telegate AG

Recommendation:	Risk:	Price Target:
HOLD (HOLD)	HIGH (HIGH)	EUR 4.00 (5.00)

06 November 2014

...still searching for the growth path

- **9M14 figures:** Without major progress in the Digital segment, telegate AG published today 9M14 financial figures which verify our cautious assessment of the company. As expected, revenues went down by 14% to EUR 47.5m from EUR 55.2m in 9M13 due to the ongoing deterioration of the Directory Assistance business which could not be offset by the performance of the Digital business. Group´s EBITDA before non-recurring items came in at EUR 6.8m (PY: EUR 8.1m; -16% yoy). Non-recurring effects in 9M14 totalled EUR 6.0m (PY: EUR 2.7m) and were comprised of structural cost adjustments of EUR 5.8m (PY: EUR 2.7m) and data cost litigation in the amount of EUR 0.2m (PY: EUR 0.4m). Therefore, EBITDA incl. one-offs came in at EUR 0.8m (PY: EUR 5.4m), which resulted into a net income of EUR -4.2m (PY: EUR -1.9m), translating into an EPS of EUR -0.24 (PY: EUR -0.09). The guidance for FY 2014E was reiterated by the management (EBITDA before non-recurring items between EUR 7m and EUR 9m).

- **Segment level:** telegate´s DA segment continued its course of decline, revenues down by 26% to EUR 21.4m (PY: EUR 28.8m) in 9M14. EBITDA before non-recurring items declined by 29% yoy, reaching EUR 6.2m (PY: EUR 8.8m). Although the digital segment showed a nearly flat revenue development with EUR 26.1m (PY: EUR 26.4m), EBITDA before non-recurring items developed positively and amounted to EUR 0.6m after EUR -0.7m in 9M13. In this context, telegate improved customer retention with an increased 24-months penetration rate of 46% (FY13: 41%) and a churn rate of 29% (FY13: 32%). Also, ARPA surprised positively with EUR 1,606 (FY13: EUR 1,523), an indicator that telegate is able to realize revenues with websites and value added services. However, the crucial points are still telegate's ability to aggressively reduce the costs in all areas and generate growth through an enhanced product portfolio and customer loyalty.

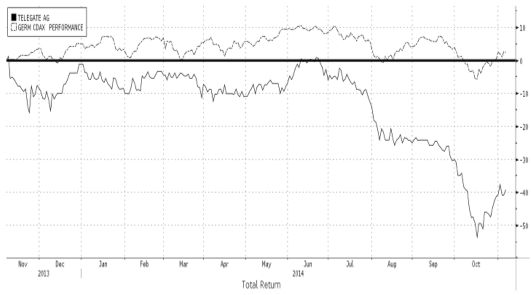
- During today´s analyst call, CEO Weber stated that Seat PG will transfer approximately 62% of its stake to other financial investors, consequently increasing telegate´s free float which may positively influence the share´s liquidity. Nevertheless, not surprisingly to us DA business is decreasing further, but the development of the Digital business could be better in the context of sales growth and profitability, thus we stick to our **HOLD recommendation** until 'clear' progresses are visible. Based on our multiple valuation (Peer group, DCF) models we derive a **new PT** of **EUR 4.00** (old: EUR 5.00).

Key data

FY 12/31, EURm	2011	2012	2013	2014E	2015E	2016E
Sales	110.0	86.6	72.3	61.8	57.6	59.4
EBIT (reported)	3.2	50.4	-2.8	-8.6	-2.1	-1.0
Net result	3.4	47.1	-2.0	-5.6	-1.2	-0.5
EPS	0.18	2.46	-0.10	-0.29	-0.06	-0.02
DPS	0.35	2.00	0.40	0.30	0.30	0.30
Gross profit margin	59.1%	54.3%	54.2%	48.7%	53.0%	55.0%
EBIT (reported) margin	2.9%	58.2%	-3.9%	-13.9%	-3.6%	-1.6%
EV/EBIT	30.0	0.4	neg.	neg.	neg.	neg.
P/E	39.6	2.5	neg.	neg.	neg.	neg.

Source: CBS Research AG, telegate AG

Share price (dark) vs. CDAX



Source: CBS Research AG, Bloomberg, telegate AG

Change	2014E		2015E		2016E	
	new	old	new	old	new	old
Sales	61.8	63.1	57.6	59.1	59.4	61.1
EBIT	-8.6	-9.5	-	-2.1	-	-1.0
EPS	-0.29	-0.30	-0.06	-0.03	-0.02	-0.01

Internet: telegate.com
Sector: Communications
WKN: 511880
ISIN: DE0005118806
Reuters: TGTG.DE
Bloomberg: TGT GY

Short company profile:

telegate AG, together with its subsidiaries, provides cross-media directory assistance and information services for private and commercial customers, and advertising consultation and marketing concepts for business customers in Germany and Austria.

Share data:

Share price (EUR, latest closing price):	**3.51**
Shares outstanding (m):	19.1
Market capitalisation (EUR m):	67.1
Enterprise value (EUR m):	40.9
Ø daily trading volume (3 m., no. of shares):	5,512

Performance data:

High 52 weeks (EUR):	6.42
Low 52 weeks (EUR):	2.70
Absolute performance (12 months):	-43.3%
Relative performance vs. CDAX:	
1 month	-9.8%
3 months	-22.4%
6 months	-38.5%
12 months	-45.3%

Shareholders:

Seat Pagine Gialle	77.4%
Free float	22.6%

Financial calendar:

German Equity Forum (Ffm) 26 November 2014

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telegate AG

Profit and loss account

(31 December) IFRS EURm	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
Sales	**164.1**	**133.1**	**123.1**	**110.0**	**86.6**	**72.3**	**61.8**	**57.6**	**59.4**
YoY growth	-5.3%	-18.9%	-7.5%	-10.6%	-21.3%	-16.5%	-14.5%	-6.9%	3.2%
Cost of revenues	-70.3	-55.6	-50.7	-45.0	-39.5	-33.2	-31.7	-27.1	-26.7
Gross profit	**93.8**	**77.4**	**72.4**	**65.0**	**47.0**	**39.2**	**30.1**	**30.5**	**32.7**
in % of sales	57.2%	58.2%	58.8%	59.1%	54.3%	54.2%	48.7%	53.0%	55.0%
Selling and distribution costs	-50.8	-42.4	-54.8	-46.9	-41.6	-30.0	-26.0	-23.0	-23.8
General administrative expenses	-16.5	-14.6	-14.9	-14.8	-15.1	-12.3	-13.0	-9.5	-9.8
Other operating income/expense	6.4	2.3	0.3	-0.1	60.1	0.3	0.2	-0.1	-0.1
Operating income (EBIT)	**32.9**	**22.7**	**3.1**	**3.2**	**50.4**	**-2.8**	**-8.6**	**-2.1**	**-1.0**
in % of sales	20.1%	17.1%	2.5%	2.9%	58.2%	-3.9%	-13.9%	-3.6%	-1.6%
Net financial result	2.7	2.1	2.1	1.4	23.1	0.0	0.4	0.3	0.3
EBT	**35.6**	**24.8**	**5.1**	**4.6**	**73.5**	**-2.8**	**-8.2**	**-1.8**	**-0.7**
in % of sales	21.7%	18.7%	4.2%	4.2%	84.9%	-3.9%	-13.3%	-3.2%	-1.2%
Income taxes	-11.2	-6.2	-0.8	-1.2	-26.7	0.9	2.6	0.6	0.2
Result from continuing operations	**24.4**	**18.6**	**4.4**	**3.4**	**46.8**	**-1.9**	**-5.6**	**-1.2**	**-0.5**
Result from discontinued operations	**-0.2**	**-2.5**	**2.3**	**0.0**	**0.2**	**-0.1**	**0.0**	**0.0**	**0.0**
Net income including minorities	**24.3**	**16.1**	**6.7**	**3.4**	**47.1**	**-2.0**	**-5.6**	**-1.2**	**-0.5**
Minority interests	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income attributable to shareholders	**24.3**	**16.1**	**6.7**	**3.4**	**47.1**	**-2.0**	**-5.6**	**-1.2**	**-0.5**
in % of sales	14.8%	12.1%	5.4%	3.1%	54.4%	-2.8%	-9.0%	-2.1%	-0.8%
Shares outstanding (in millions)	21.2	21.2	21.1	19.1	19.1	19.1	19.1	19.1	19.1
Earnings per share (EUR)	**1.15**	**0.76**	**0.32**	**0.18**	**2.46**	**-0.10**	**-0.29**	**-0.06**	**-0.02**
Dividend per share (EUR)	**0.70**	**0.70**	**0.50**	**0.35**	**2.00**	**0.40**	**0.30**	**0.30**	**0.30**

Source: CBS Research AG, telegate AG

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HOLD: The expected performance of the share price is between 0% and +10%.
SELL: The expected performance of the share price is below 0%.

This rating system is only a guideline. Therefore, deviations from this system may apply.

Recommendation history over the last 12 months for the company analyzed in this report:

Date	Recommendation	Price at change date	Price target
6 November 2014	HOLD	EUR 3.51	EUR 4.00
6 August 2014	HOLD	EUR 4.70	EUR 5.00
12 May 2014	HOLD	EUR 5.89	EUR 6.00
17 March 2014	HOLD	EUR 6.08	EUR 6.50

7 November 2013	HOLD	EUR 6.35	EUR 6.50

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MEDIUM: The volatility is expected to be equal to the volatility of the benchmark
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