



Telegate AG

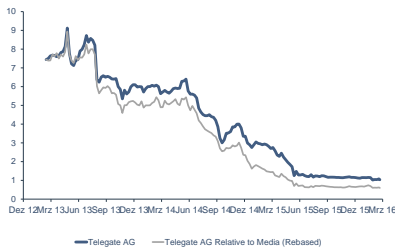
Neutral → | Target price : 1.50 EUR

Price : 1.03 EUR | Upside : 45 %

| Est.chg | 2016e | 2017e |
|---------|-------|-------|
| EPS | -% | -% |

No surprises in the 2015 results; guidance for Digital indicates no growth again 2016 despite launches of verticals

Tuesday 22 March 2016



2015 figures largely in line

2015 was a challenging year for telegate. The revenue decline in the Directory Assistance (DA) segment could not be offset by the Digital segment. The cash burn remained high and the bottom line strongly negative. Despite the lackluster figures, 2015 was otherwise quite eventful with a new CEO and new strategic alignment, which may be telegate's last attempt to right the ship.

The 2015 group figures were nearly bang in line with our estimates, with revenues of € 53.5m (our est.: € 53.6m), EBITDA of € -0.3m (our est.: € -0.2m) and EBIT of € -10.6m (our est.: € -10.1m). Due to lower tax reimbursements the net loss of € -9.2m was significantly below our estimate (€ -6.7m). The DA segment posted a revenue decline of 24% yoy to € 21.0m and a still-positive EBITDA of € 2.9m, while in the Digital segment revenues were down 6% to yoy € 32.5m and a negative EBITDA of € -3.2m.

Guidance for 2016 – still no signs of growth in Digital

Management provided detailed guidance for 2016: i) group revenues of € 44.6-48.7m, ii) EBITDA ranging from € -1.2m to € 0.9, iii) negative net cash flow of € -8.4 to € -6.3m, and on the segment level: i) DA revenues of € 15.3-16.2m and EBITDA of € 0.8-1.2m, ii) Digital revenues of € 29.3-32.5m and an EBITDA ranging from € -1.8m to € -0.2m.

Based on the new guidance, we adjust our estimates as follows for 2016e: revenues of € 46m and EBITDA of € -0.8m. Progress in the Digital business in 2016e looks to be somewhat less than satisfactory. The new products (verticals) – the first two have been already launched with up to twenty to follow in 2016 – could contribute revenues of € 2m in 2016e, but this may not be enough to offset the loss of revenue resulting from the cut-back of the field sales team. On the other hand, the downsizing of the field sales team reduces costs.

Conference call highlights and what to expect next:

- New company structure and rebranding: Telegate AG will be renamed to 11880 Solutions AG
- No (new) date has been set for the final decision in the lawsuit against the no-appeal ruling in its claim for damages against Deutsche Telekom.
- CEO Christian Maar bought 45k shares after the conference call, underlining his commitment to telegate.
- 11880.com: this portal will be further developed, and will be merged with 'klicktel' in the coming weeks. This advanced portal will pass on inquiries to the verticals, which should enable telegate to ramp up traffic on the verticals fairly quickly.

2016 another transition year, possibly cash-flow positive by 2018

Telegate estimates that verticals could contribute annualised revenues of € 8-9m (20 verticals each w/ € 400k potential sales), which would definitely help to offset the decline in DA in 2017e. Together with other new products ('Who knows the best') this could finally enable telegate to stabilize. If that happens, telegate even projects it will be cash flow positive by 2018, which also implies that its current cash position of € 18.5m would be sufficient to finance a turn-around scenario on a stand-alone basis. Given on the one hand, low visibility regarding the financial progress of the new product portfolio and the need for higher investments in 2016, and on the other hand, the possibility of a turn-around scenario taking shape, we leave our TP at € 1.50, which suggests 45% upside potential. We stick to our Neutral recommendation.

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Capital

| TGT GY TGTG.DE | |
|-------------------------|-------------|
| Market Cap (EURm) | 20 |
| Enterprise value (EURm) | 21 |
| Extrema 12 months | 0.99 - 2.75 |
| Free Float (%) | 54.6 |

| Performance (%) | 1m | 3m | 12m |
|--------------------------|-------|-------|-------|
| Absolute | -9.9 | -10.0 | -63.2 |
| Perf. rel. Country Index | -13.7 | -5.7 | -56.4 |
| Perf. rel. Media | -13.9 | -9.0 | -59.3 |

| P&L | 12/15 | 12/16e | 12/17e |
|-------------------------|-------|--------|--------|
| Sales (EURm) | 53.5 | 46.0 | 41.9 |
| EBITDA (EURm) | -0.3 | -0.8 | -1.1 |
| Current EBIT (EURm) | -10.6 | -8.6 | -7.0 |
| Attr. net profit (EURm) | -9 | -7 | -6 |
| Adjusted EPS (EUR) | -0.49 | -0.38 | -0.30 |
| Dividend (EUR) | 0.00 | 0.00 | 0.00 |

| | | | |
|---------------------|------|------|------|
| P/E (x) | ns | ns | ns |
| P/B (x) | 0.9 | 0.6 | 0.8 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 |
| FCF yield (%) | ns | ns | ns |
| EV/Sales (x) | 0.66 | 0.45 | 0.51 |
| EV/EBITDA (x) | ns | ns | ns |
| EV/Current EBIT (x) | ns | ns | ns |
| Gearing (%) | -2 | -2 | -2 |
| Net Debt/EBITDA(x) | 2.8 | 0.9 | 0.5 |

Next Events

| | |
|------------|------------|
| 11.05.2016 | Q1 Results |
| 08.06.2016 | AGM |

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Neutral

Upside 44.93%

Price 1.03EUR
TP 1.50EUR

| PER SHARE DATA (EUR) | 12/10 | 12/11 | 12/12 | 12/13 | 12/14 | 12/15 | 12/16e | 12/17e |
|--|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|
| Adjusted EPS | 0.32 | 0.18 | 2.46 | -0.10 | -0.33 | -0.49 | -0.38 | -0.30 |
| Reported EPS | 0.32 | 0.18 | 2.46 | -0.10 | -0.33 | -0.49 | -0.38 | -0.30 |
| Growth in EPS(%) | -58.0% | -43.7% | ns | ns | ns | ns | ns | ns |
| Net dividend per share | 0.50 | 0.35 | 2.00 | 0.40 | 0.00 | 0.00 | 0.00 | 0.00 |
| FCF to equity per share | 0.62 | -0.08 | 1.93 | -0.80 | -0.30 | -0.44 | -0.35 | -0.15 |
| Book value per share | 3.25 | 3.18 | 5.29 | 3.19 | 2.49 | 2.00 | 1.62 | 1.32 |
| Number of shares market cap | 21.08 | 19.11 | 19.11 | 19.11 | 19.11 | 19.11 | 19.11 | 19.11 |
| Number of diluted shares | 21.08 | 19.11 | 19.11 | 19.11 | 19.11 | 19.11 | 19.11 | 19.11 |
| VALUATION | 12/10 | 12/11 | 12/12 | 12/13 | 12/14 | 12/15 | 12/16e | 12/17e |
| 12m highest price | 10.74 | 8.90 | 6.86 | 9.32 | 6.40 | 3.35 | 1.17 | |
| 12m lowest price | 5.83 | 5.00 | 4.71 | 5.35 | 2.75 | 1.13 | 0.99 | |
| (*) Reference price | 7.73 | 6.70 | 5.67 | 7.27 | 5.07 | 1.83 | 1.04 | 1.04 |
| Capitalization | 163 | 128 | 108 | 139 | 97 | 35 | 20 | 20 |
| Restated Net debt | -48.8 | -39.0 | -93.3 | -10.0 | -4.3 | -0.9 | -0.7 | -0.5 |
| Minorities (fair value) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial fixed assets (fair value) | 7.8 | 3.6 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Provisions | 7.3 | 2.3 | 4.5 | 4.0 | 2.5 | 1.6 | 1.9 | 2.1 |
| Enterprise Value | 114 | 88 | 19 | 133 | 95 | 36 | 21 | 21 |
| P/E (x) | 24 | 37 | 2.3 | ns | ns | ns | ns | ns |
| P/CF (x) | 10 | 20 | 1.9 | ns | 62 | 144 | 32 | 60 |
| Net Yield (%) | 6.5% | 5.2% | 35.3% | 5.5% | 0.0% | 0.0% | 0.0% | 0.0% |
| FCF yield (%) | 8.0% | ns | 34.1% | ns | ns | ns | ns | ns |
| P/B incl. GW (x) | 2.38 | 2.11 | 1.07 | 2.28 | 2.04 | 0.91 | 0.64 | 0.78 |
| P/B excl. GW (x) | 2.38 | 2.11 | 1.07 | 2.28 | 2.04 | 0.91 | 0.64 | 0.78 |
| EV/Sales (x) | 0.92 | 0.80 | 0.22 | 1.84 | 1.53 | 0.66 | 0.45 | 0.51 |
| EV/EBITDA (x) | 5.1 | 7.9 | 0.3 | 18 | 42 | ns | ns | ns |
| EV/EBIT (x) | 37 | 27 | 0.4 | ns | ns | ns | ns | ns |
| (*) historical average price | | | | | | | | |
| PROFIT AND LOSS (EURm) | 12/10 | 12/11 | 12/12 | 12/13 | 12/14 | 12/15 | 12/16e | 12/17e |
| Sales | 123 | 110 | 87 | 72 | 62 | 54 | 46.0 | 41.9 |
| EBITDA | 22.1 | 11.1 | 65 | 7.6 | 2.3 | -0.3 | -0.8 | -1.1 |
| Depreciations | -19.1 | -7.9 | -14.9 | -10.4 | -11.8 | -10.3 | -7.8 | -5.9 |
| Current EBIT | 3.1 | 3.2 | 50 | -2.8 | -9.5 | -10.6 | -8.6 | -7.0 |
| Published EBIT | 3.1 | 3.2 | 50 | -2.8 | -9.5 | -10.6 | -8.6 | -7.0 |
| Net financial income | 2.1 | 1.4 | 23.1 | 0.0 | 0.4 | 0.2 | 0.2 | 0.2 |
| Corporate Tax | -0.8 | -1.2 | -26.7 | 0.9 | 2.3 | 1.2 | 1.2 | 1.2 |
| Net income of equity-accounted companies | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Profit/loss of discontinued activities (after tax) | 2.3 | 0.0 | 0.2 | -0.1 | 0.4 | -0.2 | 0.0 | 0.0 |
| Minority interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Attributable net profit | 6.7 | 3.4 | 47.1 | -2.0 | -6.4 | -9.3 | -7.2 | -5.7 |
| Adjusted attributable net profit | 6.7 | 3.4 | 47.1 | -2.0 | -6.4 | -9.3 | -7.2 | -5.7 |
| BALANCE SHEET (EURm) | 12/10 | 12/11 | 12/12 | 12/13 | 12/14 | 12/15 | 12/16e | 12/17e |
| Goodwill | 7.5 | 6.7 | 6.7 | 6.8 | 6.8 | 6.8 | 6.8 | 6.8 |
| Other intangible assets | 22 | 18 | 12 | 12 | 10 | 8.1 | 8.6 | 6.7 |
| Tangible fixed assets | 4.7 | 4.1 | 6.0 | 5.7 | 3.7 | 2.5 | 1.6 | 0.9 |
| WCR | -15.1 | -8.2 | -13.1 | 30 | 25 | 21 | 15 | 12 |
| Financial assets | 7.8 | 3.6 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Ordinary shareholders equity | 68 | 61 | 101 | 61 | 48 | 38 | 31 | 25 |
| Minority interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Shareholders equity | 68 | 61 | 101 | 61 | 48 | 38 | 31 | 25 |
| Non-current provisions | 7.3 | 2.3 | 4.5 | 4.0 | 2.5 | 1.6 | 1.9 | 2.1 |
| Net debt | -48.8 | -39.0 | -93.3 | -10.0 | -4.3 | -0.9 | -0.7 | -0.5 |
| CASH FLOW STATEMENT (EURm) | 12/10 | 12/11 | 12/12 | 12/13 | 12/14 | 12/15 | 12/16e | 12/17e |
| EBITDA | 22.1 | 11.1 | 65.3 | 7.6 | 2.3 | -0.3 | -0.8 | -1.1 |
| Change in WCR | 0.9 | -5.0 | -15.6 | -3.1 | -1.6 | -3.9 | 0.0 | 0.2 |
| Interests & taxes | -2.0 | -4.6 | 14.0 | -10.9 | -0.4 | 0.1 | 1.4 | 1.3 |
| Others | -4.4 | -0.1 | -22.1 | 0.8 | -0.4 | 0.4 | 0.0 | 0.0 |
| Operating Cash flow | 16.6 | 1.4 | 41.6 | -5.6 | -0.1 | -3.7 | 0.7 | 0.5 |
| CAPEX | -3.7 | -2.9 | -4.6 | -9.8 | -5.7 | -4.8 | -7.4 | -3.4 |
| Free cash-flow | 13.0 | -1.5 | 37.0 | -15.3 | -5.8 | -8.5 | -6.7 | -2.9 |
| Acquisitions / disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends | -14.9 | -9.6 | -6.7 | -14.0 | -31.9 | 0.0 | 0.0 | 0.0 |
| Net capital increase | -15.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 2.1 | 1.3 | 23.9 | -0.8 | -0.1 | 0.0 | 0.0 | 0.0 |
| Change in net debt | -11.2 | -9.7 | 54.2 | -83.3 | -5.7 | -3.3 | -0.2 | -2.7 |
| GROWTH MARGINS PRODUCTIVITY | 12/10 | 12/11 | 12/12 | 12/13 | 12/14 | 12/15 | 12/16e | 12/17e |
| Sales growth | -7.5% | -10.6% | -21.3% | -16.5% | -13.9% | -14.0% | -14.0% | -8.9% |
| Lfl sales growth | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Current EBIT growth | -86.5% | 4.9% | ns | ns | ns | ns | ns | ns |
| Growth in EPS(%) | -58.0% | -43.7% | ns | ns | ns | ns | ns | ns |
| Net margin | 5.4% | 3.1% | 54.4% | -2.8% | -10.3% | -17.5% | -15.7% | -13.5% |
| EBITDA margin | 18.0% | 10.1% | 75.4% | 10.5% | 3.7% | -0.6% | -1.7% | -2.5% |
| Current EBIT margin | 2.5% | 2.9% | 58.2% | -3.9% | -15.2% | -19.8% | -18.7% | -16.7% |
| CAPEX / Sales | -3.0% | -2.6% | -5.3% | -13.5% | -9.2% | -9.0% | -16.0% | -8.0% |
| WCR / Sales | -12.3% | -7.4% | -15.1% | 41.6% | 40.0% | 40.1% | 32.9% | 29.7% |
| Tax Rate | 15.2% | 25.4% | 36.3% | 32.1% | 25.6% | 11.7% | 14.0% | 17.0% |
| Normative tax rate | 32.0% | 32.0% | 32.0% | 32.0% | 32.0% | 32.0% | 32.0% | 32.0% |
| Asset Turnover | 3.8 | 5.6 | 5.4 | 2.2 | 1.2 | 1.3 | 1.3 | 1.4 |
| ROCE post-tax (normative tax rate) | 6.4% | 11.1% | ns | -5.7% | -12.8% | -17.0% | -16.5% | -16.2% |
| ROCE post-tax hors GW (normative tax rate) | 8.3% | 17.3% | ns | -7.2% | -14.8% | -20.3% | -20.4% | -21.0% |
| ROE | 8.1% | 5.3% | 58.2% | -2.5% | -11.8% | -21.8% | -20.9% | -20.1% |
| DEBT RATIOS | 12/10 | 12/11 | 12/12 | 12/13 | 12/14 | 12/15 | 12/16e | 12/17e |
| Gearing | -71% | -64% | -92% | -16% | -9% | -2% | -2% | -2% |
| Net Debt / Market Cap | -0.30 | -0.30 | -0.86 | -0.07 | -0.04 | -0.03 | -0.04 | -0.03 |
| Net debt / EBITDA | ns | ns | ns | ns | ns | 2.84 | 0.91 | 0.52 |
| EBITDA / net financial charges | -10.6 | -8.2 | -2.8 | -3,787.0 | -6.6 | 1.6 | 3.8 | 5.7 |

Recommendation and target price changes history over the last 12 months for the company analysed in this report

| Date | Reco | Price Target (EUR) | Price (EUR) |
|----------|---------|--------------------|-------------|
| 02.12.15 | Neutral | 1.50 | 1.17 |
| 07.08.15 | Neutral | 2.50 | 1.30 |
| 13.05.15 | Buy | 13.00 | 2.15 |
| 07.05.15 | Neutral | 3.50 | 2.25 |
| 16.04.15 | Buy | 13.00 | 2.40 |
| 20.03.15 | Neutral | 3.50 | 2.81 |

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