

OpenLimit Holding AG

Switzerland / Software
 Primary exchange: Frankfurt
 Bloomberg: O5H GR
 ISIN: CH0022237009

Q3 figures

RATING
PRICE TARGET **BUY**
 Return Potential **€1.10**
 Risk Rating 62.7%
 High

REGULATION OF KEY MARKETS TAKING SHAPE

On 17 November OpenLimit published 9M key financial indicators and held a conference call at 10 am. Sales grew 10% y/y to €4.6m and EBIT improved to €-0.8m. Following the first reading of the E-Health bill in the German Parliament in July we expect the start of the implementation of e-health infrastructure throughout Germany in H2/16. OpenLimit has developed the Konnektor for secure communication within the e-health infrastructure as subcontractor of T-Systems and will benefit from the roll-out. In November, the German Cabinet passed the bill for the "Digitalisation of the Energy Transition". OpenLimit, together with its partner PPC, developed the smart meter gateway, a device for secure electronic communication between utilities, grid operators, and end consumers. Again, OpenLimit will benefit when the roll-out starts at the beginning of 2017. An updated DCF model, which is based on unchanged estimates and a lower net debt position q/q, yields a new price target of €1.10 (previously: €1.00). We reiterate our Buy rating.

9M figures show continued growth A 10% sales increase to €4.6m (9M/14: €4.1m, FBe: €4.8m) and an only slightly increased cost base (personnel expenses: +5% y/y, other operating expenses: +4% y/y, D&A: +3% y/y), resulted in EBIT of €-0.8m (9M/14: €-1.2m, FBe: €-0.5m). Due mainly to higher interest expenses and currency losses (financial result: €-0.3m vs. 9M/14: €-0.2m) the improvement in the net result was less pronounced (€-1.2m vs. 9M/14: €-1.5m, FBe: €-0.9m).

Guidance still within reach Although 9M figures were slightly below our estimates, we still expect OpenLimit to reach our forecasts and its guidance of high single-digit sales growth and slightly improved profitability. Q4 is the seasonally strongest quarter and in the past generated ca. 50% of annual revenues.

Liquidity improved At the end of Q3, liquid funds amounted to... (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2012	2013	2014	2015E	2016E	2017E
Revenue (€m)	6.21	6.95	8.07	9.12	10.05	13.63
Y-o-y growth	8.1%	12.0%	16.0%	13.0%	10.3%	35.6%
EBIT (€m)	-0.81	-0.39	0.63	0.73	1.04	2.69
EBIT margin	-13.1%	-5.7%	7.8%	8.1%	10.4%	19.7%
Net income (€m)	-0.90	-0.61	0.14	0.28	0.74	2.12
EPS (diluted) (€)	-0.05	-0.03	0.01	0.01	0.03	0.09
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	1.67	-2.29	-0.61	0.19	1.48	1.64
Net gearing	-1.9%	26.6%	34.9%	31.4%	12.7%	-4.3%
Liquid assets (€m)	1.88	0.63	0.97	1.06	1.28	1.17

RISKS

Risks include, but are not limited to: project delays, regulatory delays, erosion of the company's competitive lead, and the failure of the company's products to achieve broad market acceptance.

COMPANY PROFILE

OpenLimit technologies enable people and machines globally to communicate securely, identifiably and provably. Base technologies and products are developed in the following areas: electronic identities, electronic signatures, evidentiary value-preserving long-term storage of data and documents, and secure data transmission between machines.

MARKET DATA

As of 17 Nov 2015

Closing Price	€ 0.68
Shares outstanding	19.15m
Market Capitalisation	€ 12.95m
52-week Range	€ 0.34 / 0.90
Avg. Volume (12 Months)	25,532

Multiples	2014	2015E	2016E
P/E	92.8	46.7	17.6
EV/Sales	2.0	1.8	1.6
EV/EBIT	25.9	22.2	15.7
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2015

Liquid Assets	€ 1.03m
Current Assets	€ 6.98m
Intangible Assets	€ 5.80m
Total Assets	€ 13.70m
Current Liabilities	€ 4.43m
Shareholders' Equity	€ 6.98m

SHAREHOLDERS

René C. Jäggi	10.3%
Heinrich Dattler	9.8%
Robert E. Züllig	5.7%
Patrick Winkler	5.2%
Free Float	69.0%



...€1.0m, a marked improvement compared to €0.2m at the end of H1. The main reason for the easing liquidity situation was a reduction in receivables which, however, remained at a high level of €6.0m (31/12/2014: €6.3m). In October, OpenLimit further reduced receivables by an amount in the lower seven-digit Euro range.

Net debt lowered q/q OpenLimit's financial debt including pension liabilities amounted to ca. €4.4m, of which €3.1m were short-term. Due to the increased cash position net debt declined to €3.4m from €4.0m at the end of H1.

E-Health bill passed The first reading of the E-Health bill in the German Parliament took place in July and we expect the bill to be passed before the end of this year. The bill aims at guaranteeing secure digital communication and applications in the health care sector. It creates a legal basis for and promotes the digitalisation of the sector. Data relevant for emergency cases and medication data will in future be saved on patients' e-health cards. The bill stipulates that the telematics infrastructure which connects the different stakeholders (practices, hospitals, health insurance) fulfils the highest security standards.

OpenLimit, as a subcontractor of T-Systems, has developed the Konnektor, a device for secure electronic communication between the stakeholders. Based on the bill the implementation of the e-health infrastructure can start in H2/16 throughout Germany. OpenLimit will directly benefit from the Konnektor sales and looks set to gain a market share of up to 50% as T-Systems has only one competitor. We expect Konnektor sales to be a major sales driver in coming years as ca. 217,000 practices and pharmacies require a standard and hospitals a high-speed Konnektor.

German Cabinet approved bill to digitalise the energy market In November, the German Cabinet passed the bill for the "Digitalisation of the Energy Transition". We expect Parliament to pass the bill before the end of this year. Although the bill postpones the start of the smart meter (and smart meter gateway - SMG) roll-out to the beginning of 2017, the regulatory framework will soon be set. This will be the start signal for the commercialisation of the SMG.

A total of 12-15m SMGs may be required from 2017 on. In the first phase, which starts in 2017, smart meters have to be installed for large power consumers (>6,000 kWh/a) and for operators of smaller renewable energy and combined heat and power plants (<100 kW), usually within 8 years. In the second phase, which starts in 2020, smaller power consumers (<6,000 kWh) can be equipped with smart meters. For them, in contrast to the aforementioned groups, for which the installation is obligatory, installation is only optional.

OpenLimit, together with its partner PPC, has developed a SMG, a device for secure electronic communication between utilities, grid operators, and end consumers, and plans to present one of the first certified SMGs in Germany. Currently, OpenLimit/PPC's and six other players' SMGs are in the certification process executed by the German Federal Office for Information Security. However, apart from OpenLimit/PPC only three players appear to be serious competitors. OpenLimit/PPC may therefore gain a market share of at least 25%. OpenLimit will directly benefit from SMG sales when the roll-out starts at the beginning of 2017.

Fujitsu starts marketing of hand vein scanner with OpenLimit's trueidentity technology in November Fujitsu starts marketing of its hand vein scanner PalmSecure, which offers a two factor authentication and thus a high protection against identity misuse, in November and plans to distribute it on a global scale. First pilot projects are set to begin in the near term. Sales of PalmSecure trueidentity will generate licence revenues for OpenLimit. If global demand for the product is strong, licence revenues could quickly develop into a significant earnings driver for the company.



Estimates unchanged We still expect OpenLimit to reach our 2015E forecasts. For 2016E we continue to pencil in 10% revenue growth. The Konnektor roll-out looks set to start in H2/16 and generate additional revenues, but has to compensate for revenues from the development of the Konnektor, which will be completed in H1. We envisage that in 2017E OpenLimit's revenues will jump ca. 36% as the three main earnings drivers – Konnektor, SMG, and truedentity including Fujitsu's PalmSecure – will all contribute.

Buy reiterated at slightly increased price target An updated DCF model, which is based on unchanged estimates and on the lower net debt figure, yields a new price target of €1.10 (previously: €1.00). We reiterate our Buy rating.

Figure 1: Reported figures versus forecasts

All figures in €m	9M-14A	9M-14E	Delta	9M-13	Delta
Sales	4.55	4.76	-4.4%	4.14	9.9%
EBIT	-0.83	-0.50	-	-1.18	-
<i>margin</i>	-18.2%	-10.5%		-28.5%	
Net income	-1.19	-0.85	-	-1.45	-
<i>margin</i>	-26.2%	-17.9%		-35.0%	
EPS in € (diluted)	-0.05	-0.04	-	-0.06	-

Source: First Berlin Equity Research, OpenLimit Holding AG



DCF MODEL

DCF valuation model								
All figures in EUR '000								
	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Net sales	9,115	10,052	13,627	15,671	17,837	20,090	22,392	24,692
NOPLAT	720	1,004	2,286	3,108	3,703	4,254	4,779	5,282
+ depreciation & amortisation	2,702	2,475	2,080	1,947	1,889	1,882	1,889	1,888
Net operating cash flow	3,422	3,479	4,366	5,055	5,591	6,135	6,668	7,170
- total investments (CAPEX and WC)	-2,785	-1,735	-2,561	-1,635	-2,762	-2,865	-2,919	-2,918
Capital expenditures	-2,807	-2,161	-2,126	-2,131	-2,260	-2,360	-2,422	-2,442
Working capital	22	426	-435	497	-501	-505	-497	-476
Free cash flows (FCF)	636	1,744	1,805	3,420	2,830	3,271	3,748	4,252
PV of FCF's	626	1,490	1,339	2,204	1,584	1,590	1,583	1,560

All figures in thousands	
PV of FCFs in explicit period (2015E-2029E)	21,020
PV of FCFs in terminal period	7,913
Enterprise value (EV)	28,933
+ Net cash / - net debt	-3,388
+ Investments / minority interests	0
Shareholder value	25,545

Fair value per share in EUR	1.10
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WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
11.1%	1.71	1.74	1.78	1.82	1.87	1.92	1.98	
12.1%	1.50	1.52	1.55	1.58	1.61	1.65	1.69	
13.1%	1.33	1.34	1.36	1.39	1.41	1.44	1.47	
14.1%	1.18	1.20	1.21	1.23	1.25	1.27	1.29	
15.1%	1.06	1.07	1.08	1.09	1.11	1.12	1.14	
16.1%	0.96	0.96	0.97	0.98	0.99	1.00	1.02	
17.1%	0.87	0.87	0.88	0.89	0.90	0.90	0.91	
18.1%	0.79	0.79	0.80	0.80	0.81	0.82	0.82	

* For layout reasons, the figure only displays figures until 2022, but the model runs until 2029.



INCOME STATEMENT

All figures in EUR '000	2011A	2012A	2013A	2014A	2015E	2016E	2017E
Revenues	5,745	6,208	6,955	8,066	9,115	10,052	13,627
Own work	2,304	2,406	2,421	2,971	2,735	2,111	2,044
Cost of goods sold	167	105	157	263	365	503	1,090
Gross profit	5,578	6,103	6,798	7,803	8,750	9,549	12,537
Personnel costs	5,339	5,249	5,461	6,018	6,381	6,433	7,631
Depreciation and amortisation	2,182	2,415	2,551	2,641	2,702	2,475	2,080
Other operating income	0	0	0	0	0	0	0
Other operating expenses	1,584	1,656	1,601	1,486	1,668	1,709	2,180
Operating income (EBIT)	-1,222	-812	-394	630	734	1,043	2,689
Net financial result	-128	-120	-186	-369	-442	-268	-168
Non-operating expenses	0	0	0	0	0	0	0
Pre-tax income (EBT)	-1,350	-932	-580	261	292	775	2,521
Income taxes	-217	-34	31	121	15	39	403
Minority interests	0	0	0	0	0	0	0
Net income / loss	-1,133	-897	-611	139	277	736	2,118
Diluted EPS (in €)	-0.06	-0.05	-0.03	0.01	0.01	0.03	0.09
EBITDA	960	1,604	2,157	3,270	3,436	3,518	4,769
Ratios							
Gross margin	97.1%	98.3%	97.7%	96.7%	96.0%	95.0%	92.0%
EBIT margin on revenues	-21.3%	-13.1%	-5.7%	7.8%	8.1%	10.4%	19.7%
EBITDA margin on revenues	16.7%	25.8%	31.0%	40.5%	37.7%	35.0%	35.0%
Net margin on revenues	-19.7%	-14.5%	-8.8%	1.7%	3.0%	7.3%	15.5%
Tax rate	16.1%	3.7%	-5.3%	46.5%	5.0%	5.0%	16.0%
Expenses as % of revenues							
Personnel costs	92.9%	84.6%	78.5%	74.6%	70.0%	64.0%	56.0%
Depreciation and amortisation	38.0%	38.9%	36.7%	32.7%	29.6%	24.6%	15.3%
Other operating expenses	27.6%	26.7%	23.0%	18.4%	18.3%	17.0%	16.0%
Y-Y Growth							
Revenues	n.a.	8.1%	12.0%	16.0%	13.0%	10.3%	35.6%
Operating income	n.a.	n.m.	n.m.	n.m.	16.6%	42.0%	157.8%
Net income/ loss	n.a.	n.m.	n.m.	n.m.	98.8%	165.5%	187.6%



BALANCE SHEET

All figures in EUR '000	2011A	2012A	2013A	2014A	2015E	2016E	2017E
Assets							
Current assets, total	6,660	5,307	6,487	7,292	7,549	7,616	8,263
Cash and cash equivalents	393	1,877	625	969	1,056	1,282	1,169
Short-term investments	0	0	0	0	0	0	0
Receivables	6,267	3,430	5,862	6,323	6,493	6,334	7,094
Inventories	0	0	0	0	0	0	0
Other current assets	0	0	0	0	0	0	0
Non-current assets, total	5,681	5,940	5,887	6,232	6,337	6,023	6,069
Property, plant & equipment	130	132	112	110	117	109	136
Goodwill & other intangibles	4,772	4,908	4,875	5,272	5,371	5,065	5,083
Other assets	780	900	900	850	850	850	850
Total assets	12,341	11,247	12,374	13,524	13,886	13,640	14,332
Shareholders' equity & debt							
Current liabilities, total	1,588	2,685	2,942	4,063	4,048	3,815	2,389
Short-term debt	188	1,500	1,290	2,457	2,250	1,750	0
Accounts payable	1,391	1,171	1,653	1,606	1,798	2,065	2,389
Current provisions	0	0	0	0	0	0	0
Other current liabilities	10	14	0	0	0	0	0
Long-term liabilities, total	1,747	215	1,454	1,352	1,452	702	702
Long-term debt	1,500	0	1,250	1,000	1,100	350	350
Deferred revenue	0	0	0	0	0	0	0
Other liabilities	247	215	204	352	352	352	352
Minority interests	0	0	0	0	0	0	0
Shareholders' equity	9,006	8,346	7,978	8,109	8,386	9,122	11,240
Share capital	4,605	4,605	4,605	4,605	4,605	4,605	4,605
Capital reserve	9,882	9,882	9,882	9,882	9,882	9,882	9,882
Other reserves	1,431	1,668	1,873	1,994	1,994	1,994	1,994
Treasury stock	0	0	0	0	0	0	0
Loss carryforward / retained earnings	-6,912	-7,810	-8,382	-8,372	-8,095	-7,359	-5,241
Total consolidated equity and debt	12,341	11,247	12,374	13,524	13,886	13,640	14,332
Ratios							
Current ratio (x)	4.19	1.98	2.20	1.79	1.86	2.00	3.46
Quick ratio (x)	4.19	1.98	2.20	1.79	1.86	2.00	3.46
Book value per share (€)	0.47	0.44	0.40	0.35	0.37	0.40	0.49
Net cash	-1,542	162	-2,119	-2,827	-2,632	-1,156	481
Net gearing	17.1%	-1.9%	26.6%	34.9%	31.4%	12.7%	-4.3%
Return on equity (ROE)	-12.6%	-10.8%	-7.7%	1.7%	3.3%	8.1%	18.8%
Days of sales outstanding (DSO)	398.2	201.6	307.7	286.1	260.0	230.0	190.0
Days of inventory turnover	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Days in payables (DIP)	-3,035.1	-4,054.1	-3,844.2	-2,230.6	-1,800.0	-1,500.0	-800.0



CASH FLOW STATEMENT

All figures in EUR '000	2011A	2012A	2013A	2014A	2015E	2016E	2017E
EBIT	-1,222	-812	-394	630	734	1,043	2,689
Depreciation and amortisation	2,182	2,415	2,551	2,641	2,702	2,475	2,080
EBITDA	960	1,604	2,157	3,271	3,436	3,518	4,769
Changes in working capital	-1,978	2,688	-2,040	-494	22	426	-435
Other adjustments	843	-66	90	-354	-457	-307	-571
Operating cash flow	-175	4,226	207	2,422	3,001	3,638	3,763
CAPEX	-23	-108	-77	-65	-73	-50	-82
Investments in intangibles	-2,304	-2,446	-2,421	-2,971	-2,735	-2,111	-2,044
Free cash flow	-2,502	1,672	-2,291	-613	194	1,476	1,637
Debt financing, net	1,500	0	1,040	957	-107	-1,250	-1,750
Equity financing, net	628	0	0	0	0	0	0
Other changes in cash	0	0	0	0	0	0	0
Net cash flows	-374	1,672	-1,252	344	87	226	-113
Cash, start of the year	0	393	1,877	625	969	1,056	1,282
Cash, end of the year	-374	2,064	625	969	1,056	1,282	1,169
EBITDA/share (in €)	0.05	0.08	0.11	0.14	0.15	0.15	0.21
Y-Y Growth							
Operating cash flow	n.a.	n.m.	-95.1%	1068.9%	23.9%	21.2%	3.4%
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	661.0%	10.9%
EBITDA/share	n.a.	67.0%	29.4%	31.6%	5.1%	2.4%	35.6%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	10 October 2005	€4.20	Buy	€5.20
2...45	↓	↓	↓	↓
46	30 April 2015	€0.62	Buy	€1.10
47	20 May 2015	€0.80	Buy	€1.10
48	1 September 2015	€0.71	Buy	€1.00
49	Today	€0.68	Buy	€1.10

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STRONG BUY: Expected return greater than 50% and a high level of confidence in management's financial guidance

BUY: Expected return greater than 25%

ADD: Expected return between 0% and 25%

REDUCE: Expected negative return between 0% and -15%

SELL: Expected negative return greater than -15%

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