3U HOLDING AG

montega

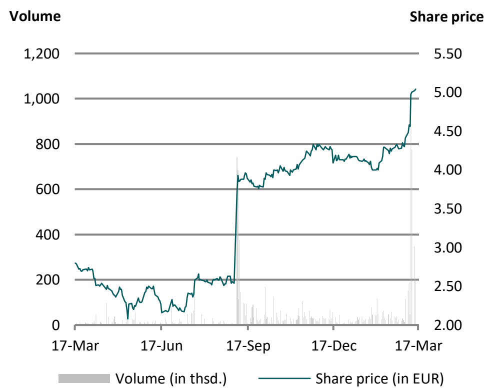
Recommendation:	**Buy**
Price target:	**5.50 Euro**
Upside potential:	**+8 percent**

Share data

Share price	5.08 Euro (XETRA)
Number of shares (in m)	36.62
Market cap. (in EUR m)	186.0
Enterprise Value (in EUR m)	15.9
Code	UUU
ISIN	DE0005167902

Performance

52 week high (in EUR)	5.10
52 week low (in EUR)	2.06
3 m relative to CDAX	+16.4%
6 m relative to CDAX	+18.1%



Source: Capital IQ

Shareholder

Free float	69.8%
Michael Schmidt	25.0%
Jürgen Beck-Bazlen	3.8%
Management	1.4%

Calendar

Annual report 2022	29 March 2023
Q1 results	10 May 2023

Changes in estimates

	2023e	2024e	2025e
Sales (old)	**54.4**	**56.3**	**56.3**
Δ in %	-	-	-
EBIT (old)	**2.2**	**2.1**	**1.9**
Δ in %	-	-	-
EPS (old)	**0.06**	**0.04**	**0.04**
Δ in %	-	-	-

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Publication

Initial report	20 March 2023

What's next?

3U is a management and investment holding company which is primarily active in e-commerce for sanitary, heating and air conditioning technology (SHAC), renewable energies (RE) and IT and telecommunications (ITC). In the last few years, the company has been focused on the operating development of weclapp SE (ERP software). Following the extremely successful disposal of the 71% stake in weclapp at a price of EUR 161m in September 2022, the company's liquid assets are currently at a record level. For instance, 3U has a cash balance of approx. EUR 190m and gold stocks worth some EUR 3m. Under consideration of the interest-bearing financial liabilities of EUR 20m, **net liquidity per share** is estimated to have amounted to **EUR 4.73** at the end of 2022. This means the company still has some EUR 70m available for inorganic growth after the announced dividend payment of EUR 3.20 **(dividend yield: 63%)** or EUR 117m in total. According to management, 3U is currently looking into options to acquire companies or customer bases for its SHAC and ITC segments.

The remaining operational business consists of **three uncorrelated business segments which are largely independent of economic cycles and whose investment requirements are low**. In the **ITC** segment, the IT sector benefits from ongoing digitalisation and a trend towards cloud computing. Although the telco sector has to cope with lower demand, it still generates high-margin cash flows in the run-off phase thanks to the good market position. The **Renewable Energies** segment, which includes three wind farms and a solar park, benefits from PPAs it has recently signed at attractive conditions as well as from higher electricity prices at the spot market. E-commerce subsidiary Selfio, which is part of the **SHAC** segment (organic sales CAGR 2018–2022e: 12.4%), is expected to participate in a sustained positive market development and to seize economies of scale in the medium term due to its stronger focus on profitability. Overall, we estimate the group's free cash flow at EUR 2.5m for the current year. Additional potential primarily results from three strategic initiatives: repowering of existing wind farms, expansion of the managed services business, and launch of new products in online retail (e.g. innovative heating systems).

From a valuation point of view, the current price reflects a premium of only EUR 0.35 per share to net liquidity, whereas our DCF valuation leads to an equity value of EUR 0.76 per share. Furthermore, investors have a **real option in relation to a reallocation of the remaining cash balance**. Having in mind that the management has proven its ability to develop a company's business operations and sell it at attractive conditions even in disadvantageous market phases, in particular the divestment of weclapp, we continue to anticipate **value-adding capital allocations** going forward.

Conclusion: The 3U stock currently is an exciting opportunity to invest in a profitable company which is only 7% above its net liquidity and to benefit from further M&A transactions of the experienced management. We take up coverage of 3U HOLDING AG with a **buy recommendation** and a price target of **EUR 5.50**.

FYend: 31.12.	2021	2022e	2023e	2024e	2025e
Sales	55.9	63.0	54.4	56.3	56.3
Growth yoy	-8.4%	12.6%	-13.6%	3.5%	0.0%
EBITDA	11.3	166.0	5.4	5.3	5.1
EBIT	6.8	161.7	2.2	2.1	1.9
Net income	2.9	159.0	2.1	1.6	1.5
Gross profit margin	52.5%	52.7%	35.0%	32.9%	32.4%
EBITDA margin	20.1%	263.5%	9.9%	9.5%	9.0%
EBIT margin	12.1%	256.7%	4.0%	3.8%	3.3%
Net Debt	23.6	-170.2	-56.7	-58.4	-61.0
Net Debt/EBITDA	2.1	-1.0	-10.6	-10.9	-12.0
ROCE	10.2%	252.7%	5.2%	5.3%	4.8%
EPS	0.08	4.44	0.06	0.04	0.04
FCF per share	-0.43	0.27	0.10	0.08	0.09
Dividend	0.05	3.20	0.03	0.02	0.02
Dividend yield	1.0%	63.0%	0.6%	0.4%	0.4%
EV/Sales	0.3	0.3	0.3	0.3	0.3
EV/EBITDA	1.4	0.1	3.0	3.0	3.1
EV/EBIT	2.3	0.1	7.4	7.4	8.5
PER	63.5	1.1	84.7	127.0	127.0
P/B	3.4	0.9	1.9	1.9	1.9

Source: Company data, Montega, CapitalIQ

Figures in EUR m, EPS in EUR, Price: 5.08 EUR

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INVESTMENT CASE

3U HOLDING is a German investment company specialised in investments in renewable energies, information and telecommunications technology (ITC) as well as online retail. To this end, 3U pursues a long-term investment approach and usually takes the role of a majority or sole shareholder. 3U also seizes opportunities in the real estate sector and, amongst others, was active as a project developer in the past. Based on the current target markets, the company divides its business activities in three segments. Given that weclapp SE, as a supporting entity, was sold and deconsolidated with effect of 30 September 2022 (9M/22 revenue EUR 12.5m), the following revenue shares are shown on the basis of our 2022e forecasts without the divested entity (“pro forma”).

1) Information and Telecommunications Technology (ITC) segment (pro-forma revenue share in 2022 MONe: 23%)

The ITC segment is divided in the following four business lines:

- **Data Centre Services & Operation (MONe: ~12% of segment sales):** The IT business is based on three proprietary data centres in Marburg, Berlin and Hanover, which in total have a usable space of 910 sqm and a capacity of 950 kW. 3U provides its customers either with the full IT infrastructure (Infrastructure-as-a-Service) or with space in its data centres (colocation) for setting up the customer’s servers against payment of a rent. Additionally, the company offers active operation of IT landscapes (managed services) with a strategic focus on B2B customer with up to 100 workplaces. However, the latter is still of subordinate economic relevance but is planned to deliver significant sales and earnings contributions as a new focus area going forward.
- **Voice Retail (MONe: ~15% of segment sales):** This unit bundles all telephony services for end customers (B2C). This primarily includes call-by-call and pre-selection calls, which represent low-cost, provider-independent connections. For instance, call-by-call connections can deliver significant cost savings, particularly for international phone calls. The continuation of the Voice Retail business line predominantly depends on an agreement between the VATM and DVTM telecommunications associations and Deutsche Telekom. The provider-independent call-by-call tariffs were introduced in 1998 as part of the liberalisation of the telecommunications sector with the aim to establish competition to Deutsche Telekom, but the regulatory basis ceased to exist already at the end of 2019. This means that Deutsche Telekom is no longer legally obliged to provide external call-by-call and pre-selection calls to its customers. Thanks to a two-year contract extension signed in 2022, however, 3U can continue to provide its services at least until the end of 2024, subject to further extensions.
- **Voice Business (MONe: ~64% of segment sales):** Internet telephony with business customers, which primarily include other telco providers, is the main contributor to revenues in the ITC segment. 3U also acts as a subscriber and carrier network operator here and has its own internet-based telephone network (so-called Next Generation Network). The company’s core service is the termination of calls, which is needed when participants are in different networks. In simple terms, 3U is active as an intermediary, enabling telephone call across networks. Services cover fixed line and mobile networks, international connections, special and service cables and a multitude of other value-added services.
- **IT Licence Trade (MONe: ~9% of segment sales):** The company is also active as a sales partner of IT software to a minor extent. In this regard, 3U currently is exclusively focused on the document management software Litera in the DACH and EMEA regions.

2) Renewable Energies segment (pro-forma revenue share in 2022 MONe: 16%)

The Renewable Energies segment comprises three acquired wind farms and a self-developed solar park. Based on the acquisition of a wind farm developer acquired in 2014, 3U has four other projects in its pipeline which are located in Brandenburg.

- **Wind farm Langendorf (nominal capacity 22.5 MW):** The wind farm, which was acquired in 2014 for approx. EUR 12.2m, was put into operation in 2001 and has a fixed remuneration under the German Renewables Energy Act (EEG). At present, 3U sells the electricity contracts (approx. 36,000 MWh p.a.) on the spot market which means that the generated revenues are subject to the volatility of the electricity prices. Based on the advanced age of the wind farm, the company has applied for comprehensive repowering measures in August 2022, which provide for a partial restoration of the current wind turbines followed by the setup of modern, more efficient turbines. The nominal capacity is seen to almost double to 43.0 MW in the context of this project, whilst electricity yield is seen to triple. 3U will be responsible for all development activities and expects the repowering application to be approved in Q2/23.
- **Wind farm Klostermoor (nominal capacity 6.0 MW):** In 2018, 3U acquired shares in the Klostermoor wind farm for some EUR 0.83m. The farm generates an annual electricity yield of 8,200–8,500 MWh. Built in 1999, the plants only have a guaranteed EEG feed-in renumeration until the end of 2020, but 3U can still achieve fixed purchasing prices due to the conclusion of a PPA (Power Purchase Agreement). The agreement will expire at the end of 2023 according to the company. As the wind farm can be operated until the end of 2027 at the latest, according to the management, 3U currently examines the feasibility and economic efficiency of repowering measures.
- **Wind farm Roge (nominal capacity 14.4 MW):** At the end of 2019, 3U acquired a tight majority share (50.09%) in the Roge wind farm for an amount of EUR 1.5m. Installed in 2000/2001, the turbines generate some 20,000 MWh p.a. on average, which are sold at fixed terms under a PPA until the end of 2023. The generated electricity shall preferably also be sold under a PPA thereafter. Since the Roge wind farm will also be operated until 2027 at the latest, 3U examines repowering measures at this location.
- **Solar park Adelebsen (nominal capacity 10.1 MW):** The self-developed Adelebsen solar park was connected to the grid in 2012. The generated electricity is sold under the legal feed-in renumeration until the end of 2032, which is roughly EUR 200.00 per MWh.

3) Sanitary, Heating and Air Conditioning Technology (SHAC) segment (pro-forma revenue share in 2022 MONe: 61%)

The Sanitary, Heating and Air Conditioning Technology (SHAC) segment is the company's cash cow and primarily includes the B2C online shop Selfio (~80% of segment sales) and wholesaler PELIA Gebäudesysteme (~20% of segment sales). All logistics processes are provided internally by PELIA and the group's own distribution centre. The company is also responsible for the still low production of in-house brands. The commercial focus of the online shop is the distribution of complex products such as underfloor heating, solar-thermal systems, ventilation and water treatment systems as well as pump and pipe systems of own and third-party brands (e.g. Buderus, Grundfos, Viessmann, Wolf). Selfio's target group primarily includes handymen and do-it-yourselfers (DIY), which are reliant on extensive assistance in the form of videos, manuals and instructions or which explicitly look for this kind of assistance. To this end, 3U acquired a single-family home in 2018, in which numerous of the products offered are installed live on camera in an exemplary way.

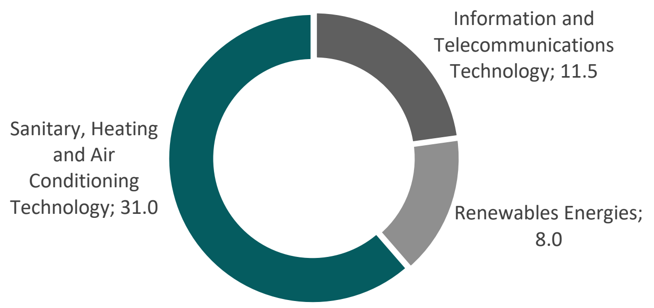
In regional terms, 3U is primarily focused on the German market, but still generated c. 10% of group revenues outside of Germany in the past. The major sales markets are Austria and Switzerland, which already account for more than half of the foreign revenues. Most of the remaining revenues are generated in neighbouring European countries.

Earnings contributions of the individual group segments

Whilst the SHAC segment is the most important revenue contributor, positive contributions to group EBIT are currently only generated in the two other business segments. This disproportionality is shown in the two figures below. In view of the low interest expenses (2022 MONe: c. EUR 0.5m) we have focused on the expected EBIT contributions. To present a picture of the current earnings situation that is as meaningful as possible, the bottom line was adjusted for a one-off on wind farm development projects and for expenses that were incurred in the context of the weclapp disposal (e.g. consulting fees and performance bonuses). The holding costs are mainly composed of personnel costs.

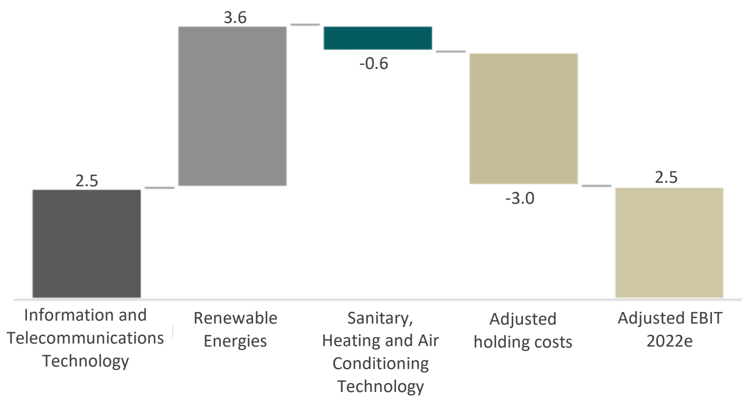
Pro-forma revenue split 2022e by segment

(in EUR m)



Adjusted EBIT 2022e from continuing operations

(in EUR m)



Source: Montega

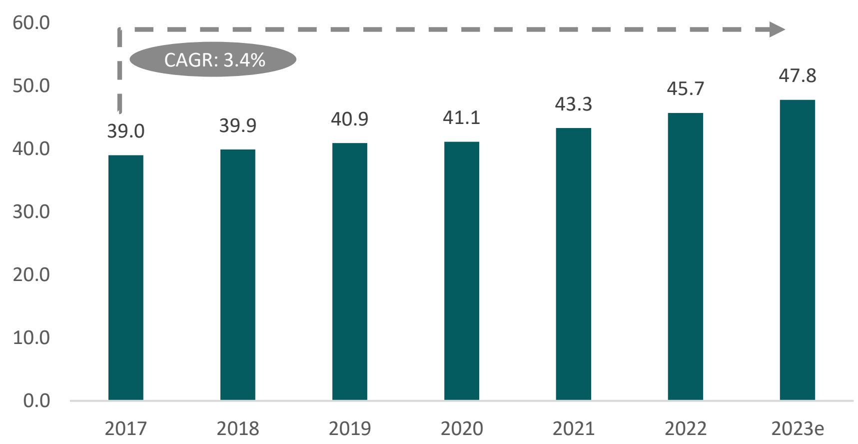
Diversified business activities in uncorrelated markets

Based on the business model's division in three segments, 3U is active in different industries. These segments are subject to extremely diverging drivers and influences.

The IT business (Data Centre Services & Operation business line) of the **ITC segment** benefits from ongoing digitalisation and a trend towards cloud computing. The German IT services market is expected to grow by 4.6% yoy to EUR 47.8bn this year which would exceed the average growth of the last five years (CAGR 2017–2022: 3.2%). In view of the stable historical market development, we anticipate comparable growth rates in the medium single-digit percentage range going forward.

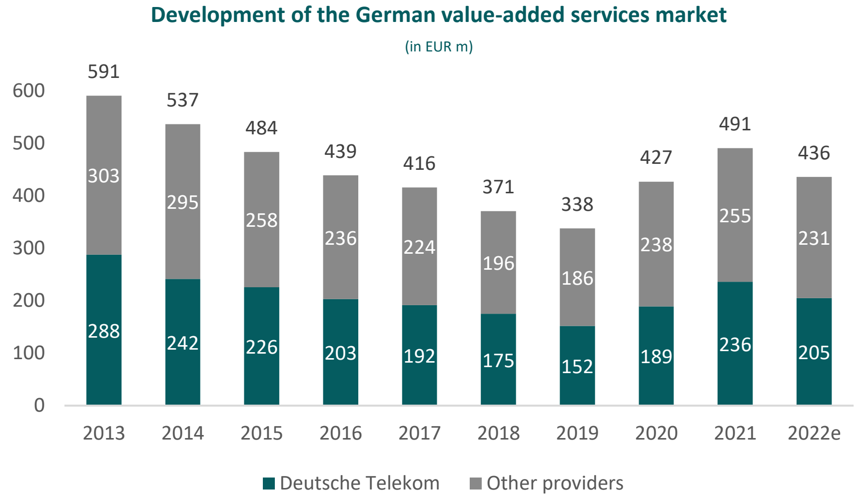
Development of the German IT service market

(in EUR m)



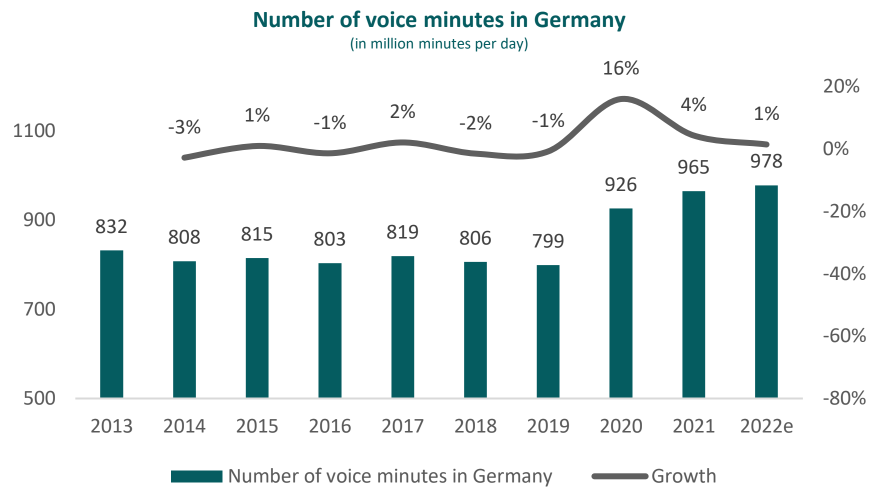
Source: Bitkom

Conversely, 3U's telecommunications business (esp. Voice Retail) is faced with a primarily weakening demand. This mainly refers to the area which provides call-by-call and pre-selection telephone connections to private customers in Germany and abroad, which are cheaper than the alternative tariffs of Deutsche Telekom. 3U and the overall market recorded growing revenues and voice call minutes in 2020 and 2021, years that were dominated by Covid-19, which was attributable to long isolation phases and restricted contact possibilities. However, we expect the long-term downward trend to continue given that there are numerous alternatives which are free of charge (e.g. FaceTime, Whatsapp calls). According to a report by the Federal Network Agency, voice call minutes related to pre-selection and call-by-call accounted for approx. 4% of the overall voice minute volume of the competitors of Deutsche Telekom in 2021. This is aggravated by the continuing price decline in telephony and the trend towards mobile phone contracts which include mobile data volume as well as a domestic telephony flat rate. We therefore believe that the market volume will return to pre-Covid levels in 2023 and 2024. The figure below shows the respective market volume of the value-added services as well as call-by-call and pre-selection services which are bundled in the Voice Retail sector described above.



Source: VATM

A similar development can be observed in the ITC segment's Voice Business, as the market volume also depends on the number of voice minutes amongst others. They had strongly grown in the Covid-19 years because many people increasingly maintained social contacts via telephone due to the isolation. Although the volume appears to have slightly increased in 2022 based on initial forecasts, we expect it to normalise to a pre-Covid level again in the medium term. Based on the focus on voice termination, we believe that 3U will be able to escape the declining market trend in this area as far as possible. The figure below shows the development of voice minutes in Germany.

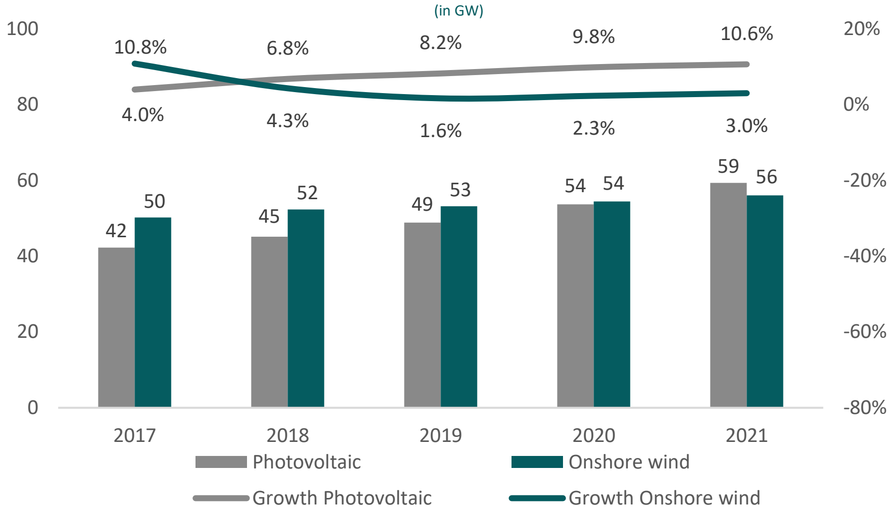


Source: VATM

The **Renewable Energies segment** of 3U benefits from the demand for regenerative green electricity that has been growing for years. Demand is also driven by strong political tailwind and the state's ambitious climate goals. The installed nominal capacity of regenerative energy sources has grown by 5.5% on average in Germany from 2017 to 2021, the PV capacity by an average of 8.9%, and onshore wind power capacity by 2.8%.

Development of installed capacity of photovoltaic and onshore wind power plants in Germany

(in GW)

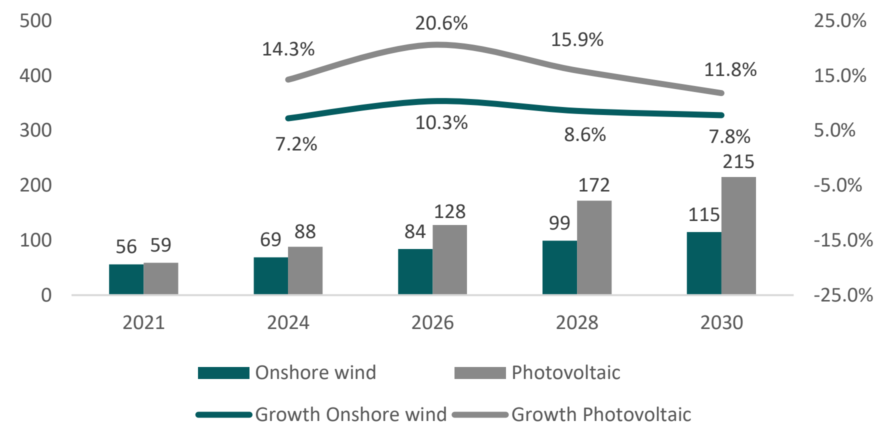


Source: Federal Ministry for Economic Affairs and Climate Action

Total capacities are expected to continue their steady growth going forward with momentum accelerating across all sectors. The balance between solar and onshore wind power is seen to shift towards solar (cf. figure below). Amongst others, the recently amended EEG provides for a doubling of regenerative generation capacities by 2030 to increase the share of renewable electricity in total consumption to 80% (2021: 41.0%). To create the necessary conditions for growth, other legal framework conditions have been initiated (e.g. Germany's "Wind-an-Land-Gesetz" which came into effect in February 2023). The law provides for a binding increase in land made available by the federal states for wind turbines. According to the law, the relevant nationwide share is planned to be increased from currently 0.8% to 1.4% by 2027 and to 2.0% by 2032. To reach the defined goals, the Federal Ministry of Economics and Climate Protection has also defined so-called expansion trajectories which outline the planned increase in capacity. The figure below shows the respective capacity plans for photovoltaic and onshore wind turbines by 2030.

Planned capacity expansion of wind power and PV plants

(in GW)



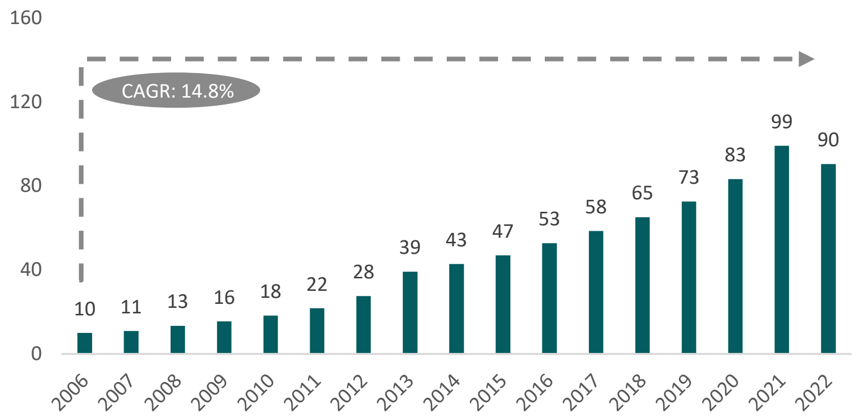
Source: Federal Ministry for Economic Affairs and Climate Action

Given that 3U is currently looking into possible repowering measures at the wind farm sites in Roge and Klostermoor, the company is expected to also benefit from the priorisation of repowering measures, which is pursued in regulatory terms and has already been incorporated to some extent.

In its **SHAC segment**, 3U is mainly active in online retail. During the Covid-19 pandemic, the company benefited from temporary lockdowns on the one hand, and from a change in consumer behaviour towards more digital purchases on the other hand. E-commerce sales in Germany have grown by 14.7% yoy in 2020 and by 19.0% yoy in 2021, before they declined again in 2022 (-8.8% yoy) for the first time in the period under review, which is also attributable to high inflation, restrained consumer behaviour and supply chain distortions.

Development of e-commerce sales in Germany

(in EUR bn)

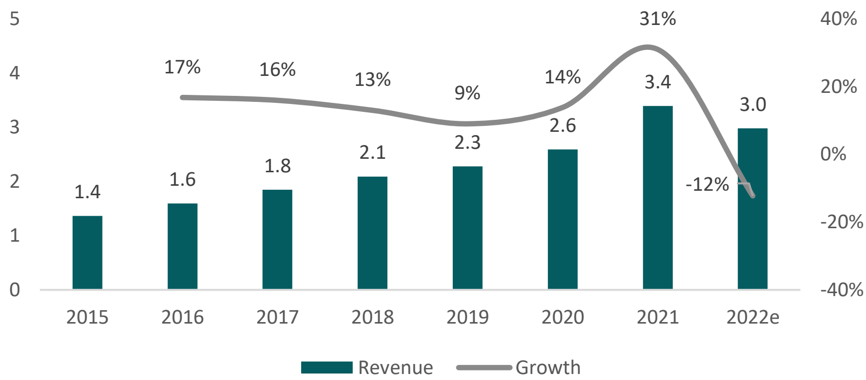


Source: bevh

In addition to the overall development of the online retail market, e-commerce association bevh (Bundesverband E-Commerce und Versandhandel Deutschland) also collects data on market volume and growth rates of sub-segments. Selfio falls in the category "DIY and flowers", whose historical development has outperformed the dynamics of the overall e-commerce market since 2015 (CAGR 2015–2022e: 9.8%) with a compound annual growth rate of 11.8%.

Development of the German DIY and flower e-commerce market

(in EUR bn)



Source: bevh

Despite the recent decline in online retail sales, leading market researchers believe that growth opportunities in the entire industry will remain high in the medium term. Based on a current study by ecommerceDB, German e-commerce sales will increase by an average 8.6% p.a. from 2023 to 2027.

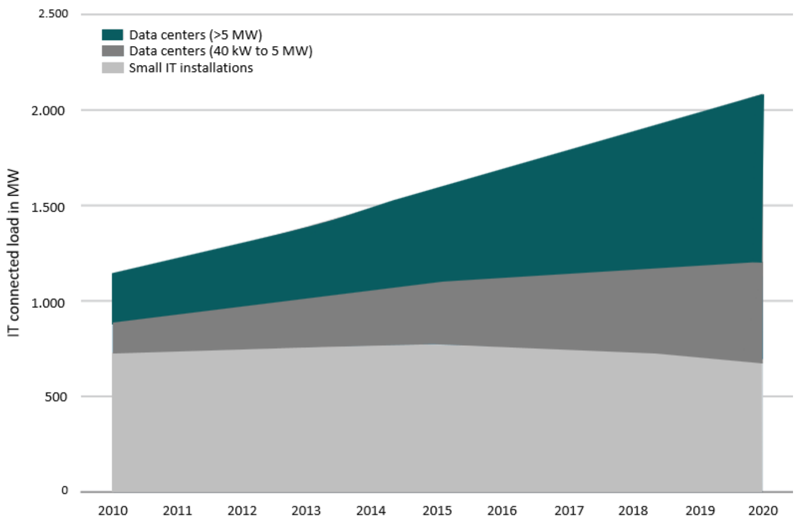
The same study also projects an attractive, albeit slightly lower CAGR of 7.8% p.a. by 2027 for the "DIY, toys and hobby" sub-segment, which appears to be most relevant for the online retail of 3U's Selfio.

Intense competition in fragmented industries

All markets addressed by 3U are highly contested in our view, especially since the company is a provider of commodities in many business lines and has a service offering that is largely homogeneous to that of its competitors. For this reason, we will also look into the strategic differentiation of the business lines within their market segment.

- **Data Centre Services & Operation (ITC):** The markets for managed services and data centre services are extremely fragmented and characterised by a high degree of competition. According to a study published by Bitkom, some 3,000 data centres are operated throughout Germany with a capacity of over 40 kilowatts as well as some 47,000 smaller server rooms or individual server racks. Because of their much stronger performance, these only accounted for 6% of the facilities but for almost 50% of the MW capacity installed in Germany.

Performance development of data centers in Germany



Source: Bitkom

With a cumulated computing power of 0.95 megawatt, the three data centres of 3U are among the medium-sized facilities, which benefit from the shift in capacity from small to medium/large data centres described above. Furthermore, various security certifications and the German location look set to also contribute to a continuing high attractiveness of the data centre services.

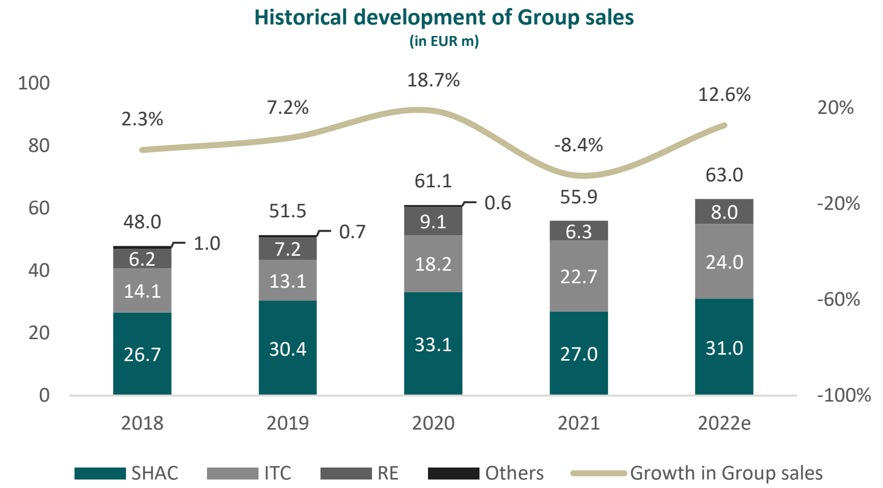
- **Voice Retail & Voice Business (ITC):** In the telecommunications sector, 3U is in competition with many different telco companies and network operators. In the Voice Retail business line, for instance, the company competes against more than 90 other providers. In the Voice Business business line, 3U competes against a number of providers, including Plusnet, colt and 1&1 Versatel. According to the company, the high-quality Next Generation Network is the key competitive advantage. 3U is said to have the second-best network after Deutsche Telekom. This network is demonstrably used by well-known national and international telecommunications companies. Furthermore, the efficient billing process with minute-by-minute precision contributes to an exact activity recording and high customer satisfaction and loyalty according to 3U. External studies on market and competition or detailed provider comparisons are not available for the two business lines.

- **Renewable Energies segment:** The market for the generation of regenerative electricity likewise is very fragmented. According to the Federal Statistical Office and the German Federal Wind Energy Association, more than 2.2m photovoltaic systems and over 28,400 onshore wind turbines were installed in Germany at the end of 2022. Whilst we believe that the operation of the plants requires comparatively low barriers to entry and differentiation possibilities for the producers are low, companies may have competitive advantages in project development thanks to process know-how and networks. In the past, 3U has already developed wind farms and solar parks and sold them with a profit. The company also has set up regional networks in the Brandenburg focus region (four projects) and negotiated several attractive PPA contracts.
- **SHAC segment and online retail:** In the Sanitary, Heating, and Air Conditioning Technology segment, Selfio, 3U's pure e-commerce provider, primarily competes with more than a dozen other online competitors which have a comparable niche positioning. However, the market of these highly complex products is relatively unattractive for large DIY chains, as the online distribution of these articles to end consumers requires a significantly higher degree of information and explanation. We believe the relevant competitors are Heizungsdiscount24, unidomo, heizung-billiger, waerme24, eheizung24, heima24 and MeinHausShop. There are only few possibilities for differentiation, in our view, but Selfio stands out from competitors because of its very good price-performance ratio. Factors contributing to this are the company's positioning as a price leader but also the comprehensive range of information which is unique in this form in the German-speaking area. As a result, Selfio is seen to significantly participate in the ongoing positive market development. That said, the price leadership had a burdening effect on margins in the most recent past, on which we will shed more light in the Finance chapter.

Slight increase in organic consolidated revenues expected in the medium term

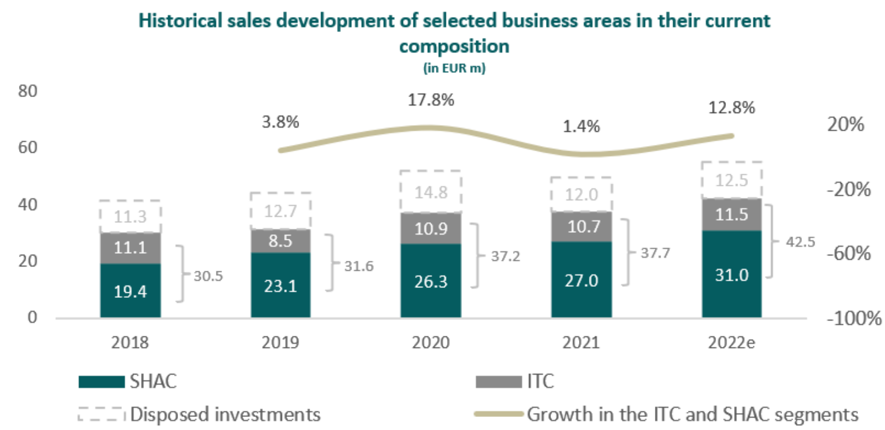
In the last five years, the revenue development of 3U was driven by numerous purchases and sales and was positively impacted by various Covid-19 effects across all segments. Based on preliminary business results, the company generated revenues of EUR 63.0m in the past financial year 2022 and thus achieved average growth in revenue of 6.1% p.a. (2017: EUR 46.9m) from 2017 to 2022.

As a matter of fact, the top line development of the group as a whole is of subordinate significance because of the strongly diversified business activities. Having adjusted the weclapp revenues, it becomes clear that the SHAC segment is the strongest growing area within the group. However, this segment has generated only losses or lower margins in the more recent past which adds to the inconsistent results of 3U regarding its economic situation in our view. The following section shows the consolidated sales as well as historical segment revenues. It can be seen that growth was mainly driven by the SHAC segment from 2018 to 2020, which however saw a disproportionate decline of 19.6% in 2021. This means that the ITC segment is the largest and most consistent growth driver over a period of five years (2018 to 2022e), at least including the divested weclapp SE.



Source: Company, Montega

As a result of a large number of M&A transactions (e.g. sale of weclapp in the ITC segment, sale of ClimaLevel in the SHAC segment), the historical sales development of the two segments does not represent a suitable basis for future forecasts. We will therefore take a retrospective look at the pure organic development of the two segments in their present composition. This approach does not seem to make sense for the Renewable Energies segment, as the top line is only driven by fluctuating sales prices and weather condition so, strictly speaking, there is no classical organic growth. Based on this analysis, the group's top line has a much lower volatility. It also becomes clear that the strong growth momentum in the SHAC segment in 2021 was primarily adversely affected by the sale of the investment in ClimaLevel. Selfio's revenues declined by only 8.8% in 2021 (vs. a reported decline in segment sales of 19.6%), whilst PELIA boosted sales by some 108% from EUR 2.6m to EUR 5.4m. Conversely, the ITC segment saw a mainly stable and/or slightly declining increase in sales.



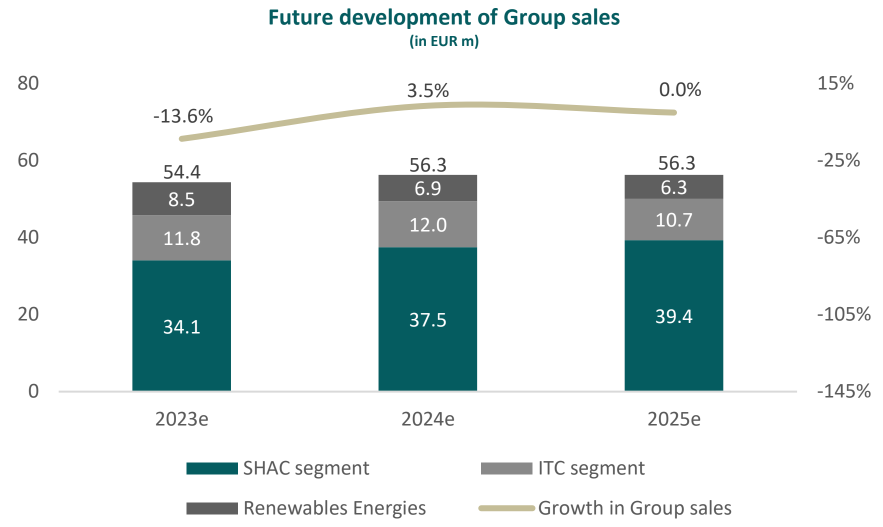
Source: Company, Montega

Going forward, we expect the existing business segments to develop as follows (on the basis of today's operating business):

- **ITC segment:** We expect the **Data Centre Services & Operation** business line to boost sales by 10% in 2023 which would increase utilisation of the data centres from 74% to almost 90%. From 2024 onwards, revenues growth is seen to mainly be driven by price increases. Furthermore, we consolidate the revenues from the managed services business of this business line, which are still of minor importance at group level and independent of the data centre utilisation. In the subsequent years 2024 and 2025 we plan with growth rates of 5% respectively 3% yoy. The **Voice Retail** business line is set to normalise in 2023 and 2024 after the extraordinarily strong “Covid-19 years” and thus is expected to generate slightly declining revenues (-5.0% p.a. in each year). As this business is based on a framework agreement between Deutsche Telekom and the VATM and DVTM industry associations, which will expire at the end of 2024 and whose extension is still uncertain, we have not planned with any further revenues from 2025 onwards for precautionary reasons. Conversely, we foresee market share gains and a slight increase in revenues in the **Voice Business** business line in the short to medium term (-2.0% p.a.), which is also due to the technologically advanced Next Generation Network. Licence retail is also seen to continue its positive trend with annual growth of 5.0% driven by the progressive digitalisation in document processing.

- **Renewable Energies segment**: Solar power is mainly remunerated on the basis of the EEG tariff, so that revenues are set to remain on a mostly constant level of EUR 2.0m p.a according to the company. Revenues of the Roge and Klostermoor wind farms (c. 28,000 MWh p.a. at EUR 117.00 per MWh) are contractually secured until end-2023 thanks to the PPAs, whereas the revenues of the largest wind farm, Langendorf (c. 36,000 MW), depend on the prices achievable on the sport market. We plan with average spot prices of EUR 100.00 per MWh in 2023 as well as a partial normalisation of the price levels in the medium term, which corresponds to average revenues of EUR 80.00 per MWh in 2024 and of EUR 70.00 per MWh in the years thereafter. Given that the remaining life of the three operated wind farms will last until end-2027 according to current management estimates, revenues of these plants will no longer be included after this medium-term period. Likewise, our planning does not include additional revenues of the Langendorf wind farm in the context of repowering since the necessary authorisations are still pending according to the management.
- **SHAC segment:** Based on the high energy prices, the massive need for refurbishment of many old buildings throughout Germany as well as the strong political tailwind in relation to energy and water efficiency, we expect revenues to increase by 10% p.a. in 2023 and 2024 respectively and by 5% p.a. from 2025. This should not only be driven by passing on price increases, but also by an increase in sales volume and a continuous expansion of the product portfolio. The market launch of novel heating systems should provide for additional sales potential according to the company. In this respect, 3U also plans to establish assembly teams which would mean an expansion of the value chain. As the company is still in the planning phase of the project, we have not yet taken account of additional revenue contributions in our planning.

All in all, the assumptions outlined above result in the revenue trend shown in the figure below. In mid-March, 3U has published its corporate planning for 2023 according to which it strives for sales revenues of EUR 55.0–60.0m in the current year. As the company also anticipates “revenues at the level of the previous year” in the ITC segment, we assume that the internal top line planning mainly implies a higher momentum in the SHAC segment (MONe: +10% yoy). Concerning this matter, the company also refers to the introduction of heating systems. However, we deliberately take a conservative view here by modelling revenues of EUR 54.4m for lack of visibility regarding the success of the market launch.

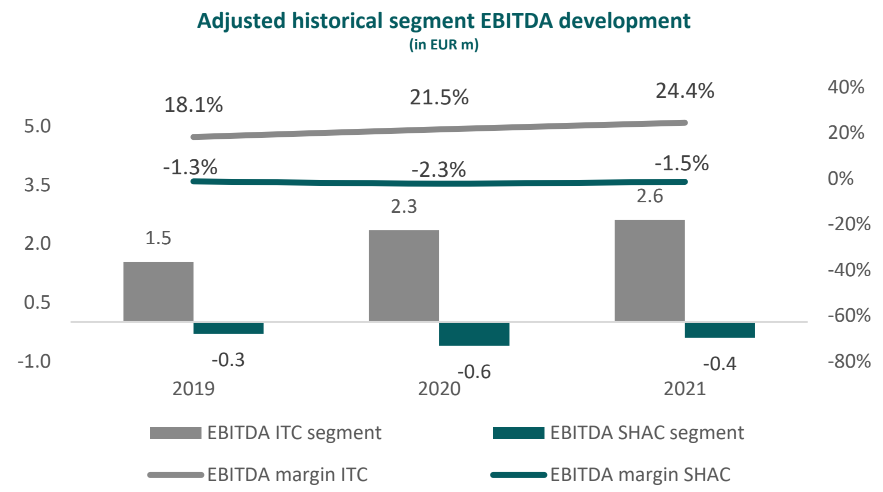


Source: Montega

High profit potential in online retail and constant earnings contributions from ITC and Renewable Energies business

In the more recent past, 3U has generated robust EBITDA margins and seen a continuing increase in profitability, particularly from 2019, to some 20% (2017: 14.2%; 2018: 14.0%). Firstly, this is due to the software business of weclapp, which was sold in Q3/22, and significant efficiency enhancements in the other business lines of the ITC segment and secondly, to proceeds from the sale of investments.

Similar to our approach to the revenue development of the segments, we have adjusted earnings for the divested business segments and investments (esp. Weclapp, ClimaLevel). The operating profitability of the segments is assessed at EBITDA level. For lack of historical data for the Renewable Energies segment, the figure below only includes the EBITDA contributions of the ITC and SHAC segments.



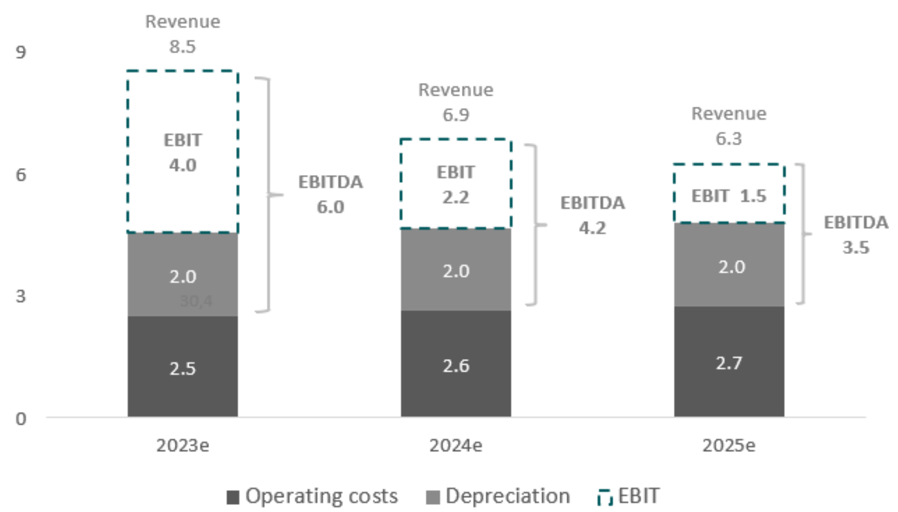
Source: Company, Montega

Whilst profits in the ITC segment (excl. weclapp) have developed very positively in the last few years as a result of efficiency enhancements, and the EBITDA margins were increased from 18.1% in 2019 to 24.4% in 2021, earnings contributions of the companies in the SHAC segment have been slightly negative.

Going forward, we expect the business segments to develop as follows:

- **ITC segment:** The profitability level largely depends on the development of the cost of materials ratio (historical expense ratio 2019–2021: 63–67%) and the personnel cost ratio (2019–2021 between EUR 2.1–2.2m; c. 20% of segment sales). The former mainly comprises the costs for the use of external telecommunications networks and for trading licences of the Litera software. In view of the growing importance of the comparatively high-margin data centre and managed services business and improved purchasing conditions, we expect the cost of materials ratio to slightly decline to 60% in 2023 and to improve by one percentage point p.a. by 2025. Since we forecast a slight decline in revenues for the ITC segment in the medium term, the employee base should only be expanded if the sales momentum turns out to be higher than expected by us. Consequently, we expect wages and salaries to increase by only 3% p.a. Overall, we foresee EBITDA of EUR 2.2m in 2023 and of EUR 2.3m in each of the two subsequent years.
- **Renewable Energies segment**: The cost basis is mainly dominated by depreciation of the existing wind turbines and PV systems as well as maintenance costs for the three wind farms built between 1999 and 2001. Going forward, we anticipate a slight increase in maintenance costs based on the advanced age of the plants (+5.0%), which are recognised in other operating expenses. Depreciation should be completely discontinued at the end of 2026 because of the low remaining residual book values of the three wind farms, which means that only the Adelebsen solar park will be depreciated (MONe: EUR 2.0m p.a.). Amortisation of rights of use (MONe: EUR 0.2m p.a.), which are due to the lease of the wind farm areas, will cease to exist once the plants are no longer operated. All in all, the segment's cost structure is largely fixed (average increase in overall costs of the segment MONe: +3.2% p.a. until 2025). This means there is an enormous operating leverage with varying electricity prices. Since the energy prices have remained at a high level in the first two months of 2023 and the concluded PPA contracts provide for a renumeration of EUR 117.00 per MWh, we believe that 3U will see significantly growing profits in the Renewable Energies segment in 2023. Accordingly, we assume that 3U will have achieved segment EBT of EUR 2.1m in 2022, so that EBIT in 2023 is likely to almost double to EUR 4.0m. However, earnings are expected to drop to EUR 2.2m in 2024 and to EUR 1.5m in 2025, which is attributable to the expiration of the PPA contracts at the end of 2023 and the partial normalisation of energy prices (EUR 80.00/MWh in 2024; 2025 et seq.: EU 70.00/MWh) as expected by us.

Future earnings development in the Renewable Energies segment
(in EUR m)



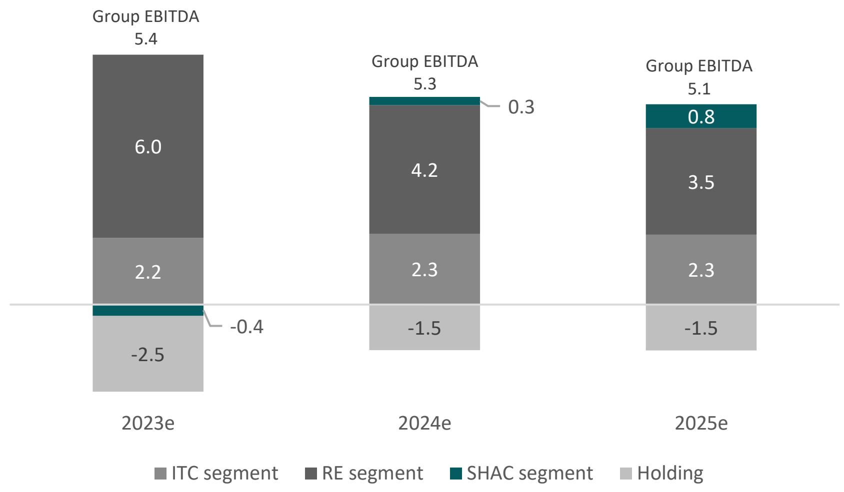
Source: Montega

- **SHAC segment:** As is usual for retail companies, the cost structure is mainly characterised by cost of materials (9M/22: 81.3% of segment sales). These costs have increased significantly by 7.0pp since 2017 from 74.4% to 81.4%, which can primarily be put down to the strategic positioning as a price leader. Other major items are personnel expenses (historical expense ratio 2019–2021: 11.2–13.0% vs. personnel expense ratio 9M/22: 9.5%) and other operating expenses (historical expense ratio 2019–2021: 11.3–12.5% vs. 9M/22: 10.0%), which have significantly improved after the opening of the new logistics centre and a package of measure to enhance efficiency. Whilst the gross margin has suffered from the fact that price increases could only be passed on with a time lag, amongst others, we anticipate a cost of materials ratio of 82.0% in 2023 before it is seen to gradually improve by one percentage point per year afterwards. Furthermore, the company is expected to achieve further economies of scale at the level of personnel expenses and other operating expenses, which is why we expect this item to increase disproportionately low (personnel expense ratio 2025e: 8,6% vs. 9.5% in 9M/22; OOE ratio 2025e: 9.4% vs. 10.0% in 9M/22).

Personnel expenses are particularly high at the level of the holding, in which all the corporate functions are bundled. Since the current size of the holding is too large for the current business segments after the disposal of weclapp, we have reduced the holding costs to some extent. Although short-term acquisitions are highly likely, we cannot model an acquisition as the targets are still unknown. Accordingly, we estimate slightly lower expenses of EUR 2.5m in 2023, which are expected to decline to EUR 1.5m in 2024.

Our planning leads to the EBITDA development at group and segment levels shown in the figure below. In the current financial year, we expect EBITDA of EUR 5.4m. The deviation to the guidance recently published by the company (EUR 6.0–8.0m) is mainly due to our more conservative top line forecast in relation to the short-term market success of the new heating systems.

Future EBITDA development by segment
(in EUR m)



Source: Montega

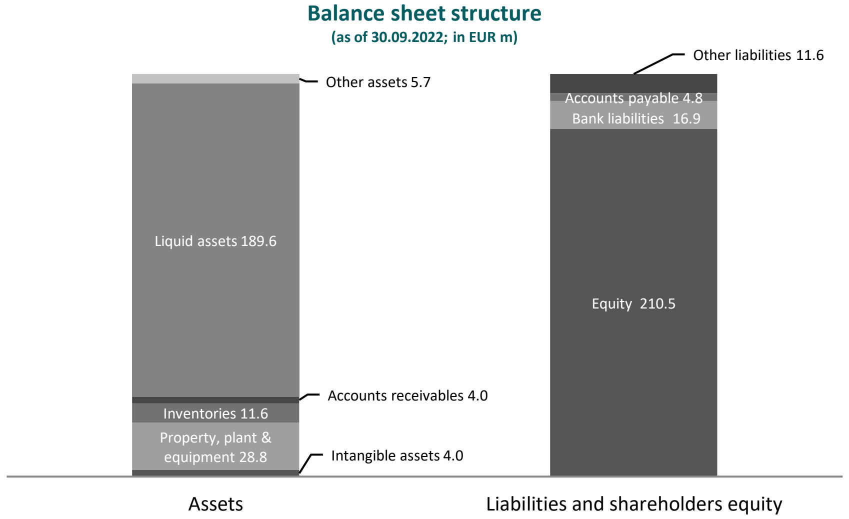
Rock-solid balance sheet creates opportunities for future growth and enables high dividend payment

As a result of the disposal of the weclapp investment for EUR 161.6m in Q3/22, we believe that 3U HOLDING AG has an extremely strong balance sheet with an equity ratio of 86.4% as of 30.09.2022.

The **asset side** of the balance sheet is characterised by high liquid funds (EUR 189.6m; 77.8%; EUR 5.18 per share) and by property, plant and equipment (EUR 28.8m; 11.8%). The latter include residual book values of the wind turbines and solar cells but also existing land and buildings. Inventories (mainly warehouse goods of the SHAC segment) of EUR 11.6m (4.8%) and existing trade receivables (EUR 4.0m; 1.7%) are other major balance sheet items. Other current assets of EUR 4.6m (1.9%), which mainly includes physical gold that is worth some EUR 3.0m (EUR 0.08 per share), should not be disregarded either.

The **liabilities side** of the group's balance sheet is mainly characterised by the high equity (EUR 210.5m; 86.4%). Non-current financial liabilities of EUR 15.5m or 6.3% of the balance sheet total are another important item. They are related to the SHAC logistics centre and the solar park. At EUR 5.4m (2.2%) and EUR 4.8m (2.0%), other current liabilities and trade payables are of rather low significance.

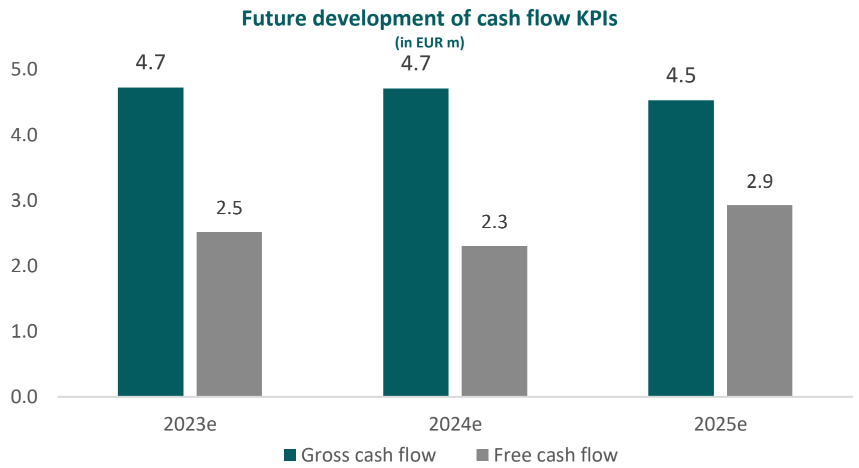
All in all, 3U HOLDING AG has a net cash position which, under consideration of the gold stock (EUR 0.08 per share), amounts to c. EUR 173m or EUR 4.73 per share and thus covers almost all of the current market capitalisation of EUR 186m and the share price (EUR 5.08) respectively.



Source: Company

High free cash flows due to low investment needs

The successful operating development of the company should not only be reflected in terms of earnings but also at cash flow level. The ITC and SHAC segments seem to require hardly any CAPEX (MONe: cumulated EUR 0.5m p.a.), whilst investments in the Renewable Energies segment are only related to rights of use for the wind farm area (c. EUR 0.2m p.a.). As the group's D&A (esp. e-commerce logistics centre, wind turbines and PV systems) are much higher than total investments, this will have a positive impact on the cash flow conversion. Moreover, the comparatively low medium-term working capital needs, mainly in relation to the growth of the SHAC segment, will have an only moderate impact on cash inflows. When considering the minorities of the Roge wind farm, the free cash flow of the remaining operating business is expected to increase to EUR 2.9m by 2025.



Source: Montega

News flow likely to be driven by future acquisition strategy

The share price development of 3U HOLDING AG has been very volatile in the last few years. The price initially dropped to EUR 0.97 in the context of the Covid-19 crisis. This was followed by a multiplication of the share price to up to EUR 4.67 in the wake of the very good operating development of the group's most valuable investment, weclapp, and the prospect of a (partial) exit in the near future. In 2022, however, the price was adversely affected by the depressed capital market environment and the postponement of the targeted IPO of subsidiary weclapp, so that most of the gains were given up. As a result of the weclapp disposal for EUR 161.6m announced in September 2022, the shares jumped to a level of almost EUR 4.00 and have been on a continuing upwards trend since then. They recently gained momentum when the company announced it would pay a record dividend of EUR 3.20 per share.

Share price performance of 3U HOLDING

Source: Capital IQ

As such, 3U currently has a record liquidity. Following the publication of preliminary results for 2022 and a forecast for 2023, we believe that it is not the release of the complete audited consolidated results for 2022 but rather details about the future investment strategy that create positive momentum for the shares. The first acquisitions may also serve as triggers for 3U HOLDING AG.

Furthermore, it may be possible that 3U obtains approval for the targeted repowering measures of the Langendorf wind farm in the first half of 2023, which should also have a positive impact on the share price development.

Net cash and positive equity value of the remaining business segments not sufficiently reflected in valuation

We have valued the 3U shares on the basis of a DCF model, which indicates an undervaluation of the company.

In view of the structural growth in demand in SHAC online retail and the mostly constant revenues in the ITC and Renewable Energies segments, we expect revenues to grow slightly at group level in the medium term. In terms of earnings, we anticipate continuously high margins and a strong cash flow conversion in the two latter segments in particular. We plan with a medium-term focus on profitability in the SHAC segment, so that this business segment is seen to generate sustainable profits from 2025. All of the above is expected to result in net cash as well as a positive equity value of the remaining operating business (MONe: EUR 0.76 per share) from 2024, even after the holding costs of some EUR 1.5m p.a. expected by us.

When assuming a beta of 1.1 and a WACC of 8.28%, the DCF model leads to a fair value of c. EUR 5.50 per share. It is composed of net liquidity including gold stock of EUR 4.73 per share and the value of the remaining operating business of EUR 0.76 per share. This implies additional upside of 8% on the basis of the latest closing price.

Conclusion

3U HOLDING AG currently represents an exciting special situation for investors. Despite the profitable disposal of weclapp, 3U still has two established uncorrelated segments (ITC & Renewable Energies) which hardly require investments and generate cash flows that are largely independent of economic cycles. Additionally, the company has a strongly growing business segment (SHAC online retail) offering further profit potential in our view.

The remaining operating business after the weclapp disposal, which is divided in three segments, is profitable both in terms of profit and cash flow and can currently be acquired at a price close to the net cash portfolio of EUR 4.73 per share. Even after deducting the holding costs, the free cash flow remains positive.

Given a current cash balance of some EUR 190m, the company will still hold an amount of EUR 73m even the payment of a generous dividend of EUR 3.20 per share or EUR 117m. The management has not presented a detailed acquisition strategy, but preferably aims to strengthen the current business segments. From a strategic point of view, we believe that acquisitions in the area of online retail would make sense to seize synergies in procurement and optimally utilise the existing logistics space. Accordingly, investors would benefit from additional upside potential in case of a value-adding acquisition.

SWOT

The business success of 3U mainly depends on the operating development of the investments, but to a great degree also on value-adding acquisitions and disposals. As such, the high liquid assets represent the greatest opportunity but also the greatest risk, depending on the allocation. However, the company is expected to benefit from its longstanding M&A experience in the due diligence process.

We see the main strength in the company's diversified core business, which is divided in three segments, and which is largely independent of economic cycles and generates consistent profits and cash flows. Conversely, the short remaining life of the wind turbines and the current tight margin situation in the SHAC segment is seen as the company's key weakness.

Strengths

- The ITC and Renewable Energies segments generate high cash flow and have hardly any investment and working capital needs.
- With a view to future add-on acquisitions, 3U benefits from the expertise in ITC, renewable energies and in online retail.
- The company currently has three uncorrelated segments which are largely independent of economic cycles.
- The high cash reserves of 3U should provide the share price with a natural floor.

Weaknesses

- The business activity in Voice Retail is based on a framework agreement between the VATM and DVTM telecommunications associations and Deutsche Telekom, which will expire at the end of 2024. 3U therefore has next to no direct influence on a possible prolongation which would secure a continuation of the business segment.
- The customer retention of the Selfio online shop currently is low.
- The operated wind turbines in the Renewable Energies segment only have a prospective residual life of just under five years.
- There are currently no synergies between the operational business segments.

Opportunities

- The group's comfortable liquidity situation provides opportunities for transformative purchases or add-on acquisitions.
- In the event of a successful implementation of the repowering measures at the Langendorf site at the costs planned, the group claims it can achieve an attractive equity ratio (15%) and continuous free cash flows.
- 3U has significant expansion areas in its own distribution centre, which are already completed, and which would enable to scale the sales volume to up to EUR 150m (sales in online retail in 2022e: EUR 31.0m).
- An improvement of the gross profit margin in the SHAC segment would lead to significant profit potential (EBITDA of c. EUR 0.3m per additional gross margin percentage point).

Threats

- The cash flows of the Renewable Energies segment depend on the development of energy prices since the plants are no longer eligible for feed-in renumeration under the EEG.

- Acquisitions by the company may develop contrary to expectations and destroy values.

- The medium-term profitability increase in the e-commerce business may fail because of continued competitive pressure.

VALUATION

We have valued 3U with the help of a DCF model, whose assumptions are shown below. Revenue, earnings and free cash flow contributions were explicitly planned at the level of the different segments and cumulated in the model under consideration of the holding costs. Other valuation methods, such as a peer group comparison, would not lead to the desired result for lack of comparable companies, in our view.

DCF model

The DCF model reflects the positive medium-term top line development of the group, which should mainly be driven by the strong growth of the SHAC segment going forward. Conversely, the much smaller ITC and Renewable Energies segments (in terms of sales) are expected to see a decline in revenues, which is due to the discontinuation of the Voice Retail business line in ITC as well as the lower energy prices. Furthermore, we have reflected the close-down of the three existing wind farms in the rough planning phase and modelled lower growth rates in the SHAC segment to take account of the change of strategic focus from growth towards more profitability as expected by us. To determine the terminal value, we have used a long-term growth rate of 2.0%.

Despite the high probability of short-term acquisitions, in our view, we have only considered the organic growth potential of 3U in our planning. Accordingly, we have reduced the holding costs to some extent, as they are not needed in their current level for the pure continuation of the existing business segments as shown in the model. A more probable scenario would be that the holding remains as it is, but acquisitions would make additional contributions to the modelled free cash flows.

We expect the ITC segment to generate high EBITDA margins of some 20% in the medium and in the long term, while investments remain low. The wind turbines and PV systems are expected to deliver stable earnings contributions in the future. The gross margin in online retails is seen to gradually increase in the medium term because of a higher focus on profitability. We therefore expect the company to reach a sustainable break-even at EBITDA level in 2024, whilst EBIT is expected to be positive from 2025 onwards.

The beta of 1.1 reflects the uncorrelated business segments of 3U which are largely independent of economic cycles as well as the company’s high cash pile which should provide for a natural floor of the share price.

We assume a risk-free yield of 2.5% on the basis of long-term fixed-rate securities. We apply a market yield of 9.0%, which results in a market risk premium of 6.5%. The assumption of a long-term debt ratio of 20% leads to WACC of 8.28%.

The DCF model results in a **fair value per share of EUR 5.50** for 3U AG.

DCF Model

Figures in m	2023e	2024e	2025e	2026e	2027e	2028e	2029e	Terminal Value
Sales	**54.4**	**56.3**	**56.3**	**58.6**	**60.9**	**59.1**	**61.7**	**62.9**
Change yoy	*-13.6%*	*3.5%*	*0.0%*	*4.0%*	*4.0%*	*-3.0%*	*4.3%*	*2.0%*
EBIT	**2.2**	**2.1**	**1.9**	**2.4**	**3.8**	**2.3**	**2.4**	**2.5**
EBIT margin	4.0%	3.8%	3.3%	4.0%	6.2%	3.8%	4.0%	4.0%
NOPAT	**1.5**	**1.5**	**1.3**	**1.7**	**2.6**	**1.6**	**1.7**	**1.8**
Depreciation	**3.2**	**3.2**	**3.2**	**3.2**	**2.2**	**2.1**	**2.0**	**0.7**
in % of Sales	*5.9%*	*5.7%*	*5.7%*	*5.5%*	*3.7%*	*3.5%*	*3.3%*	*1.1%*
Change in Liquidity from								
- Working Capital	-1.2	-1.5	-0.8	-0.6	-0.7	0.5	-0.7	-0.3
- Capex	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Capex in % of Sales	*1.3%*	*1.2%*	*1.2%*	*1.2%*	*1.1%*	*1.2%*	*1.1%*	*1.1%*
Other	-0.3	-0.2	-0.1	-0.1	-0.1	0.0	0.0	0.0
Free Cash Flow (WACC-Model)	**2,5**	**2.3**	**2.9**	**3.5**	**3.4**	**3.4**	**2.4**	**1.4**
WACC	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%
Present Value	2.4	2.0	2.4	2.6	2.4	2.2	1.4	12.6
Total present value	**2.4**	**4.4**	**6.8**	**9.4**	**11.8**	**14.0**	**15.4**	**28.0**

Valuation	
Total present value (Tpv)	28.0
Terminal Value	12.6
Share of TV on Tpv	45%
Liabilities	20.1
Liquidity	193.2
Equity Value	**201.1**
Number of shares (mln)	36.62
Value per share (EUR)	**5.49**
+Upside / -Downside	**8%**
Share price	5.08

Model parameter	
Debt ratio	20.0%
Costs of Debt	4.0%
Market return	9.0%
Risk free rate	2.50%
Beta	1.10
WACC	8.3%
Terminal Growth	2.0%

Growth: sales and margin		
Short term: Sales growth	2023-2026	2.5%
Mid term: Sales growth	2023-2029	2.1%
Long term: Sales growth	from 2030	2.0%
EBIT margin	2023-2026	3,8%
EBIT margin	2023-2029	4,2%
Long term EBIT margin	from 2030	4.0%

Sensitivity Value per Share (EUR)			Terminal Growth		
WACC	1.25%	1.75%	**2.00%**	2.25%	2.75%
8.78%	5.42	5.44	5.45	5.46	5.49
8.53%	5.44	5.46	5.47	5.48	5.51
8.28%	5.46	5.48	**5.49**	5.51	5.54
8.03%	5.48	5.50	5.52	5.53	5.57
7.78%	5.50	5.53	5.54	5.56	5.60

Sensitivity Value per Share (EUR)			EBIT margin from 2030e		
WACC	3.50%	3.75%	**4.00%**	4.25%	4.50%
8.78%	5.40	5.43	5.45	5.47	5.50
8.53%	5.42	5.45	5.47	5.49	5.52
8.28%	5.44	5.47	**5.49**	5.52	5.54
8.03%	5.46	5.49	5.52	5.54	5.57
7.78%	5.48	5.51	5.54	5.57	5.60

Source: Montega

COMPANY BACKGROUND

3U HOLDING AG is a German investment company, whose current operational activities comprise the fields of renewable energies (RE; wind and solar), information and telecommunications technology (ITC) as well as online retail in sanitary, heating and air conditioning technology (SHAC). The company also pursues opportunistic investment strategies in the real estate sector. Following the disposal of weclapp for some EUR 161m in 2022, 3U has liquid assets at record levels and currently is primarily examining add-on acquisitions across the three defined core markets.

Key Facts

Ticker	UUU	**Revenue** (cont. activities)	EUR 50.5m
Sector	Investment company	**EBIT MONe:** (cont. activities)	EUR 2.5m
Employees	128 (FTEs)	**EBIT margin MONe:** (cont. activities)	5.0%
Core competence	• ITC: Provision of high-quality, secure ITC services • RE: Development and operation of wind and solar farms • SHAC: Operation of an online store for complex products in the DIY sector		
Locations	Marburg (headquarters), Hannover, Berlin, Koblenz, Bad Honnef, Langendorf, Roge, Klostermoor, Adelebsen		
Customer structure	• ITC (B2C & B2B): Companies from a wide range of industries as well as end consumers • RE (B2B): Individual contracts with few companies or fixed government allowance • SHAC (B2C & B2B): End users and craft businesses		

Source: Company, Montega   As of FY 2022p

Major events in the company's history

1997 Foundation of the company as 3U Telekommunikation GmbH, a carrier network operator

1999 Change of name into a stock corporation and initial listing at the Frankfurt stock exchange

2003 Acquisition of OneTel, a network operator for voice telephony

2004 Acquisition of LambdaNet Communications Deutschland

2007 Change of name into 3U HOLDING AG and strategic positioning as management and investment holding

2008 Foundation of the predecessor company of weclapp

2009 Entry into renewable energies

2011 Foundation of Selfio GmbH, an online retailer for sanitary, heating and air conditioning technology

2013 Expansion of data centre business through acquisition of additional capacities in Berlin and Hanover

2014 Expansion of Renewable Energies segment through the acquisition of a wind farm project developer with a pipeline of eight projects and the acquisition of the Langendorf wind farm

2015 Investment in Selfio gmbH increased to 100%

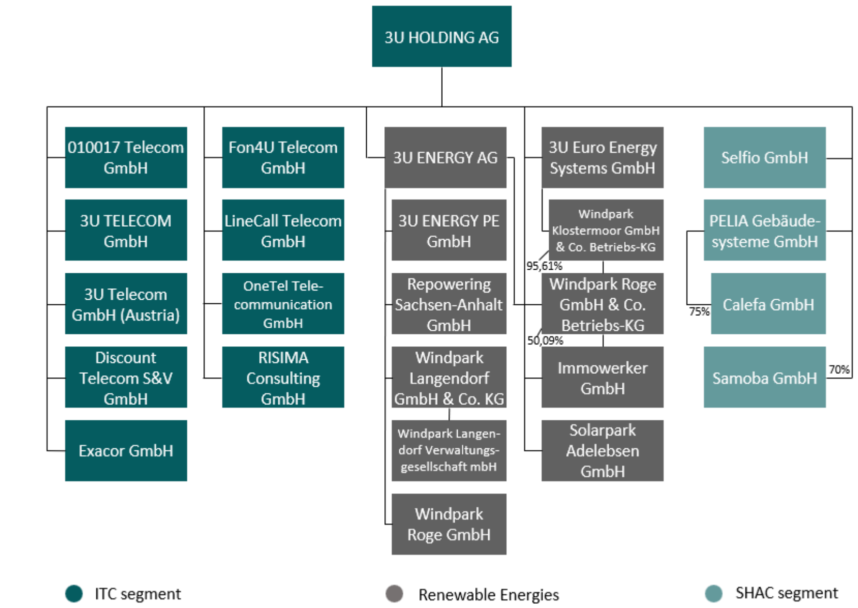
2021 Move into the new distribution centre for the online retail segment

2022 Disposal of the investment in weclapp SE (70.95% stake) for EUR 161.6m

Organisational structure

3U HOLDING AG acts as the holding company in the group's organisational structure. The ITC segment comprises nine different operational companies. The Renewable Energies segment is also managed by several companies. As is usual in the industry, the group's own wind farms and solar parks are managed by a management company as well as a GmbH & Co. KG. The business activities of the online retail segment are primarily bundled in Selfio and PELIA. In addition to the companies above, 3U operates another 14 companies such as project development companies which currently are of negligible relevance.

Organizational structure of 3U HOLDING AG



Source: Company

Business model and individual segments

3U divides its business activities in three segments. To show the relevant sales relations, the figures below include pro-forma sales in 2022 which are essentially adjusted for the revenue contributions of the sold investment in weclapp.

The services provided in the **Information and Telecommunications Technology segment (pro-forma revenue share in 2022 MONe: 23%)** are again divided in four business lines:

- *Data Centre Services & Operation* (MONe: 12% of segment sales) bundles all services around the three own data centres. Corporate customers can choose between renting space to set up their own servers (colocation) or computing capacities provided by 3U (Infrastructure-as-a-Service). Active support and operation of IT landscapes for corporate customers (managed services) complete the company's services.

- The *Voice Retail* business line (MONe: 15% of segment sales) offers cost-effective telephone connections for end customers and mainly includes call-by-call and pre-selection calls.

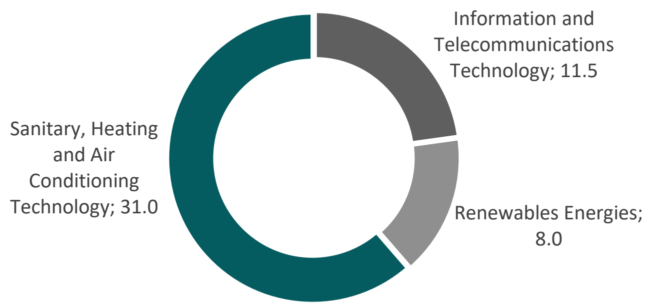
- The *Voice Business* business line, whose core business is voice termination, generates the majority of segment sales (MONe: 64% of segment sales). As a subscriber and carrier network operator, 3U has its own internet-based telephone network and acts as an intermediary for telephone calls across the networks (voice termination). Services cover connections in fixed line and mobile networks, international connections as well as special and service numbers.

- To a lesser extent (MONe: 9% of segment sales), 3U is also *trading software licences*. In this respect, the company is exclusively focused on the sale of the Litera document management software.

- The **Renewable Energies segment (pro-forma revenue share in 2022 MONe: 16%)** includes three wind farms with a nominal capacity of 42.9 MW and a solar park with a capacity of 10.1 MW. Earnings are subject to volatility which is typical for the industry and can be put down to changing weather conditions, on the one hand, and fluctuating electricity prices, on the other hand. 3U has already sold most of the electricity yields in 2023 in the form of Power Purchase Agreements (PPA) at fixed conditions. Additionally, the company is planning comprehensive repowering measures at the Langendorf site, which would almost double output from 22.5 MW to 43.0 MW and are expected to triple electricity yields from the start of operations in mid-2025.
- The **Sanitary, Heating and Air Conditioning Technology (SHAC) segment (pro-forma revenue share in 2022 MONe: 61%)** mainly bundles the activities of the Selfio portfolio company (c. 80% of segment sales). This is a B2C online shop which distributes e.g. underfloor heating or ventilation and water treatment systems of own and third-party brands (e.g. Buderus, Grundfos, Viessmann, Wolf) to handymen and do-it-yourselfers. Customers benefit from extensive assistance in the form of videos or detailed assembly instructions. Additionally, 3U operates PELIA (c. 20% of segment sales), a company which acts as a SHAC wholesaler with customers mainly including handicraft businesses. The company also handles all logistics processes of the segment and is responsible for the still small production of in-house brands.

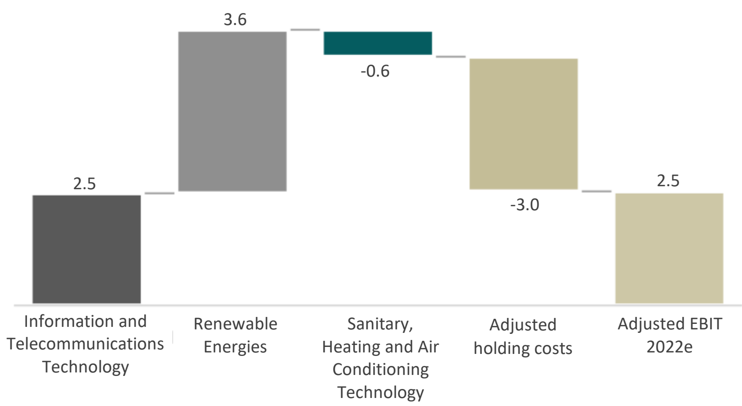
Pro-forma revenue split 2022e by segment

(in EUR m)



Adjusted EBIT 2022e from continuing operations

(in EUR m)



Source: Montega

Target markets, sales regions and sales structure

In regional terms, 3U is mainly focused on the German market but also offers its telecommunications services in Austria, for instance, and delivers customers in more than 30 countries with its Selfio online shop. In the past, roughly 10% of group revenues were generated abroad. The most important sales markets are Austria and Switzerland, which already account for more than half of the foreign revenues. Most of the remaining revenues are generated in other neighbouring European countries.

M&A history

The tables below show the company’s exits in chronological order. This illustrates both 3U’s long-term investment approach and the opportunistic real estate strategy given that six of the ten transactions are related to real estate. Two transactions are related to self-developed wind farms and an investment in the SHAC sector, respectively, as well as to ERP software provider weclapp. All in all, we believe that 3U has a good track record and a shareholder-friendly dividend policy since the shareholders participate in successful exits in the form dividend payments.

Historical exits				
Asset	Purchase price/investment	Year	Disposal value	Year
weclapp	EUR 24.0m	2008	EUR 161m	2022
InnoHubs	EUR 3.7m	2019	EUR 10.1m	2022
Property Adelebsen	EUR 4.3m	2011	EUR 5.1m	2021
ClimaLevel energy systems	EUR 1.0m	2012	EUR 2.3m	2021
Wind farm Lüdersdorf	EUR 3.6m	2016	EUR 4.0m	2021
Linz real estate	EUR 0.8m	2012	EUR 0.7m	2020
Montabaur real estate	EUR 1.9m	2012	EUR 1.7m	2019
Marburg real estate	EUR 8.6m	2009	EUR 11.8m	2019
DC-Property Hannover	EUR 8.4m	2013	EUR 10.2m	2018
Wind farm Schlenzer	EUR 4.4m	2017	EUR 7.5m	2017
Total	**EUR 60.7m**		**EUR 215.0m**	

Source: Company

Management

The company is currently run by a management board consisting of three members.

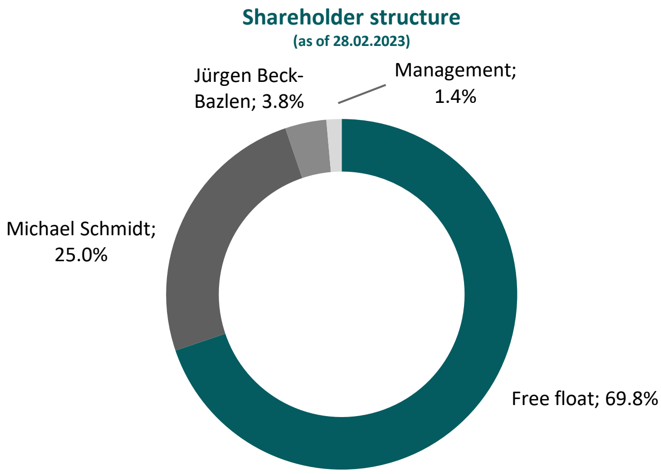
Uwe Knoke has been a member of the management board since November 2021 and is responsible for strategy and business development. The chartered engineer (Diplom-Ingenieur) has a long-standing experience and profound expertise in the area of telecommunications, working for LambdaNet Communications Deutschland AG amongst others, followed by a Managing Director role at 3U TELECOM GmbH.

Christoph Hellrung (CFO) joined 3U in 2009, when he was Chief Financial Officer of subsidiary LambdaNet Communications Deutschland AG. In March 2012, he was appointed to the group's board of directors. Following almost 10 years in this function, he became CFO of weclapp SE in October 2021 before he was appointed CFO of 3U HOLDING in May 2022. Prior to joining the 3U group, the business graduate had worked for a leading auditor and was a Management Board member at ENRO AG, which is specialised in renewable energies.

Andreas Odenbreit has joined the group as early as 2005 and, in his role as Management Board member, is in charge of legal and human resources. Prior to this, the lawyer had worked for the legal departments of Volkswagen and Deutsche Telekom.

Shareholder structure

3U HOLDING AG has issued 36,617,014 bearer shares. The shareholder structure is dominated by the stake of founder and current CEO Michael Schmidt, who holds 25.0% of the shares. Furthermore, Jürgen Beck-Bazlen (Supervisory Board) owns some 3.8% of the outstanding shares, while the other members of the Management and Supervisory Board account for another 1.4% of the shares. The remaining 69.8% are free float.



Source: Company

APPENDIX

P&L (in Euro m) 3U HOLDING AG	2020	2021	2022e	2023e	2024e	2025e
Sales	**61.1**	**55.9**	**63.0**	**54.4**	**56.3**	**56.3**
Increase / decrease in inventory	-0.4	2.0	0.3	0.0	0.0	0.0
Own work capitalised	0.2	0.8	0.8	0.0	0.0	0.0
Total sales	**60.8**	**58.7**	**64.1**	**54.4**	**56.3**	**56.3**
Material Expenses	33.2	29.3	31.0	35.4	37.8	38.1
Gross profit	**27.6**	**29.4**	**33.2**	**19.0**	**18.5**	**18.2**
Personnel expenses	13.1	15.0	20.3	8.0	7.2	7.2
Other operating expenses	8.3	10.0	16.3	6.6	6.9	7.0
Other operating income	5.3	6.9	169.4	1.0	1.0	1.0
EBITDA	**11.6**	**11.3**	**166.0**	**5.4**	**5.3**	**5.1**
Depreciation on fixed assets	4.3	3.1	3.3	3.0	3.0	3.0
EBITA	**7.2**	**8.1**	**162.7**	**2.4**	**2.3**	**2.1**
Amortisation of intangible assets	1.3	1.4	1.0	0.2	0.2	0.2
Impairment charges and Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	**5.9**	**6.8**	**161.7**	**2.2**	**2.1**	**1.9**
Financial result	-0.7	-0.5	-0.5	1.3	0.5	0.5
Result from ordinary operations	**5.3**	**6.3**	**161.2**	**3.4**	**2.6**	**2.3**
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
EBT	**5.3**	**6.3**	**161.2**	**3.4**	**2.6**	**2.3**
Taxes	1.3	2.2	2.0	1.0	0.8	0.7
Net Profit of continued operations	4.0	4.0	159.2	2.4	1.8	1.6
Net Profit of discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	**4.0**	**4.0**	**159.2**	**2.4**	**1.8**	**1.6**
Minority interests	0.7	1.1	0.2	0.3	0.2	0.1
Net profit	**3.3**	**2.9**	**159.0**	**2.1**	**1.6**	**1.5**

Source: Company (reported results), Montega (forecast)

P&L (in % of Sales) 3U HOLDING AG	2020	2021	2022e	2023e	2024e	2025e
Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Increase / decrease in inventory	-0.7%	3.5%	0.5%	0.0%	0.0%	0.0%
Own work capitalised	0.3%	1.4%	1.3%	0.0%	0.0%	0.0%
Total sales	**99.6%**	**104.8%**	**101.8%**	**100.0%**	**100.0%**	**100.0%**
Material Expenses	54.4%	52.3%	49.1%	65.0%	67.1%	67.6%
Gross profit	**45.3%**	**52.5%**	**52.7%**	**35.0%**	**32.9%**	**32.4%**
Personnel expenses	21.5%	26.8%	32.2%	14.8%	12.9%	12.7%
Other operating expenses	13.6%	17.8%	25.8%	12.2%	12.3%	12.4%
Other operating income	8.7%	12.3%	268.9%	1.8%	1.8%	1.8%
EBITDA	**18.9%**	**20.1%**	**263.5%**	**9.9%**	**9.5%**	**9.0%**
Depreciation on fixed assets	7.1%	5.6%	5.2%	5.5%	5.4%	5.3%
EBITA	**11.8%**	**14.5%**	**258.3%**	**4.3%**	**4.1%**	**3.7%**
Amortisation of intangible assets	2.1%	2.4%	1.6%	0.4%	0.4%	0.4%
Impairment charges and Amortisation of goodwill	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT	**9.7%**	**12.1%**	**256.7%**	**4.0%**	**3.8%**	**3.3%**
Financial result	-1.1%	-0.8%	-0.8%	2.3%	0.8%	0.8%
Result from ordinary operations	**8.6%**	**11.2%**	**255.9%**	**6.3%**	**4.6%**	**4.1%**
Extraordinary result	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBT	**8.6%**	**11.2%**	**255.9%**	**6.3%**	**4.6%**	**4.1%**
Taxes	2.1%	4.0%	3.2%	1.9%	1.4%	1.2%
Net Profit of continued operations	6.5%	7.2%	252.7%	4.4%	3.2%	2.9%
Net Profit of discontinued operations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net profit before minorities	**6.5%**	**7.2%**	**252.7%**	**4.4%**	**3.2%**	**2.9%**
Minority interests	1.1%	2.0%	0.3%	0.6%	0.4%	0.2%
Net profit	**5.4%**	**5.2%**	**252.4%**	**3.8%**	**2.9%**	**2.7%**

Source: Company (reported results), Montega (forecast)

Balance sheet (in Euro m) 3U HOLDING AG	2020	2021	2022e	2023e	2024e	2025e
ASSETS						
Intangible assets	4.9	34.3	3.9	3.9	3.9	3.9
Property, plant & equipment	32.3	33.5	28.7	26.2	23.7	21.2
Financial assets	0.2	0.2	0.2	0.2	0.2	0.2
Fixed assets	**37.3**	**68.0**	**32.8**	**30.3**	**27.8**	**25.3**
Inventories	8.6	13.6	12.4	13.6	15.0	15.8
Accounts receivable	3.8	16.0	4.3	3.7	3.9	3.9
Liquid assets	26.4	12.7	190.2	76.8	78.5	81.1
Other assets	9.8	8.7	5.5	5.5	5.5	5.5
Current assets	**48.5**	**51.0**	**212.5**	**99.6**	**102.9**	**106.3**
Total assets	**85.9**	**119.0**	**245.3**	**129.9**	**130.7**	**131.6**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Shareholders' equity	**51.1**	**55.2**	**211.4**	**96.7**	**97.4**	**98.2**
Minority Interest	**0.8**	**6.9**	**1.0**	**1.0**	**1.0**	**1.0**
Provisions	2.6	2.3	3.2	3.2	3.2	3.2
Financial liabilities	20.1	35.0	18.8	18.8	18.8	18.8
Accounts payable	3.2	3.9	4.4	3.8	3.9	3.9
Other liabilities	8.0	15.7	6.5	6.5	6.5	6.5
Liabilities	**33.9**	**56.9**	**32.9**	**32.3**	**32.4**	**32.4**
Total liabilities and shareholders' equity	**85.9**	**119.0**	**245.3**	**129.9**	**130.7**	**131.6**

Source: Company (reported results), Montega (forecast)

Balance sheet (in %) 3U HOLDING AG	2020	2021	2022e	2023e	2024e	2025e
ASSETS						
Intangible assets	5.7%	28.8%	1.6%	3.0%	3.0%	3.0%
Property, plant & equipment	37.6%	28.2%	11.7%	20.2%	18.1%	16.1%
Financial assets	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%
Fixed assets	**43.5%**	**57.2%**	**13.4%**	**23.3%**	**21.3%**	**19.2%**
Inventories	10.0%	11.4%	5.1%	10.5%	11.5%	12.0%
Accounts receivable	4.4%	13.5%	1.8%	2.8%	3.0%	3.0%
Liquid assets	30.8%	10.7%	77.6%	59.1%	60.1%	61.6%
Other assets	11.4%	7.3%	2.3%	4.3%	4.2%	4.2%
Current assets	**56.5%**	**42.9%**	**86.6%**	**76.7%**	**78.7%**	**80.8%**
Total Assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Shareholders' equity	**59.5%**	**46.4%**	**86.2%**	**74.4%**	**74.5%**	**74.7%**
Minority Interest	**1.0%**	**5.8%**	**0.4%**	**0.8%**	**0.8%**	**0.8%**
Provisions	3.1%	1.9%	1.3%	2.5%	2.4%	2.4%
Financial liabilities	23.4%	29.4%	7.7%	14.5%	14.4%	14.3%
Accounts payable	3.7%	3.3%	1.8%	2.9%	3.0%	3.0%
Other liabilities	9.3%	13.2%	2.6%	5.0%	5.0%	4.9%
Total Liabilities	**39.5%**	**47.8%**	**13.4%**	**24.8%**	**24.8%**	**24.6%**
Total Liabilites and Shareholders' Equity	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Company (reported results), Montega (forecast)

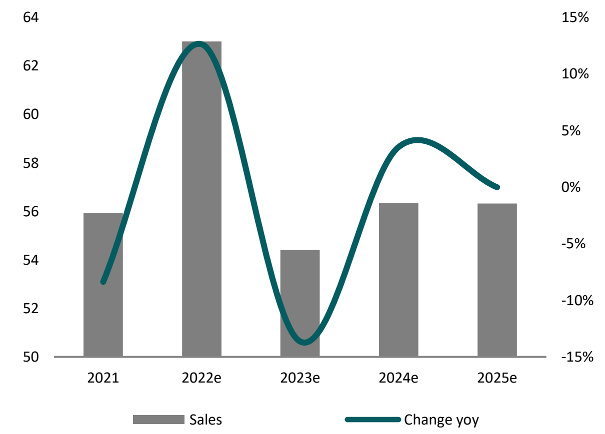
Statement of cash flows (in Euro m) 3U HOLDING AG	2020	2021	2022e	2023e	2024e	2025e
Net income	4.0	4.0	159.2	2.4	1.8	1.6
Depreciation of fixed assets	4.3	3.1	3.3	3.0	3.0	3.0
Amortisation of intangible assets	1.3	1.4	1.0	0.2	0.2	0.2
Increase/decrease in long-term provisions	0.2	0.0	0.0	0.0	0.0	0.0
Other non-cash related payments	-4.5	-1.4	-163.2	0.0	0.0	0.0
Cash flow	**5.3**	**7.1**	**0.3**	**5.6**	**5.0**	**4.8**
Increase / decrease in working capital	-0.5	-16.6	13.5	-1.2	-1.5	-0.8
Cash flow from operating activities	**4.8**	**-9.5**	**13.7**	**4.4**	**3.5**	**4.0**
CAPEX	-10.4	-5.6	-4.0	-0.7	-0.7	-0.7
Other	5.6	-8.1	138.0	0.0	0.0	0.0
Cash flow from investing activities	**-4.8**	**-13.8**	**134.0**	**-0.7**	**-0.7**	**-0.7**
Dividends paid	-2.0	-2.0	0.0	-117.2	-1.1	-0.7
Change in financial liabilities	6.4	12.2	5.7	0.0	0.0	0.0
Other	0.8	-1.0	24.0	0.0	0.0	0.0
Cash flow from financing activities	**5.3**	**9.2**	**29.7**	**-117.2**	**-1.1**	**-0.7**
Effects of exchange rate changes on cash	0.5	0.3	0.0	0.0	0.0	0.0
Change in liquid funds	**5.3**	**-14.0**	**177.5**	**-113.5**	**1.7**	**2.6**
Liquid assets at end of period	**26.4**	**12.7**	**190.2**	**76.8**	**78.5**	**81.1**

Source: Company (reported results), Montega (forecast)

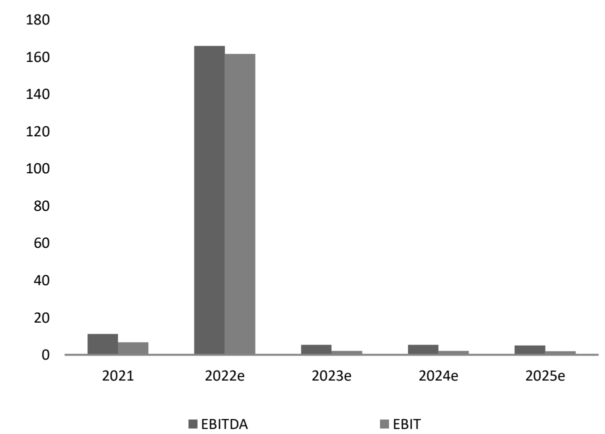
Key figures 3U HOLDING AG	2020	2021	2022e	2023e	2024e	2025e
Earnings margins						
Gross margin (%)	45.3%	52.5%	52.7%	35.0%	32.9%	32.4%
EBITDA margin (%)	18.9%	20.1%	263.5%	9.9%	9.5%	9.0%
EBIT margin (%)	9.7%	12.1%	256.7%	4.0%	3.8%	3.3%
EBT margin (%)	8.6%	11.2%	255.9%	6.3%	4.6%	4.1%
Net income margin (%)	6.5%	7.2%	252.7%	4.4%	3.2%	2.9%
Return on capital						
ROCE (%)	12.4%	10.2%	252.7%	5.2%	5.3%	4.8%
ROE (%)	7.0%	5.6%	256.0%	1.0%	1.6%	1.6%
ROA (%)	3.8%	2.5%	64.8%	1.6%	1.2%	1.2%
Solvency						
YE net debt (in EUR)	-5.0	23.6	-170.2	-56.7	-58.4	-61.0
Net debt / EBITDA	-0.4	2.1	-1.0	-10.6	-10.9	-12.0
Net gearing (Net debt/equity)	-0.1	0.4	-0.8	-0.6	-0.6	-0.6
Cash Flow						
Free cash flow (EUR m)	-5.6	-15.1	9.8	3.7	2.8	3.3
Capex / sales (%)	17.0%	10.1%	6.3%	1.3%	1.2%	1.2%
Working capital / sales (%)	15%	31%	30%	24%	25%	27%
Valuation						
EV/Sales	0.3	0.3	0.3	0.3	0.3	0.3
EV/EBITDA	1.4	1.4	0.1	3.0	3.0	3.1
EV/EBIT	2.7	2.3	0.1	7.4	7.4	8.5
EV/FCF	-	-	1.6	4.3	5.6	4.7
PE	56.4	63.5	1.1	84.7	127.0	127.0
P/B	3.6	3.4	0.9	1.9	1.9	1.9
Dividend yield	1.0%	1.0%	63.0%	0.6%	0.4%	0.4%

Source: Company (reported results), Montega (forecast)

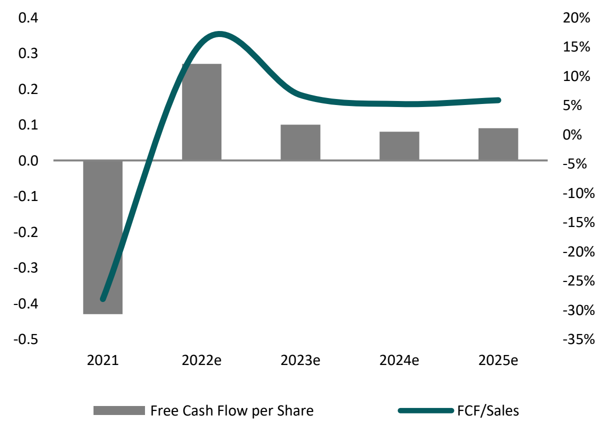
Sales development



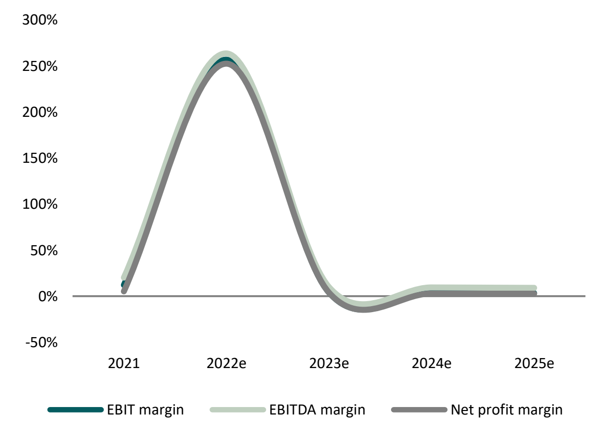
Earnings development



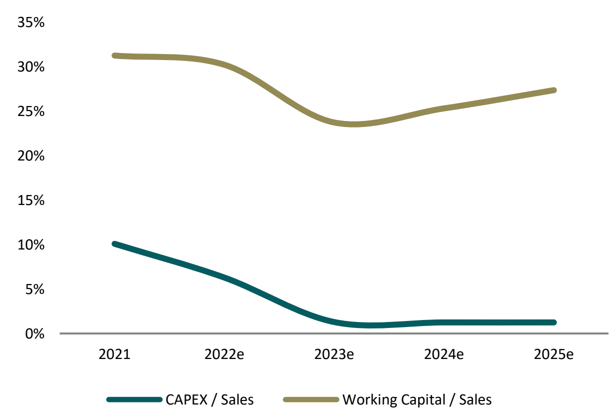
Free-Cash-Flow development



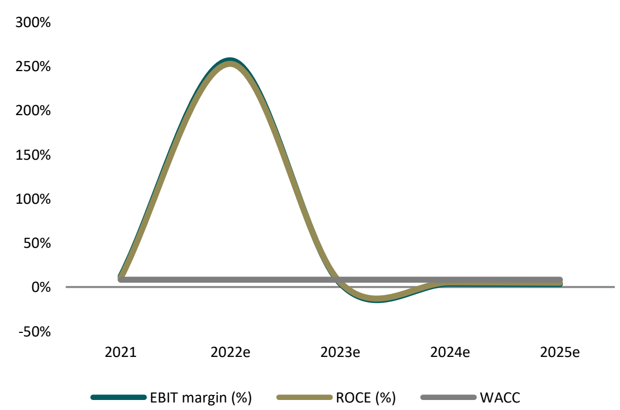
Margin development



Capex / Working Capital



EBIT-Yield / ROCE



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Our ratings:
Buy: The analysts at Montega AG believe the share price will rise during the next twelve months.
Hold: Upside/downside potential limited. No immediate catalyst visible.
Sell: The analysts at Montega AG believe the share price will fall during the next twelve months.

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Share price and recommendation history

Recommendation	Date	Price (EUR)	Price target (EUR)	Potential
Buy (Initiation)	20.03.2023	5.08	5.50	+8%