

Aktie Kompakt

USU Software

Company update: Strong license revenue growth expected



RATING
BUY (UNCHANGED)

TARGET PRICE
25 EUR (27 EUR)

HIGHLIGHTS

- Earnings up significantly in Q3
- Final quarter crucial for meeting annual targets
- Price target lowered, recommendation confirmed

Earnings up significantly in Q3: In the wake of weak Q2 figures, USU considerably boosted its growth momentum again with its Q3 results. Consolidated sales rose by 12.3% y-o-y to EUR 22.5m. This upturn was driven in particular by the performance of SaaS/maintenance revenues (up 30.4% to EUR 7.3 m) and consulting activities (up 11.9% to EUR 12.3m). Although some projects put on hold in Q2 were carried out in Q3, license revenue performance is still unexpectedly subdued, falling by 13.6%. USU has its costs under control, as demonstrated by the above-average 99.5% rise in adjusted EBIT to EUR 1.6m.

Final quarter crucial for meeting annual targets: USU has reiterated its 2018 targets for sales (EUR 93m to EUR 98m) and earnings (adjusted EBIT: EUR 7.5m to EUR 10m). This means that USU is setting the bar at a sales increase of 13%, to 32%, and an earnings rise of 50% to 116% for Q4. The only factor that can drive these increases, in particular for the bottom-line, is strong growth in high-margin licenses. Considering that license revenue fell by 14.1% in the first nine months of 2018, this is no easy target. The significant ramp-up in foreign sales capacities seen since early 2017 should pay off here. **Price target lowered, recommendation confirmed:** Q4 performance has typically been of utmost importance for USU's net income for the year. The momentum required to achieve the annual targets in 2018 is in line with the growth rates shown in previous quarters. We have lowered our price target, which is based primarily on a DCF model, to EUR 25, although this is more due to an increase in the market risk premium than adjusted forecasts. We confirm our Buy recommendation. The main risk for our investment case would be an unexpected high demand for cloud solutions, which had adversely affected high-margin licenses.

PROS

| | |
|---|---|
| + | Highly esteemed software applications |
| + | Big data, Industry 4.0, and the digitalization of companies as growth drivers |
| + | International expansion picking up momentum, sound balance sheet ratios |

CONS

| | |
|---|---|
| - | Low free-float market capitalization |
| - | Individual large orders can cause significant volatility between quarters |

+++ Reuters: OSPGk +++ Bloomberg: OSP2 GY +++

Current Price (XETRA; 18-11-22; 01:23 pm).....18.30 EUR
 CLOSING PRICE (2018-11-22):..... 18.25 EUR
 EXPECTED PERFORMANCE:.....43.7 %
 MARKET CAPITALIZATION:183.12 EUR m
 ENTERPRISE VALUE:162.95 EUR m
 NUMBER OF SHARES: 10.52 m
 FREE FLOAT:.....29.7 %
 INDEX (WEIGHT):CDAX (0.01 %)
 ISIN / WKN:DE000A0BVU28 / A0BVU2
 SECTOR:Software

| KEY DATA (DEC) | 2017 | 2018 E | 2019 E |
|---|-------|--------|--------|
| COMPANY FIGURES IN M EUR, PER SHARE DATA IN EUR | | | |
| Sales | 84.4 | 94.3 | 109.6 |
| EBITDA | 6.8 | 9.5 | 15.3 |
| EBIT | 3.2 | 5.7 | 10.8 |
| Net profit | 3.4 | 4.8 | 9.2 |
| EPS | 0.32 | 0.46 | 0.87 |
| Dividend | 0.40 | 0.45 | 0.55 |
| EV / EBIT | 81.6 | 28.8 | 15.1 |
| P / E | 81.9 | 38.0 | 20.0 |
| Dividend yield | 1.5 % | 2.6 % | 3.2 % |

PRICE PERFORMANCE



Source: USU, LBBW Research, Thomson Reuters

UPCOMING EVENTS

Eigenkapitalforum FFM 26. - 28. November 2018

Mirko Maier
Senior Investment Analyst

Data Overview

Investment case, profile, key data

USU Software

INVESTMENT CASE - USU SOFTWARE

The generally positive environment for USU's product portfolio should allow for higher growth than the sector average. USU supplements its own product portfolio with smaller takeovers. Excellent balance sheet ratios also mean that additional acquisitions are possible. Further growth of the company is expected to be driven by the full product pipeline, the new Katana business area positioned in the Industry 4.0 growth area, and the expansion of international activities. USU's operating earnings should also benefit from this. We are reiterating our Buy recommendation.

Key Data USU Software

(Company figures in m EUR, per share data in EUR)

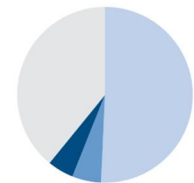
| Profit and Loss Statement (Dec) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 e | 2019 e |
|--|-------|-------|--------|--------|-------|--------|--------|
| Sales | 42.0 | 58.9 | 66.1 | 72.1 | 84.4 | 94.3 | 109.6 |
| EBITDA | 5.5 | 8.9 | 9.9 | 10.8 | 6.8 | 9.5 | 15.3 |
| EBIT | 3.4 | 6.7 | 7.6 | 8.3 | 3.2 | 5.7 | 10.8 |
| Earnings after tax | 3.7 | 5.5 | 8.4 | 6.8 | 3.4 | 4.8 | 9.2 |
| Net profit | 3.7 | 5.5 | 8.4 | 6.8 | 3.4 | 4.8 | 9.2 |
| Earnings per share | 0.35 | 0.53 | 0.80 | 0.64 | 0.32 | 0.46 | 0.87 |
| Dividend | 0.25 | 0.30 | 0.35 | 0.40 | 0.40 | 0.45 | 0.55 |
| growth yoy | | | | | | | |
| Sales | 40.3% | 12.1% | 9.1% | 17.0% | 11.8% | 16.3% | |
| EBITDA | 61.9% | 11.2% | 9.2% | -36.6% | 39.2% | 60.3% | |
| EBIT | 95.8% | 13.7% | 9.3% | -61.2% | 75.4% | 90.4% | |
| Earnings after tax | 50.9% | 51.1% | -19.1% | -50.4% | 43.3% | 90.1% | |
| Net profit | 50.9% | 51.1% | -19.1% | -50.4% | 43.3% | 90.1% | |
| Earnings per share | 51.4% | 50.9% | -20.0% | -50.0% | 43.8% | 89.1% | |
| Dividend | 20.0% | 16.7% | 14.3% | 0.0% | 12.5% | 22.2% | |
| Margins | | | | | | | |
| EBITDA | 13.1% | 15.1% | 14.9% | 15.0% | 8.1% | 10.1% | 13.9% |
| EBIT | 8.1% | 11.3% | 11.5% | 11.5% | 3.8% | 6.0% | 9.8% |
| Earnings per share (reported, undiluted) | 8.8% | 9.4% | 12.7% | 9.4% | 4.0% | 5.1% | 8.4% |
| Net profit | 8.8% | 9.4% | 12.7% | 9.4% | 4.0% | 5.1% | 8.4% |
| Valuation Ratios | | | | | | | |
| EV / Sales | 2.0 | 2.1 | 2.7 | 2.6 | 3.1 | 1.7 | 1.5 |
| EV / EBITDA | 15.0 | 13.8 | 17.9 | 17.7 | 38.5 | 17.1 | 10.7 |
| EV / EBIT | 24.2 | 18.3 | 23.3 | 22.9 | 81.6 | 28.8 | 15.1 |
| Price-Earnings-Ratio | 26.3 | 25.8 | 23.7 | 31.3 | 81.9 | 38.0 | 20.0 |
| Price-Book-Ratio | 1.8 | 2.6 | 3.3 | 3.3 | 4.4 | 2.9 | 2.8 |
| Return on equity | 6.9% | 10.0% | 13.8% | 10.7% | 5.3% | 7.6% | 13.8% |
| FCF yield | 11.5% | 6.2% | 6.1% | 2.7% | 1.9% | 2.7% | 3.5% |
| Dividend yield | 2.7% | 2.2% | 1.9% | 2.0% | 1.5% | 2.6% | 3.2% |

Source: USU, LBBW Research, Thomson Reuters

COMPANY PROFILE - USU SOFTWARE

USU develops applications for recording IT infrastructure in terms of its performance, spread, and cost. In addition, USU offers knowledge-based database solutions with the KnowledgeCenter. The product portfolio is rounded off by accompanying services. In 2017, USU generated sales of EUR 84.4m. The balance sheet is characterized by a high equity ratio, no liabilities to banks, and high net liquidity. Founder Udo Strehl is the majority owner of the company with a share of more than 50%.

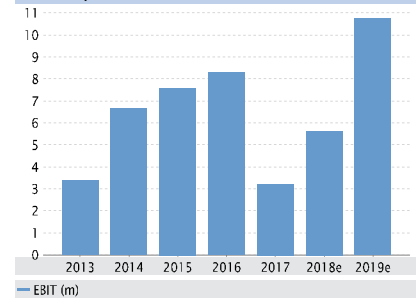
Shareholder Structure



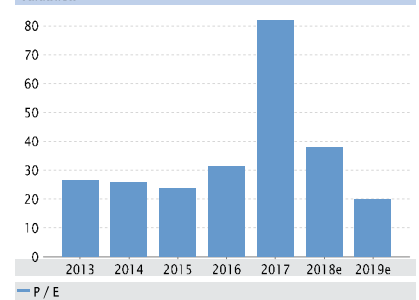
Udo Strehl (50.73%) Peter Scheufler (5.32%)
USU-Organe (4.84%) Freefloat (39.11%)

Source: LBBW Research

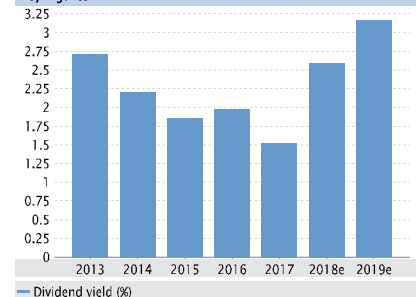
Profitability



Valuation



Key Figures



Source: USU, LBBW Research, Thomson Reuters

Appendix-1

1/2

USU Software

LBBW Research Rating Systematics (absolute share rating system)

Rating definitions:

| | |
|----------------------|---|
| Buy: | Based on a time horizon up to 12 months, we recommend that investors buy the stock. |
| Sell: | Based on a time horizon up to 12 months, we recommend that investors sell the stock |
| Hold: | We take a neutral view on the stock and, based on a time horizon of up to 12 months, do not recommend either a Buy or Sell. |
| Under review: | The rating is currently updated. |
| Suspended: | The evaluation of the company is currently not feasible. |

LBBW is under the supervision of the European Central Bank (ECB), Sonnemannstraße 22, 60314 Frankfurt/Main (Germany) and the German Federal Financial Supervisory Authority (BaFin), Graurheindorfer Str. 108, 53117 Bonn (Germany) / Marie-Curie-Str. 24-28, 60439 Frankfurt/Main (Germany).

LBBW has taken measures to ensure that conflicts of interest are avoided as far as possible or are treated appropriately with regard to the production and distribution of financial analyses. These measures include in particular:

- Chinese walls blocking access by employees who draft financial analyses to information that could create conflicts of interest on the part of LBBW vis-à-vis the issuers concerned,
- a ban on own-account trading in securities for which or for the issuers of which the employees concerned write financial analyses, and the ongoing monitoring of compliance with statutory requirements by employees in the Compliance unit.

This report is distributed for your private information subject to express acknowledgement on the part of the recipient that it does not constitute a recommendation or call to buy, hold or sell securities and that it does not constitute a medium by which a corresponding financial instrument is offered or sold. It is produced regardless of your own investment objectives, your financial situation or your special requirements.

Any reproduction of this information material in part or in its entirety is prohibited and you may only pass this material on to your adviser or the professionals who assist you in the valuation of financial instruments.

This information is intended exclusively for information purposes and is not intended to constitute a reliable basis for reaching decisions as to whether to invest in this particular financial instrument. Potential investors should base their decisions on information that is contained in the issuing prospectus and other publicly available information.

LBBW has drawn the information contained in this report from sources that it deems to be reliable. However, LBBW is not in a position to verify such information and because of the possibility of human and technical error on the part of our sources, LBBW or others it is not claimed that the information in this report is correct or complete in all important points. LBBW excludes any liability with regard to the accuracy, appropriateness or completeness of all information and bears no responsibility for errors or omissions or the result of making use of this information. The statements made in this report are statements of opinion and do not claim to be statements of fact or recommendations to buy, hold or sell a financial instrument. Any changes to a rating may have major repercussions on stock performance. Information on past performance does not indicate future performance. LBBW may have published other reports in the past and may publish further reports in the future that do not correspond with the information in this report and which draw different conclusions. These reports reflect the various assumptions, views and analytical methods adopted by the analysts that have drafted them and LBBW is in no way obliged to ensure that such further reports are brought to the attention of a recipient of this report.

This material does not claim to be comprehensive nor does it contain all information that a potential investor may seek to obtain.

Nothing in this report constitutes advice of an investment, legal, accounting or tax nature. Nor does anything in this report claim that a certain investment or strategy corresponds to your own individual circumstances or is suitable for them or otherwise constitutes a personal recommendation to you. This report is directed exclusively at and is only intended for persons who are adequately qualified to understand the risks involved. This publication cannot replace individual advice. Before you make an investment decision, you should consult your independent investment consultant regarding further and more up-to-date information on special investment opportunities and for personal investment advice with regard to the appropriateness of investment in a financial instrument or the adoption of an investment strategy put forward in this report. This publication cannot replace individual advice.

Nothing that is stated by LBBW may be construed as meaning that there will be a secondary market for these financial instruments either now or at any time in the future. Investors should be able and also intend to hold such financial instruments indefinitely. A potential investor must determine whether the purchase of the financial instruments serves his financial requirements, objectives and situation and corresponds fully with all applicable guidelines and restrictions and whether the investment is appropriate and suitable regardless of the clear and high risks associated with investment in financial instruments. The information included in this report contains what are in some cases highly hypothetical analyses. This report is based on certain assumptions with respect to future events and conditions that are per se unsure, unpredictable and subject to change. No statement is made regarding the actual performance of the transaction and investors should not rely on the report's drawing attention to the actual performance of the transaction. Actual results will differ perhaps substantially from those in the report. Investors should view the reports in the light of the underlying assumptions contained in them in order to draw their own conclusion with regard to the plausibility of these assumptions and to evaluate the analysis of these observations made in them. An investment in this particular financial instrument

Appendix-1

2/2

USU Software

entails certain specific risks. Potential investors in this specific financial instrument should verify the information included in the preliminary issuing prospectus with care, including the section entitled "Risk Factors".

The specific financial instrument to which reference is made within this document may entail significant risks, including capital, interest-rate, index, currency, credit, political, liquidity, market-value, product and market risks, and may not be suitable for all investors. The financial instruments may experience sudden and major losses in value that cause losses that correspond to the original volume of investment when the investment is cashed in. Every transaction exercised is based exclusively on your appraisal of the financial, suitability and risk criteria. Under such circumstances LBBW lays no claim to act in an advisory capacity, nor are its employees authorized to do so.

This report is not being distributed by LBBW to any person in the United States and LBBW does not intend to solicit any person in the United States.

Information on the recommendations is updated at least once a year. We retain the right to change the opinions expressed herein at any time and without prior notice. Furthermore, we reserve the right to stop updating this information or to discontinue it fully without prior notice.

Additional required disclosures and overviews in accordance with Commission Delegated Regulation (EU) 2016/958 (especially Article 4 (1) e) and i) as well as Article 6 (3)) can be found at <https://www.lbbw-research.de/publicdisclaimer-en>.

The acceptance of provided research services by a securities services company can qualify as a benefit in supervisory law terms. In these cases LBBW assumes that the benefit is intended to improve the quality of the relevant service for the customer of the benefit recipient.

Please note that

- LBBW or an associated enterprise of LBBW supports the company in the market by entering buy or sell orders
- LBBW or an associated enterprise of LBBW has made an agreement on the production of financial analyses relating to the issuer or its financial instruments

Proprietary Rights Notice: © 2014, Moody's Analytics, Inc., its licensors and affiliates ("Moody's"). All rights reserved. Moody's ratings and other information ("Moody's Information") are proprietary to Moody's and/or its licensors and are protected by copyright and other intellectual property laws. Moody's Information is licensed to Distributor by Moody's. Moody's information may not be copied or otherwise reproduced, repackaged, further transmitted, transferred, disseminated, redistributed or resold, or stored for subsequent use for any such purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person without Moody's prior written consent. Moody's® is a registered trademark.

