

# OpenLimit Holding AG

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

Smart Meter Gateway  
 roll-out to start soon

**RATING**  
**BUY**

**PRICE TARGET**  
**€ 0.60**

Return Potential 97.4%  
 Risk Rating High

## BENEFITING FROM DIGITISATION OF HEALTH AND ENERGY MARKETS

In 2018, OpenLimit will benefit from strong demand for its digital security products. The German health and power markets are being digitised according to a clear regulatory framework (the 2015 E-Health Act and the 2016 Act to Digitise the Energy Transition). In the e-health market, OpenLimit's client T-Systems has expanded the Konnektor development project contract thereby increasing OpenLimit's order volume by ca. €5m (FBe). In the smart meter gateway (SMGW) market, OpenLimit and its partner PPC are in an excellent position to gain a ca. 30% market share as soon as their SMGW is certified by the BSI (Federal Office for Information Security). This looks set to happen in Q1. Earlier this month, PPC already received an order from E.ON for 16,000 SMGWs. We believe that OpenLimit could generate €2m in SMGW revenues this year. Backed by the already high order backlog (FBe: €5-6m), refinancing of the company's financial debt looks set to be successfully concluded in H1. For 2018E, we forecast strong sales growth (+24%) and positive EBIT of €0.6m. An updated DCF model yields a slightly higher price target of €0.60 (previously: €0.56). We reiterate our Buy rating.

**Konnektor project expanded** In December 2017, T-Systems and OpenLimit agreed on a significant expansion of the Konnektor development contract in 2018. The contract value now amounts to a mid single digit million Euro sum for H1/18. Under the assumption that the order volume is ca. €5m, this would mean that ca. 50% of our revenue forecast for 2018E (€10.5m) is already secured at the beginning of the year. We view this as an excellent start to the year. Furthermore, both parties have defined the cooperation framework for H2/18 and will flesh this out in Q1/18, thereby increasing the order volume further (FBe: +€1-2m). In addition, the adjusted contract conditions resulted in a payment from T-Systems to OpenLimit amounting to €0.7m in 2017.

(p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Revenue (€m)	8.07	8.69	-0.40	8.50	10.50	12.60
Y-o-y growth	16.0%	7.7%	n.a.	n.a.	23.5%	20.0%
EBIT (€m)	0.63	0.97	-7.85	-0.63	0.58	1.56
EBIT margin	7.8%	11.1%	n.a.	-7.5%	5.5%	12.4%
Net income (€m)	0.14	0.33	-8.57	-1.23	0.10	1.05
EPS (diluted) (€)	0.01	0.02	-0.39	-0.05	0.00	0.04
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-0.61	-0.61	-2.86	-1.49	0.70	0.89
Net gearing	34.9%	38.3%	278.3%	165.7%	117.3%	62.1%
Liquid assets (€m)	0.97	0.30	0.02	0.14	0.12	0.11

### RISKS

Risks include, but are not limited to: financing, 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 stands for the secure electronic handshake. Its technologies enable people and machines worldwide to communicate in secure, verifiable and identifiable ways. The company develops base technologies and products in the areas secure data transfer between machines, secure authentication, electronic signatures, and evidentiary value-preserving long-term storage of data and documents.

### MARKET DATA

As of 26 Feb 2018

Closing Price	€ 0.30
Shares outstanding	27.37m
Market Capitalisation	€ 8.32m
52-week Range	€ 0.29 / 0.44
Avg. Volume (12 Months)	14,839

Multiples	2016	2017E	2018E
P/E	n.a.	n.a.	82.6
EV/Sales	0.0	1.4	1.2
EV/EBIT	n.a.	n.a.	20.8
Div. Yield	0.0%	0.0%	0.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Jun 2017

Liquid Assets	€ 0.27m
Current Assets	€ 5.12m
Intangible Assets	€ 5.09m
Total Assets	€ 11.10m
Current Liabilities	€ 7.86m
Shareholders' Equity	€ 2.65m

### SHAREHOLDERS

Robert E. Züllig	9.9%
WiseKey	8.0%
René C. Jäggi	7.2%
Other investors	12.1%
Free Float	62.8%



T-Systems awarded OpenLimit the Konnektor development project in December 2013 and has expanded the contract several times. The total order value (2014-18) amounts to a lower double-digit million Euro sum. Furthermore, OpenLimit receives a mid single-digit million Euro sum from T-Systems for IP developed for the Konnektor. This money is payable in tranches on the achievement of predefined milestones. In 2018, the Konnektor looks set to be OpenLimit's largest project.

The Konnektor is a vital part of the digital healthcare infrastructure and will guarantee secure communication between the stakeholders (practices, hospitals, patients) in the German healthcare system. A special data highway, the telematics infrastructure (TI), connects the stakeholders' technical systems allowing them to exchange medical data quickly and securely. The Konnektor is the steering component at medical practices & hospitals. It can encrypt documents or provide them with an electronic signature. Furthermore, the Konnektor gives practices & hospitals access to the central TI platform and through a secure internet connection. It also acts as firewall for both the local IT systems of practices & hospitals and the central TI platform, and protects the local IT systems from attacks from the internet. The telematics infrastructure will be used by ca. 70 million insured persons, 180,000 doctors' and dentists' practices, 19,900 pharmacies, 1,950 hospitals, and 112 health insurances.

The E-Health Act of December 2015 has provided a concrete timetable for the introduction of digital infrastructure with the highest possible security standards in the health sector. From mid-2018 on, all medical practices and hospitals are to be connected to the telematics infrastructure. Since mid-2017, the health sector has been regarded as critical infrastructure and is required to comply with the IT Security Act. This act aims at improving IT security for companies and federal administrations active in the health sector. We believe that the project offers OpenLimit further revenue potential through service & maintenance even after the roll-out in 2018.

#### **Smart Meter Gateway (SMGW) – main future sales & earnings driver**

The Smart Meter Gateway (SMGW) serves as the communication unit between private & commercial consumers' devices and service providers in the power sector. It can be seen as a special kind of firewall dedicated to smart metering functionality. It also collects, processes, and stores meter data, is responsible for the distribution of these data to external entities and ensures that only authorised parties have access to them. Before meter data are sent, the information is encrypted and signed using the services of a security module. The SMGW features a mandatory user interface, enabling authorised consumers to access the data relevant to them.

Typically, the SMGW is placed in the consumers' household or premises and enables access to local meter/s (i.e. the unit/s used for measuring the consumption or production of electric power). It may enable access to Controllable Local Systems (e.g. power generation plants, controllable loads such as air conditioning and intelligent household appliances). The SMGW has a fail-safe design that specifically ensures that any malfunction cannot impact the power delivery.

In July 2016, the German Bundestag passed the "Law to digitise the energy transition", which entails a step-by-step SMGW roll-out over eight years. The SMGW market potential is 12-15 million devices.

OpenLimit has developed a SMGW in cooperation with the Power Plus Communications AG ("PPC"). OpenLimit is responsible for the software, and PPC has developed the hardware. PPC is a leading German provider of data communication systems for smart metering and smart grids, and a pioneer in broadband powerline (BPL) communications. The company was founded in 2001 and currently employs around 60 people.



The development of OpenLimit's/PPC's SMGW is on schedule. The SMGW is fully operational and ready to be installed. OpenLimit is prepared to start the production process quickly. The certification process which is executed by the BSI, Germany's Federal Office for Information Security, looks set to be concluded in Q1/2018. OpenLimit & PPC are in a very good position to present the first certified SMGW. As we expect only two other players to pass the certification process in the near term, we believe OpenLimit/PPC are likely to gain a ca. 30% share of the SMGW market. At the eWorld trade fair in February 2018, OpenLimit and PPC presented the SMGW together with 35 partners – among them well-known companies such as Bosch, Elster, E.ON Metering, Robotron, Siemens, and Thüga. OpenLimit/PPC are well positioned at ca. two thirds of the top 50 utilities in Germany. In Q1/17, OpenLimit's partner PPC concluded a framework agreement for the SMGW with EnBW, one of the four large German utilities. In February 2018, E.ON ordered 16,000 SMGWs from PPC. This is the start of the SMGW roll-out at E.ON, and the Managing Director of E.ON Metering GmbH has made clear that E.ON will need many more SMGWs.

As we expect the installation of 1-2 million SMGW devices per annum from 2019E on, the SMGW roll-out looks set to be a major revenue driver for OpenLimit in coming years. As the roll-out will probably start in Q2/18 in a step-by-step process we expect 2018E to make a first significant impact on OpenLimit's sales and earnings, but the full impact will be visible in 2019E. The SMGW revenue contribution in 2018E could still be in the low single digit million Euro range. Although an estimate of SMGW sales volume and pricing for 2018E is still based on shaky ground, we believe that OpenLimit/PPC could sell 100,000 units. Assuming a revenue share of €20 per SMGW unit for OpenLimit, the company would generate SMGW sales of €2m this year.

**truidentity looks set to benefit from Fujitsu's expanded distribution activities** Fujitsu has been marketing OpenLimit's software for secure online authentication – truidentity – together with its hand vein scanner PalmSecure since April 2016. truidentity's two factor authentication offers excellent protection against identity misuse. Since the beginning of 2017, Fujitsu has expanded its distribution activities and we thus expect further orders. OpenLimit receives a share in the licence fees and can generate further revenues from adaption, integration, and education projects.

**Financial debt management** OpenLimit has to refinance or repay a payment-in-kind loan (€1m), which is due on 28 February 2018, a €0.5m convertible loan (conversion price: €0.80 per share) which is due on 31 March 2018, and another convertible loan (conversion price: €0.381 per share) with a volume of €180k, which matures on 10 July 2018. The three loans add up to €1.68m. We are optimistic regarding a successful refinancing due to the excellent opportunities in the SMGW market and the high order backlog.

**Rising sales and improved earnings** For 2018E, we forecast strong sales growth (+24%) and positive EBIT of €0.6m. Even the net result could reach break-even level. In 2019E, we expect sales to grow by 20% to €12.6m, driven by the growing momentum of the SMGW roll-out. Economies of scale should push EBIT to €1.6m (EBIT margin: 12.4% vs. 5.5% in 2018E). EPS will increase from €0.00 in 2018E to €0.04.

**Buy reiterated at slightly increased price target** Our DCF model takes account of the weak balance sheet KPIs through a WACC of 16%. Improving cash flows in coming years offer scope for better KPIs and thus a lower discount factor. An updated DCF model yields a slightly higher price target of €0.60 (previously: €0.56). We reiterate our Buy rating.



## VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net sales	8,500	10,500	12,600	14,918	17,441	20,130	22,934	25,786
NOPLAT	-704	539	1,359	2,104	2,795	3,386	3,930	4,448
+ depreciation & amortisation	2,651	2,628	2,662	2,690	2,659	2,808	3,037	3,295
Net operating cash flow	1,948	3,167	4,021	4,794	5,454	6,194	6,967	7,743
- total investments (CAPEX and WC)	-2,909	-2,024	-2,827	-3,008	-3,281	-3,637	-3,975	-4,282
Capital expenditures	-2,618	-2,699	-2,722	-2,775	-3,130	-3,481	-3,815	-4,121
Working capital	-291	674	-106	-233	-151	-157	-160	-161
Free cash flows (FCF)	-961	1,142	1,193	1,787	2,173	2,557	2,992	3,461
<b>PV of FCF's</b>	<b>-961</b>	<b>1,000</b>	<b>900</b>	<b>1,161</b>	<b>1,217</b>	<b>1,235</b>	<b>1,245</b>	<b>1,241</b>

All figures in thousands	
PV of FCFs in explicit period (2017E-2031E)	14,354
PV of FCFs in terminal period	6,257
Enterprise value (EV)	20,611
+ Net cash / - net debt (pro forma)	-3,813
+ Investments / minority interests	0
Shareholder value	16,798

Fair value per share in EUR	0.60
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WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
12.0%	0.98	1.00	1.02	1.05	1.07	1.10	1.14	
13.0%	0.85	0.87	0.88	0.90	0.92	0.94	0.97	
14.0%	0.75	0.76	0.77	0.78	0.80	0.81	0.83	
15.0%	0.65	0.66	0.67	0.68	0.69	0.70	0.72	
16.0%	0.58	0.59	0.59	0.60	0.61	0.62	0.63	
17.0%	0.51	0.52	0.52	0.53	0.54	0.54	0.55	
18.0%	0.46	0.46	0.46	0.47	0.47	0.48	0.48	
19.0%	0.41	0.41	0.41	0.42	0.42	0.42	0.43	

\* For layout reasons, the figure only displays figures until 2024, but the model runs until 2031.



## INCOME STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
<b>Revenues</b>	<b>8,066</b>	<b>8,689</b>	<b>-398</b>	<b>8,500</b>	<b>10,500</b>	<b>12,600</b>
Own work	2,971	3,251	2,426	2,423	2,520	2,583
Cost of goods sold	263	211	462	1,105	1,260	1,512
<b>Gross profit</b>	<b>7,803</b>	<b>8,479</b>	<b>-860</b>	<b>7,395</b>	<b>9,240</b>	<b>11,088</b>
Personnel costs	6,018	6,529	6,147	5,300	5,850	6,552
Other operating income	0	0	1,465	0	0	0
Other operating expenses	1,486	1,480	2,131	2,500	2,700	2,898
<b>EBITDA</b>	<b>3,270</b>	<b>3,722</b>	<b>-5,247</b>	<b>2,018</b>	<b>3,210</b>	<b>4,221</b>
Depreciation and amortisation	2,641	2,755	2,607	2,651	2,628	2,662
<b>Operating income (EBIT)</b>	<b>630</b>	<b>966</b>	<b>-7,854</b>	<b>-634</b>	<b>582</b>	<b>1,559</b>
Net financial result	-369	-458	-508	-530	-438	-308
Non-operating expenses	0	0	0	0	0	0
<b>Pre-tax income (EBT)</b>	<b>261</b>	<b>508</b>	<b>-8,362</b>	<b>-1,164</b>	<b>144</b>	<b>1,251</b>
Income taxes	121	182	207	70	43	200
Minority interests	0	0	0	0	0	0
<b>Net income / loss</b>	<b>139</b>	<b>327</b>	<b>-8,569</b>	<b>-1,234</b>	<b>101</b>	<b>1,051</b>
<b>Diluted EPS (in €)</b>	<b>0.01</b>	<b>0.02</b>	<b>-0.39</b>	<b>-0.05</b>	<b>0.00</b>	<b>0.04</b>
<b>Ratios</b>						
Gross margin	96.7%	97.6%	n.m.	87.0%	88.0%	88.0%
EBIT margin on revenues	7.8%	11.1%	n.m.	-7.5%	5.5%	12.4%
EBITDA margin on revenues	40.5%	42.8%	n.m.	23.7%	30.6%	33.5%
Net margin on revenues	1.7%	3.8%	n.m.	-14.5%	1.0%	8.3%
Tax rate	46.5%	35.8%	n.m.	-6.0%	30.0%	16.0%
<b>Expenses as % of revenues</b>						
Personnel costs	74.6%	75.1%	n.m.	62.4%	55.7%	52.0%
Depreciation and amortisation	32.7%	31.7%	n.m.	31.2%	25.0%	21.1%
Other operating expenses	18.4%	17.0%	n.m.	29.4%	25.7%	23.0%
<b>Y-Y Growth</b>						
Revenues	16.0%	7.7%	n.m.	n.m.	23.5%	20.0%
Operating income	n.m.	53.5%	n.m.	n.m.	n.m.	167.9%
Net income/ loss	n.m.	134.1%	n.m.	n.m.	n.m.	943.3%



## BALANCE SHEET

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
<b>Assets</b>						
<b>Current assets, total</b>	<b>7,292</b>	<b>8,437</b>	<b>4,595</b>	<b>5,170</b>	<b>4,796</b>	<b>5,025</b>
Cash and cash equivalents	969	303	17	140	124	109
Short-term investments	0	0	0	0	0	0
Receivables & other	6,323	8,134	4,577	4,425	4,603	4,833
Inventories	0	0	0	605	69	83
Other current assets	0	0	0	0	0	0
<b>Non-current assets, total</b>	<b>6,232</b>	<b>6,703</b>	<b>6,113</b>	<b>6,079</b>	<b>6,150</b>	<b>6,210</b>
Property, plant & equipment	110	110	82	103	125	139
Goodwill & other intangibles	5,272	5,842	5,207	5,154	5,202	5,247
Other assets	850	750	823	823	823	823
<b>Total assets</b>	<b>13,524</b>	<b>15,139</b>	<b>10,708</b>	<b>11,249</b>	<b>10,945</b>	<b>11,234</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>4,063</b>	<b>5,689</b>	<b>8,257</b>	<b>7,984</b>	<b>7,400</b>	<b>6,638</b>
Short-term debt	2,457	2,901	4,035	3,600	2,700	1,800
Accounts payable & other	1,606	2,775	3,320	3,482	3,797	3,935
Current provisions	0	0	900	900	900	900
Other current liabilities	0	13	2	2	2	2
<b>Long-term liabilities, total</b>	<b>1,352</b>	<b>757</b>	<b>757</b>	<b>757</b>	<b>757</b>	<b>757</b>
Long-term debt	1,000	500	382	382	382	382
Deferred revenue	0	0	0	0	0	0
Other liabilities	352	257	375	375	375	375
<b>Minority interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Shareholders' equity</b>	<b>8,109</b>	<b>8,694</b>	<b>1,693</b>	<b>2,508</b>	<b>2,788</b>	<b>3,839</b>
Share capital	4,605	4,605	5,354	6,999	7,141	7,141
Capital reserve	9,882	9,882	10,498	10,902	10,940	10,940
Other reserves	1,994	2,070	2,288	2,288	2,288	2,288
Treasury stock	0	0	0	0	0	0
Loss carryforward / retained earnings	-8,372	-7,863	-16,448	-17,682	-17,581	-16,530
<b>Total consolidated equity and debt</b>	<b>13,524</b>	<b>15,139</b>	<b>10,708</b>	<b>11,249</b>	<b>10,945</b>	<b>11,234</b>
<b>Ratios</b>						
Current ratio (x)	1.79	1.48	0.56	0.65	0.65	0.76
Quick ratio (x)	1.79	1.48	0.56	0.57	0.64	0.74
Book value per share (€)	0.35	0.38	0.08	0.10	0.10	0.14
Net cash	-2,827	-3,333	-4,712	-4,155	-3,270	-2,385
Net gearing	34.9%	38.3%	278.3%	165.7%	117.3%	62.1%
Return on equity (ROE)	1.7%	3.8%	-506.2%	-49.2%	3.6%	27.4%



## CASH FLOW STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
<b>EBIT</b>	<b>630</b>	<b>966</b>	<b>-7,854</b>	<b>-634</b>	<b>582</b>	<b>1,559</b>
Depreciation and amortisation	2,641	2,755	2,607	2,651	2,628	2,662
<b>EBITDA</b>	<b>3,271</b>	<b>3,721</b>	<b>-5,247</b>	<b>2,018</b>	<b>3,210</b>	<b>4,221</b>
Changes in working capital	-494	-730	-2,840	-291	674	-106
Other adjustments	-354	-280	7,679	-600	-481	-508
<b>Operating cash flow</b>	<b>2,422</b>	<b>2,712</b>	<b>-407</b>	<b>1,127</b>	<b>3,403</b>	<b>3,607</b>
Investments in PP&E	-65	-75	-26	-68	-74	-76
Investments in intangibles	-2,971	-3,251	-2,426	-2,550	-2,625	-2,646
<b>Free cash flow</b>	<b>-613</b>	<b>-614</b>	<b>-2,859</b>	<b>-1,491</b>	<b>704</b>	<b>885</b>
Acquisitions & disposals, net	0	0	1,465	0	0	0
Other investments	0	0	0	0	0	0
<b>Cash flow from investing</b>	<b>-3,035</b>	<b>-3,326</b>	<b>-987</b>	<b>-2,618</b>	<b>-2,699</b>	<b>-2,722</b>
Debt financing, net	957	-78	550	-435	-900	-900
Equity financing, net	0	0	584	2,049	180	0
Dividends paid	0	0	0	0	0	0
Other financing	0	0	0	0	0	0
<b>Cash flow from financing</b>	<b>957</b>	<b>-78</b>	<b>1,134</b>	<b>1,614</b>	<b>-720</b>	<b>-900</b>
FOREX & other effects	0	0	-26	0	0	0
<b>Net cash flows</b>	<b>344</b>	<b>-692</b>	<b>-286</b>	<b>122</b>	<b>-16</b>	<b>-15</b>
Cash, start of the year	625	969	303	17	140	124
<b>Cash, end of the year</b>	<b>969</b>	<b>277</b>	<b>17</b>	<b>140</b>	<b>124</b>	<b>109</b>
<b>EBITDA/share (in €)</b>	<b>0.14</b>	<b>0.16</b>	<b>-0.24</b>	<b>0.08</b>	<b>0.12</b>	<b>0.15</b>
<b>Y-Y Growth</b>						
Operating cash flow	1068.9%	12.0%	n.m.	n.m.	202.1%	6.0%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	25.7%
EBITDA/share	31.6%	13.8%	n.m.	n.m.	46.0%	31.5%

**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...50	↓	↓	↓	↓
51	16 November 2016	€0.43	Buy	€1.00
52	22 May 2017	€0.41	Buy	€0.62
53	1 November 2017	€0.29	Buy	€0.56
54	Today	€0.30	Buy	€0.60

**Authored by: Dr. Karsten von Blumenthal, Analyst**

**Company responsible for preparation:**

**First Berlin Equity Research GmbH**

Mohrenstraße 34  
10117 Berlin

Tel. +49 (0)30 - 80 93 96 85 Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com

www.firstberlin.com

**Person responsible for forwarding or distributing this financial analysis: Martin Bailey**

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