

OpenLimit Holding AG

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

2018 figures

RATING
PRICE TARGET
 Return Potential
 Risk Rating

BUY
€ 0.54
 41.4%
 High

PROFITABLE GROWTH PHASE AHEAD

OpenLimit reported 2018 figures, which were below our forecasts but showed significant improvement compared to the previous year's figures. The certification of the first smart meter gateway (SMGW) in December 2018, a joint development of OpenLimit and PPC, was a major breakthrough for the company. However, the SMGW certification of at least two other suppliers is taking longer than expected, which will probably postpone the official SMGW rollout into Q3. Based on a high current order backlog of €7.4m management expects sales > €10m. We have lowered our 2019E forecast following the delayed start of the official SMGW rollout, but nevertheless expect strong growth based mainly on Konnektor and SMGW revenues. An updated DCF model yields an unchanged price target of €0.54. We reiterate our Buy rating.

On the right track OpenLimit increased sales by 61% to €8.0m. This was however below our forecast of €9.5m due to postponed orders. Total output rose 30% to €9.6m. EBITDA amounted to €1.9m (2017: €-0.4m, FBe: €3.0m). D&A of €2.6m resulted in EBIT of €-0.7m (2017: €-3.0m, FBe: €0.1m). The net result was €-1.3m versus €-3.0m in 2017 and FBe of €-0.4m).

Guidance: >€10m sales Given the current order backlog of €7.4m and a solid sales pipeline, we see a good chance that OpenLimit will generate revenues >€10m. The main risks are another postponement of the official SMGW rollout, and constraints in financial and human resources. OpenLimit did not provide EBIT guidance.

Capital increase in January improved balance sheet metrics The weak 2018 balance sheet improved significantly in January when OpenLimit issued 7.1m shares and received gross proceeds of €2.1m which were used to reduce liabilities (see our note of 7 January). At the end of 2018, equity amounted to only €0.8m and the equity ratio was 10%. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Revenue (€m)	-0.40	4.94	7.97	10.76	13.99	16.78
Y-o-y growth	n.a.	n.a.	61.5%	35.0%	30.0%	20.0%
EBIT (€m)	-7.85	-3.00	-0.66	0.87	2.02	3.04
EBIT margin	n.a.	-60.8%	-8.3%	8.1%	14.4%	18.1%
Net income (€m)	-8.57	-3.03	-1.30	0.25	1.43	2.39
EPS (diluted) (€)	-0.39	-0.12	-0.04	0.01	0.04	0.06
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-2.86	-0.54	-0.19	0.01	0.77	1.60
Net gearing	278.3%	474.0%	704.7%	107.3%	38.0%	5.1%
Liquid assets (€m)	0.02	0.07	0.06	0.32	0.63	1.63

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 06 May 2019

Closing Price	€ 0.38
Shares outstanding	38.17m
Market Capitalisation	€ 14.58m
52-week Range	€ 0.23 / 0.43
Avg. Volume (12 Months)	10,500

Multiples	2018	2019E	2020E
P/E	n.a.	58.2	10.2
EV/Sales	2.4	1.8	1.4
EV/EBIT	n.a.	22.2	9.6
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2018

Liquid Assets	€ 0.06m
Current Assets	€ 1.62m
Intangible Assets	€ 4.89m
Total Assets	€ 8.01m
Current Liabilities	€ 6.19m
Shareholders' Equity	€ 0.79m

SHAREHOLDERS

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



Due to the capital increase, equity should now amount to ca. €2.9m. Based on the balance sheet total of €8.0m at the end of 2018, this would result in an equity ratio of 36%. Financial debt increased y/y from €3.9m to €5.4m. The high amount of short-term financial debt (€4.6m) indicates the necessity to refinance a rather high proportion of total financial debt this year. Given the much higher equity ratio and the improving business environment, arranging refinancing should however be much easier than in the previous year.

Payables declined from €4.6m to €1.5m due mainly to lower client prepayments (€0 versus €1.8m in 2017). Receivables increased from €1.3m to €1.6m. Trade receivables were much lower y/y (€0.9m versus €3.0m). In 2018, OpenLimit did not have to write down any receivables. In the previous year, receivables' write-downs amounted to €2.3m. At the end of 2018, almost no receivables (€1k) were overdue, compared to €2.3m in 2017. All in all, working capital issues, which burdened the balance sheet in recent years, have been solved.

Figure 1: Reported figures versus forecasts

All figures in €m	2018A	2018E	Delta	2017A	Delta
Sales	7.97	9.50	-16.1%	4.94	61.5%
EBIT	-0.66	0.08	-	-3.00	-
margin	-8.3%	0.8%	-	-	-
Net income	-1.30	-0.41	-	-3.03	-
margin	-16.3%	-4.3%	-	-	-
EPS in € (diluted)	-0.04	-0.01	-	-0.12	-

Source: First Berlin Equity Research, OpenLimit Holding AG

Slightly negative free cash flow Despite the net loss (€-1.3m) and CAPEX of €1.7m, free cash flow was only slightly negative (€-0.2m, 2017: €-0.5m). Cash flow from financing was €0.2m, as cash inflow from a capital increase (€0.3m) and the issue of (convertible) loans (€0.3m) were higher than the repayment of (convertible) loans (€0.4m). Net cash flow amounted to €-9k.

Official smart meter gateway rollout now starts probably in Q3 We have seen so many delays in the smart meter gateway certification process that any new date has to be viewed with caution. The year 2018 nevertheless showed a major breakthrough. The German Federal Office for Information Security (BSI) certified the first SMGW in December following 6+ (!) year certification process. The fact that it was the SMGW of OpenLimit and its partner PPC that was certified, shows that both companies certainly have a competitive advantage in this market. Unfortunately, this advantage seems to be rather large. For the start of the official SMGW rollout, at least three suppliers must receive the BSI certification and clearly other suppliers need more time to fulfil the certification criteria. That is the reason why the official rollout is now postponed to the summer and given the many delays in the past, we cannot be entirely sure that this will be the last postponement. In its market analysis of 31 January, the BSI disclosed that eight other applicants are in the certification process. As of this writing, none of them has been approved (see BSI <https://bit.ly/2JZiEog>).

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 one million SMGW devices per annum from 2020E on. If the official rollout starts in Q3/19 we believe that OpenLimit / PPC could sell 100,000 units this year. OpenLimit / PPC already have first orders from E.ON (16,000 units), EnBW (10,000 units) and other players, and the total order volume amounts to a high five-digit figure (FBe: ca. 80,000 units). In Q1, first SMGWs were delivered to customers. We expect about a dozen SMGW tenders following the official rollout giving OpenLimit / PPC ample opportunity to receive further orders. In this scenario, the company would generate 2019E SMGW sales of €2m, which assumes a revenue share of €20 per SMGW unit for OpenLimit. We note that it is difficult to estimate SMGW sales volume and pricing, before the market rollout has started.



Given that SMGWs have to be exchanged after eight years, we expect recurring revenues even in the long term. Furthermore, the company should generate recurring revenues with software service & maintenance. We welcome the high scalability of the SMGW business as OpenLimit will generate revenues per unit sold, whereas most of the development costs have already been booked.

SMGW is the basis for the digitalisation of the energy sector 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. The "Law to digitalise the energy transition" passed in 2016 stipulates a step-by-step rollout process over eight years. The SMGW market potential is 12-15 million devices. The SMGW enables the implementation of new applications, innovations, and business models in the energy industry and thus opens up a new era.

Medical Access Port (Konnektor) was main revenue driver in 2018 In 2018, the Medical Access Port project was the main revenue driver. OpenLimit has been developing the Medical Access Port on behalf of T-Systems. We believe that €5.5m or 68% of the revenues stem from this project. On 22 June 2018, gematik approved the Medical Access Port for the rollout. gematik Gesellschaft für Telematikanwendungen der Gesundheitskarte mbH was founded by the head organisations (health insurances, doctors, hospitals, pharmacies) of the German health care sector to develop a secure digital communication infrastructure for the sector. The next regulatory milestone was reached on 10 September 2018—the closure of the Common Criteria Certification by the BSI. In March 2019, T-Systems extended the development contract, which should result in mid single million Euro revenues in 2019E.

Convertible loans issued In April, OpenLimit issued convertible loans totalling €550k with a conversion price of €0.38 per share. A conversion (including accrued interest) would result in 1,671,269 new shares. The loans are due on 31 October 2020.

Forecasts lowered for 2019E due to postponed start of official SMGW rollout In our last report from 7 January, we assumed the official rollout would begin in February. But the SMGW certification of other suppliers takes longer than expected. We thus now assume that the certification of two further SMGWs will be completed in summer and the official rollout will begin in Q3/19. The delay results in lower SMGW sales for OpenLimit in 2019E. This explains our lowered forecasts for 2019E. Nevertheless, there are clear indications that 2019E will be much better than 2018: a cleaned-up balance sheet, slightly improved free cash flow, an extension of the Medical Access Port contract with T-Systems, a higher order backlog, and official SMGW market rollout finally ante portas.

Figure 2: Revisions to forecasts

All figures in €m	2019E			2020E			2021E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	11.80	10.76	-8.8%	14.52	13.99	-3.7%	16.87	16.78	-0.5%
EBIT	1.04	0.87	-16.1%	2.06	2.02	-2.2%	3.03	3.04	0.0%
margin	8.8%	8.1%		14.2%	14.4%		18.0%	18.1%	
Net income	0.60	0.25	-58.0%	1.49	1.43	-4.1%	2.36	2.39	1.2%
margin	5.0%	2.3%		10.3%	10.2%		14.0%	14.2%	
EPS in € (diluted)	0.02	0.01	-59.8%	0.04	0.04	-8.1%	0.06	0.06	-3.1%

Source: First Berlin Equity Research

Buy reiterated at unchanged price target After updating and rolling our DCF model one year forward, our price target remains unchanged at €0.54. We reiterate our Buy rating.



VALUATION MODEL

DCF valuation model								
All figures in EUR '000								
	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Net sales	10,758	13,986	16,783	19,300	21,967	24,743	27,578	30,411
NOPLAT	838	1,744	2,580	3,633	4,108	4,591	5,067	5,526
+ depreciation & amortisation	2,234	2,173	2,356	2,611	2,890	3,188	3,492	3,789
Net operating cash flow	3,072	3,917	4,935	6,245	6,998	7,779	8,558	9,315
- total investments (CAPEX and WC)	-2,476	-2,834	-3,145	-3,651	-4,035	-4,429	-4,803	-5,143
Capital expenditures	-2,205	-2,587	-2,937	-3,339	-3,685	-4,020	-4,335	-4,620
Working capital	-271	-246	-208	-312	-350	-409	-468	-523
Free cash flows (FCF)	596	1,083	1,790	2,594	2,963	3,350	3,756	4,172
PV of FCF's	545	866	1,252	1,587	1,585	1,567	1,536	1,493

All figures in thousands	
PV of FCFs in explicit period (2019E-2033E)	18,822
PV of FCFs in terminal period	7,697
Enterprise value (EV)	26,519
+ Net cash / - net debt (pro forma)	-4,801
+ Investments / minority interests	0
Shareholder value	21,718
Diluted number of shares	40,110
Fair value per share in EUR	0.54

WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
10.3%	15.2%	0.93	0.95	0.96	0.98	1.00	1.03	1.06
11.3%	8.0%	0.80	0.81	0.82	0.83	0.85	0.86	0.88
12.3%	16.0%	0.69	0.70	0.71	0.72	0.72	0.74	0.75
13.3%	6.7%	0.60	0.61	0.61	0.62	0.63	0.63	0.64
14.3%	90.0%	0.53	0.53	0.54	0.54	0.55	0.55	0.56
15.3%	10.0%	0.47	0.47	0.47	0.48	0.48	0.48	0.49
16.3%		0.41	0.42	0.42	0.42	0.42	0.42	0.43
17.3%		0.37	0.37	0.37	0.37	0.37	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	10,758	13,986	16,783
Own work	2,426	2,451	1,620	1,936	2,448	2,853
Cost of goods sold	462	293	84	861	1,818	2,182
Gross profit	-860	4,643	7,885	9,897	12,168	14,601
Personnel costs	6,147	4,970	4,819	5,500	6,650	7,700
Other operating income	1,465	0	0	0	0	0
Other operating expenses	2,131	2,487	2,743	3,227	3,776	4,364
EBITDA	-5,247	-363	1,942	3,106	4,189	5,391
Depreciation and amortisation	2,607	2,637	2,603	2,234	2,173	2,356
Operating income (EBIT)	-7,854	-3,000	-660	872	2,016	3,035
Net financial result	-508	-410	-614	-588	-313	-190
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	-8,362	-3,410	-1,275	285	1,704	2,845
Income taxes	207	-382	21	34	273	455
Minority interests	0	0	0	0	0	0
Net income / loss	-8,569	-3,028	-1,296	250	1,431	2,390
Diluted EPS (in €)	-0.39	-0.12	-0.04	0.01	0.04	0.06
Ratios						
Gross margin	n.m.	94.1%	98.9%	92.0%	87.0%	87.0%
EBIT margin on revenues	n.m.	-60.8%	-8.3%	8.1%	14.4%	18.1%
EBITDA margin on revenues	n.m.	-7.4%	24.4%	28.9%	30.0%	32.1%
Net margin on revenues	n.m.	-61.4%	-16.3%	2.3%	10.2%	14.2%
Tax rate	n.m.	11.2%	-1.7%	12.0%	16.0%	16.0%
Expenses as % of revenues						
Personnel costs	n.m.	100.7%	60.5%	51.1%	47.5%	45.9%
Depreciation and amortisation	n.m.	53.4%	32.7%	20.8%	15.5%	14.0%
Other operating expenses	n.m.	50.4%	34.4%	30.0%	27.0%	26.0%
Y-Y Growth						
Revenues	n.m.	n.m.	61.5%	35.0%	30.0%	20.0%
Operating income	n.m.	n.m.	n.m.	n.m.	131.2%	50.5%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	471.5%	67.0%



BALANCE SHEET

All figures in EUR '000	2016A	2017A	2018A	2019E	2020E	2021E
Assets						
Current assets, total	4,595	2,895	1,620	2,311	3,703	5,409
Cash and cash equivalents	17	65	56	324	630	1,630
Short-term investments	0	0	0	0	0	0
Receivables & other	4,577	2,825	1,560	1,916	2,874	3,541
Inventories	0	5	4	71	199	239
Other current assets	0	0	0	0	0	0
Non-current assets, total	6,113	7,271	6,393	6,364	6,779	7,360
Property, plant & equipment	82	80	70	90	117	145
Goodwill & other intangibles	5,207	5,826	4,889	4,840	5,228	5,781
Other assets	823	1,364	1,434	1,434	1,434	1,434
Total assets	10,708	10,166	8,014	8,675	10,482	12,770
Shareholders' equity & debt						
Current liabilities, total	8,257	6,566	6,189	4,472	4,212	4,111
Short-term debt	4,035	1,412	4,568	2,700	1,600	1,000
Accounts payable & other	3,320	4,554	1,499	1,651	2,491	2,989
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	1,039	1,039
Long-term debt	382	2,464	773	773	773	773
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	3,164	5,230	7,620
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	-20,447	-19,016	-16,626
Total consolidated equity and debt	10,708	10,166	8,014	8,675	10,482	12,770
Ratios						
Current ratio (x)	0.56	0.44	0.26	0.52	0.88	1.32
Quick ratio (x)	0.56	0.44	0.26	0.50	0.83	1.26
Book value per share (€)	0.08	0.03	0.03	0.08	0.13	0.19
Net cash	-4,712	-4,076	-5,531	-3,394	-1,989	-389
Net gearing	278.3%	474.0%	704.7%	107.3%	38.0%	5.1%
Equity ratio	15.8%	8.5%	9.8%	36.5%	49.9%	59.7%
Return on equity (ROE)	-506.2%	-352.1%	-165.1%	7.9%	27.4%	31.4%



CASH FLOW STATEMENT

All figures in EUR '000	2016A	2017A	2018A	2019E	2020E	2021E
EBIT	-7,854	-3,000	-660	872	2,016	3,035
Depreciation and amortisation	2,607	2,637	2,603	2,234	2,173	2,356
EBITDA	-5,247	-363	1,942	3,106	4,189	5,391
Changes in working capital	-2,840	2,995	-293	-271	-246	-208
Other adjustments	7,679	81	-182	-622	-585	-645
Operating cash flow	-407	2,713	1,467	2,214	3,358	4,537
Investments in PP&E	-26	-41	-36	-54	-70	-84
Investments in intangibles	-2,426	-3,212	-1,620	-2,152	-2,517	-2,853
Free cash flow	-2,859	-541	-189	9	770	1,600
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	-2,205	-2,587	-2,937
Debt financing, net	550	-17	-101	-1,868	-1,100	-600
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	260	-465	-600
FOREX & other effects	-26	1	0	0	0	0
Net cash flows	-286	48	-9	269	305	1,000
Cash, start of the year	303	17	65	56	324	630
Cash, end of the year	17	65	56	324	630	1,630
EBITDA/share (in €)	-0.24	-0.01	0.06	0.08	0.11	0.14
Y-Y Growth						
Operating cash flow	n.m.	n.m.	-45.9%	50.9%	51.6%	35.1%
Free cash flow	n.m.	n.m.	n.m.	n.m.	8707.1%	107.8%
EBITDA/share	n.m.	n.m.	n.m.	20.4%	34.9%	28.7%

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...55	↓	↓	↓	↓
56	24 September 2018	€0.29	Buy	€0.50
57	17 December 2018	€0.31	Buy	€0.65
58	7 January 2019	€0.35	Buy	€0.54
59	Today	€0.38	Buy	€0.54

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ASSET VALUATION SYSTEM

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

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

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.

RISK ASSESSMENT

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

can be accessed through the following internet link: <http://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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