

OpenLimit Holding AG

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

3rd SMGW certified

RATING
PRICE TARGET **BUY**
 Return Potential 102.7%
 Risk Rating High

WELL-FUNDED FOR SMGW ROLLOUT

At the end of December 2019, OpenLimit closed a CHF 5m loan with an unnamed investor and is now sufficiently funded to spur strong growth. Following the certification of the 3rd smart meter gateway (SMGW) by the German Federal Office for Information Security (BSI) on 19 December 2019, the official rollout will start soon. OpenLimit and PPC were the first to have the SMGW certified in December 2018. This gave the partners plenty of time to prepare for the rollout, which now has them in the pole position to carve out a leading share of the new market. Given the additional funding, we believe that liquidity constraints that plagued OpenLimit in the past no longer limit growth. The increased financial stability has caused us to lower our WACC and has strengthened our conviction in the growth story in 2020E and the coming years. We have lowered our net result forecasts due to the anticipated higher interest expenses. Given the lower WACC, our price target rises from €0.48 to €0.60. We confirm our Buy rating.

CHF 5m loan secures sufficient funds for growth The loan has a term of four years and provides sufficient funds to finance the anticipated strong growth in 2020E and the following years.

Waiting for the BSI rollout proclamation According to the German Federal Ministry for Economic Affairs, the BSI will publish its market analysis shortly. Based on this analysis the BSI will then publish the official rollout proclamation (so-called "Markterklärung"), which marks the start of the official rollout. This Markterklärung asserts that it is technically feasible to equip metering points with SMGWs, i.e. confirms that the legal requirement of the availability of three certified SMGWs in the market has been met. The non-fulfilment of this requirement has been the primary reason for the delay of the legally mandated rollout of the intelligent metering systems.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Revenue (€m)	-0.40	4.94	7.97	8.13	10.16	13.21
Y-o-y growth	n.a.	n.a.	61.5%	2.0%	25.0%	30.0%
EBIT (€m)	-7.85	-3.00	-0.66	-0.07	0.44	1.41
EBIT margin	1971.1%	-60.8%	-8.3%	-0.9%	4.4%	10.7%
Net income (€m)	-8.57	-3.03	-1.30	-0.67	-0.16	0.71
EPS (diluted) (€)	-0.39	-0.12	-0.04	-0.02	0.00	0.02
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-2.86	-0.54	-0.19	-0.46	-0.02	0.18
Net gearing	278.3%	474.0%	704.7%	172.1%	119.5%	89.5%
Liquid assets (€m)	0.02	0.07	0.06	0.05	4.08	3.56

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 21 Jan 2020

Closing Price	€ 0.30
Shares outstanding	38.17m
Market Capitalisation	€ 11.30m
52-week Range	€ 0.19 / 0.43
Avg. Volume (12 Months)	11,902

Multiples	2018	2019E	2020E
P/E	n.a.	n.a.	n.a.
EV/Sales	2.0	2.0	1.6
EV/EBIT	n.a.	n.a.	35.8
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2019

Liquid Assets	€ 0.03m
Current Assets	€ 2.85m
Intangible Assets	€ 4.53m
Total Assets	€ 10.39m
Current Liabilities	€ 5.22m
Shareholders' Equity	€ 2.78m

SHAREHOLDERS

René C. Jäggi	15.4%
Robert E. Züllig	14.3%
WiseKey	5.8%
Other investors	14.9%
Free Float	49.6%



Compulsory and voluntary SMGW installations Metering point operators have to install SMGWs at metering points of:

- 1) end consumers with an annual power consumption of >6.000 kWh,
- 2) end consumers with an agreement according to §14a EnWG (control of controllable consumers to serve the grid), and
- 3) plant operators with an installed capacity of >7 kW.

According to the German Federal Network Agency, the number of compulsory installations amounts to ca. 6.3m (see figure 1). SMGWs have to be installed within eight years, and at least 10% within three years.

Voluntary installations are possible for all other end consumers and plant operators. In theory, almost 41m installations could take place (see figure 2 overleaf), but realistically only 15-25% of the total (i.e. 6-10m) may be installed.

For metering point operators, end consumers with a relatively high power consumption (4,000 to 6,000 kWh), which add up to 5.2m, and operators of small power plants (0.5m) might be attractive enough to spur installations on a voluntary basis. Furthermore, if a modern metering system is to be embedded in a communication network, it has to use an SMGW. Additional SMGW demand will come from newly built flats (ca. 300k p.a.) and large renovations (FBe: ca. 400k p.a.).

Why SMGWs? The German government established a legal framework for the digitalisation of the energy sector in 2016 with the “Law to digitalise the energy transition” which stipulates a step-by-step SMGW rollout process over eight years. The SMGW guarantees secure communication between end consumers’ meters and utilities and is a decisive element in the digitalisation of the German energy sector. The certification by the German Federal Office for Information Security confirms security aspects such as stringent requirements for cryptography, security modules, smart metering public key infrastructure, and SMGW administration.

Compulsory SMGW installations 2020-2027 Based on the 2018 figures of the Federal Network Agency (Bundesnetzagentur), compulsory SMGW installations amount to 6.3m, of which 5.0m for end consumers and 1.3m for plant operators (see figure 1). Large consumers with consumption above 100,000 kWh have up to 16 years for all installations to be completed, whereas the installation period for all other consumers is capped at eight years. Given that SMGW installation for very large consumers offers the most attractive business opportunities, we assume that all 6.3m compulsory installations will be executed by the end of 2027. This means that we will see almost 800k compulsory installations p.a. on average.

Figure 1: Compulsory SMGW installation according to §§29, 31, 32 MsbG in 2018

End consumer with annual power consumption (kWh)	
>6,000 to ≤10,000	2,046,722
>10,000 to ≤20,000	1,004,389
>20,000 to ≤50,000	510,785
>50,000 to ≤100,000	151,066
>100,000	241,590
Consumers according to §14 EnWG	1,054,789
<i>Sum end consumers</i>	<i>5,009,341</i>
Installed capacity of plant operators in kW (§2 no. 1 MsbG)	
>7 to ≤15	528,450
>15 to ≤30	251,627
>30 to ≤100	136,650
>100	365,529
<i>Sum plant operators</i>	<i>1,282,256</i>
Sum end consumers & plant operators	6,291,597

Source: First Berlin Equity Research; Bundesnetzagentur: Monitoringbericht 2019, p. 328



Considering the legal requirement to replace SMGWs after eight years, we expect recurring long term revenues for OpenLimit. The company should also generate recurring revenues with software service & maintenance.

Voluntary installations To maximise the benefits of digitalisation, a complete rollout would be necessary, but for smaller end consumers and plant operators costs may outweigh benefits. The government thus decided that they can voluntarily install an SMGW.

Figure 2: Voluntary SMGW installation according to §§29, 31, 32 MsbG in 2018

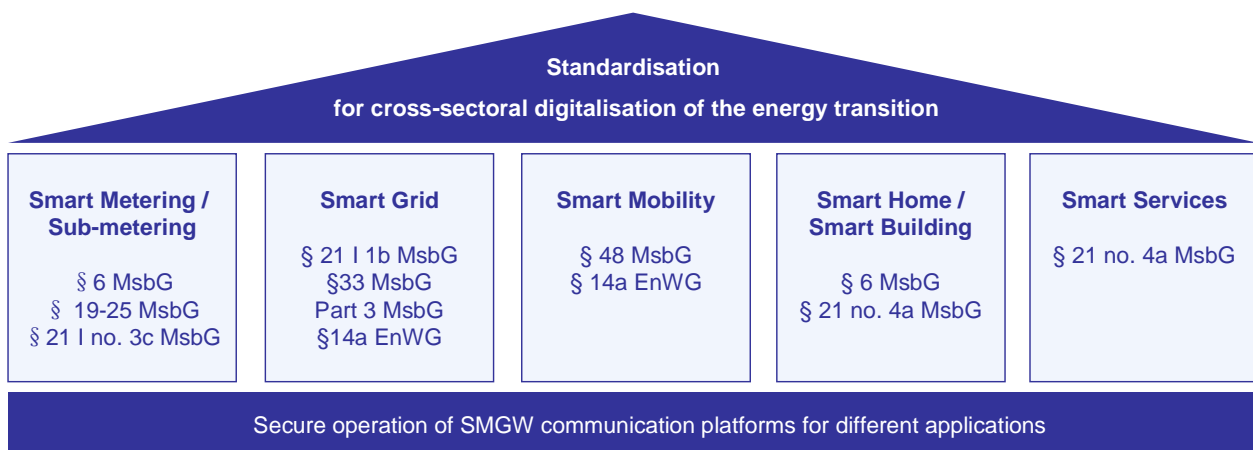
End consumer with annual power consumption (kWh)	
≤2,000	20,808,481
>2,000 to ≤3,000	8,461,321
>3,000 to ≤4,000	5,571,002
>4,000 to ≤6,000	5,218,596
<i>Sum end consumers</i>	<i>40,059,400</i>
Installed capacity of plant operators in kW (§2 no. 1 MsbG)	
>1 to ≤7	543,995
Sum end consumers & plant operators	40,603,395

Source: First Berlin Equity Research, Bundesnetzagentur: Monitoringbericht 2019, p. 329

Assuming a penetration rate of 15-25% for voluntary installations, an additional 6.1m to 10.2m SMGWs would be installed. The SMGW market potential thus adds up to 12.4m - 16.5m units. This figure does not include the estimated 700k p.a. from new flats and large renovations. Furthermore, we anticipate extra potential when further metering systems in the areas gas, water, and heat are introduced.

SMGW as secure basis for digital business models The SMGW enables the implementation of new applications, innovations, and business models and is thus opening up a new era in the energy industry. We see five application areas for intelligent metering systems, which are defined as modern metering systems embedded in a communication network via a SMGW (see figure 3).

Figure 3: Applications for intelligent metering systems



Source: First Berlin Equity Research, BSI: Marktanalyse 2019, p. 23

- **Smart metering / Sub-metering:** Smart metering is the prime application area for intelligent metering systems. Consumption visualisation and innovative tariffs are possible due to meter data provision every 15 minutes. The sub-metering area refers to cross-sector metering for gas, water and heat and can be served by



SMGWs. The connection of additional metering technologies to the SMGW will further augment the market potential, as the SMGW can only handle a limited number of metering devices.

- **Smart grid:** The smart grid application comprises the integration of so-called Controllable Local Systems (CLS), i.e. distributed power plants, storage, and controllable consumer units. Services include (remote) control of CLS, retrieving actual feed-in, collection and transmission of master and grid status data.
- **Smart mobility:** This application refers to the secure integration of the charging station infrastructure of electric vehicles (EV) into the grid. The use of EV batteries as power storage and the provision of balancing power will play an important role in the future. Charging processes for EVs must be foresighted and coordinated with each other to avoid grid overloads. The future integration of the SMGW into the charging station will enable safe charging and invoicing (secure authentication procedures, secure administration and operation of the charging points, data protection-compliant processing of measured values).
- **Smart home & smart service:** The SMGW will be the secure basis for value-add services to be developed by the market.

OpenLimit and PPC in the pole position Thanks to the early SMGW certification in December 2018, the partners had much more time to prepare for the rollout than their competitors (Sagemcom Dr. Neuhaus, certification date: 25 September 2019, EMH metering, certification date: 19 December 2019). OpenLimit/PPC have already won ca. two thirds of the top 50 utilities in Germany, among them E.ON and EnBW, as customers.

The SMGW rollout looks set to be the major revenue driver for OpenLimit in the coming years, as we assume the installation of more than 800k SMGW devices per annum from 2020E onwards. That said, 2020 may show a somewhat weaker outcome since production, delivery, and installation processes still have to be ramped up. We believe that OpenLimit / PPC could sell up to 150,000 units in 2020. In this scenario, the company would generate 2020E SMGW sales of €3m, which assumes an average revenue share of €20 per SMGW unit for OpenLimit. We note that it is difficult to estimate SMGW sales volume and pricing in advance of the start of the rollout. Furthermore, the sales volume by type (meaning the type of communication modules purchased by the addressed market, such as Ethernet, LTE, BPL, etc.) will impact margins.

Assuming a 33% market share for OpenLimit / PPC and an annual market volume of 800k units from 2021E on, the partners could sell 264k units. Even under the assumption of a lower revenue share of just €15 per OpenLimit SMGW, this would result in an annual revenue contribution of ca. €4m. We welcome the high scalability of the SMGW business as OpenLimit will generate revenues (licence fee) per unit sold, whereas most of the development costs have already been booked.

Forecasts slightly adjusted The CHF 5m loan has significantly increased the financial stability of OpenLimit and thus underpins our growth projections (2020E: +25% y/y, 2021E: +30% y/y). The higher interest expenses lower the net result (see figure 4 overleaf).

**Figure 4: Revised forecasts**

All figures in €m	2019E			2020E			2021E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	8.13	8.13	0.0%	10.16	10.16	0.0%	13.21	13.21	0.0%
EBIT	-0.07	-0.07	-	0.44	0.44	0.0%	1.41	1.41	0.0%
margin	-0.9%	-0.9%	-	4.4%	4.4%	-	10.7%	10.7%	-
Net income	-0.67	-0.67	-	0.09	-0.16	-	1.02	0.71	-30.3%
margin	5.0%	-8.2%	-	0.9%	-1.6%	-	7.7%	5.4%	-
EPS in € (diluted)	-0.02	-0.02	-	0.00	0.00	-	0.03	0.02	-30.3%

Source: First Berlin Equity Research

Buy rating confirmed at higher price target We have lowered our WACC from 14.3% to 13.3% to reflect the lower financial risk. An updated DCF model yields a new price target of €0.60 (previously: €0.48). We confirm our Buy rating



VALUATION MODEL

DCF valuation model								
All figures in EUR '000	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Net sales	8,128	10,161	13,209	16,511	20,294	24,519	29,110	33,953
NOPLAT	-133	443	1,278	2,315	2,863	3,457	4,137	4,887
+ depreciation & amortisation	2,821	2,236	1,889	1,931	2,337	2,789	3,275	3,781
Net operating cash flow	2,688	2,680	3,168	4,246	5,200	6,246	7,412	8,668
- total investments (CAPEX and WC)	-2,616	-2,089	-2,422	-3,150	-3,894	-4,566	-5,250	-5,916
Capital expenditures	-1,666	-1,880	-2,312	-2,856	-3,404	-3,983	-4,576	-5,158
Working capital	-950	-209	-110	-293	-490	-583	-674	-758
Free cash flows (FCF)	72	590	745	1,097	1,306	1,680	2,162	2,752
PV of FCF's	72	525	585	760	799	907	1,031	1,159

All figures in thousands	
PV of FCFs in explicit period (2019E-2033E)	15,790
PV of FCFs in terminal period	12,819
Enterprise value (EV)	28,609
+ Net cash / - net debt (pro forma)	-4,582
+ Investments / minority interests	0
Shareholder value	24,028
Diluted number of shares	40,333
Fair value per share in EUR	0.60

WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
9.3%	14.0%	1.15	1.17	1.20	1.24	1.28	1.32	1.38
10.3%	8.0%	0.95	0.97	0.99	1.01	1.04	1.06	1.10
11.3%	16.0%	0.80	0.81	0.82	0.84	0.85	0.87	0.89
12.3%	6.7%	0.68	0.69	0.69	0.70	0.71	0.73	0.74
13.3%	90.0%	0.58	0.58	0.59	0.60	0.60	0.61	0.62
14.3%	10.0%	0.50	0.50	0.50	0.51	0.51	0.52	0.52
15.3%		0.43	0.43	0.43	0.44	0.44	0.44	0.44
16.3%		0.37	0.37	0.37	0.38	0.38	0.38	0.38

* For layout reasons, the figure only displays figures until 2026, but the model runs until 2033.



INCOME STATEMENT

All figures in EUR '000	2016A	2017A	2018A	2019E	2020E	2021E
Revenues	-398	4,935	7,969	8,128	10,161	13,209
Own work	2,426	2,451	1,620	1,552	1,778	2,246
Cost of goods sold	462	293	84	163	1,016	1,717
Gross profit	-860	4,643	7,885	7,965	9,145	11,492
Personnel costs	6,147	4,970	4,819	4,900	5,500	7,000
Other operating income	1,465	0	0	0	0	0
Other operating expenses	2,131	2,487	2,743	1,869	2,743	3,434
EBITDA	-5,247	-363	1,942	2,748	2,680	3,303
Depreciation and amortisation	2,607	2,637	2,603	2,821	2,236	1,889
Operating income (EBIT)	-7,854	-3,000	-660	-73	443	1,414
Net financial result	-508	-410	-614	-534	-638	-567
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	-8,362	-3,410	-1,275	-607	-194	847
Income taxes	-207	382	-21	-61	31	-135
Minority interests	0	0	0	0	0	0
Net income / loss	-8,569	-3,028	-1,296	-667	-163	711
Diluted EPS (in €)	-0.39	-0.12	-0.04	-0.02	0.00	0.02
Ratios						
Gross margin	n.m.	94.1%	98.9%	98.0%	90.0%	87.0%
EBIT margin on revenues	n.m.	-60.8%	-8.3%	-0.9%	4.4%	10.7%
EBITDA margin on revenues	n.m.	-7.4%	24.4%	33.8%	26.4%	25.0%
Net margin on revenues	n.m.	-61.4%	-16.3%	-8.2%	-1.6%	5.4%
Tax rate	n.m.	11.2%	-1.7%	-10.0%	16.0%	16.0%
Expenses as % of revenues						
Personnel costs	n.m.	100.7%	60.5%	60.3%	54.1%	53.0%
Depreciation and amortisation	n.m.	53.4%	32.7%	34.7%	22.0%	14.3%
Other operating expenses	n.m.	50.4%	34.4%	23.0%	27.0%	26.0%
Y-Y Growth						
Revenues	n.m.	n.m.	61.5%	2.0%	25.0%	30.0%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	218.8%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.



BALANCE SHEET

All figures in EUR '000	2016A	2017A	2018A	2019E	2020E	2021E
Assets						
Current assets, total	4,595	2,895	1,620	1,959	6,562	6,874
Cash and cash equivalents	17	65	56	53	4,084	3,563
Short-term investments	0	0	0	0	0	0
Receivables & other	4,577	2,825	1,560	1,893	2,366	3,076
Inventories	0	5	4	13	111	235
Other current assets	0	0	0	0	0	0
Non-current assets, total	6,113	7,271	6,393	5,239	4,882	5,304
Property, plant & equipment	82	80	70	77	91	114
Goodwill & other intangibles	5,207	5,826	4,889	3,728	3,357	3,756
Other assets	823	1,364	1,434	1,434	1,434	1,434
Total assets	10,708	10,166	8,014	7,198	11,444	12,179
Shareholders' equity & debt						
Current liabilities, total	8,257	6,566	6,189	3,913	3,075	3,098
Short-term debt	4,035	1,412	4,568	2,900	1,700	1,000
Accounts payable & other	3,320	4,554	1,499	891	1,253	1,976
Current provisions	900	584	0	0	0	0
Other current liabilities	2	16	122	122	122	122
Long-term liabilities, total	757	2,740	1,039	1,039	5,652	5,652
Long-term debt	382	2,464	773	773	5,385	5,385
Deferred revenue	0	0	0	0	0	0
Other liabilities	375	275	267	267	267	267
Minority interests	0	0	0	0	0	0
Shareholders' equity	1,693	860	785	2,246	2,718	3,429
Share capital	5,354	6,888	7,826	9,954	10,456	10,456
Capital reserve	10,498	11,013	11,157	11,157	11,291	11,291
Other reserves	2,288	2,402	2,500	2,500	2,500	2,500
Treasury stock	0	0	0	0	0	0
Loss carryforward / retained earnings	-16,448	-19,443	-20,698	-21,365	-21,528	-20,817
Total consolidated equity and debt	10,708	10,166	8,014	7,198	11,444	12,179
Ratios						
Current ratio (x)	0.56	0.44	0.26	0.50	2.13	2.22
Quick ratio (x)	0.56	0.44	0.26	0.50	2.10	2.14
Book value per share (€)	0.08	0.03	0.03	0.06	0.07	0.09
Net cash	-4,712	-4,076	-5,531	-3,865	-3,247	-3,068
Net gearing	278.3%	474.0%	704.7%	172.1%	119.5%	89.5%
Equity ratio	15.8%	8.5%	9.8%	31.2%	23.7%	28.2%
Return on equity (ROE)	-506.2%	-352.1%	-165.1%	-29.7%	-6.0%	20.7%



CASH FLOW STATEMENT

All figures in EUR '000	2016A	2017A	2018A	2019E	2020E	2021E
EBIT	-7,854	-3,000	-660	-73	443	1,414
Depreciation and amortisation	2,607	2,637	2,603	2,821	2,236	1,889
EBITDA	-5,247	-363	1,942	2,748	2,680	3,303
Changes in working capital	-2,840	2,995	-293	-950	-209	-110
Other adjustments	7,679	81	-182	-595	-607	-702
Operating cash flow	-407	2,713	1,467	1,204	1,864	2,490
Investments in PP&E	-26	-41	-36	-41	-51	-66
Investments in intangibles	-2,426	-3,212	-1,620	-1,626	-1,829	-2,246
Free cash flow	-2,859	-541	-189	-463	-16	179
Acquisitions & disposals, net	1,465	0	0	0	0	0
Other investments	0	0	0	0	0	0
Cash flow from investing	-987	-3,254	-1,656	-1,666	-1,880	-2,312
Debt financing, net	550	-17	-101	-1,668	3,413	-700
Equity financing, net	584	605	281	2,128	635	0
Dividends paid	0	0	0	0	0	0
Other financing	0	0	0	0	0	0
Cash flow from financing	1,134	588	179	460	4,048	-700
FOREX & other effects	-26	1	0	0	0	0
Net cash flows	-286	48	-9	-3	4,031	-521
Cash, start of the year	303	17	65	56	53	4,084
Cash, end of the year	17	65	56	53	4,084	3,563
EBITDA/share (in €)	-0.24	-0.01	0.06	0.07	0.07	0.08
Y-Y Growth						
Operating cash flow	n.m.	n.m.	-45.9%	-17.9%	54.8%	33.6%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.m.	n.m.	n.m.	6.6%	-2.5%	23.3%

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...57	↓	↓	↓	↓
58	7 January 2019	€0.35	Buy	€0.54
59	7 May 2019	€0.38	Buy	€0.54
60	14 October 2019	€0.30	Buy	€0.48
61	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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Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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