

# OPENLIMIT HOLDING AG

SWITZERLAND / SOFTWARE / ELECTRONIC SIGNATURE

Primary Exchange: Berlin-Bremen  
Symbol: OSH

Standard: Regulated Unofficial Market  
ISIN: CH0022237009

**RATING: Buy**

**PRICE TARGET: €3.90**

**RISK RATING: Speculative**

## UPDATE ON OUTLOOK

### COMPANY PROFILE

Openlimit Holding AG develops and markets software applications for electronic signature, encryption and related fields. The EU Common Criteria-certified software products enhance the security, provability and efficiency of electronic transactions, workflow, communications and data. The company employs 27 full-time staff as of 31 December 2006.

### KEY POINTS

Openlimit lowered its guidance for FY06 revenues to €0.8m, which is substantially lower than our FY06 revenue target of €4.03m. Consequently, the company anticipates a net loss of €0.62m. This is well below our net income forecast of €0.21m. The shortfall is due to delays in product implementation from retail partners. Increased security requirements from digital signature partners also required further software development from Openlimit, leading to more delays in marketing.

We revise our financial projections to reflect longer product development cycles and integration of Openlimit products into clients' retail packages, which takes longer than we or Openlimit previously anticipated. After reviewing these issues with industry contacts, we now expect break-even twelve months later than previously forecast.

We continue to regard our medium-growth scenario as the most realistic, given the ongoing projects initiated in 2006. Our new revenue projections for FY07 and FY08 are €4.80m and €13.44m respectively. Given the stable cost structure, we expect the growth in sales to yield EBIT margins of 14.0% in FY07 to 32.0% in FY08.

### RECOMMENDATION

Although Openlimit missed its original FY06 projections, which might lend weight to market antipathy, we believe the company has improved its risk profile significantly through its successful capital increase in June 2006 and by building an impressive distribution network in FY06. There are also strong indications that this groundwork will translate into actual revenues this year.

Using our medium-growth scenario and a peer group valuation, we derived a valuation of €3.87 per share, which corresponds to the FY08 P/E peer group median (18.3x). We therefore retain our Buy and Speculative risk ratings and set a new price target of €3.90 (€4.50).

### RISKS

Risks to our price target include, but are not limited to: delay of large projects, erosion of the present competitive head-start, dilution of shareholders' interest and resistance of market acceptance for electronic signature applications.

### TRADING DATA

Market Capitalisation (13.02.07)	€33.10m
Shares Outstanding	15.76m
Closing Price (13.02.07)	€3.37
52-Week Range	€2.20 / 4.74
Free Float (According to Company)	76%
Average Daily Share Volume (year)	15,347

### STOCK OVERVIEW



Source: Bloomberg & First Berlin

### FINANCIAL HISTORY & PROJECTIONS

	2005	2006E	2007E	2008E
Revenue €m	0.18	0.80	4.80	13.44
Yr/Yr Growth	n.a.	344.8%	500.0%	180.0%
Operating Profit €m	-3.33	-0.65	0.67	4.30
Operating margin	n.a.	-81.3%	14.0%	32.0%
Net income €m	0.44	-0.74	0.54	3.28
EPS €	0.03	-0.05	0.04	0.21
P/E	110.0	n.a.	95.6	15.8

### COMPANY DATA (as of 30 June 2006 unless noted)

Liquid Assets	CHF 5.52m
Current Assets	CHF 5.90m
Intangible Assets	CHF 1.12m
Total Assets	CHF 7.13m
Current Liabilities	CHF 0.42m
Total Shareholders' Equity	CHF 6.63m

### ANALYST INFORMATION

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## RECENT EVENTS

On 12 February, Openlimit published lower FY06 revenue guidance of €0.8m. We discussed the company's revised FY07 and FY08 outlook with management and reviewed the November road-show. Although the revised FY06 revenue target represents an improvement on the 2005 figure of €0.18m, this is well below our revenue forecast of €4.03m. Openlimit expects to make a net loss of €0.62 for the year.

When H1/06 results were released in September, Openlimit guided for break-even by the end of 2006 based on the signing of several reseller and distribution agreements in the first half of the year. We were sceptical at that time as our discussions with retailers and Openlimit partners indicated that a number of projects would be postponed until 2007. In its 12 February statement Openlimit announced break-even for the month of December 2006. We regard this as a positive indication that last year's marketing activities can bear fruit. We remain cautious until Openlimit reports a full half year of break-even or net profit.

In December, management applied to German financial supervisory body BaFin to list Openlimit's shares on the German Regulated Market in 2007. We believe the associated disclosure requirements will improve Openlimit's visibility and provide stability for future valuations. We strongly support a move to the Regulated Market from the Freiverkehr.

Openlimit achieved four of its five strategic targets in FY06. It expanded its distributor base by closing 'reseller' or cooperation contracts, in which clients offer Openlimit products as part of their retail packages. Key marketing partners now include Adobe Systems, Inc., Fujitsu Siemens and PC-Ware. Most importantly, Openlimit actively supported its major marketing partners, appearing with them at important trade fairs and other events. For example, Openlimit participated in the launch tour of Adobe's Acrobat 8.0 in October and November 2006. Openlimit will participate in the inaugural 'Berlin Signature Conference' on 28 February and present its products to the first Adobe-sponsored PDF/A conference in March 2007.

Openlimit also expanded its list of 'reference' clients, selling retail-ready products to a number of end-user electronic signature customers. Openlimit's March 2006 contract with DFS Deutsche Flugsicherung opened the door to further clients such as the Bundessortenamt, the German independent federal authority for seed registration, in November.

Openlimit built a book of offers in 2006 for large-scale electronic signature projects in the public and private sectors. The company also earned a further certificate for its software, proving the effectiveness of continued research and development.

Openlimit fell short of its fifth 2006 target, to successfully enter the mass market for its products. While the company built up a larger list of reseller and reference clients in 2006, these were individual clients with specific needs. Openlimit hopes for larger-scale distribution of its products as the market develops.



In December 2006, Openlimit devised several new targets for FY07, including:

- a) the certification of its software by PriceWaterhouse Coopers by the end of Q1/07
- b) a certified upgrade of its Openlimit Signature Suite 2.0 software to version v2.16 to support additional hardware and improved user-friendliness by March 2007
- c) a general upgrade of this software to version v3.0 to support Solaris, Unix and Linux operating systems to be presented at this years Cebit in March
- d) expansion of marketing activities to Asia, North America and South America

All of these developments should strengthen the company's existing technical advantages in electronic signature and encryption applications.

## OUTLOOK

Management closed more strategic distribution agreements in FY06 than we expected. We are especially pleased with the development of the Adobe relationship. However, we believe we previously underestimated the time it takes for a co-operation agreement to impact on revenues. Though Openlimit's products are retail-ready, integrating them into clients' retail packages takes longer than we or Openlimit anticipated. Taking the example of the SER Solutions GmbH partnership signed in March 2006, the development of retail-ready fully-integrated product PRODEA, which was presented at last year's trade fair Moderner Staat in November last year, took eight months. We estimate an additional six months for marketing and distribution to retail clients.

We had based our previous FY07 projections on Openlimit's focus on German e-government projects such as BundOnline 2005. We still see public-sector projects generating most FY07 revenues, but expect private-sector clients to contribute a higher proportion of revenues than in the past. Key private-sector clients include Deutsche Sparkassenverlag, Fujitsu Siemens, Adobe, PC-Ware and DSV.

Management's revised guidance forecasts FY07 revenues of €3.14m to €7.84m and FY08 revenues of €7.91m to €9.79m. We are taking a more conservative approach for two reasons. First, these projections include verbally-agreed, but not signed, contracts which we are treating as outstanding orders rather than sales. Second, prices for Openlimit's products are difficult to project as the company's software is mostly sold as a component of larger bundles and the price varies from client to client. We have applied an average discount of 12% in FY07 and 4% in FY08 to management guidance. This leaves us with revenue projections of €2.80m to €6.80m in FY07 and €7.00m to €20.40m in FY08.

We have applied three growth scenarios. In our lowest growth scenario, we expect the company to increase revenues 250% to €2.80m in FY07. Revenues climb 150% to €7.00m in FY08 and Openlimit would achieve net profit in FY08, with an EBIT margin of 17%.

Our highest growth scenario projects FY07 revenue growth of 750% to €6.80m, and FY08



revenue growth of 200% to €20.40m. EBIT margins in this scenario reach 22.0% in FY07 and 35% in FY08. This compares well with peers such as publicly-traded software company SAP, with 27% operating margin in FY06 and FY07 guidance of 26% to 27%.

Our medium growth scenario projects FY07 revenues to exceed €4.80m. We regard this scenario as most realistic, as the ongoing projects initiated by Openlimit last year start generating revenues. Given our conservative cost projections we expect EBIT margins to grow from 14.0% in FY07 to 32.0% in FY08.

## VALUATION & RECOMMENDATION

Using a discounted cash flow (DCF) valuation makes little sense for Openlimit, since the company does not generate sufficient free-cashflow. We are therefore retaining our existing P/E-driven valuation. This method uses our alternative growth scenarios for Openlimit combined with a peer group comparison of revenue growth and EBIT margins.

Openlimit's share saw downward pressure last year from a high of €4.95 to a low of €2.20. This low was some 4.8% below its 2005 IPO price, reflecting investors' concerns whether the company could reach its original FY06 targets. However, following the recent strong line-up of resellers, trade fair showings as well as the financial break-even in December, the share saw renewed investor interest. Although Openlimit's missed FY06 projections lend weight to market antipathy, we believe the company has improved its risk profile through successful capital increases, and by building an impressive distribution network in FY06.

Risks to Openlimit include lengthy development cycles, longer than expected integration of software agreements and unexpected delays in incorporating Openlimit software with clients' existing IT product packages.

We regard our medium growth scenario as the most realistic. Using our peer group valuation on page 7, we derived a valuation of €3.89 per share using an 18.3x multiple, which is the peer group P/E median for FY08. We therefore renew our Buy recommendation with a Speculative risk rating and a €3.90 price target, reduced from €4.50.



## INCOME STATEMENT SCENARIOS

### SCENARIO 1-LOW GROWTH

€m	2005	2006E	2007E	2008E
<b>Revenues</b>	<b>0.18</b>	<b>0.80</b>	<b>2.80</b>	<b>7.00</b>
<i>y-o-y growth</i>		344.8%	250.0%	150.0%
Self-produced asset additions	0.00	0.90	1.12	1.40
Personnel	-1.25	-0.68	-1.26	-1.40
R&D	0.00	-0.90	-1.12	-1.40
Operating costs	-0.51	-0.27	-0.34	-0.70
Marketing, Material, etc.	-0.09	-0.39	-0.98	-2.45
<b>EBITDA</b>	<b>-1.68</b>	<b>-0.53</b>	<b>0.22</b>	<b>2.45</b>
<i>EBITDA margin</i>	<i>n.a.</i>	<i>n.a.</i>	8.0%	35.0%
Depreciation, Amortisation	-1.65	-0.12	-0.56	-1.26
<b>EBIT</b>	<b>-3.33</b>	<b>-0.65</b>	<b>-0.34</b>	<b>1.19</b>
<i>EBIT margin</i>	<i>n.a.</i>	<i>n.a.</i>	-12.0%	17.0%
Interest & Tax	-0.10	-0.09	0.01	-0.16
Extraordinary income / expenses	3.87	0.00	0.00	0.00
<b>Net Income</b>	<b>0.44</b>	<b>-0.74</b>	<b>-0.33</b>	<b>1.03</b>
<i>net margin</i>	<i>n.a.</i>	<i>n.a.</i>	-11.8%	14.7%
<b>EPS (basic)</b>	<b>0.03</b>	<b>-0.05</b>	<b>-0.02</b>	<b>0.07</b>
<b>EPS (fully diluted)</b>				

### SCENARIO 2-MEDIUM GROWTH

€m	2005	2006E	2007E	2008E
<b>Revenues</b>	<b>0.18</b>	<b>0.80</b>	<b>4.80</b>	<b>13.44</b>
<i>y-o-y growth</i>		344.8%	500.0%	180.0%
Self-produced asset additions	0.00	0.90	1.20	2.42
Personnel	-1.25	-0.68	-1.44	-2.69
R&D	0.00	-0.90	-1.20	-2.42
Operating costs	-0.50	-0.27	-0.48	-1.08
Marketing, Material, etc.	-0.11	-0.39	-1.34	-3.36
<b>EBITDA</b>	<b>-1.68</b>	<b>-0.53</b>	<b>1.54</b>	<b>6.32</b>
<i>EBITDA margin</i>	<i>na</i>	-66.3%	32.0%	47.0%
Depreciation, Amortisation	-1.65	-0.12	-0.86	-2.02
<b>EBIT</b>	<b>-3.33</b>	<b>-0.65</b>	<b>0.67</b>	<b>4.30</b>
<i>EBIT margin</i>	<i>na</i>	-81.3%	14.0%	32.0%
Interest & Tax	-0.10	-0.09	-0.13	-1.02
Extraordinary income / expenses	3.87	0.00	0.00	0.00
<b>Net Income</b>	<b>0.44</b>	<b>-0.74</b>	<b>0.54</b>	<b>3.28</b>
<i>net margin</i>	<i>na</i>	-92.5%	11.3%	24.4%
<b>EPS (basic)</b>	<b>0.03</b>	<b>-0.05</b>	<b>0.04</b>	<b>0.21</b>
<b>EPS (fully diluted)</b>				

### SCENARIO 3-HIGH GROWTH

€m	2005E	2006E	2007E	2008E
<b>Revenues</b>	<b>0.18</b>	<b>0.80</b>	<b>6.80</b>	<b>20.40</b>
<i>y-o-y growth</i>		344.8%	750.0%	200.0%
Self-produced asset additions	0.00	0.90	1.36	3.06
Personnel	-1.25	-0.68	-1.70	-4.49
R&D	0.00	-0.90	-1.36	-3.06
Operating costs	-0.50	-0.27	-0.54	-1.02
Marketing, Material, etc.	-0.11	-0.39	-1.70	-3.67
<b>EBITDA</b>	<b>-1.67</b>	<b>-0.53</b>	<b>2.86</b>	<b>11.22</b>
<i>EBITDA margin</i>	<i>na</i>	-66.3%	42.0%	55.0%
Depreciation, Amortisation	-1.65	-0.12	-1.36	-4.08
<b>EBIT</b>	<b>-3.33</b>	<b>-0.65</b>	<b>1.50</b>	<b>7.14</b>
<i>EBIT margin</i>	<i>na</i>	-81.3%	22.0%	35.0%
Interest & Tax	-0.10	-0.09	-0.29	-1.59
Extraordinary income / expenses	3.87	0.00	0.00	0.00
<b>Net Income</b>	<b>0.44</b>	<b>-0.74</b>	<b>1.20</b>	<b>5.55</b>
<i>net margin</i>	<i>na</i>	-92.5%	17.7%	27.2%
<b>EPS (basic)</b>	<b>0.03</b>	<b>-0.05</b>	<b>0.08</b>	<b>0.36</b>
<b>EPS (fully diluted)</b>				



## SCENARIOS DRIVERS

### Revenue Growth (y-o-y %)

FY	Low	Medium	High
05/06	344.8%	344.8%	344.8%
06/07	250.0%	500.0%	750.0%
07/08	150.0%	180.0%	200.0%

### Self-produced assets (% of Revenues)

FY	Low	Medium	High
2006	112.5%	112.5%	112.5%
2007	40.0%	25.0%	20.0%
2008	20.0%	18.0%	15.0%

### Personnel (% of Revenues)

FY	Low	Medium	High
2006	85.0%	85.0%	85.0%
2007	45.0%	30.0%	25.0%
2008	20.0%	20.0%	22.0%

### Operating Costs (% of Revenues)

FY	Low	Medium	High
2006	33.1%	33.1%	33.1%
2007	12.0%	10.0%	8.0%
2008	10.0%	8.0%	5.0%

### Marketing, Material, etc. (% of Revenues)

FY	Low	Medium	High
2006	48.1%	48.1%	48.1%
2007	35.0%	28.0%	25.0%
2008	35.0%	25.0%	18.0%

### Depreciation, Amortisation (% of Revenues)

FY	Low	Medium	High
2006	15.0%	15.0%	15.0%
2007	20.0%	18.0%	20.0%
2008	18.0%	15.0%	20.0%



## PEER GROUP VALUATION

Companies	Description	Ticker	Share price	Shares	Market cap.	Net debt / (cash)	EV
VASCO	User authentication and remote access (Digipass) hardware and software	VDSI US	14.79	36.7	542.7	-20.4	522.3
Certicom	NSA approved PKI software provider for US-government communications.	CIC CN	5.90	42.6	251.4	-63.9	187.5
Entrust	Integrated authentication and internet security company	ENTU US	4.28	62.5	267.6	-25.2	242.4
Utimaco	Data and transaction protection management; hard ware encryption	USA GR	14.05	14.7	207.2	-30.4	176.8
Secunet	Special solutions provider (e.g. biometric, epassport applications); electronic invoicing	YSN GR	8.68	6.5	56.4	-4.4	52.0
OPENLiMiT	Electronic signature & encryption applications	O5H GR	3.20	15.8	50.4	5.5	55.9

Companies	EV / Sales				EV/EBITDA				EV / EBIT				P/E			
	2005	2006E	2007E	2008E	2005	2006E	2007E	2008E	2005	2006E	2007E	2008E	2005	2006E	2007E	2008E
VASCO	9.6x	6.6x	4.5x	n.a.	43.4x	n.a.	n.a.	n.a.	47.7x	28.4x	19.0x	n.a.	67.2x	44.8x	30.2x	26.9x
Certicom	13.2x	9.9x	7.9x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	12.2x
Entrust	2.5x	2.4x	2.0x	n.a.	22.5x	n.a.	n.a.	n.a.	46.9x	n.a.	19.1x	n.a.	38.9x	n.a.	50.4x	61.1x
Utimaco	4.6x	3.9x	3.3x	2.8x	21.8x	16.8x	13.0x	10.2x	24.0x	18.5x	14.3x	11.0x	29.0x	23.2x	19.7x	18.3x
Secunet	1.3x	1.1x	1.1x	n.a.	9.7x	7.7x	6.6x	n.a.	11.7x	8.9x	7.7x	n.a.	13.2x	15.0x	12.8x	12.2x
Mean	5.3x	4.8x	3.7x	2.8x	24.3x	12.2x	9.8x	10.2x	32.5x	18.6x	15.0x	11.0x	37.06x	27.67x	28.24x	26.16x
Median	3.5x	3.9x	3.3x	2.8x	22.1x	12.2x	9.8x	10.2x	35.4x	18.5x	16.6x	11.0x	33.94x	23.22x	24.92x	18.31x

### OpenLimit - Multiples

Scenario 1	311.1x	69.9x	20.0x	8.0x	n.a.	n.a.	n.a.	22.8x	n.a.	n.a.	n.a.	47.0x	104.4x	n.a.	n.a.	47.9x
Scenario 2	311.1x	69.9x	11.7x	4.2x	n.a.	-105.5x	36.4x	8.9x	n.a.	-86.1x	83.2x	13.0x	104.4x	-66.7x	90.8x	15.0x
Scenario 3	311.1x	69.9x	8.2x	2.7x	n.a.	-105.5x	19.6x	5.0x	n.a.	-86.1x	37.4x	7.8x	103.8x	-66.7x	41.0x	8.9x

### OpenLimit - Premium/Discount in Multiples to Peer Group Median

Scenario 1	8667%	1713%	510%	183%	n.a.	n.a.	n.a.	124%	n.a.	n.a.	n.a.	325%	208%	n.a.	n.a.	162%
Scenario 2	8667%	1713%	256%	47%	n.a.	-964%	272%	-13%	n.a.	-566%	401%	18%	208%	-387%	264%	-18%
Scenario 3	8667%	1713%	151%	-3%	n.a.	-964%	100%	-51%	n.a.	-566%	125%	-29%	206%	-387%	65%	-51%

### OpenLimit - Comparable P/E Valuation

Based on P/E 2008	1.22	18.31x
Premium/Discount to peer group	0%	

Based on P/E 2008	3.89	18.31x
Premium/Discount to peer group	0%	

Based on P/E 2008	6.59	18.31x
Premium/Discount to peer group	0%	



## FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of Publication	Previous Day Closing Price	Recommendation	Target Price	Interim High	% Change to High
Initial Report	10 October 2005	€4.20	Buy	€5.20	-	-
	↓	↓	↓	↓	↓	↓
2	18 October 2005	€4.05	Buy	€5.20	€4.95	22.22%
3	27 March 2006	€4.09	Buy	€5.00	€4.45	8.80%
4	12 June 2006	€3.80	Buy	€4.50	€3.90	2.63%
5	Today	€3.37	Buy	€3.90	-	-

Source: Bloomberg & First Berlin

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BUY: Expected return greater than 15%  
HOLD: Expected return between 0% and 15%  
SELL: Expected negative return

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

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