

OpenLimit Holding AG

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

2016 figures

RATING
PRICE TARGET **BUY**
 Return Potential 49.4%
 Risk Rating High

HIGH NET LOSS DUE TO ONE-OFFS

2016 was probably the most difficult year in the history of the company. Merger talks with WiseKey failed and the intended capital inflow of ca. €5m did not take place. The severe injury to president René Jäggi and the following share price slump resulted in a severe strain on resources and hampered business and financing negotiations. This, combined with a tight liquidity situation created an unstable situation at the company, which is not yet over. We believe that OpenLimit still needs further financing. Despite gross earnings of €8.0m, sales were negative (€-0.4m) due to IFRS accounting effects from the sale of intellectual property, write-downs of receivables, and provisions. EBIT amounted to €-7.9m (2015: €1.0m), and the net result was €-8.6m. We have adjusted our forecasts for 2017E and the following years due to the later than anticipated start of the smart meter roll-out. An updated DCF model yields a new price target of €0.62 (previously: €1.00). We reiterate our Buy rating.

Guidance for 2017: moderate growth For 2017, OpenLimit is guiding towards moderate growth and believes that it can exceed the results of recent years unless the development milestones are reached later than currently expected.

Merger talks with WiseKey terminated OpenLimit and WiseKey terminated their merger talks at the end of March 2017. OpenLimit will thus remain independent. The merger negotiations absorbed management resources and produced unplanned costs.

Two capital increases in September 2016 and April 2017 In September 2016, OpenLimit issued 2.73m shares at €0.50 and received gross proceeds of €1.37m, of which €0.8m were used to reduce debt. In April 2017, the company issued 5.48m shares at €0.37. 3.86m shares were used to reduce debt. WiseKey received 2.01m shares as a repayment for its €750k interim financing.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Revenue (€m)	8.07	8.69	-0.40	9.00	12.10	14.52
Y-o-y growth	16.0%	7.7%	n.m.	n.m.	34.4%	20.0%
EBIT (€m)	0.63	0.97	-7.85	-0.09	1.41	2.52
EBIT margin	7.8%	11.1%	n.m.	-1.0%	11.6%	17.3%
Net income (€m)	0.14	0.33	-8.57	-0.64	0.90	1.91
EPS (diluted) (€)	0.01	0.02	-0.39	-0.02	0.03	0.07
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-0.61	-0.61	-2.86	-0.53	0.66	1.16
Net gearing	34.9%	38.3%	278.3%	103.1%	63.5%	23.3%
Liquid assets (€m)	0.97	0.30	0.02	0.20	0.16	0.32

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 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.

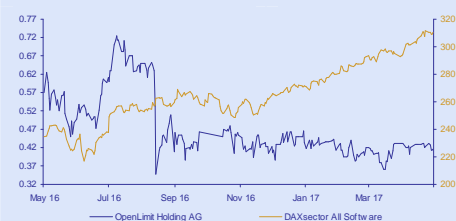
MARKET DATA

As of 19 May 2017

Closing Price	€ 0.41
Shares outstanding	27.37m
Market Capitalisation	€ 11.36m
52-week Range	€ 0.35 / 0.73
Avg. Volume (12 Months)	23,047

Multiples	2016	2017E	2018E
P/E	n.a.	n.a.	12.7
EV/Sales	n.a.	1.8	1.3
EV/EBIT	n.a.	n.a.	11.4
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2016

Liquid Assets	€ 0.02m
Current Assets	€ 4.60m
Intangible Assets	€ 5.21m
Total Assets	€ 10.71m
Current Liabilities	€ 8.32m
Shareholders' Equity	€ 1.69m

SHAREHOLDERS

Robert E. Züllig	9.9%
WiseKey	8.0%
René C. Jäggi	7.2%
Other investors	12.6%
Free Float	62.3%



WiseKey has thus become a major shareholder with a stake of ca. 8%. For the remaining 1.62m shares, OpenLimit received €0.6m in cash. The number of shares has thus increased to 27.37m.

Negative revenues due to IFRS accounting effects for one-offs Gross earnings amounted to €8.0m (revenues 2015: €8.7m, -9%). OperLimit generated €6.0m in sales and received €2.0m for the sale of its intellectual property (IP) to T-Systems, which was not booked as sales. Furthermore, revenues were corrected for the writedown of receivables (€5.8m) and a provision for expected lower earnings in the future (€0.9m) resulting in negative revenue of €0.4m.

Own work declined 25% to €2.4m from €3.3m in the previous year, as product development, which has hitherto been booked as own work, is now completely financed by T-Systems. Excluding the profit of €1.5m from selling its IP, OpenLimit's operating expenses were largely stable. This resulted in EBIT of €-7.9m (2015: €1.0m). Higher interest expenses (€0.5m) led to EBT of €-8.4m. The net result was €-86m (2015: €0.3m) and diluted EPS amounted to €-0.39 (2015: €0.02, see also figure 1)

Figure 1: Reported figures versus forecasts

All figures in €m	2016A	2016E	Delta	2015	Delta
Sales	-0.40	8.70	-	8.69	-
EBIT	-7.85	-0.06	-	0.97	-
margin	<i>n.m.</i>	-0.7%		11.2%	
Net income	-8.57	-0.48	-	0.33	-
margin	<i>n.m.</i>	-5.5%		3.8%	
EPS in € (diluted)	-0.39	-0.02	-	0.02	-

Source: First Berlin Equity Research, OpenLimit Holding AG

Balance sheet cleaned up At the end of 2016, OpenLimit had receivables of €9.2m, of which €6.0m had been due for more than 180 days. The company decided to write off receivables amounting to €5.8m, which lowered the receivables position to €3.5m. Clearly, OpenLimit was of the opinion that the low probability of collecting the receivables and the disproportionate effort necessary for collection justified the writedown. This derisks the balance sheet as OpenLimit is no longer carrying along a mountain of long overdue receivables, as it has done for years. The high net loss of €8.6m hit equity hard. It declined to €1.7m (2015: €8.7m). The equity share fell to 18% from 57%. Although the capital increase in April 2017 bolstered equity by €2.0m, the equity ratio remains significantly lower at ca. 35%.

The cash position fell y/y from €303k to €17k. Short-term financial debt increased to €4.0m from €2.9m, whereas long-term financial debt was slightly lower at €0.4m (end 2015: €0.5m). Pension liabilities rose to €312k from €234k at the end of 2015. This resulted in a higher net debt position of €4.7m (end 2015: €3.3m). Higher net debt and lower equity pushed net gearing to 278% from 38% at the end of 2015.

Operating cash flow only slightly negative As the write-off of receivables (€5.8m) is not cash-relevant, operating cash flow was only slightly negative at €-0.4m. CAPEX of €2.5m resulted in a free cash flow of €-2.9m. Net cash inflow of €1.5m due to the sale of IP led to cash flow from investing activities of €-1.0m. Financing cash flow amounted to €1.1m, and net cash flow was €-0.3m.

High order backlog At the end of Q1, OpenLimit's order backlog was a high single digit Euro million sum and was close to a typical annual sales figure of the group (FBe: ca. €8m). We view this backlog as a very good basis to reach our 2017E sales forecast of €9.0m.



Smart Meter Gateway main future sales & earnings driver The Smart Meter Gateway (SMG) guarantees secure communication between end consumers' meters and utilities and is a decisive element in the digitisation of the German energy sector. In July 2016, the German Bundestag passed the "Law to digitalise the energy transition", which entails a step-by-step roll-out over eight years. The SMG market potential is 12 – 15 million devices.

OpenLimit has developed the SMG together with its partner PPC, and both are in an excellent competitive position to gain a ca. 30% share in the SMG market. At the eWorld trade fair in February 2017, OpenLimit and PPC presented the SMG together with 35 partners – among them well-known companies such as Bosch, Elster, E.ON Metering, Robotron, Siemens, and Thüga. Approximately two thirds of the top 50 utilities in Germany are customers of the jointly developed SMG. As we expect SMG installations of almost 2 million devices per annum, the SMG roll-out looks set to be a major revenue driver for OpenLimit in coming years.

In 2017, OpenLimit's partner PPC concluded a framework agreement for the SMG with EnBW, one of the four large German utilities. Following the conclusion of successful field tests at EnBW in Q1 2017, the partners are now preparing the largest pilot installation in Germany with 10,000 SMGs.

The SMG roll-out has been delayed as the smart meter gateway certification process is taking longer than we anticipated. The roll-out will only begin once three suppliers have completed the certification process. Up until today, no supplier has been certified and it is difficult to say when exactly the BSI, Germany's Federal Office for Information Security, will conclude the certification process. We now assume that the smart meter roll-out will not start before the end of 2017 (previous assumption: beginning 2017).

T-Systems has significantly expanded Konnektor development contract OpenLimit has developed the Konnektor which will guarantee secure communication between the stakeholders of the German healthcare system. The government wants to integrate all practices and hospitals with the telematics infrastructure by mid 2018. Based on the expanded Konnektor development contract, total order value (2014-17) amounts to a lower double-digit million Euro sum. This is more than twice as high as the initial contract value. The expansion itself amounts to a low single-digit million Euro sum for 2016-17. Furthermore, in 2016 and 2017, OpenLimit will receive a mid single-digit million Euro sum from T-Systems for IP developed in connection with the Konnektor, payable in tranches on the achievement of predefined milestones. OpenLimit received the first tranche (€2m) in 2016.

Forecasts adjusted We have reduced our estimates for 2017E and the following years due to the delayed start of the roll-out (see figure 2). For 2017E, we now forecast sales of €9m and EBIT around break-even. For 2018E, we anticipate strong top line growth (+34%) and positive EBIT of €1.4m due mainly to the SMG roll-out.

Figure 2: Revisions to forecasts

All figures in €m	2017E			2018E			2019E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	12.45	9.00	-27.7%	15.67	12.10	-22.8%	15.36	14.52	-5.5%
EBIT	1.92	-0.09	-	3.50	1.41	-59.8%	3.03	2.52	-16.9%
margin	15.4%	-1.0%	-	22.3%	11.6%	-	19.7%	17.3%	-
Net income	1.33	-0.64	-	2.80	0.90	-68.0%	2.29	1.91	-16.4%
margin	10.7%	-7.1%	-	17.9%	7.4%	-	14.9%	13.2%	-
EPS in € (diluted)	0.05	-0.02	-	0.11	0.03	-69.1%	0.09	0.07	-19.4%

Source: First Berlin Equity Research

Buy rating reiterated at lower price target The dilutive effect of the two capital increases and the lowered forecasts yield a new price target of €0.62 (previously: €1.00). We maintain our high WACC of 16% as the company is still in an unstable situation and is assumed to



require further interim financing. But we also see significant progress: a cleaned-up balance sheet, a strong order backlog and the pending start of the SMG market, for which OpenLimit and its partner PPC are excellently positioned. 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	9,000	12,100	14,520	17,192	20,099	23,197	26,428	29,715
NOPLAT	-113	1,235	2,151	3,073	3,781	4,377	4,908	5,388
+ depreciation & amortisation	2,599	2,547	2,639	2,741	2,713	2,827	2,987	3,147
Net operating cash flow	2,486	3,781	4,790	5,814	6,494	7,205	7,896	8,534
- total investments (CAPEX and WC)	-2,489	-2,784	-3,391	-3,474	-3,529	-3,798	-4,018	-4,173
Capital expenditures	-2,403	-2,735	-2,846	-2,940	-3,241	-3,515	-3,748	-3,925
Working capital	-86	-49	-545	-535	-288	-283	-270	-248
Free cash flows (FCF)	-2	998	1,399	2,340	2,965	3,407	3,878	4,361
PV of FCF's	-2	780	943	1,358	1,483	1,469	1,442	1,397

All figures in thousands	
PV of FCFs in explicit period (2017E-2031E)	16,300
PV of FCFs in terminal period	5,435
Enterprise value (EV)	21,735
+ Net cash / - net debt	-4,712
+ Investments / minority interests	0
Shareholder value	17,023

Fair value per share in EUR	0.62
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WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
12.0%	1.02	1.04	1.06	1.08	1.10	1.13	1.16	
13.0%	0.88	0.90	0.91	0.93	0.95	0.97	0.99	
14.0%	0.77	0.78	0.79	0.81	0.82	0.83	0.85	
15.0%	0.68	0.69	0.70	0.70	0.71	0.72	0.74	
16.0%	0.60	0.61	0.61	0.62	0.63	0.63	0.64	
17.0%	0.53	0.54	0.54	0.55	0.55	0.56	0.56	
18.0%	0.47	0.47	0.48	0.48	0.49	0.49	0.50	
19.0%	0.42	0.42	0.42	0.43	0.43	0.43	0.44	

* 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
Revenues	8,066	8,689	-398	9,000	12,100	14,520
Own work	2,971	3,251	2,426	2,340	2,662	2,759
Cost of goods sold	263	211	462	585	1,210	1,597
Gross profit	7,803	8,479	-860	8,415	10,890	12,923
Personnel costs	6,018	6,529	6,147	6,500	7,400	8,131
Other operating income	0	0	1,465	0	0	0
Other operating expenses	1,486	1,480	2,131	1,750	2,200	2,396
EBITDA	3,270	3,722	-5,247	2,505	3,952	5,155
Depreciation and amortisation	2,641	2,755	2,607	2,599	2,547	2,639
Operating income (EBIT)	630	966	-7,854	-94	1,405	2,515
Net financial result	-369	-458	-508	-530	-339	-238
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	261	508	-8,362	-624	1,066	2,277
Income taxes	121	182	207	19	171	364
Minority interests	0	0	0	0	0	0
Net income / loss	139	327	-8,569	-643	896	1,913
Diluted EPS (in €)	0.01	0.02	-0.39	-0.02	0.03	0.07
Ratios						
Gross margin	96.7%	97.6%	n.m.	93.5%	90.0%	89.0%
EBIT margin on revenues	7.8%	11.1%	n.m.	-1.0%	11.6%	17.3%
EBITDA margin on revenues	40.5%	42.8%	n.m.	27.8%	32.7%	35.5%
Net margin on revenues	1.7%	3.8%	n.m.	-7.1%	7.4%	13.2%
Tax rate	46.5%	35.8%	n.m.	-3.0%	16.0%	16.0%
Expenses as % of revenues						
Personnel costs	74.6%	75.1%	n.m.	72.2%	61.2%	56.0%
Depreciation and amortisation	32.7%	31.7%	n.m.	28.9%	21.0%	18.2%
Other operating expenses	18.4%	17.0%	n.m.	19.4%	18.2%	16.5%
Y-Y Growth						
Revenues	16.0%	7.7%	n.m.	n.m.	34.4%	20.0%
Operating income	n.m.	53.5%	n.m.	n.m.	n.m.	79.0%
Net income/ loss	n.m.	134.1%	n.m.	n.m.	n.m.	113.6%



BALANCE SHEET

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
Assets						
Current assets, total	7,292	8,437	4,595	4,907	5,196	5,975
Cash and cash equivalents	969	303	17	199	157	318
Short-term investments	0	0	0	0	0	0
Receivables & other	6,323	8,134	4,577	4,685	4,973	5,569
Inventories	0	0	0	24	66	88
Other current assets	0	0	0	0	0	0
Non-current assets, total	6,232	6,703	6,113	5,916	6,104	6,311
Property, plant & equipment	110	110	82	98	121	149
Goodwill & other intangibles	5,272	5,842	5,207	4,996	5,160	5,339
Other assets	850	750	823	823	823	823
Total assets	13,524	15,139	10,708	10,824	11,300	12,286
Shareholders' equity & debt						
Current liabilities, total	4,063	5,689	8,257	6,968	6,549	5,622
Short-term debt	2,457	2,901	4,035	2,700	2,000	1,000
Accounts payable & other	1,606	2,775	3,320	3,366	3,647	3,720
Current provisions	0	0	900	900	900	900
Other current liabilities	0	13	2	2	2	2
Long-term liabilities, total	1,352	757	757	757	757	757
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
Minority interests	0	0	0	0	0	0
Shareholders' equity	8,109	8,694	1,693	3,098	3,994	5,907
Share capital	4,605	4,605	5,354	6,999	6,999	6,999
Capital reserve	9,882	9,882	10,498	10,902	10,902	10,902
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	-17,091	-16,195	-14,283
Total consolidated equity and debt	13,524	15,139	10,708	10,824	11,300	12,286
Ratios						
Current ratio (x)	1.79	1.48	0.56	0.70	0.79	1.06
Quick ratio (x)	1.79	1.48	0.56	0.70	0.78	1.05
Book value per share (€)	0.35	0.38	0.08	0.12	0.15	0.22
Net cash	-2,827	-3,333	-4,712	-3,196	-2,537	-1,376
Net gearing	34.9%	38.3%	278.3%	103.1%	63.5%	23.3%
Return on equity (ROE)	1.7%	3.8%	-506.2%	-20.8%	22.4%	32.4%
Days of sales outstanding (DSO)	286.1	341.7	-4,193.3	190.0	150.0	140.0
Days of inventory turnover	0.0	0.0	0.0	15.0	20.0	20.0
Days in payables (DIP)	2,230.6	4,810.9	2,623.9	2,100.0	1,100.0	850.0



CASH FLOW STATEMENT

All figures in EUR '000	2014A	2015A	2016A	2017E	2018E	2019E
EBIT	630	966	-7,854	-94	1,405	2,515
Depreciation and amortisation	2,641	2,755	2,607	2,599	2,547	2,639
EBITDA	3,271	3,721	-5,247	2,505	3,952	5,155
Changes in working capital	-494	-730	-2,840	-86	-49	-545
Other adjustments	-354	-280	7,679	-549	-510	-603
Operating cash flow	2,422	2,712	-407	1,871	3,393	4,007
Investments in PP&E	-65	-75	-26	-63	-73	-87
Investments in intangibles	-2,971	-3,251	-2,426	-2,340	-2,662	-2,759
Free cash flow	-613	-614	-2,859	-532	659	1,161
Acquisitions & disposals, net	0	0	1,465	0	0	0
Other investments	0	0	0	0	0	0
Cash flow from investing	-3,035	-3,326	-987	-2,403	-2,735	-2,846
Debt financing, net	957	-78	550	-1,335	-700	-1,000
Equity financing, net	0	0	584	2,049	0	0
Dividends paid	0	0	0	0	0	0
Other financing	0	0	0	0	0	0
Cash flow from financing	957	-78	1,134	714	-700	-1,000
FOREX & other effects	0	0	-26	0	0	0
Net cash flows	344	-692	-286	181	-41	161
Cash, start of the year	625	969	303	17	199	157
Cash, end of the year	969	277	17	199	157	318
EBITDA/share (in €)	0.14	0.16	-0.24	0.10	0.14	0.19
Y-Y Growth						
Operating cash flow	1068.9%	12.0%	n.m.	n.m.	81.4%	18.1%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	76.3%
EBITDA/share	31.6%	13.8%	n.m.	n.m.	47.2%	30.4%

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...48	↓	↓	↓	↓
49	18 November 2015	€0.68	Buy	€1.10
50	4 May 2016	€0.55	Buy	€1.20
51	16 November 2016	€0.43	Buy	€1.00
52	Today	€0.41	Buy	€0.62

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First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

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STRONG BUY: An expected favourable price trend of more than 50% combined with sizeable confidence in the quality and forecast security of management.

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

ADD: An expected favourable price trend of between 0% and 25%.

REDUCE: An expected negative price trend of between 0% and -15%.

SELL: An expected negative price trend of more than -15%.

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The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

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Legally required information regarding

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

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