

OpenLimit Holding AG

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

2017 figures

RATING
PRICE TARGET
 Return Potential
 Risk Rating

BUY
€ 0.50
 66.7%
 High

SMART METER GATEWAY MARKET ANTE PORTAS

OpenLimit published 2017 figures below our forecasts. This was due mainly to a €2.3m write-down of receivables which burdened sales and earnings. In April, the company increased its capital by €1.1m, of which €0.8m was used for a debt-to-equity swap. The remainder (€0.3m) is to finance the ongoing business. The smart meter gateway (SMGW) market is slated to start in the summer following the expected certification of the German Federal Office for Information Security (BSI). OpenLimit's/PPC's SMGW was recently the first one to receive the calibration certification of the German National Metrology Institute (PTB). OpenLimit/PPC are in the pole position to receive the first SMGW certification of the BSI and to gain a market share of at least 30% in the SMGW market. This will generate first revenues this year and is poised to be the main revenue driver in 2019E. An updated DCF model, which accounts for the dilutive effect of the capital increase, yields a new price target of €0.50 (previously: €0.60). We reiterate our Buy rating.

Write-down burdens 2017 figures Sales were significantly below our forecast (€4.9m vs. FBe: €8.5m) due to a €2.3m write-down of receivables and project delays. Under IFRS, the write-down is directly deducted from revenues. Gross earnings from receivables rose 18% y/y to €7.1m. The overwhelming revenue contribution came from the Konnektor project with T-Systems. EBIT was €-3.0m (FBe: €-0.6m). The net result amounted to €-3.0m equivalent to EPS of €-0.12 (FBe: €-0.05, see figure 1 overleaf).

2018 Guidance: 8-digit revenue figure Given the current order backlog (FBe: ca. €5m) and the project pipeline, OpenLimit sees the opportunity to achieve a revenue figure above €10m. The company did not give EBIT guidance.

Balance sheet remains stretched OpenLimit reduced financial debt from €4.4m to €3.9m y/y and managed to extend the term of some loans, which resulted in significantly lower short-term debt (€1.4m vs. €4.0m... (p.t.o.))

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018E	2019E	2020E
Revenue (€m)	8.69	-0.40	4.94	10.50	12.60	14.92
Y-o-y growth	7.7%	n.a.	n.a.	112.8%	20.0%	18.4%
EBIT (€m)	0.97	-7.85	-3.00	0.10	1.31	2.22
EBIT margin	11.1%	n.m.	-60.8%	0.9%	10.4%	14.9%
Net income (€m)	0.33	-8.57	-3.03	-0.39	0.76	1.58
EPS (diluted) (€)	0.02	-0.39	-0.12	-0.01	0.03	0.06
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-0.61	-2.86	-0.54	-1.89	0.23	0.88
Net gearing	38.3%	278.3%	474.0%	271.3%	178.9%	88.2%
Liquid assets (€m)	0.30	0.02	0.07	0.03	0.11	0.19

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.

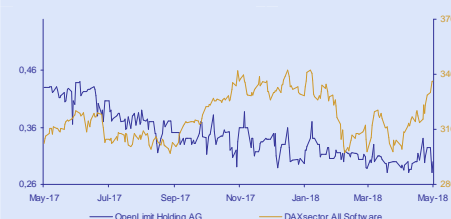
MARKET DATA

As of 03 May 2018

Closing Price	€ 0.30
Shares outstanding	31.08m
Market Capitalisation	€ 9.32m
52-week Range	€ 0.28 / 0.44
Avg. Volume (12 Months)	16,128

Multiples	2017	2018E	2019E
P/E	n.a.	n.a.	12.2
EV/Sales	2.7	1.2	1.0
EV/EBIT	n.a.	138.0	10.0
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2017

Liquid Assets	€ 0.07m
Current Assets	€ 2.90m
Intangible Assets	€ 5.83m
Total Assets	€ 10.17m
Current Liabilities	€ 6.57m
Shareholders' Equity	€ 0.86m

SHAREHOLDERS

Robert E. Züllig	10.9%
René C. Jäggi	8.8%
WiseKey	7.1%
Other investors	12.7%
Free Float	60.5%



...at the end of 2016). Liquid funds remained low (€65k). Net debt declined from €4.7m to €4.1m y/y. Despite a €2.1m capital increase in April 2017 equity fell to €0.9m from €1.7m at the end of 2017. The equity ratio fell from a low 16% to a very low 8%. A €1.1m capital increase in April 2018 bolstered equity and increased the equity share to ca. 19%. The latest capital increase raised the share count by 3.7m to 31.1m. Net gearing climbed from 278% to 474% at the end of 2017. In the past, OpenLimit always managed to attract funds to finance its ongoing business despite the challenging environment. We thus remain optimistic that the company will continue to do so, but liquidity and finance issues will remain on the agenda of the management, and financing costs will continue to burden earnings (financial expenses in 2017: €565k).

Receivables and other assets fell from €3.9m to €1.3m at the end of 2017 due mainly to the write-down of €2.3m. Receivables totalling €2.3m have been due for more than 180 days. Work in progress increased by €0.9m to €1.8m y/y. Payables and other liabilities rose from €3.3m to €4.6m due mainly to a €1.8m prepayment by T-Systems.

Figure 1: Reported figures versus estimates

All figures in €m	2017A	2017E	Delta	2016A	Delta
Sales	4.94	8.50	-41.9%	-0.40	-
EBIT	-3.00	-0.63	-	-7.85	-
margin	-60.8%	-7.4%	-	-	-
Net income	-3.03	-1.23	-	-8.57	-
margin	-61.4%	-14.5%	-	-	-
EPS in € (diluted)	-0.12	-0.05	-	-0.39	-

Source: First Berlin Equity Research, OpenLimit Holding AG

Positive operating cash flow Operating cash flow amounted to €2.7m (2016: €-0.4m). Free cash flow was slightly negative at €0.5m due to CAPEX of €3.3m. The financing cash inflow was €0.6m due to equity financing. Debt repayment (€1.0m) and debt financing (€1.0m) cancelled each other out.

Konnektor project was main revenue driver in 2017 and looks set to maintain this position in 2018 In 2017, the Konnektor project was the main revenue driver. We believe that €5.9m or 83% of the revenues stem from this project. 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 OpenLimit's total order volume is ca. €5m, this would mean that almost 50% of our revenue forecast for 2018E (€10.5m) is already secured. Furthermore, both parties have defined the cooperation framework for H2/18, thereby increasing the order volume further (FBe: +€1 - 2m).

Smart Meter Gateway certification again delayed In our recent comment of 27 February 2018, we had anticipated the SMGW certification by the BSI for Q1. The certification process has however again been delayed and we now expect certification in the summer. At least the calibration certification by the German Measurement Office (Baumusterprüfbescheinigung der Physikalisch-Technischen Bundesanstalt) was successfully concluded in April 2018. We now expect that the smart meter technology roll-out will begin in summer. OpenLimit / PPC already have first orders from E.ON and EnBW, and the total order volume amounts to 26.000 units. Shortly after the BSI certification we expect some dozen SMGW tenders giving OpenLimit/PPC ample opportunity to receive further orders. The SMGW roll-out looks set to be the major revenue driver for OpenLimit in coming years as we expect the installation of 1-2 million SMGW devices per annum from 2019E on. We now believe that the impact on OpenLimit's 2018 sales and earnings is limited given that the roll-out will not start before summer. The full impact will however be visible in 2019E. The SMGW revenue



contribution in 2018E could still surpass the one million Euro threshold. Although an estimate of SMGW sales volume and pricing for 2018E is still based on shaky ground, we believe that OpenLimit/PPC could sell 50,000 units. Assuming a revenue share of €20 per SMGW unit for OpenLimit, the company would generate SMGW sales of €1m this year.

Lack of resources constrains growth The current low number of employees in the distribution and development area is a constraint for further growth. At the end of 2017, the total number of employees was 55 (end 2016: 59). If OpenLimit cannot find new personnel or lacks the financial means to employ them, it will be more difficult to successfully conclude new projects or more costly as the company may have to buy certain services on the market. Furthermore, the loss of key personnel may jeopardise the timely conclusion of projects.

Forecasts for 2018E & 2019E slightly adjusted Following the 2017 figures, we have lowered our margin assumptions for 2018E & 2019E. We stick to our 2018E revenue forecast as we expect that OpenLimit will compensate lower SMGW revenues by revenues from other projects. We still believe that OpenLimit can achieve operational turnaround this year (see figure 2).

Figure 2: Revisions to forecasts

All figures in €m	2018E			2019E			2020E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	10.50	10.50	0.0%	12.60	12.60	0.0%	14.92	14.92	0.0%
EBIT	0.58	0.10	-83.7%	1.56	1.31	-15.7%	2.22	2.22	0.0%
margin	5.5%	0.9%		12.4%	10.4%		14.9%	14.9%	
Net income	0.10	-0.35	-	1.05	0.76	-27.3%	1.58	1.58	0.0%
margin	1.0%	-3.3%		8.3%	6.1%		10.6%	10.6%	
EPS in € (diluted)	0.00	-0.01	-	0.04	0.03	-27.3%	0.06	0.06	0.0%

Source: First Berlin Equity Research

Buy reiterated at lower price target We have not changed our view on the company risk which is reflected in a WACC of 16.0%. An updated DCF model, which accounts for the dilutive effect of the recent capital increase, yields a new price target of €0.50 (previously: €0.60). We reiterate our Buy rating.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net sales	10,500	12,600	14,918	17,440	20,151	23,010	25,964	28,945
NOPLAT	95	1,211	1,923	2,674	3,357	3,966	4,529	5,065
+ depreciation & amortisation	2,895	2,906	2,939	2,922	2,951	3,131	3,378	3,648
Net operating cash flow	2,990	4,117	4,861	5,596	6,308	7,097	7,908	8,713
- total investments (CAPEX and WC)	-4,395	-3,437	-3,639	-3,416	-3,683	-4,060	-4,418	-4,744
Capital expenditures	-2,804	-2,974	-3,073	-3,139	-3,506	-3,866	-4,206	-4,515
Working capital	-1,591	-464	-566	-277	-177	-194	-212	-228
Free cash flows (FCF)	-1,405	679	1,222	2,180	2,625	3,037	3,490	3,969
PV of FCF's	-1,272	531	822	1,265	1,314	1,311	1,298	1,273

All figures in thousands	
PV of FCFs in explicit period (2018E-2032E)	13,742
PV of FCFs in terminal period	5,754
Enterprise value (EV)	19,495
+ Net cash / - net debt (pro forma)	-3,795
+ Investments / minority interests	0
Shareholder value	15,700

Fair value per share in EUR	0.50
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WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
12.0%	0.86	0.88	0.90	0.92	0.94	0.97	1.00	
13.0%	0.74	0.75	0.77	0.78	0.80	0.82	0.84	
14.0%	0.64	0.65	0.66	0.67	0.69	0.70	0.71	
15.0%	0.55	0.56	0.57	0.58	0.59	0.60	0.61	
16.0%	0.49	0.49	0.50	0.50	0.51	0.52	0.53	
17.0%	0.43	0.43	0.43	0.44	0.45	0.45	0.46	
18.0%	0.37	0.38	0.38	0.38	0.39	0.39	0.40	
19.0%	0.33	0.33	0.33	0.34	0.34	0.34	0.35	

* For layout reasons, the figure only displays figures until 2025, but the model runs until 2032.



INCOME STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017A	2018E	2019E	2020E
Revenues	8,066	8,689	-398	4,935	10,500	12,600	14,918
Own work	2,971	3,251	2,426	2,451	1,575	2,583	2,685
Cost of goods sold	263	211	462	293	735	1,512	1,701
Gross profit	7,803	8,479	-860	4,643	9,765	11,088	13,218
Personnel costs	6,018	6,529	6,147	4,970	5,650	6,552	7,608
Other operating income	0	0	1,465	0	0	0	0
Other operating expenses	1,486	1,480	2,131	2,487	2,700	2,898	3,133
EBITDA	3,270	3,722	-5,247	-363	2,990	4,221	5,162
Depreciation and amortisation	2,641	2,755	2,607	2,637	2,895	2,906	2,939
Operating income (EBIT)	630	966	-7,854	-3,000	95	1,315	2,223
Net financial result	-369	-458	-508	-410	-504	-446	-346
Non-operating expenses	0	0	0	0	0	0	0
Pre-tax income (EBT)	261	508	-8,362	-3,410	-409	868	1,878
Income taxes	121	182	207	-382	-20	104	300
Minority interests	0	0	0	0	0	0	0
Net income / loss	139	327	-8,569	-3,028	-388	764	1,577
Diluted EPS (in €)	0.01	0.02	-0.39	-0.12	-0.01	0.03	0.06
Ratios							
Gross margin	96.7%	97.6%	n.m.	94.1%	93.0%	88.0%	88.6%
EBIT margin on revenues	7.8%	11.1%	n.m.	-60.8%	0.9%	10.4%	14.9%
EBITDA margin on revenues	40.5%	42.8%	n.m.	-7.4%	28.5%	33.5%	34.6%
Net margin on revenues	1.7%	3.8%	n.m.	-61.4%	-3.7%	6.1%	10.6%
Tax rate	46.5%	35.8%	n.m.	11.2%	5.0%	12.0%	16.0%
Expenses as % of revenues							
Personnel costs	74.6%	75.1%	n.m.	100.7%	53.8%	52.0%	51.0%
Depreciation and amortisation	32.7%	31.7%	n.m.	53.4%	27.6%	23.1%	19.7%
Other operating expenses	18.4%	17.0%	n.m.	50.4%	25.7%	23.0%	21.0%
Y-Y Growth							
Revenues	16.0%	7.7%	n.m.	n.m.	112.8%	20.0%	18.4%
Operating income	n.m.	53.5%	n.m.	n.m.	n.m.	1283.5%	69.1%
Net income/ loss	n.m.	134.1%	n.m.	n.m.	n.m.	n.m.	106.4%



BALANCE SHEET

All figures in EUR '000	2014A	2015A	2016A	2017A	2018E	2019E	2020E
Assets							
Current assets, total	7,292	8,437	4,595	2,895	3,519	4,381	5,282
Cash and cash equivalents	969	303	17	65	26	114	191
Short-term investments	0	0	0	0	0	0	0
Receivables & other	6,323	8,134	4,577	2,825	3,452	4,142	4,905
Inventories	0	0	0	5	40	124	186
Other current assets	0	0	0	0	0	0	0
Non-current assets, total	6,232	6,703	6,113	7,271	7,179	7,247	7,381
Property, plant & equipment	110	110	82	80	114	134	159
Goodwill & other intangibles	5,272	5,842	5,207	5,826	5,701	5,749	5,858
Other assets	850	750	823	1,364	1,364	1,364	1,364
Total assets	13,524	15,139	10,708	10,166	10,698	11,627	12,663
Shareholders' equity & debt							
Current liabilities, total	4,063	5,689	8,257	6,566	7,170	7,335	6,794
Short-term debt	2,457	2,901	4,035	1,412	2,945	2,800	2,000
Accounts payable & other	1,606	2,775	3,320	4,554	3,625	3,935	4,194
Current provisions	0	0	900	584	584	584	584
Other current liabilities	0	13	2	16	16	16	16
Long-term liabilities, total	1,352	757	757	2,740	1,794	1,794	1,794
Long-term debt	1,000	500	382	2,464	1,519	1,519	1,519
Deferred revenue	0	0	0	0	0	0	0
Other liabilities	352	257	375	275	275	275	275
Minority interests	0	0	0	0	0	0	0
Shareholders' equity	8,109	8,694	1,693	860	1,733	2,498	4,075
Share capital	4,605	4,605	5,354	6,888	8,143	8,143	8,143
Capital reserve	9,882	9,882	10,498	11,013	11,020	11,020	11,020
Other reserves	1,994	2,070	2,288	2,402	2,402	2,402	2,402
Treasury stock	0	0	0	0	0	0	0
Loss carryforward / retained earnings	-8,372	-7,863	-16,448	-19,443	-19,831	-19,067	-17,490
Total consolidated equity and debt	13,524	15,139	10,708	10,166	10,698	11,627	12,663
Ratios							
Current ratio (x)	1.79	1.48	0.56	0.44	0.49	0.60	0.78
Quick ratio (x)	1.79	1.48	0.56	0.44	0.49	0.58	0.75
Book value per share (€)	0.35	0.38	0.08	0.03	0.06	0.09	0.15
Net cash	-2,827	-3,333	-4,712	-4,076	-4,702	-4,469	-3,593
Net gearing	34.9%	38.3%	278.3%	474.0%	271.3%	178.9%	88.2%
Equity ratio	60.0%	57.4%	15.8%	8.5%	16.2%	21.5%	32.2%
Return on equity (ROE)	1.7%	3.8%	-506.2%	-352.1%	-22.4%	30.6%	38.7%



CASH FLOW STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017A	2018E	2019E	2020E
EBIT	630	966	-7,854	-3,000	95	1,315	2,223
Depreciation and amortisation	2,641	2,755	2,607	2,637	2,895	2,906	2,939
EBITDA	3,271	3,721	-5,247	-363	2,990	4,221	5,162
Changes in working capital	-494	-730	-2,840	2,995	-1,591	-464	-566
Other adjustments	-354	-280	7,679	81	-484	-551	-646
Operating cash flow	2,422	2,712	-407	2,713	915	3,207	3,950
Investments in PP&E	-65	-75	-26	-41	-74	-76	-90
Investments in intangibles	-2,971	-3,251	-2,426	-3,212	-2,730	-2,898	-2,984
Free cash flow	-613	-614	-2,859	-541	-1,888	233	876
Acquisitions & disposals, net	0	0	1,465	0	0	0	0
Other investments	0	0	0	0	0	0	0
Cash flow from investing	-3,035	-3,326	-987	-3,254	-2,804	-2,974	-3,073
Debt financing, net	957	-78	550	-17	588	-145	-800
Equity financing, net	0	0	584	605	1,262	0	0
Dividends paid	0	0	0	0	0	0	0
Other financing	0	0	0	0	0	0	0
Cash flow from financing	957	-78	1,134	588	1,850	-145	-800
FOREX & other effects	0	0	-26	1	0	0	0
Net cash flows	344	-692	-286	48	-39	88	76
Cash, start of the year	625	969	303	17	65	26	114
Cash, end of the year	969	277	17	65	26	114	191
EBITDA/share (in €)	0.14	0.16	-0.24	-0.01	0.11	0.15	0.19
Y-Y Growth							
Operating cash flow	1068.9%	12.0%	n.m.	n.m.	-66.3%	250.4%	23.2%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	276.1%
EBITDA/share	31.6%	13.8%	n.m.	n.m.	n.m.	41.2%	22.3%

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...51	↓	↓	↓	↓
52	22 May 2017	€0.41	Buy	€0.62
53	1 November 2017	€0.29	Buy	€0.56
54	27 February 2018	€0.30	Buy	€0.60
55	Today	€0.30	Buy	€0.50

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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First Berlin has other significant financial interests in the analysed company.

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BUY: An expected favourable price trend of more than 25% percent.

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- **key sources of information in the preparation of this research report**
- **valuation methods and principles**
- **sensitivity of valuation parameters**

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