

Buy (old: Sell)

25.10.2024

EUR 30.00 (old: EUR 18.50)

Revisiting USU: An appealing special situation

Half a year ago we put out our last piece on USU, advising investors to sell the shares at the delisting offer price of € 18.50, in order to avoid having a highly illiquid asset in the portfolio. Meanwhile, the shares have been delisted from the Frankfurt Stock exchange as well as most regional exchanges with the exception of the Hamburg Stock Exchange.

Yet, things took a turn a couple of weeks ago, when the company announced that **Thoma Bravo** (US-based private equity firm) **would take over a majority stake in USU's product business**. According to people familiar with the matter, USU will keep a minority share of c. 25% after the deal, which **values the product business at about € 200-300m**.

Mind you, the delisting offer price of € 18.50 per share valued the whole company, including the service business (32% of sales, 14.1% EBIT margin in FY '23; 20.9% in Q1 '24), at an EV of € 188m. Also, keep in mind that the depressed valuation at the time of the delisting offer was mainly due to a weak development of licensing sales, which caused the EBIT margin of the product business to drop to 4.4% (vs. 11.8% in FY '22). In Q1, product business EBIT margin however recovered to 7.4%.

Following the news, shares surged at the Hamburg Stock Exchange, reaching levels of around € 22 per share. However, taking the lower end of the valuation of the Thoma Bravo deal as a basis of our valuation, **this is not at all reflecting the intrinsic value of the company**, as it values the service business at only € 20m, or 3x EBIT, which is undeniably cheap for a growing business with recurring revenues. Taking into account the mid-point of the valuation, the service business is valued at a negative EV (see graphic on p. 2).

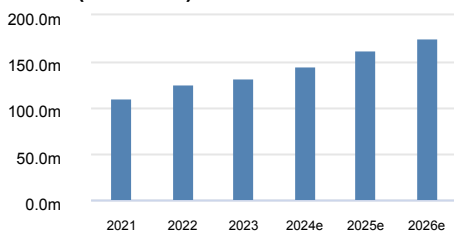
According to our peer group valuation however, we derive an average EV/EBIT of 14x, which would translate into a fair EV for the service business of € 98m for FY '24e (eNuW: € 7.0m EBIT).

Against this backdrop, we update our rating to **BUY with a new PT of € 30** based on our SOTP valuation, which is also in line with our recommendation prior to the delisting offer. In our view, this is currently **one of the most appealing special situation cases in the DACH region**. Notably, this takes into account the **lower end of the supposed deal range**, thus being very conservative.

Y/E 31.12 (EUR m)	2021	2022	2023	2024e	2025e	2026e
Sales	111.9	126.5	132.1	146.0	162.1	176.7
Sales growth	4.3%	13.1%	4.4%	10.6%	11.0%	9.0%
Adj. EBITDA	14.4	16.8	13.3	17.9	21.5	27.8
Net debt (if net cash=0)	-7.5	0.6	2.5	-0.3	-11.7	-27.5
FCF	12.5	9.2	6.2	8.2	11.4	15.8
Net Debt/EBITDA	0.0	0.0	0.2	0.0	0.0	0.0
EPS pro forma	0.68	0.72	0.50	0.81	1.01	1.39
Adj. EBITDA margin	12.9%	13.3%	10.1%	12.3%	13.3%	15.7%
ROCE	12.1%	14.5%	9.2%	15.0%	17.5%	21.8%
EV/sales	2.4	1.7	1.7	1.5	1.3	1.1
EV/EBITDA	18.8	13.1	17.9	12.6	9.9	7.1
PER	32.1	30.4	43.6	27.0	21.6	15.7
Adjusted FCF yield	3.4%	4.5%	3.6%	5.1%	6.4%	7.5%

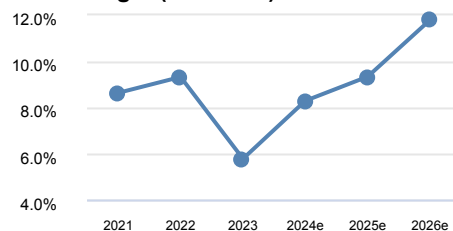
Source: Company data, NuWays, Close price as of 24.10.2024

Sales (2021-26e)



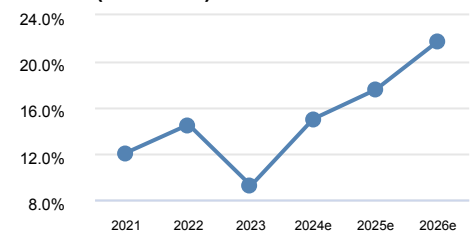
Source: NuWays Research

EBIT margin (2021-26e)



Source: NuWays Research

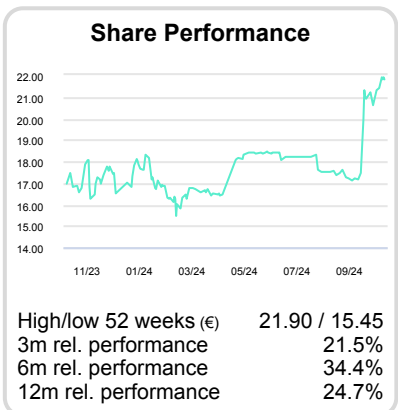
ROCE (2021-26e)



Source: NuWays Research

Company description

USU Software is a leading provider of software and service solutions for IT and customer service management. The company offers solutions and services around the globe to companies in order for them to become more agile, cut costs, etc.



Market data

Share price (in €)	21.80
Market cap (in € m)	219.0
Number of shares (in m pcs)	10.0
Enterprise value (in € m)	219.9
Ø trading volume (6 months)	5,292

Identifier

Bloomberg	OSP2 GR
Reuters	OSPGK
WKN	A0BVU2
ISIN	DE000A0BVU28

Key shareholders

Udo Strehl	81.4%
Free Float	18.6%

Estimates changes

	2024e	2025e	2026e
Sales	0%	0%	0%
EBIT	22%	12%	9%
EPS	22%	12%	9%

- ### Comment on changes
- Updated our model following better than expected profitability
 - Chg. to BUY based on the disposal of the product business

USU Software AG

Update - 25.10.2024

Deal Volume (in €m)	Implied valuation of remaining business (in €m)	Delta to fair value (in €m)*	Delta to fair value per share	Upside
200	20	78	7.77	35.6%
225	-5	103	10.26	47.1%
250	-30	128	12.75	58.5%
275	-55	153	15.24	69.9%
300	-80	178	17.74	81.4%

Source: NuWays Research; *14x EV/EBIT FY '24e based on peer group incl. among others Nagarro, Kontron, SNP, Allgeier

Financials

Profit and loss (EUR m)	2021	2022	2023	2024e	2025e	2026e
Sales	111.9	126.5	132.1	146.0	162.1	176.7
Sales growth	4.3%	13.1%	4.4%	10.6%	11.0%	9.0%
Cost of sales	55.7	63.3	67.5	74.5	81.8	86.6
Gross profit	56.2	63.2	64.6	71.5	80.3	90.1
Sales and marketing	20.5	22.6	26.2	26.3	29.2	31.8
General and administration	10.2	11.7	10.8	11.7	12.6	13.3
Research and development	16.7	18.1	20.9	22.6	24.6	25.6
Other operating income	1.5	2.0	1.7	1.9	2.1	2.2
Other operating expenses	0.6	1.0	0.6	0.7	0.8	0.8
EBITDA	14.4	16.8	12.4	17.4	21.0	27.3
Unusual or infrequent items	0.0	0.0	0.9	0.5	0.5	0.5
Adj. EBITDA	14.4	16.8	13.3	17.9	21.5	27.8
Depreciation	1.2	1.1	1.6	1.6	1.6	1.6
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	3.5	3.9	3.2	3.7	4.3	4.8
Impairment charges	0.0	0.0	0.0	0.0	0.0	0.0
EBIT (inc revaluation net)	9.7	11.8	7.6	12.1	15.1	20.9
Interest income	0.2	0.3	0.1	0.2	0.3	0.3
Interest expenses	0.1	0.2	0.2	0.2	0.2	0.2
Investment income	0.0	0.0	0.0	0.0	0.0	0.0
Financial result	0.1	0.2	-0.1	0.1	0.1	0.1
Recurring pretax income from continuing operations	9.7	12.0	7.5	12.2	15.2	21.0
Extraordinary income/loss	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before taxes	9.7	12.0	7.5	12.2	15.2	21.0
Income tax expense	3.0	4.4	2.3	3.7	4.6	6.3
Net income from continuing operations	6.8	7.6	5.3	8.5	10.7	14.7
Income from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0
Net income	6.8	7.6	5.3	8.5	10.7	14.7
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0
Net profit (reported)	6.8	7.6	5.3	8.5	10.7	14.7
Average number of shares	10.5	10.0	10.0	10.0	10.0	10.0
EPS reported	0.64	0.76	0.53	0.85	1.07	1.47

Profit and loss (common size)	2021	2022	2023	2024e	2025e	2026e
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	49.8%	50.0%	51.1%	51.0%	50.5%	49.0%
Gross profit	50.2%	50.0%	48.9%	49.0%	49.5%	51.0%
Sales and marketing	18.4%	17.9%	19.9%	18.0%	18.0%	18.0%
General and administration	9.2%	9.3%	8.2%	8.0%	7.8%	7.5%
Research and development	14.9%	14.3%	15.8%	15.5%	15.2%	14.5%
Other operating income	1.4%	1.6%	1.3%	1.3%	1.3%	1.3%
Other operating expenses	0.5%	0.8%	0.5%	0.5%	0.5%	0.5%
EBITDA	12.9%	13.3%	9.4%	11.9%	13.0%	15.4%
Unusual or infrequent items	0.0%	0.0%	0.7%	0.3%	0.3%	0.3%
Adj. EBITDA	12.9%	13.3%	10.1%	12.3%	13.3%	15.7%
Depreciation	1.1%	0.9%	1.2%	1.1%	1.0%	0.9%
Amortisation of goodwill	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Amortisation of intangible assets	3.1%	3.1%	2.4%	2.5%	2.6%	2.7%
Impairment charges	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT (inc revaluation net)	8.6%	9.3%	5.8%	8.3%	9.3%	11.8%
Interest income	0.2%	0.3%	0.1%	0.2%	0.2%	0.2%
Interest expenses	0.1%	0.1%	0.2%	0.1%	0.1%	0.1%
Investment income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Financial result	0.1%	0.1%	neg.	0.1%	0.1%	0.1%
Recurring pretax income from continuing operations	8.7%	9.5%	5.7%	8.3%	9.4%	11.9%
Extraordinary income/loss	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Earnings before taxes	8.7%	9.5%	5.7%	8.3%	9.4%	11.9%
Tax rate	30.5%	36.6%	29.9%	30.0%	30.0%	30.0%
Net income from continuing operations	6.0%	6.0%	4.0%	5.8%	6.6%	8.3%
Net income	6.0%	6.0%	4.0%	5.8%	6.6%	8.3%
Minority interest	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net profit (reported)	6.0%	6.0%	4.0%	5.8%	6.6%	8.3%

Source: Company data, NuWays

Balance sheet (EUR m)	2021	2022	2023	2024e	2025e	2026e
Intangible assets	43.4	42.7	42.9	39.7	36.1	31.9
Property, plant and equipment	19.7	18.7	18.4	18.3	18.5	18.8
Financial assets	0.7	0.8	0.1	0.1	0.1	0.1
FIXED ASSETS	63.9	62.2	61.3	58.1	54.6	50.7
Inventories	5.3	6.5	3.7	7.5	8.3	9.1
Accounts receivable	14.9	22.3	24.4	25.7	28.5	31.1
Other assets and short-term financial assets	1.0	1.6	1.3	1.3	1.3	1.3
Liquid assets	24.3	15.5	13.5	16.2	27.6	43.4
Deferred taxes	4.9	2.4	0.9	0.9	0.9	0.9
Deferred charges and prepaid expenses	1.8	2.5	3.0	3.0	3.0	3.0
CURRENT ASSETS	52.2	50.8	46.7	54.6	69.7	88.8
TOTAL ASSETS	116.0	113.0	108.1	112.8	124.3	139.6
Subscribed capital	10.5	10.5	10.5	10.5	10.5	10.5
Surplus capital	52.8	42.9	43.6	43.6	43.6	43.6
Additional paid-in capital	-5.6	-4.1	-2.0	-2.4	6.1	16.8
Net profit/loss	6.8	7.6	5.2	8.5	10.7	14.7
SHAREHOLDERS EQUITY	64.4	57.0	57.2	60.2	70.9	85.6
MINORITY INTEREST	0.0	0.0	0.0	0.0	0.0	0.0
Provisions for pensions and similar obligations	1.3	1.0	1.1	1.1	1.2	1.3
Other provisions and accrued liabilities	2.9	3.7	4.4	4.4	4.4	4.4
Short-term liabilities to banks	0.0	0.0	0.0	0.0	0.0	0.0
Long-term liabilities to banks	0.0	0.0	0.0	0.0	0.0	0.0
Bonds (long-term)	0.0	0.0	0.0	0.0	0.0	0.0
other interest-bearing liabilities	16.8	16.1	15.9	15.9	15.9	15.9
Accounts payable	4.5	7.0	6.6	8.2	9.0	9.6
Advance payments received on orders	3.2	3.9	1.4	1.4	1.4	1.4
Other liabilities (incl. from lease and rental contracts)	10.0	10.1	7.9	7.9	7.9	7.9
Deferred taxes	0.9	1.2	0.7	0.7	0.7	0.7
Deferred income	11.3	11.9	12.1	12.1	12.1	12.1
CURRENT LIABILITIES	17.7	21.0	15.9	17.5	18.3	18.8
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	116.0	113.0	108.1	112.8	124.3	139.6
Balance sheet (common size)	2021	2022	2023	2024e	2025e	2026e
Intangible assets	37.4%	37.8%	39.7%	35.2%	29.0%	22.9%
Property, plant and equipment	17.0%	16.6%	17.0%	16.3%	14.9%	13.4%
Financial assets	0.6%	0.7%	0.1%	0.1%	0.0%	0.0%
FIXED ASSETS	55.0%	55.1%	56.8%	51.6%	43.9%	36.4%
Inventories	4.6%	5.7%	3.4%	6.6%	6.7%	6.5%
Accounts receivable	12.8%	19.7%	22.6%	22.8%	23.0%	22.3%
Other assets and short-term financial assets	0.8%	1.4%	1.2%	1.1%	1.0%	0.9%
Liquid assets	20.9%	13.7%	12.5%	14.4%	22.2%	31.1%
Deferred taxes	4.2%	2.1%	0.9%	0.8%	0.7%	0.7%
Deferred charges and prepaid expenses	1.6%	2.2%	2.8%	2.7%	2.4%	2.2%
CURRENT ASSETS	45.0%	44.9%	43.2%	48.4%	56.1%	63.6%
TOTAL ASSETS	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
SHAREHOLDERS EQUITY	55.5%	50.4%	53.0%	53.4%	57.0%	61.3%
MINORITY INTEREST	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Long-term liabilities to banks	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Bonds (long-term)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
other interest-bearing liabilities	14.5%	14.3%	14.8%	14.1%	12.8%	11.4%
Provisions for pensions and similar obligations	1.2%	0.9%	1.0%	1.0%	1.0%	0.9%
Other provisions and accrued liabilities	2.5%	3.3%	4.1%	3.9%	3.5%	3.1%
NON-CURRENT LIABILITIES	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Short-term liabilities to banks	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Accounts payable	3.8%	6.2%	6.1%	7.3%	7.3%	6.9%
Advance payments received on orders	2.7%	3.5%	1.3%	1.2%	1.1%	1.0%
Accrued taxes	0.5%	1.0%	0.7%	0.7%	0.6%	0.5%
Other liabilities (incl. from lease and rental contracts)	8.7%	8.9%	7.3%	7.0%	6.4%	5.7%
Deferred taxes	0.8%	1.1%	0.7%	0.6%	0.6%	0.5%
Deferred income	9.7%	10.6%	11.2%	10.7%	9.7%	8.7%
CURRENT LIABILITIES	15.2%	18.6%	14.7%	15.5%	14.7%	13.5%
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company data, NuWays

Cash flow statement (EUR m)	2021	2022	2023	2024e	2025e	2026e
Net profit/loss	6.8	7.6	5.3	8.5	10.7	14.7
Depreciation of fixed assets (incl. leases)	1.2	1.1	1.6	1.6	1.6	1.6
Amortisation of goodwill & intangible assets	3.5	3.9	3.2	3.7	4.3	4.8
Other costs affecting income / expenses	-0.1	4.2	-2.6	0.0	0.0	0.0
Cash flow from operating activities	11.0	7.9	5.5	7.7	10.8	11.9
Increase/decrease in inventory	-0.4	-1.2	2.8	-3.8	-0.8	-0.7
Increase/decrease in accounts receivable	2.0	-7.4	-2.1	-1.3	-2.8	-2.6
Increase/decrease in accounts payable	0.3	2.5	-0.4	1.6	0.8	0.5
Increase/decrease in other working capital positions	0.0	0.0	0.0	0.0	0.0	0.0
Increase/decrease in working capital	1.9	-6.0	0.3	-3.5	-2.8	-2.8
Cash flow from operating activities	13.3	10.5	7.9	10.4	13.8	18.4
CAPEX	0.9	1.3	1.7	2.1	2.4	2.6
Payments for acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Financial investments	0.0	0.0	0.0	0.0	0.0	0.0
Income from asset disposals	0.0	0.0	0.1	0.0	0.0	0.0
Cash flow from investing activities	-0.8	-1.3	-1.6	-2.1	-2.4	-2.6
Cash flow before financing	8.3	3.9	0.8	2.7	11.4	15.8
Increase/decrease in debt position	-0.4	-2.9	-3.0	0.0	0.0	0.0
Purchase of own shares	0.0	9.8	0.0	0.0	0.0	0.0
Capital measures	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	4.2	5.3	5.5	5.5	0.0	0.0
Others	-2.4	0.0	0.3	0.0	0.0	0.0
Effects of exchange rate changes on cash	0.3	0.1	-0.1	0.0	0.0	0.0
Cash flow from financing activities	-7.0	-18.0	-8.2	-5.5	0.0	0.0
Increase/decrease in liquid assets	5.8	-8.7	-2.0	2.7	11.4	15.8
Liquid assets at end of period	24.3	15.5	13.5	16.2	27.6	43.4

Key ratios (EUR m)	2021	2022	2023	2024e	2025e	2026e
P&L growth analysis						
Sales growth	4.3%	13.1%	4.4%	10.6%	11.0%	9.0%
EBITDA growth	7.6%	17.0%	-26.2%	40.2%	20.8%	104.0%
EBIT growth	37.7%	22.1%	-35.4%	58.8%	25.1%	197.0%
EPS growth	23.2%	18.1%	-30.3%	61.6%	25.0%	37.6%
Efficiency						
Sales per employee	149.9	159.9	157.9	165.7	175.0	223.2
EBITDA per employee	19.3	21.3	14.9	19.8	22.7	34.5
No. employees (average)	746	792	836	882	926	792
Balance sheet analysis						
Avg. working capital / sales	12.3%	12.0%	12.4%	14.2%	14.4%	11.9%
Inventory turnover (sales/inventory)	21.0	19.5	19.5	19.5	19.5	19.5
Accounts receivable turnover	48.6	64.3	64.3	64.3	64.3	64.3
Accounts payable turnover	29.2	40.3	40.3	40.3	40.3	40.3
Cash flow analysis						
Free cash flow	12.5	9.2	6.2	8.2	11.4	15.8
Free cash flow/sales	11.2%	7.2%	4.7%	5.6%	7.0%	8.9%
FCF / net profit	184.8%	120.7%	117.5%	96.5%	107.0%	107.7%
Capex / sales	0.8%	1.0%	1.3%	1.5%	1.5%	1.5%
Solvency						
Net debt	-7.5	0.6	2.5	-0.3	-11.7	-27.5
Net Debt/EBITDA	0.0	0.0	0.2	0.0	0.0	0.0
Dividend payout ratio	77.9%	72.5%	104.1%	0.0%	0.0%	0.0%
Interest paid / avg. debt	0.9%	1.0%	1.4%	1.0%	1.1%	1.1%
Returns						
ROCE	12.1%	14.5%	9.2%	15.0%	17.5%	21.8%
ROE	10.5%	13.3%	9.2%	14.2%	15.0%	17.1%
Adjusted FCF yield	3.4%	4.5%	3.6%	5.1%	6.4%	7.5%
Dividend yield	2.3%	2.5%	2.5%	0.0%	0.0%	0.0%
DPS	0.5	0.6	0.6	0.0	0.0	0.0
EPS reported	0.64	0.76	0.53	0.85	1.07	1.47
Average number of shares	10.5	10.0	10.0	10.0	10.0	10.0
Valuation ratios						
P/BV	3.6	4.0	4.0	3.8	3.3	2.7
EV/sales	2.4	1.7	1.7	1.5	1.3	1.1
EV/EBITDA	18.8	13.1	17.9	12.6	9.9	7.1
EV/EBIT	28.0	18.7	29.2	18.2	13.8	9.2

Source: Company data, NuWays

Disclosures

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Indication of conflict of interest

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Company	Disclosures
USU Software AG	2

Historical target price and rating changes for USU Software AG

Company	Date	Analyst	Rating	Target Price	Close
USU Software AG	24.04.2024	Sennewald, Philipp	Sell	EUR 18.50	EUR 16.45
	13.03.2024	Sennewald, Philipp	Hold	EUR 17.00	EUR 16.25

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The adj. FCF method is based on the assumption that investors purchase assets only at a price (enterprise value) at which the operating cash flow return after taxes on this investment exceeds their opportunity costs in the form of a hurdle rate of 7.5%. The operating cash flow is calculated as EBITDA less maintenance capex and taxes.

Within the framework of the DCF approach, the future free cash flows are calculated initially on the basis of a fictitious capital structure of 100% equity, i.e. interest and repayments on debt capital are not factored in initially. The adjust-

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8. Miscellaneous

According to Article 4(1) No. i of the delegated regulation 2016/958 supplementing regulation 596/2014 of the European Parliament, further information regarding investment recommendations of the last 12 months are published under: www.nuways-ag.com

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