensurate price. Following the Warren Buffet mantra ('buy when there's blood on the streets') makes some sense, but only if one waits for asset prices to reflect too cautious an outlook. Assuming the deal goes through (it is under investigation by EU competition authorities), we estimate the

combined business would be dominated by downstream exposure, but upstream business would probably account for some c30% overall. Given pro-forma O&G exposure accounts for some 12% of the Siemens portfolio, the risk of a decline in c3-4% of group revenue is not insignificant given guidance of flat organic growth for FY15.

Fig. 15: Siemens O&G exposure pro forma for the DRC deal is balanced between upstream and downstream

Pro forma O&G revenue, 2014 (EUR m)



Source: Company data, Nomura estimates

Fig. 16: The combined installed base of Siemens, Rolls Royce and Dresser Rand comprises over 120k individual pieces of equipment

	Small/mid turbines	Aero derivative turbines	Steam turbines	Comp'rs	Total
Rolls Royce		2,500		1,600	4,100
Dresser Rand	1,500		62,000	32,500	96,000
Siemens	2,250		10,000	10,000	22,250
Total	3,750	2,500	72,000	44,100	122,350
share	3%	2%	59%	36%	

Source: Company data

Although emerging markets provide a boost to that growth, the large project nature of the infrastructure and equipment Siemens sells in those markets often makes the business highly competitive and subject to pricing headwinds, which detracts from the profitability. Having said that, the core values of Vision 2020 play well to the development of infrastructure in emerging markets, and Siemens is well positioned to take advantage.

Fig. 17: Siemens has established leading positions in infrastructure automation in emerging markets

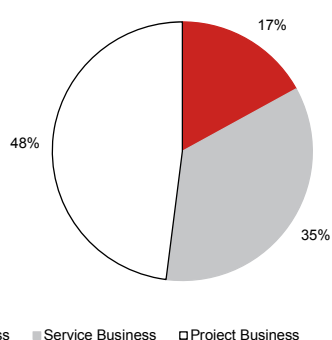
	Power Generation	Transmission & Distribution	Buildings incl. data center	Transportation
Digitalization	- Predictive maintenance - Performance optimization	- Grid control and applications/ software - Renewable, IT/OT integration	- Building performance and sustainability - Data center infrastructure management	- Condition based maintenance --> availability - Fleet optimization --> throughput
Automation	#1 Power plant automation Control systems	#1 Grid automation Protection, sub-station automation	#1 Building automation Total Building Solutions	#1 Train/rail/traffic automation Rail automation 4.0
Electrification	- Gas and steam turbines - Wind on-and offshore - Distributed generation	- HVDC/Grid access - Substation solutions - Switchgear, breakers	Field devices (e.g. actuators)	- Energy efficient propulsion - Signals, crossings - Rail power grids

Source: Company data

It is also worth bearing in mind the EUR 100bn backlog with which Siemens ended 2014, with EUR 36bn of that, or c50% of FY15 revenue forecasts, expected to be recognised in 2015. Investor concerns, rightly, focus on the execution of the EUR 46bn project backlog. We expect the improved risk management processes and better organisational accountability instigated by Joe Kaeser since becoming CEO at least increase the likelihood of the company reducing the level of unexpected costs associated with delivering some of these orders.

Fig. 18: The order backlog remains dominated by large project business, although there is a healthy EUR 35bn service backlog as well

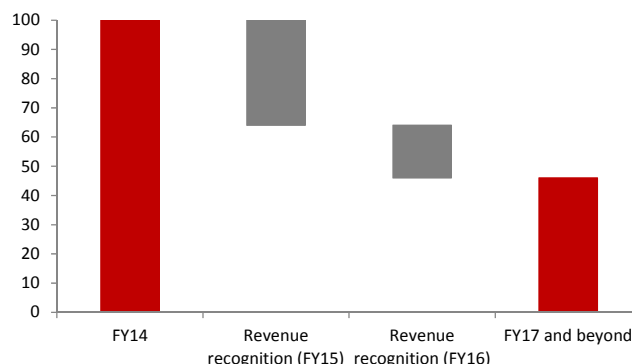
2014 order backlog by business line (EUR100bn)



Source: Company data, Nomura research

Fig. 19: Phasing of the order backlog delivery shows some 50% of FY15 revenue forecasts underpinned by the backlog at the end of 2014

2014 order backlog by year of delivery; EUR bn



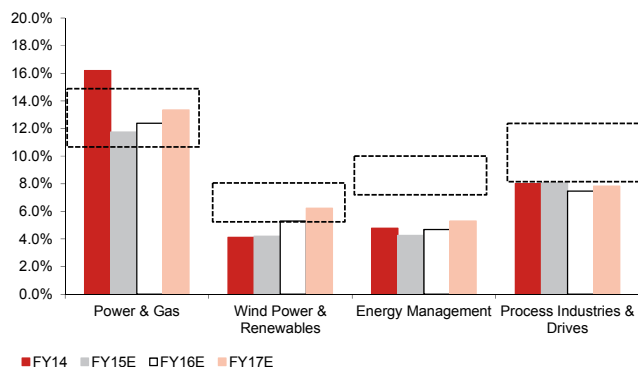
Source: Company data, Nomura research

Restructuring, execution and investment all weigh on margins

Although execution issues are being addressed through changes to project management processes, profitability in the near term faces headwinds. Some divisions such as Power & Gas (PG) and Healthcare (HC) require increased investment to refresh product portfolios in parts of the business, while others such as Digital Factory (DF) are investing in selling functions. We regard both types of investment as valid and necessary – otherwise one would query how a business of similar size and end-market exposure (GE) can grow at twice the rate (GE Industrial organic growth was 6% last year excluding the aerospace business) if not for lack of investment in products or selling capabilities in the slower-growing business (Siemens). In order to pay for this investment CEO Joe Kaeser aims to take EUR 1bn out of governance and support functions, but we believe the benefits of these actions will drive margin improvement until FY16 at the earliest.

Fig. 20: The power and process divisions bear the brunt of the underperforming businesses and project execution issues, which continue to weigh on our margin forecasts

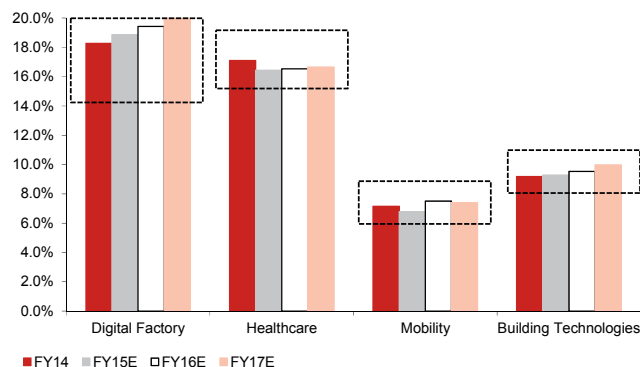
Divisional EBIT margins vs management target ranges



Source: Company data, Nomura estimates

Fig. 21: The more 'discrete' end of the Siemens business enjoys higher margins, better consistency and our forecasts sit within the management target ranges

Divisional EBIT margins vs management target ranges

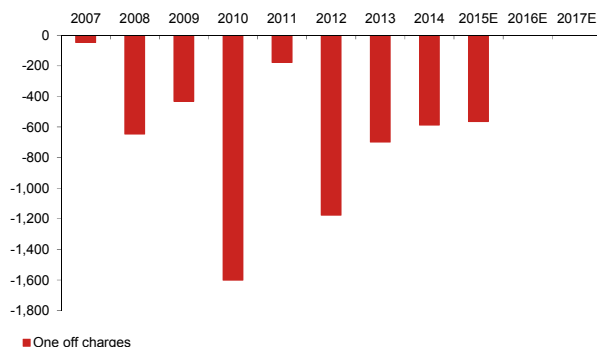


Source: Company data, Nomura estimates

The first leg of Vision 2020 improvement focuses on driving better operational performance. In the first instance, Siemens would meaningfully improve its ongoing profitability by eliminating the one-off costs associated with weak project execution. This is easy to say, and difficult to accomplish. We have to take management at its word that risk and project management processes have been improved; however, only time will tell. Reducing functional costs by removing additional layers of management and bureaucracy, optimising and bundling corporate services and simplifying the divisional structure is all intended to reduce costs by EUR 1bn. However, the benefits are unlikely to manifest themselves until FY16. Ultimately, FY15 is likely to remain a transition year and margins as a whole are unlikely to improve until FY16, particularly in the underperforming Wind Power (WP) and Energy Management (EM) divisions.

Fig. 22: The level of one-off charges in the Siemens EBIT line has been a disappointing point of consistency for the past few years, weighing on both earnings and sentiment

One off charges; EUR m



Source: Company data, Nomura estimates

The other element of 'fixing underperforming businesses' is eliminating the lack of profitability elsewhere in the Siemens portfolio. As Mr Kaeser has pointed out, 18% of Siemens revenue makes no profit (or negative) contribution. So addressing this must be his first priority and, to be fair to him, that is happening as part of a broader portfolio pruning exercise. We expect this review to continue, with the next round of portfolio reshaping likely to be announced with the 2Q results. Some of those funds have been 'reinvested' with the Rolls Royce and DRC acquisitions, and we expect Siemens to continue adding to the portfolio, though hopefully with better timing than the DRC deal.

Fig. 24: Joe Kaeser has already set about pruning the portfolio with several high profile divestments, which have been offset by two oil- & gas-related acquisitions

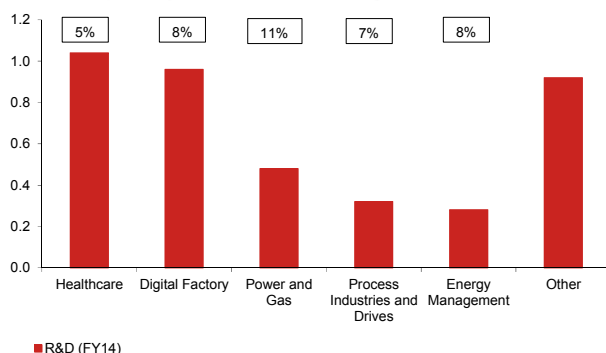
Acquisitions	Acquisitions	Divestments	Divestments
Dresser Rand Price paid: USD 7.6bn End-market: Oil & Gas Closing: Expected Q3-2015, EC launched antitrust investigation, deadline 19.06. Rationale: Expand O&G product portfolio in mid- & downstream Leverage service from large installed base	Rolls Royce Aero derivatives Price paid: GBP 785m End-market: Power generation Closing: Q1-2015 Rationale: Strengthening the position in oil & gas and de- centralized power generation	BSH Price achieved: EUR 3.25bn End-market: Consumer Audiology Price achieved: EUR 3.25bn End-market: Healthcare Healthcare IT Price achieved: EUR 1.3bn End-market: Healthcare	Water Technologies Price achieved: EUR 640m End-market: Power generation Metal Technologies Price achieved: n/a End-market: Metals & Mining Microbiology Price achieved: n/a End-market: Healthcare

Source: Company data, Nomura research

Siemens already spends more on R&D relative to its size than any other company in the sector, which suggests there needs to be greater efficiency in extracting benefit from that investment. In the near term, management has flagged that incremental R&D has to be spent in PG on large gas-turbine technology or in DF on plant data services. The benefits of this investment are unlikely to show until FY16/17, but the costs will likely weigh on margins in the near term.

Fig. 25: R&D investment at Siemens is dominated by HC and DF, but PG and EM are likely to see accelerating investment over the near term

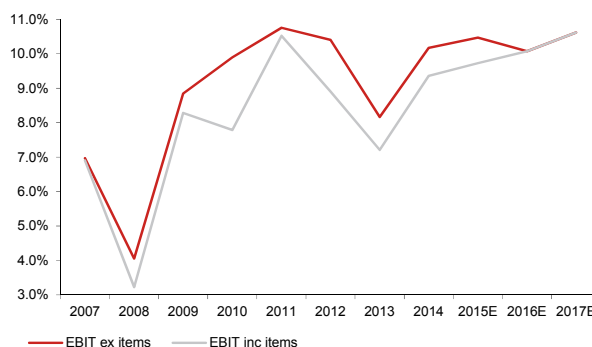
2014 R&D spend by division and 2014/15 growth in R&D



Source: Company data, Nomura research

Fig. 23: EBIT margins would have been c100bp better off over the 2017-14 period without the additional execution issues and consequent charges to the group P&L

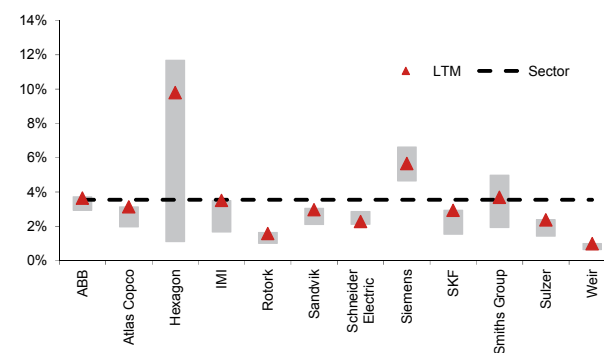
EBIT margins including and excluding one-off items



Source: Company data, Nomura estimates

Fig. 26: Siemens already spends more than the sector average in relation to sales in terms of R&D and we do not see that diminishing in the near term

R&D as proportion of sales; LTM vs prior cycle range

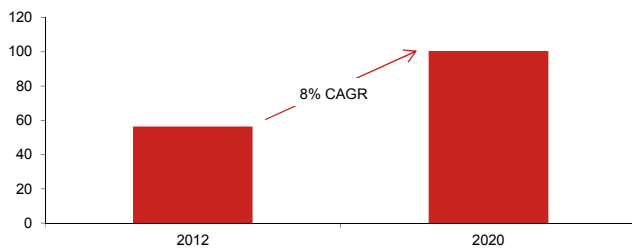


Source: Company data, Nomura research

Siemens's exposure to the developing trends of the industrial internet ought to be margin-accretive. After all, the contribution margins on software are almost 100% and some of the fastest-growing niches also come with the most appealing margins.

Fig. 27: As the industrial world becomes more digitalised Siemens expects the market for software and vertical IT solutions to have a 8% CAGR to 2020

Software and Vertical IT solutions market; EUR bn

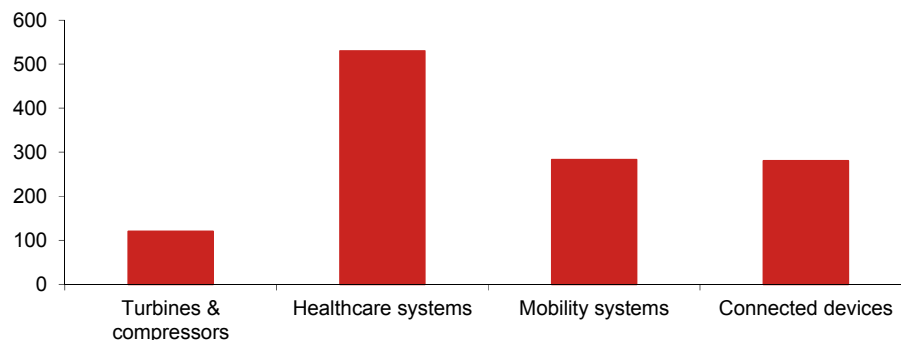


Source: Company data, Nomura research

The industrial internet ought to augment Siemens's existing service business, which has grown to account for 20% of sales. Of that, digital services account for less than 5% but are expected to enjoy a 15% CAGR (to 2020). Siemens's extensive installed base of equipment across power, healthcare and infrastructure markets already has some 280k connected devices. Making a vast simplification of one connection per device implies 30% penetration of the installed base that Siemens has identified; the reality is likely to be much lower as devices have more than one connection and the potential installed base is likely to be higher (eg, wind turbines, factory and plant automation systems, building systems).

Fig. 29: Siemens's installed base is extensive, with nearly 1m individual pieces of equipment (that it has quantified); c280k are 'connected'

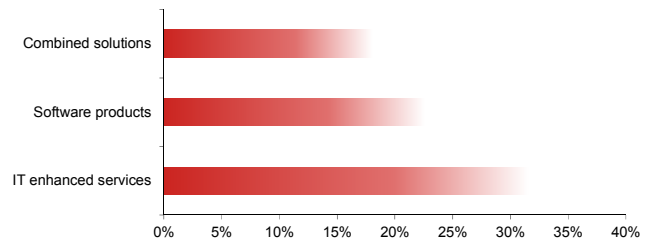
Installed base and connected devices (k)



Source: Company data, Nomura research

Fig. 28: Growth in these market niches should be highly margin accretive

EBIT margins achievable in selected growth sectors



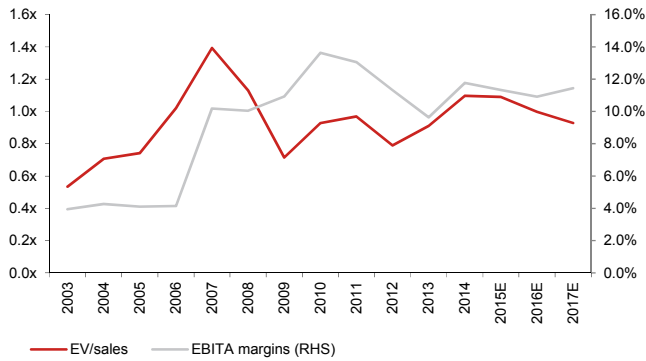
Source: Company data, Nomura research

Valuation reflects fair value

Our preferred valuation metrics show Siemens is essentially fairly valued. EV/industrial sales is at a slightly lower discount to expected EBIT margins compared with how the stock has traded over the past five years, while the low EPS growth over the near term drives the P/EG ratio above 2x.

Fig. 30: Siemens EV/Industrial sales multiple has been at a slight discount to the EBIT margins over time, but more recently has begun to discount higher margins

EV/industrial sales (lhs) vs EBITA margins over time (rhs)

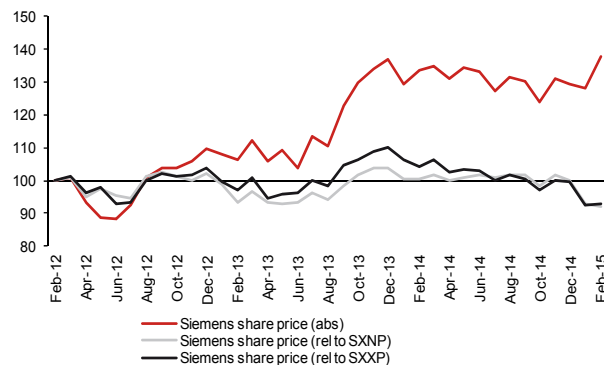


Source: Company data, Nomura estimates

The share has essentially performed in line with both the industrial sector and the broader market for much of the past two years. This reflects the weakness of the European economy, which has historically had a good correlation with Siemens's share price. Relative valuation for the stock has diverged slightly, with relative P/E remaining at something of a premium (and likely to reverse) and EV/EBIT remaining towards the bottom of its historical range.

Fig. 32: The share has essentially performed in line with the SXXP and SXNP for most of the past three years

Siemens share price performance indexed (Jan 2012=100)



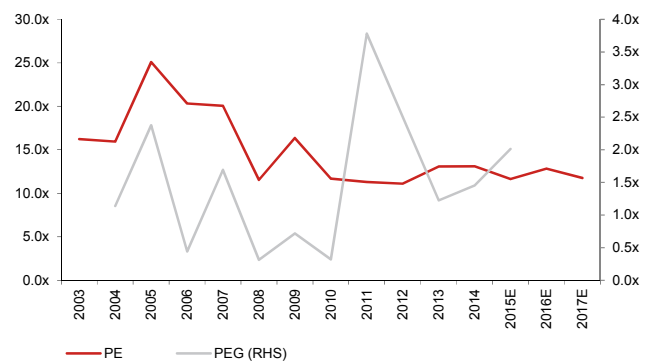
Source: Bloomberg, Nomura research

The past few years have seen reporting seasons largely disappoint, if not on revenue growth then on earnings, driven by large one-off charges and project execution issues. Although management has asserted that execution and risk management processes have improved, the risk of earnings disappointments from project overruns remains.

Our forecasts reflect limited organic growth in 2015, with some acceleration in 2016 from European industrial production recovery, while at the same time seeing some benefits of a recovery in healthcare spending in the US. Given there is a good balance of early-cycle and later-cycle businesses at Siemens, we are in line with guidance for revenue development for this year and are largely in line with both EBIT and EPS, we wonder whether forex is not the main difference between us and consensus. We have also included DRC in our numbers, which given the deal is still being investigated by EU competition authorities may prove premature, but may also explain the revenue variance.

Fig. 31: Low earnings growth drives a P/EG above 2x, while the P/E is in line with the five-year average

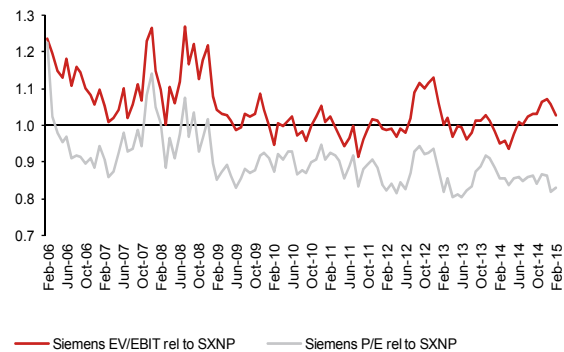
P/E (lhs) vs P/EG ratio (rhs)



Source: Nomura estimates

Fig. 33: Relative valuations have diverged slightly, with the EV/EBIT remaining at a premium, but P/E depressed

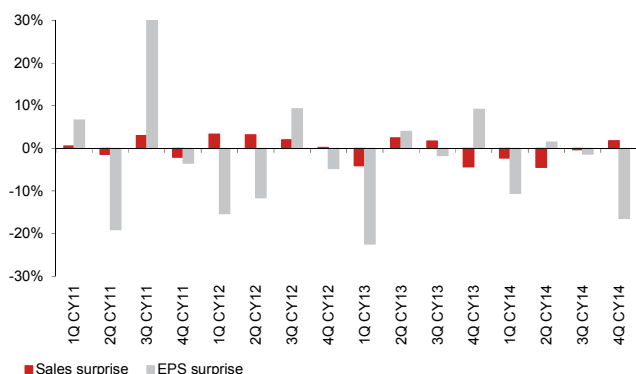
EV/EBIT and P/E relative to SXNP



Source: Bloomberg, Nomura research

Fig. 34: Sales and EPS surprises have increased over the recent reporting periods

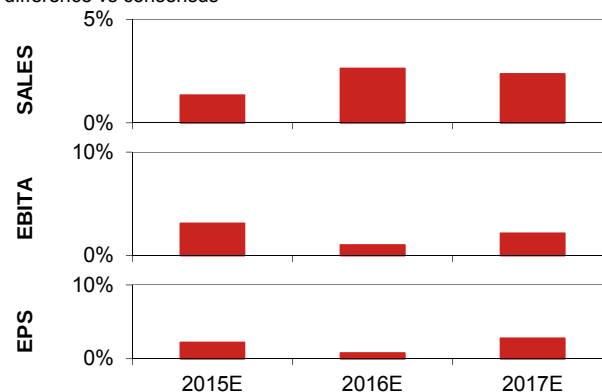
% beat or miss on sales and EPS



Source: Bloomberg, Nomura research

Fig. 35: We are above consensus on revenue growth, but in line with management guidance of flat organic growth, leading us to believe forex may be the driver of the difference

% difference vs consensus



Source: Bloomberg, Nomura research

Target price suggests stock at fair value

We derive our target price of EUR 100 using a blend of relative (multiples) and absolute (DCF, SOTP) valuations. We apply five-year average multiples as this is a fairer reflection of the current cost of capital, which we believe has inflated valuations across the board.

Fig. 36: Derivation of our Siemens target price

EUR

Valuation method	2015E	Disc.	2017E	Assumptions
Sum of the parts	121	0.83	146	Peer trading multiples
DCF	114		122	3% growth, 12% margin; 9% WACC
EV/EBITA	85	0.83	102	5yr avg - 8x industrial EV/EBITA
P/E	82	0.83	99	5yr avg - 12x P/E
Average	100		117	Blended average

Source: Nomura estimates

The sum-of-the-parts valuation illustrates the potential value in the Healthcare business, which is in the process of being set up as a stand-alone entity within the Siemens umbrella. We estimate HC accounts for 23% of 2017 sector profit, but some 30% of our target price if we discount the 2017 estimated value back.

Fig. 37: Sum-of-the-parts valuation illustrates the potential value in Healthcare as an independent entity, but we believe a stand-alone HC business is not imminent

EUR m except per share data

2017E	Sales		EBITA	EV/EBITA		EV	% of EV	EV/sh
	Sales	EBITA		Sales	EBITA			
Power & Gas	16,751	2,235	13.3%	1.3	10.0	22,351	19%	27.5
Wind Power & Renewables	6,979	434	6.2%	0.6	10.0	4,342	4%	5.3
Energy Management	12,410	659	5.3%	0.6	11.0	7,244	6%	8.9
Building Technologies	6,351	633	10.0%	1.2	12.0	7,601	6%	9.3
Mobility	8,042	595	7.4%	0.7	10.0	5,951	5%	7.3
Digital Factory	11,214	2,241	20.0%	2.8	14.0	31,367	26%	38.6
Process Industries & Drives	10,237	801	7.8%	0.9	11.0	8,807	7%	10.8
Healthcare	13,484	2,246	16.7%	2.2	13.0	29,197	24%	35.9
TOTAL SECTORS	85,469	9,844	11.5%	1.4	11.9	116,861	98%	143.6
Siemens Financial Services	1,095	574	52.4%	2.0	3.9	2,244	2%	2.8
Central portfolio	300	0		1.0		300		
Siemens Real Estate	2,400	200			5.0	1,000		
Eliminations	(5,983)	(60)			11.4	(683)		
TOTAL SIEMENS	83,280	10,557	12.7%	1.4	11.3	119,722	100%	147.1
Net debt						201		
Other EV adjustments						977		
Market cap						118,544		
NOSH						812.3		
Fair value						145.9		

Source: Nomura estimates

Key risks to our investment case

Macro

- Further QE in Europe or significant changes in the oil price could change investor sentiment and expectations with respect to growth in Europe.
- Given its high exposure to North America at c25%, Siemens should see significant benefits from the weak EUR against the USD, making its products more attractive than those of competitors and providing a forex tailwind because of translation. A sudden depreciation of the USD could be a headwind to our estimates and Siemens's competitiveness.
- A change in geopolitical tensions or a major terrorist attack could seriously affect our investment thesis.

Micro

- **Growth:** We could yet be surprised by a speedy recovery in industrial production in Europe, which would be beneficial to Siemens's early-cycle businesses. In a similar vein, should utility demand recover in developed markets our forecasts would likely be too low. Emerging market infrastructure spend could drive faster growth for Siemens. Having said all of that, growth could equally be weaker than we expect with O&G, mining investment declining and a slower recovery in construction or healthcare markets all potentially providing downside risk to our numbers.
- **Profitability:** If pricing dynamics improve, then profitability could be better than we expect; likewise, if management can deliver faster improvement in structural fixed costs. However, the converse to this is the likely pricing headwinds in the O&G industry as both capex and opex budgets are adjusted and potential additional execution issues as the project backlog is worked through could both drive downside to our expected profitability. In addition, management could chose to use more of this year's gains on disposals to reinvest in the Siemens business (either as restructuring or investment in R&D or SG&A), which may further erode earnings expectations.
- **M&A:** The DRC deal provides a timely example of industrial M&A and the related end-market cycle. Although we understand the appeal from an industrial logic and installed base standpoint, the timing is not ideal and leads investors to question management's strategy. We cannot discount the risk of this happening again, though the flipside is that Mr Kaeser is in the process of trimming the portfolio, rather than building it. This might in turn lead to margin accretion as non-performing businesses are removed, which would likely provide upside to our current expectations.

Fiscal Headline Data (EURm)	2012	2013	2014	2015E	2016E	2017E
Sales	78,443	73,445	71,920	76,405	80,836	83,580
Gross profit	(56,258)	(53,309)	(51,165)	(53,494)	(56,394)	(57,851)
EBIT	6,985	5,295	6,728	7,433	8,140	8,874
PTP	7,202	5,814	7,427	7,594	8,305	9,101
Reported net income	4,457	4,285	5,373	6,379	5,918	6,494
EPS - Reported	5.09	5.08	6.37	7.75	7.29	7.99
DPS - Reported	3.00	3.00	3.30	3.45	3.60	3.75
EBITDA clean	11,112	9,255	10,241	10,726	10,902	11,679
Nomura EBITA (industrial)	8,989	7,235	8,522	8,848	9,015	9,784
EBIT clean (industrial)	8,635	6,681	8,024	8,380	8,547	9,316
Nomura Net Income	5,544	5,119	6,073	6,992	6,260	6,835
Nomura EPS	6.27	6.00	7.13	8.38	7.60	8.30

Source: Company data, Nomura estimates

Profit & Loss (EURm)	2012	2013	2014	2015E	2016E	2017E
Sales	78,443	73,445	71,920	76,405	80,836	83,580
COGS	(56,258)	(53,309)	(51,165)	(53,494)	(56,394)	(57,851)
Gross profit	22,185	20,136	20,755	22,911	24,442	25,729
Margin	28.3%	27.4%	28.9%	30.0%	30.2%	30.8%
SGA expenses	(15,450)	(14,917)	(14,489)	(15,812)	(16,729)	(17,297)
Other operating income/expenses	250	76	461	334	427	442
Reported EBIT	6,985	5,295	6,728	7,433	8,140	8,874
Margin	8.9%	7.2%	9.4%	9.7%	10.1%	10.6%
Nomura EBITA (industrial)	8,989	7,235	8,522	8,848	9,015	9,784
Margin	11.3%	9.6%	11.8%	11.3%	10.9%	11.4%
Net Financial Items	217	519	699	160	165	227
Reported pre-tax income	7,202	5,814	7,427	7,594	8,305	9,101
Taxation	(2,086)	(1,634)	(2,028)	(2,202)	(2,242)	(2,457)
Minority interest	(132)	(126)	(134)	(122)	(145)	(150)
Associates/others	(527)	231	108	1,109	0	0
Reported net income	4,457	4,285	5,373	6,379	5,918	6,494
Reported EPS (EUR)	5.09	5.08	6.37	7.75	7.29	7.99
Nomura EPS (EUR)	6.27	6.00	7.13	8.38	7.60	8.30

Source: Company data, Nomura estimates

Balance Sheet (EURm)	2012	2013	2014	2015E	2016E	2017E
Fixed assets	56,153	54,999	56,803	59,312	59,127	58,945
Intangibles assets	21,664	22,940	22,343	25,710	25,242	24,774
Tangible assets	10,763	9,815	9,638	9,718	9,799	9,880
Investments/associates	23,726	22,244	24,822	23,884	24,087	24,292
Current assets	40,714	37,146	39,138	41,748	43,618	44,775
Inventories	15,679	15,560	15,100	16,592	17,554	18,150
Trade debtors	15,220	14,853	14,526	15,644	16,551	17,113
Other current assets	9,815	6,733	9,512	9,512	9,512	9,512
Cash & securities	11,415	9,791	8,938	5,075	6,899	10,090
TOTAL ASSETS	108,282	101,936	104,879	106,135	109,644	113,811
Gross debt	20,706	20,453	20,946	21,546	21,736	21,928
Current liabilities	38,811	35,924	34,978	34,488	34,900	35,155
Trade creditors	8,036	7,599	7,594	7,104	7,516	7,771
Accrued and other liabilities	6,954	6,636	6,116	6,116	6,116	6,116
Other current liabilities (ex-debt)	23,821	21,689	21,268	21,268	21,268	21,268
Provisions (I-term)	13,834	13,172	13,395	13,395	13,395	13,395
Post-employment benefits	9,926	9,265	9,324	9,324	9,324	9,324
Other provisions	3,908	3,907	4,071	4,071	4,071	4,071
Other non-current liabilities	3,629	3,762	4,046	4,046	4,046	4,046
Total Equity	31,302	28,625	31,514	32,660	35,567	39,286
Ordinary Shareholders Funds	30,733	28,111	30,954	31,978	34,740	38,309
Minorities	569	514	560	682	827	977
TOTAL EQUITY & LIABILITIES	108,282	101,936	104,879	106,135	109,644	113,811

Source: Company data, Nomura estimates

Cash Flow (EURm)	2012	2013	2014	2015E	2016E	2017E
Reported net income	4,457	4,285	5,373	6,379	5,918	6,494
D & A	2,747	2,804	2,411	2,346	2,355	2,364
Movement in working capital	(550)	49	782	(3,100)	(1,458)	(903)
Other items						
Operating Cash Flow	5,097	7,823	5,235	5,625	6,815	7,955
Capital expenditure	(2,215)	(1,808)	(1,831)	(1,658)	(1,667)	(1,677)
Fixed asset/ investment sales	(2,444)	609	915	(2,171)	(300)	(300)
Others investing items	530	(1,110)	(3,505)	(1,026)	(203)	(205)
Investing Activities	(4,129)	(2,309)	(4,421)	(4,855)	(2,170)	(2,182)
Change in debt	2,766	(253)	493	600	190	192
Shareholders' equity	(5,311)	(6,962)	(2,484)	(5,233)	(3,011)	(2,774)
Financing Activities	(2,545)	(7,215)	(1,991)	(4,633)	(2,821)	(2,582)
Inc (+)/dec(-) in cash	(1,577)	(1,701)	(1,177)	(3,863)	1,824	3,191

Source: Company data, Nomura estimates

Divisional Sales (EURm)	2012	2013	2014	2015E	2016E	2017E
Power & Gas		14,016	12,720	14,405	16,381	16,751
Wind Power & Renewables		5,382	5,568	6,216	6,652	6,979
Energy Management		11,672	10,708	11,373	11,913	12,410
Building Technologies		5,754	5,569	5,949	6,169	6,351
Mobility		5,823	7,248	7,474	7,795	8,042
Digital Factory		8,950	9,201	9,972	10,627	11,214
Process Industries & Drives		9,834	9,645	10,236	10,077	10,237
Healthcare		13,597	11,736	12,440	12,976	13,484
Industrial business		75,028	72,395	78,065	82,590	85,469
Siemens Financial Services		1,072	937	950	1,028	1,095
Others		(1,689)	(2,077)	(2,610)	(2,781)	(2,983)
TOTAL SIEMENS		74,411	71,255	76,405	80,836	83,580

Divisional growth	2012	2013	2014	2015E	2016E	2017E
Power & Gas			-9.2%	13.2%	13.7%	2.3%
Wind Power & Renewables			3.5%	11.6%	7.0%	4.9%
Energy Management			-8.3%	6.2%	4.7%	4.2%
Building Technologies			-3.2%	6.8%	3.7%	2.9%
Mobility			24.5%	3.1%	4.3%	3.2%
Digital Factory			2.8%	8.4%	6.6%	5.5%
Process Industries & Drives			-1.9%	6.1%	-1.5%	1.6%
Healthcare			-13.7%	6.0%	4.3%	3.9%
Industrial business			-3.5%	7.8%	5.8%	3.5%
TOTAL SIEMENS			-4.2%	7.2%	5.8%	3.4%

Divisional EBIT clean	2012	2013	2014	2015E	2016E	2017E
Power & Gas		2,129	2,061	1,691	2,029	2,235
Wind Power & Renewables		7	229	261	352	434
Energy Management		254	512	484	559	659
Building Technologies		462	511	552	588	633
Mobility		381	518	506	585	595
Digital Factory		1,320	1,680	1,881	2,064	2,241
Process Industries & Drives		510	773	826	753	801
Healthcare		2,123	2,006	2,044	2,144	2,246
Industrial business		7,186	8,290	8,246	9,075	9,844
Siemens Financial Services		410	465	513	563	574
Others		(622)	(365)	(301)	(865)	(848)
TOTAL SIEMENS		6,974	8,390	8,458	8,773	9,569

Divisional Clean margins (%)	2012	2013	2014	2015E	2016E	2017E
Power & Gas		15.2%	16.2%	11.7%	12.4%	13.3%
Wind Power & Renewables		0.1%	4.1%	4.2%	5.3%	6.2%
Energy Management		2.2%	4.8%	4.3%	4.7%	5.3%
Building Technologies		8.0%	9.2%	9.3%	9.5%	10.0%
Mobility		6.5%	7.1%	6.8%	7.5%	7.4%
Digital Factory		14.7%	18.3%	18.9%	19.4%	20.0%
Process Industries & Drives		5.2%	8.0%	8.1%	7.5%	7.8%
Healthcare		15.6%	17.1%	16.4%	16.5%	16.7%
Industrial business		9.6%	11.5%	10.6%	11.0%	11.5%
TOTAL SIEMENS		9.4%	11.8%	11.1%	10.9%	11.4%

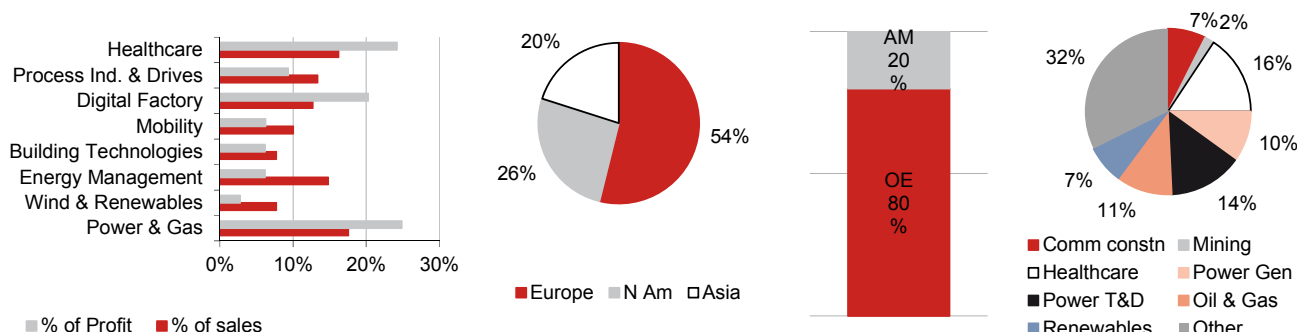
Source: Company data, Nomura estimates

Siemens			NEUTRAL	PRICE TARGET (EUR)				
								100
Market data (EURm)	2015E	2016E	Headline data (EURm)	2013	2014	2015E	2016E	2017E
Share price (EUR)	100		Sales	73,445	71,920	76,405	80,836	83,580
NOSH	823		Gross profit	(53,309)	(51,165)	(53,494)	(56,394)	(57,851)
Market capitalisation	81,942	80,856	Nomura EBITA	7,235	8,522	8,848	9,015	9,784
Adj. net debt (inc pension)	5,216	3,392	EBIT (reported)	5,295	6,728	7,433	8,140	8,874
Enterprise value	85,640	82,854	EPS (reported) (EUR)	5.1	6.4	7.7	7.3	8.0
Share price as of 5 th March, 2015			EPS (Nomura) (EUR)	6.0	7.1	8.4	7.6	8.3
Multiples	2015E	2016E						
EV/Sales	1.10	1.00	Reported sales growth	-6%	-2%	6%	6%	3%
EV/EBITDA (clean)	8.0	7.6	Organic sales growth	-1%	1%	1%	2%	3%
EV/Nomura EBITA	9.7	9.2	Gross margin	27.4%	28.9%	30.0%	30.2%	30.8%
EV/IC	1.9	1.8	Nomura EBITA margin	9.6%	11.8%	11.3%	10.9%	11.4%
P/E (reported)	12.8	13.7	EPS growth (reported)	0%	25%	22%	-6%	10%
P/E (Nomura)	11.7	12.9	EPS growth (Nomura)	-4%	19%	17%	-9%	9%
Dividend yield	3.5%	3.7%	FCF conversion	111%	113%	62%	91%	97%
FCF yield	5.3%	7.0%	RoIC	14.0%	15.6%	14.1%	14.0%	15.0%

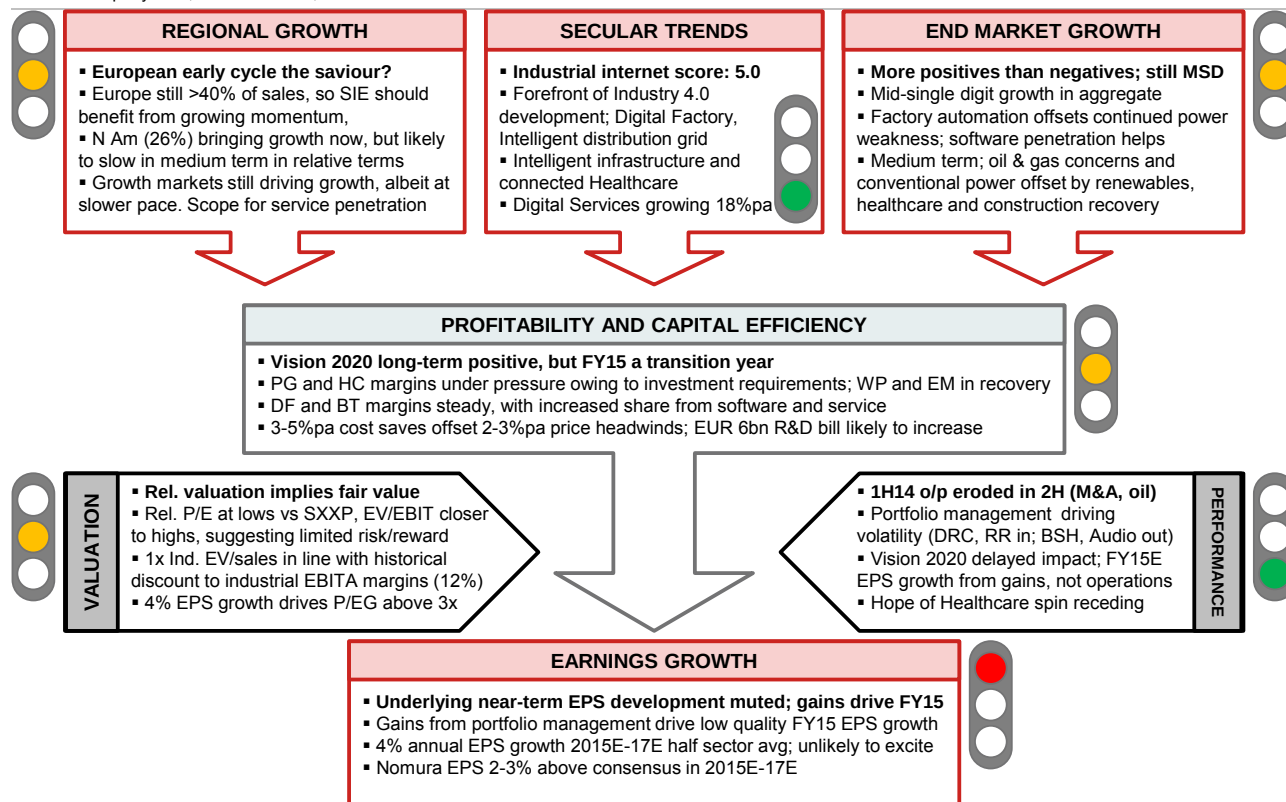
Note: EV and P&L above EPS industrial business only. Consolidated group for EPS and P/E.

Source: Company data, Nomura estimates

Fig. 38: Divisional revenue and EBITA mix, regional exposure, OE/AM mix and end-market exposure



Source: Company data, based on 2014, Nomura research



Source: Nomura estimates

Appendix A-1

Analyst Certification

We, Alexander Virgo, Maggie Paxton, Felix Wienen and Sidharth Saboo, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Siemens	SIE GY	EUR 102.10	11-Mar-2015	Neutral	Neutral	A1,A2

A1 The Nomura Group has received compensation for non-investment banking products or services from the issuer in the past 12 months.

A2 The Nomura Group had a non-investment banking securities related services client relationship with the issuer during the past 12 months.

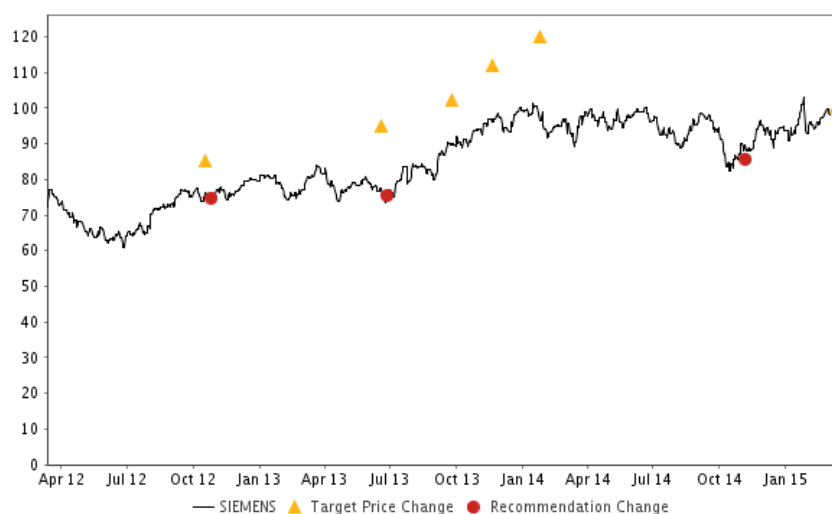
Siemens (SIE GY)

EUR 102.10 (11-Mar-2015) Neutral (Sector rating: Neutral)

Rating and target price chart (three year history)

12-Mar-2012 to 11-Mar-2015

PRICE(EUR)



Date	Rating	Target price	Closing price
11-Mar-15	NEUTRAL		102.10
11-Mar-15		100.00	102.10
29-Oct-14	SUSPENDED		87.31
24-Jan-14		120.00	96.33
20-Nov-13		112.00	96.85
24-Sep-13		102.00	89.66
19-Jun-13	BUY		77.124
19-Jun-13		95.00	77.124
18-Oct-12	NEUTRAL		76.427
18-Oct-12		85.00	76.427

Source: ThomsonReuters, Nomura research

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We derive our target price of EUR 100 using a blend of relative (multiples) and absolute (DCF, SOTP) valuations. We look forward to 2017 and apply five-year average multiples (EV/EBITA of 8x to our 2017E adj. EBITA (industrial) of EUR 9.8bn and P/E of 12x to our 2017E EPS of EUR 7.99) as this is a fairer reflection of the current cost of capital, which we believe has inflated valuations across the board. For our SOTP we apply a blend of peer group multiples. We discount our results back two years at a 10% cost of equity to derive a 12-month target price. For our DCF we use a WACC of 9% and terminal growth rate of 2% to derive a 12-month target price. The blended average supports our EUR 100 target price. The benchmark index for the stock is STOXX Europe 600 Industrial Goods and Services.

Risks that may impede the achievement of the target price Macro risks: Given its high exposure to North America at c25%, Siemens should see significant benefits from the weak EUR against the USD, making its products more attractive than those of competitors. A sudden depreciation of the USD could be a headwind to our estimates and Siemens's competitiveness. Micro risks: A speedy recovery in industrial production in Europe would be beneficial to Siemens's early cycle businesses and can provide upside risks. Similarly, should utility demand recover in developed markets, our forecasts would likely be too low. Growth could equally be weaker than we expect with O&G, mining investment declining and a slower recovery in construction or

healthcare markets all potentially providing downside risk to our numbers. Pricing dynamics may affect our estimates with headwinds likely owing to any further adjustments in O&G capex and opex budgets. M&A risks remain in terms of timing (like the DRC deal), although we believe it is low given Kaeser is in the process of slimming down the portfolio, rather than building it.

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STOCKS

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan prior to 21 October 2013

STOCKS

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