

November 13th, 2019
Research update

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2017 WINNER

3U Holding AG

Property sale
enables high profit increase

Rating: Buy (unchanged) | Price: 1.57 Euro | Price target: 2.10 Euro

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Recent business development



Basic data

Based in:	Marburg
Sector:	Software / E-Commerce
Headcount:	199
Accounting:	IFRS
ISIN:	DE0005167902
Ticker:	UUU:GR
Price:	1.57 Euro
Market segment:	Prime Standard
Number of shares:	35.3 m
Market-Cap:	55.3 m Euro
Enterprise Value:	65.4 m Euro
Free Float:	63.7 %
Price high/low (12M):	1.69 / 0.88 Euro
Ø turnover (Xetra, 12 M):	23,000 Euro / day

In the third quarter, 3U Holding continued its growth and increased sales by 3 percent. The software subsidiary weclapp, whose revenues rose by 50 percent, again showed the strongest momentum. In order to secure these dynamics for the future as well, weclapp is currently investing heavily in personnel expansion and in its sales capacity. This and the high logistics costs in the SHAC segment slowed down operating earnings momentum in the third quarter. Together with the lower profit contribution from the parent company, which had benefited last year from the high income from the disposal of a property, all of this resulted in a significant decline in profits for the first three quarters. Nevertheless, for the year as a whole, a significant increase in profits is still to be expected, as 3U finalised the sell-and-lease-back transaction for the Group headquarters at the end of October and thus achieved a pre-tax profit of around EUR 5.0 m. Accordingly, the company confirmed the forecast raised in August, which envisages an EBITDA of EUR 10 to 12 m (2018: EUR 6.7 m) and a net profit of EUR 4.0 to 5.0 m (2018: EUR 1.9 m). We also confirm our price target of EUR 2.10 and the "Buy" rating.

FY ends: 31.12.	2016	2017	2018	2019e	2020e	2021e
Sales (m Euro)	43.7	46.9	48.0	51.9	57.9	65.2
EBIT (m Euro)	1.1	3.0	2.7	6.2	1.8	2.3
Net Profit	0.6	1.1	1.9	4.1	0.4	0.7
EPS	0.02	0.03	0.05	0.12	0.01	0.02
Dividend per share	0.01	0.02	0.03	0.04	0.04	0.04
Sales growth	-9.3%	7.2%	2.3%	8.1%	11.6%	12.6%
Profit growth	-	65.4%	81.5%	112.0%	-90.6%	77.4%
PSR	1.19	1.11	1.08	1.00	0.90	0.80
PER	80.5	48.7	26.8	12.7	135.3	76.3
PCR	-	7.8	87.1	14.6	10.6	10.4
EV / EBIT	58.8	20.7	22.9	9.9	33.9	27.2
Dividend yield	0.6%	1.3%	1.9%	2.6%	2.6%	2.6%

weclapp again with 50 % growth

The 3U Group continued its growth in the third quarter, although the individual subsidiaries and thus the three segments have evolved differently. The cloud software specialist weclapp again recorded the highest growth rates, increasing its revenues by over 50 percent. According to the company, this was owed not only to the increase in subscription revenues but also to an implementation project for a major customer. The fact that revenues in the ICT segment nevertheless fell by 8.6 percent to EUR 3.2 m is due to the renewed – and expected – decline in the telephony business with private customers (voice retail). As a result of this opposing trend, weclapp's share of segment sales in the third quarter is likely to have been close to 50 percent for the first time, bringing the time at which the high-growth company will dominate the segment figures much closer.

Group sales up moderately

The other two segments, Renewable Energies and SHAC, were able to continue their growth in the third quarter, increasing by 5.5 and 8.6 percent, respectively. In total, the three segments and the parent company's rental income resulted in a consolidated revenue of EUR 12.8 m in the third quarter, up 3.1 percent on the previous year. Cumulative growth at Group level over the first nine months is thus 8.5 percent to EUR 38.2 m. The strongest growth was recorded in the Renewable Energies segment, whose revenues rose by 22.2 percent to EUR 5.5 m thanks to improved wind conditions in spring and a small consolidation effect. In the SHAC segment, growth of 18.0 percent to EUR 22.5 m was achieved, while the ITC segment shrank over the total of the three quarters as well despite weclapp's high growth (-10.6 percent to EUR 9.6 m). The parent company's sales with third parties also fell by a third to EUR 0.6 m as a result of a property sale last year.

Business figures	9M 2018	9M 2019	Change
Sales	35.21	38.21	+8.5%
ICT	10.78	9.64	-10.6%
Renewable Energies	4.51	5.52	+22.2%
SHAC	19.07	22.49	+18.0%
Gross profit*	18.43	18.59	+0.9%
Gross margin*	52.3%	48.6%	
EBITDA	5.72	4.42	-22.6%
ICT	1.43	1.92	+34.6%
Renewable Energies	3.58	4.35	+21.4%
SHAC	0.13	-0.14	-
EBITDA margin	16.2%	11.6%	
ICT	13.2%	19.9%	
Renewable Energies	79.3%	78.7%	
SHAC	0.7%	-0.6%	
EBIT	2.71	0.90	-66.8%
ICT	1.14	1.46	+28.2%
Renewable Energies	1.52	2.07	+36.0%
SHAC	0.05	-0.36	-
EBIT margin	7.7%	2.4%	
Pre-tax result	2.09	0.33	-84.2%
Pre-tax margin	5.9%	0.9%	
Net profit	1.96	0.14	-92.7%
Net margin	5.6%	0.4%	

m Euro and percent, source: Company; * incl. other operating income

Group gross profit up slightly

Based on sales growth, gross profit also showed a slight growth of 0.9 percent after nine months. This was mainly due to the very strong increase in gross profit in the ICT segment, which rose by 31 percent. This, in turn, was a result of weclapp's increased share of segment revenue and the improved earnings situation in the Voice Business area. Gross profit increased in the SHAC segment as well, even though at 15 percent it was somewhat weaker than the segment's sales growth over the nine-month period. By contrast, gross profit in the Renewable Energies segment in the third

quarter was lower year-on-year due to lower other income and changes in inventories (wind farms were still being developed in 2018), but accumulated over the first nine months, the segment's gross profit still grew by 7 percent. However, the greatest damping effect on the Group's gross profit came from the parent company itself, which had recorded higher rental income and income from a property sale in Hanover in the previous year. As a result, the parent company's gross profit fell from EUR 4.2 m in the first three quarters of 2018 to EUR 2.1 m in the current year.

High expansion costs

The moderate gross profit growth was not sufficient to compensate for the high cost increases, so that Group EBITDA fell by 23 percent to EUR 4.4 m. Almost three-quarters of the cost increase, which amounted to 12.5 percent for personnel expenses and 9.8 percent for other operating expenses despite the relief from the first-time application of IFRS 16 (estimated at between EUR 0.5 and 0.6 m), was incurred in the ICT segment due to weclapp's expansion-related costs. These included above all the continued expansion of personnel, events for the expansion of the partner programme and participation in trade fairs. Since weclapp's cost dynamics increased even further in the third quarter, EBITDA in the ITC segment between July and September was down on the previous year (-8.6 percent), but overall in the three quarters the segment EBITDA increased considerably, by more than a third, to EUR 1.9 m. The SHAC segment also recorded higher costs, mainly because the logistics sector is currently working at or even above capacity limits, resulting in a noticeable reduction in process efficiency. In addition, initial preparatory work (primarily software development) has already been carried out to optimise logistics after the planned move to a new property. Due to these additional costs, the EBITDA of the SHAC segment slipped into the red at EUR -0.1 m. However, for the largest unit in the segment, the e-commerce subsidiary Selfio, 3U reports a positive EBITDA with a margin of 2.2 percent. On the other hand, the earnings contribution of the Renewable Energies segment, amounting to EUR 4.3 m after nine months, increased significantly by around 23 percent year-on-year.

Nine-month result slightly positive

As depreciation increased by 17 percent due to the larger wind farm portfolio and the first-time application of IFRS 16, the decline in consolidated EBIT was much more pronounced at -67 percent to EUR 0.9 m. As was the case with EBITDA, this was primarily due to the result of the parent company, while two of the three segments (ICT and Renewable Energies) reported high EBIT growth of 28 and 36 percent respectively. The EBIT of the SHAC segment, well-balanced in the previous year, deteriorated to EUR -0.4 m. After interest, taxes and minority interests, a minor consolidated net profit of EUR 0.1 m was reported for the first three quarters (previous year: EUR +2.0 m), while the third quarter itself showed a loss of EUR -0.3 m (previous year: EUR -0.2 m).

Lucrative sale only completed in Q4

However, this decline in earnings is only a snapshot, as the sale of the corporate headquarters in Marburg, agreed in August and completed at the end of October, will contribute a pre-tax profit of EUR 5.0 m in the fourth quarter.

Cash flow clearly positive

The company also expects the transaction to generate a net cash inflow of EUR 9.7 m, with which the free cash flow is likely to rise significantly into the tens of millions for the full year, because 3U has already generated a high free cash flow of EUR 3.4 million in the first three quarters. This includes an operating cash surplus of EUR 3.0 m (previous year: EUR 0.5 m) and a net cash inflow from investing activities of EUR 0.4 m, which was made possible by the sale of the logistics property in spring. 3U used this liquidity to pay the dividend and interest as well as for a significant net repayment, which reduced financial liabilities by EUR 2.6 m to EUR 20.6 m. As of September 30, this was offset by balance sheet liquidity of EUR 11.6 m. Taking into account the cash inflow from the sale of the Marburg property, net bank debt will thus have been completely reduced in the current year.

High and stable equity position

As a result of the quarterly loss, equity fell slightly between July and September to EUR 41.6 m but remains within a comfortable range. The equity ratio was 55.4 percent as of September 30, compared with 57.0 percent at the turn of the year. The foreseeable profit in the fourth quarter is also likely to increase the equity ratio again towards the end of the year.

Forecasts confirmed

3U is targeting EBITDA of between EUR 10.0 m and 12.0 m and net profit of between EUR 4.0 and 5.0 m for this year. This confirms the forecast raised in August in connection with the sale of the company's headquarters. It also applies to the sales target, which is still ranging from EUR 51.0 m to 55.0 m. However, the composition of earnings is likely to shift somewhat compared with earlier planning because, due to higher logistics costs, the company no longer explicitly assumes that it will be able to improve earnings in the SHAC segment this year.

Promising real estate project

3U announced a promising project in September, which, however, is likely to remain without any notable impact on this year's figures. For this project, the 3U subsidiary InnoHubs GmbH, founded specifically for this purpose, has acquired a property of almost 6,000 sqm in the immediate vicinity of the University of Würzburg, on which a building complex with up to 14,000 sqm of space is to be erected. It is intended to be an "innovation hub" that is to house innovative companies, research institutions and mixed working groups from research and industry. It is also to put special emphasis on the field of artificial intelligence (AI), with regard to which there is already a close partnership between the University of Würzburg and weclapp. Accordingly, weclapp will also use part of the new space to further intensify its cooperation with science and its own AI development. This would allow 3U to benefit from the successful realization of the project in two ways: On the one hand, the innovative strength of weclapp can be further reinforced and on the other hand, the property, which, according to the

company, is a choice cut in the neighbourhood, represents a promising real estate investment that offers 3U the chance of a high profit following the example of the latest real estate deals. Upon enquiry, 3U reports promising initial talks with regard to the interest of potential tenants.

Sales estimates unchanged

Since the real estate project is still in a very early planning phase and both the actual investment requirements and the amount and timing pattern of the expected income can still vary considerably depending on the final concept and the extent of pre-marketing, we have not yet included it in our estimates. However, as we assume that 3U will essentially create value with this project, we see this value potential as an additional upside opportunity. We have not made any changes to our sales estimate either, which we still think comfortably achievable after the nine-month figures as well. Accordingly, we continue to expect sales of EUR 51.9 m for 2019 and have also left the growth assumptions for subsequent years unchanged.

Earnings estimate for 2019 lower

On the other hand, we have somewhat reduced our earnings estimate for this year, because the cost trend, especially at weclapp, has recently been somewhat steeper than we had previously assumed. However, with an EBITDA estimate of EUR 10.6 m (instead of EUR 11.1 m), we are still in the middle range of the company guidance. Since we have also slightly increased the depreciation and amortization, this results in an EBIT estimate of EUR 6.2 m (previously: EUR 7.1 m) and an EPS expectation of EUR 0.12 (previously: EUR 0.13). However, we have left the margin assumptions for subsequent years largely unchanged, so that we are still calculating with a target EBIT margin of 10.7 percent for 2026. The table below shows the model business development resulting from our assumptions for the years 2019 to 2026; detailed overviews of the estimates for balance sheet, income statement and cash flows statement can be found in the Annex.

m Euro	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026
Sales	51.9	57.9	65.2	75.0	86.0	101.5	119.0	139.3
Sales growth		11.6%	12.6%	15.1%	14.6%	18.1%	17.2%	17.0%
EBIT margin	12.0%	3.2%	3.5%	4.8%	6.1%	7.9%	9.3%	10.7%
EBIT	6.2	1.8	2.3	3.6	5.3	8.0	11.1	14.9
Tax rate	20.0%	29.8%	29.8%	29.8%	29.8%	29.8%	29.8%	29.8%
Adjusted tax payments	1.2	0.5	0.7	1.1	1.6	2.4	3.3	4.4
NOPAT	5.0	1.3	1.6	2.5	3.7	5.6	7.8	10.4
+ Depreciation & Amortisation	4.4	4.3	4.1	4.1	2.9	2.9	2.9	2.9
+ Increase long-term accruals	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
+ Others	-5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating Cash Flows	4.5	5.7	5.8	6.7	6.7	8.6	10.8	13.4
- Increase Net Working Capital	-0.2	-0.3	-0.3	-0.4	-0.4	-0.5	-0.6	-0.7
- Investments in fixed assets	10.4	-1.0	-0.7	-0.7	-0.7	-0.8	-0.8	-0.8
Free Cash Flows	14.6	4.4	4.8	5.7	5.6	7.3	9.4	11.9

Framework data unchanged

We have left the basic data of the model unchanged. We continue to discount the cash flows resulting from our estimates at a WACC rate of 7.5 percent, based on a cost of equity of 9.5 percent (consisting of: beta factor: 1.3, risk-free interest rate: 2.5 percent, risk premium 5.4 percent), borrowing costs of 4.0 percent and a target debt ratio of 30 percent. The assumptions used to determine the terminal value have also remained the same: In order to reduce risk, we continue to work with a 25 percent safety margin discount on the target EBIT margin for 2026 and with a "perpetual" growth rate of 1 percent.

Target price: EUR 2.10 per share

The model results in a market value of equity of EUR 70.9 m or EUR 2.14 per share, from which we derive the unchanged price target of EUR 2.10. We also continue to rate the estimation risk as slightly above average, awarding four out of six possible points.

Sensitivity analysis

When the input parameters are varied for our sensitivity analysis (WACC between 6.5 and 8.5 percent and perpetual cash flows growth between 0 and 2 percent), the fair value of the share lies between EUR 1.65 and EUR 3.06.

Sensitivity analysis WACC	Perpetual cash flows growth				
	2.0%	1.5%	1.0%	0.5%	0.0%
6.5%	3.06	2.81	2.60	2.43	2.29
7.0%	2.71	2.52	2.35	2.21	2.09
7.5%	2.43	2.27	2.14	2.02	1.92
8.0%	2.20	2.07	1.96	1.86	1.78
8.5 %	2.00	1.89	1.80	1.72	1.65

Conclusion

In the third quarter, the 3U Group grew moderately, so that revenues in the first nine months increased by 8.5 percent to EUR 38.2 m. The growth star of the group was once again the software subsidiary weclapp, whose sales increased again by more than 50 percent. However, expansion-related costs at weclapp rose sharply as well, which slowed the earnings momentum and, together with the high logistics costs in the SHAC segment, contributed to a significant decline in consolidated net profit, contrary to the sales trend. But by far the most important reason for this decline in earnings is the high one-off profit that 3U achieved in the summer of 2018 with the sale of a data centre property.

Nevertheless, a high increase in profit might be expected for the full year 2019 because the sale of the

Group headquarters in Marburg, agreed in August and completed at the end of October, will generate a pre-tax profit of EUR 5.0 m in the fourth quarter. Against this backdrop, 3U has once again confirmed the forecast for this year that was raised in August.

In contrast, we have slightly reduced our earnings estimates for 2019 in view of the cost trend, but still expect a figure within the target range communicated by the company. In general, however, the Q3 figures were in line with our expectations, which is why we left the estimates otherwise unchanged. We still see the fair value at EUR 2.10 per share, which indicates an attractive price potential compared with the current price. Our rating is therefore still "Buy".

Annex I: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026
ASSETS									
I. Total non-current	48.0	38.3	35.0	31.5	28.1	25.9	23.8	21.7	19.6
1. Intangible assets	2.2	2.1	2.0	1.9	1.9	1.9	1.8	1.8	1.8
2. Tangible assets	43.8	34.1	30.9	27.5	24.2	22.0	19.9	17.8	15.7
II. Total current assets	26.5	36.9	38.1	41.5	45.5	49.2	53.6	58.8	65.1
LIABILITIES									
I. Equity	41.4	44.8	43.4	44.1	45.7	47.9	51.5	56.3	62.8
II. Accruals	1.4	1.4	1.5	1.6	1.7	1.8	1.8	1.9	2.0
III. Liabilities									
1. Long-term liabilities	20.9	18.3	17.5	16.6	15.5	14.4	12.6	10.4	7.5
2. Short-term liabilities	10.8	10.6	10.6	10.7	10.8	11.0	11.4	11.9	12.4
TOTAL	74.5	75.1	73.1	73.1	73.7	75.0	77.4	80.5	84.7

P&L estimation

m Euro	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026
Sales	48.0	51.9	57.9	65.2	75.0	86.0	101.5	119.0	139.3
Gross profit	19.9	22.5	25.1	27.9	32.7	37.5	46.6	57.4	70.1
EBITDA	6.7	10.6	6.1	6.4	7.7	8.2	10.9	14.0	17.8
EBIT	2.7	6.2	1.8	2.3	3.6	5.3	8.0	11.1	14.9
EBT	1.8	5.4	1.1	1.6	3.0	4.7	7.4	10.6	14.5
EAT (before minorities)	2.2	4.3	0.8	1.1	2.1	3.3	5.2	7.4	10.2
EAT	1.9	4.1	0.4	0.7	1.4	2.3	3.8	5.5	7.6
EPS	0.05	0.12	0.01	0.02	0.04	0.07	0.11	0.17	0.23

Annex II: Cash flows estimation and key figures

Cash flows estimation

m Euro	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026
CF operating	0.6	3.6	4.9	5.0	5.9	5.9	7.7	9.9	12.5
CF from investments	8.1	10.4	-1.0	-0.7	-0.7	-0.7	-0.8	-0.8	-0.8
CF financing	-8.2	-4.0	-3.1	-1.5	-1.9	-2.3	-3.4	-4.9	-6.6
Liquidity beginning of year	11.3	12.3	22.2	23.0	25.8	29.2	32.1	35.6	39.8
Liquidity end of year	12.3	22.2	23.0	25.8	29.2	32.1	35.6	39.8	44.8

Key figures

Percent	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026
Sales growth	2.3%	8.1%	11.6%	12.6%	15.1%	14.6%	18.1%	17.2%	17.0%
Gross margin	41.5%	43.4%	43.3%	42.8%	43.6%	43.6%	45.9%	48.3%	50.3%
EBITDA margin	14.0%	20.5%	10.6%	9.8%	10.3%	9.6%	10.7%	11.8%	12.8%
EBIT margin	5.6%	12.0%	3.2%	3.5%	4.8%	6.1%	7.9%	9.3%	10.7%
EBT margin	3.8%	10.5%	1.9%	2.5%	4.0%	5.5%	7.3%	8.9%	10.4%
Net margin (after minorities)	4.0%	7.9%	0.7%	1.0%	1.9%	2.7%	3.7%	4.6%	5.4%

Disclaimer

Editor

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*Charts*The charts were made with Tai-Pan (www.lp-software.de).

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II) Preparation and updating

The present financial analysis was prepared by: Dipl. Volkswirt Dr. Adam Jakubowski

Participants in the preparation of the present financial analysis: -

The present analysis was finished on 13.11.2019 at 11:25 and published on 13.11.2019 at 12:00.

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The expected change in price refers to the current share price of the analyzed company. This price and any other share prices used in this analysis are XETRA closing prices as of the last trading day before publication. If the share is not traded on XETRA, the closing price of another public stock exchange is used with a separate note to that effect.

The price targets published within the assessment are calculated with common methods of financial mathematics, especially with the DCF (discounted cash flow) method, the sum of the parts valuation and a peer group analysis. The valuation methods are affected by economic framework conditions, especially by the development of the interest rates.

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Date	Rating	Target price	Conflict of interests
19.09.2019	Buy	2.10 Euro	1), 3), 4)

In the course of the next twelve months, sc-consult GmbH will presumably prepare the following financial analyses for the company: one report, one update and two research comments

The publishing dates for the financial analyses are not yet fixed at the present moment.

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