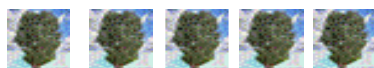


**Review: BUY****Target price: EUR 39****Dr. Kalliwoda****Sustainability Rating: A**

**Industry:** It Services & Software  
**Country:** Germany  
**ISIN:** DE000A0Z1JH9  
**Reuters:** PSAGn.DE  
**Bloomberg:** PSAN GR  
**Website:** www.psi.de

<b>Last price:</b>		29.70
	<b>High</b>	<b>Low</b>
<b>Price 52 W.:</b>	35.20	19.00
<b>Market cap. (EURm)</b>		465.43
<b>Number of shares (m)</b>		15.67

**Shareholders**

innogy SE	17.8%
Harvinder Singh	8.1%
Invest. f. Ig. Inv. TGV	20.7%
Management & Employees	15.0%
Baden-Württ.	5.2%
Free float	39.28%

**Performance**

<b>4 weeks</b>	3.80%
<b>26 weeks</b>	26.40%
<b>52 weeks</b>	38.80%
<b>3 years</b>	80.55%

**Dividend**

	in EUR	in %
2012	0.30	1.62%
2013	0.30	2.21%
2014	0.00	0.00%
2015	0.00	0.00%
2016	0.21	1.72%
2017	0.22	1.19%
2018	0.23	1.47%
2019	0.25	1.20%
2020	0.05	0.25%

**DR. KALLIWODA RESEARCH on Bloomberg**Page: **KALL**

Analyst:

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Phone: +49 69 97 20 58 53

[www.kalliwoda.com](http://www.kalliwoda.com)**PSI Software AG**

- Strong recovery of sales, strong recovery and expansion of margins
- The volume of orders on 31 March 2021 was 105 million euros. First time over 100 million euros
- Group net result doubled to 3.1 million euros YoY.
- Positive trend in public transport: Additional contracts for electric bus depots. New orders stabilized at the Malaysian subsidiary PSI Incontrol
- Dr. Kalliwoda's Sustainable Rating : Max. 5 Trees
- In Poland, PSI invested in the cloud-based partner business. We see further increase in demand
- Cash flow from current operations was 12.1 million euros. 41% above Q1/2020
- PSI argues that additional acquisitions in the core business might come
- PSI offers more and more PSI platform products via PSI Cloud and also supports more than 100 various private clouds of group customers

**Key Figures**

in EURm	2019	2020	2021E	2022E	2023E	2024E
<b>Net sales</b>	225.18	217.80	233.34	247.71	260.83	274.66
<b>EBITDA</b>	28.04	27.17	33.60	39.61	42.40	45.36
<b>EBIT</b>	17.21	14.95	21.25	27.14	29.81	32.64
<b>Net income</b>	14.26	10.28	15.66	20.19	22.15	24.24
<b>EPS</b>	0.91	0.66	1.00	1.29	1.41	1.55
<b>BVPS</b>	6.03	6.40	6.66	7.16	7.71	8.30
<b>RoE</b>	15.74%	10.25%	15.01%	17.98%	18.34%	18.64%
<b>EBIT margin</b>	7.64 %	6.86 %	9.11 %	10.96 %	11.43 %	11.88 %
<b>P/E</b>	19.78	30.51	20.01	15.52	14.15	12.93
<b>P/BVPS</b>	2.98x	3.13x	3.00x	2.79x	2.59x	2.41x

Source: Dr. Kalliwoda Research GmbH © 2021 &amp; PSI AG

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## 1. Company Profile

PSI is a technological leader in the process control system for energy grid operators and industrial production. It is a company with about 2000 employees. The Group develops solutions that automate complex core processes in the areas of production, infrastructure management, and energy. PSI, which was founded in 1969, develops software products and complete systems for the operation of large energy networks and complex production. It also provides solutions for logistics processes intending to design customers' value creation more efficiently. Moreover, in segment **Energy Management**, PSI provides solutions for energy grid operators and for public transport. One of the main focuses within this segment is to provide cost-effective and reliable solutions for transport systems as well as solutions for energy trading and distribution. On the other hand, the business segment **Production Management** develops solutions and Software for production control, production planning and logistics. This business segment aims at the effective use of resources within many important sectors including the metal industry, the automotive industry, the machinery/plant engineering process, and logistics.

### PSI History

2020	Takeover of Swiss network planning software developer NEPLAN
2020	Takeover of Prognos Energy - a forecasting software specialist
2019	Takeover of smart grid units of Top 5 German player BTC AG
2018	Takeover of Moveo Software AG broadening presence in public transport solutions
2014	Takeover of the strongest competitor in the metals industry, Broner Metals.
2013	PSI subsidiary founded in Brazil.
2012	Strengthening of the energy business with the acquisition of the Time-steps AG.
2011	PSI subsidiary founded in North America.
2010	PSI develops the first integrated mining control system.
2009	PSI celebrates its 40th anniversary. Since 1969, PSI develops and integrates software solutions and complete systems for utilities, manufacturers, logistics and infrastructure providers.
2008	Formation of a subsidiary and a joint venture in Russia. International expansion in the metals, production and energy industry.
2007	Process control system for efficient raw materials production; market entry into the Russian steel and electricity industry.
2006	Opening of a representative office in Russia; new sales partnerships in Eastern Europe and Asia.
2005	First major orders from the Chinese steel industry and expansion of the logistics division to Russia.
2004	PSI subsidiaries founded in Poland and China.
2003	PSI develops the first integrated control system for controlling complex manufacturing processes.
2002	Generation shift in top management; Restructure of PSI into an integrated control system enterprise.
2000	PSI acquires the gas management system division from debis Systems and starts internationalization of its energy business.
1998	Initial public offering (IPO) on August 31.
1996	Development of the first object-oriented ERP system PSIpenta.
1994	The company is converted into a joint-stock corporation.
1986	Market launch of PIUSS-O, the company's first standard software product for production planning (PPS).
1976	The company wins its first large order from the energy supply sector.
1974	PSI is the first German company to introduce an employee stock option plan.
1969	PSI Gesellschaft für Prozesssteuerungs- und Informationssysteme GmbH is founded in Berlin. First order from the steel industry.

Source: The Company

## 2. SWOT Analysis

### Strengths

- **PSI's focus on process control:** The Group has decades of experience. It also bolsters its innovation and strength with a highly specialized workforce. These experiences, as well as the endowed skills of its workforce, are important pillars of the Group key competitive advantage, which creates a barrier entry to rivals. PSI still has an edge in many important related sectors and enjoys a first mover advantage in many of its key growth areas. For example, providing continuous innovation in energy smart grid infrastructure, mining, metals, oil & gas.
- **PSI project approach:** One of the key aspects of its success is that the company performs research and development at the location where the company intends to enter a new market. This has the virtue of developing quick customer relationships as well as gaining sector knowledge. Additionally, this creates lower market entry risk and mitigates financial risk.

### Opportunities

- **Energy segment:** The energy sector gives PSI an outstanding potential to achieve scale effects. The Group can dynamically shift its existing product portfolio from high voltage systems to lower network levels. In addition, there is a growing demand for software solutions such as volatility and resource software components. Within gas network control systems and software solutions demand remain relatively elevated.
- **Increasingly digital business:** Reliance on smart solutions increases data availability. This has the potentials to open up new markets for the Group and to expand its software solutions business segment.
- **International growth potential:** PSI focuses on growing in the North American and European market and should be able to take profit from the shift towards renewable energies driven by lower prices for solar power and wind energy. A positive effect besides larger revenues and scale effects is the diversification away from sole dependency on the German market.

### Weaknesses

- **Bargaining power of buyers:** PSI's main customers are in capital intensive sectors, which naturally consist of only a few large players. With PSI being itself, a medium sized player may put the Group in unfavorable negotiating position when doing business deals. However, resulting pricing power of its customer is lessened by the fact that software expenditures should resemble a smaller portion of PSI customers overall budget.
- **Business cycle risk:** PSI customers are prone to business cycles and cyclicality. Nevertheless, the risk of such exposure to business cycles is relatively mitigated due to the Group being active in developing products that focus on efficiency and cost cutting.

### Threats

- **Increasing rivalry:** Consolidation in the Energy market sector continues to build conglomerates in the hardware supplier business and thus creating more intense competition for PSI in the pre-mentioned business area. It is also likely that newly formed bigger rivals, upon achieving several acquisitions in the field, will try to gain control of the energy software business.
- **Constrains in talent & qualified staff:** This is likely to stem from the current structural shortage of supply in the software labor. PSI is continuously investing in the training of its employees and is collaborating with universities to mitigate such a risk. Additionally, The Group is actively looking for talent in Eastern Europe and Malaysia. The Group can also benefit from recent acquisitions to add qualified personnel.

### 3. Dr. Kalliwoda's Sustainable Rating : Max. 5 Trees



Dr. Kalliwoda SDG Rating (KSR) - PSI SOFTWARE AG									Pts.	MAX
1	No Poverty	-3	-2	-1	0	1	2	3	2	3
2	Zero Hunger	-3	-2	-1	0	1	2	3	1	3
3	Good Health and Well-Being	-3	-2	-1	0	1	2	3	3	3
4	Quality Education	-3	-2	-1	0	1	2	3	2	3
5	Gender Equality	-3	-2	-1	0	1	2	3	2	3
6	Clean Water and Sanitation	-3	-2	-1	0	1	2	3	2	3
7	Affordable and Clean Energy	-3	-2	-1	0	1	2	3	3	3
8	Decent Work and Economic Growth	-3	-2	-1	0	1	2	3	3	3
9	Industry, Innovation and Infrastructure	-3	-2	-1	0	1	2	3	3	3
10	Reduced Inequalities	-3	-2	-1	0	1	2	3	2	3
11	Sustainable Cities and Communities	-3	-2	-1	0	1	2	3	3	3
12	Responsible Consumption and Production	-3	-2	-1	0	1	2	3	3	3
13	Climate Action	-3	-2	-1	0	1	2	3	3	3
14	Life Below Water	-3	-2	-1	0	1	2	3	1	3
15	Life on Land	-3	-2	-1	0	1	2	3	3	3
16	Peace, Justice and Strong Institutions	-3	-2	-1	0	1	2	3	1	3
17	Partnerships for the Goals	-3	-2	-1	0	1	2	3	3	3
Summe									40	51
									<b>78.4%</b>	

DR. KALLIWODA SDG RATING	< 0%	0%-25%	26%-50%	51%-75%	76%-100%
	E	D	C	B	A

<b>A = 5 Trees</b>	Very sustainable
<b>B = 4 Trees</b>	Promotes the transition to sustainability
<b>C = 3 Trees</b>	On the way to sustainability
<b>D = 2 Trees</b>	Less sustainable, but less negative impact
<b>E = 1 Tree</b>	Not sustainable

3	The company has increase the goal
2	
1	
0	The company does not reduce or increase the goal
-1	
-2	
-3	The company has severe negative impacts on the goal

Social responsibility and sustainability have been a very important issue for PSI since the Company was founded in 1969, both in customer projects and in its internal processes. This can be seen in the recent study (August 2019) by Deutschland Test, where PSI is officially one of Germany's most valuable companies in terms of ecological, economic and social responsibility since it is committed to promoting sustainability successfully and thus makes a valuable contribution to the future.

PSI supports the 17 United Nations Sustainable Development Goals (SDGs) and contributes to sustainable energy supply, resilient infrastructure and sustainable cities with progressive products in particular. The software products contribute significantly to the thorough and sustainable use of energy, raw materials and labour in the energy and manufacturing industries.



PSI's production management systems for the steel and aluminium industry incorporate functions for optimising the use of energy and using quantities of energy that are released during production. The control systems for the management of major electricity grids have been and are continually being extended with functions that enable intelligent management of the feed-in of renewable energy.



Moreover, PSI is actively involved in the development of the future smart energy supply network, together with collaborators from the energy industry and academia.



Other functions include energy-optimized rail transport driving and a route and fuel optimization depot management system, as well as electric bus range management and charging management. This provides effective support for customers in reducing greenhouse gas emissions and saving energy.

Thus, according to our Dr. Kalliwoda SDG Rating PSI achieves the highest possible rank of A. It means that it contributes to the UN SDGs at the highest possible manner.

## 4. Valuation

To value PSI, we used a traditional DCF model, which derives a 12-months target price for the stock of **€39.00**. Compared to the current market level, this corresponds to an upside of around 30%.

WACC assumptions	
<b>Growth assumptions</b>	
Long-term growth rate	0,5%
Assimilation phase (from 2019)	5 years
Sales growth at the beginning	-
<b>Equity</b>	
Risk-free rate	2,0%
Market risk premium	7%
Beta	0,99
<b>Equity costs</b>	<b>8,9%</b>
<b>Debt costs</b>	
Debt costs (before tax)	1%
Tax rate on interest	30%
<b>Debt costs (after tax)</b>	<b>0,7%</b>
Equity	39%
Debt	61%
Gearing	158,6%
<b>WACC</b>	<b>3,88%</b>

### Discounted Cash Flow Model (2020), calculated on May 24th, 2020

in EURm	2021E	2022E	2023E	2024E
<b>Net sales</b>	<b>233,34</b>	<b>247,71</b>	<b>260,83</b>	<b>274,66</b>
(y-o-y change)	7,1%	6,2%	5,3%	5,3%
<b>EBIT</b>	<b>21,25</b>	<b>27,14</b>	<b>29,81</b>	<b>32,64</b>
(EBIT margin)	9,1%	11,0%	11,4%	11,9%
<b>NOPLAT</b>	<b>16,79</b>	<b>21,44</b>	<b>23,55</b>	<b>25,79</b>
+ Depreciation	12,34	12,47	12,59	12,72
= Net operating cash flow	29,13	33,91	36,14	38,50
- Total investments (Capex and WC)	-12,38	-15,51	-15,33	-15,17
Capital expenditure	-10,97	-14,04	-13,79	-13,56
Working capital	-1,41	-1,47	-1,54	-1,61
= Free cash flow (FCF)	16,75	18,39	20,80	23,33
<b>PV of FCF's</b>	<b>16,37</b>	<b>17,30</b>	<b>18,84</b>	<b>20,34</b>

PV of FCFs in explicit period	72,85
PV of FCFs in terminal period	21,60
<b>Implied Enterprise value (EV)</b>	<b>629,49</b>
+ Net cash / - net debt	-37,85
+ Investments / - Minorities	0,00
<b>Shareholder value</b>	<b>591.631,59</b>
Number of shares outstanding (m)	15.680,00
<b>WACC</b>	<b>3,88%</b>
Equity costs	8,93%
Debt costs before tax	1,00%
Tax rate	30,00%
Debt costs after tax	0,70%
Equity ratio	38,68%
Debt ratio	61,32%
<b>Fair value per share in € (today)</b>	<b>37,73</b>
<b>Fair value per share in € (in 12 months)</b>	<b>39,20</b>

Source: Dr. Kalliwoda Research GmbH © 2020

## 5. BRIEF SUMMARY OF Q1. 2021

PSI as compared to last year 2020, has increased investment in the domain of the appstore and Business-to-Business multicloud tech in the Q1. This enables it to provide more digital platform products in the PSI Cloud and in more than 100 private Cloud of customers. After supplying these software products, they are then customised according to the Customer's business operations by the Customer's IT specialist or PSI Consultants at runtime and then is shared across all workstations and technical systems. Despite last year low level of demand from the Production Management segment especially from Steel and Automotive sectors, this first quarter recorded an improvement in the production segment though still behind the stable Energy segment due to electrification trend and the increase in redeployment of the power sharing grid. Projectively, PSI hopes for a further improvement in both Segments in the second quarter and are hopeful to maintain its annual earnings objective of more than 20 millions euros for the EBIT.

### FIRST QUARTER 2021 FINANCIAL REPORT

#### **a) Production Management Segment**

- Sales in the first quarter of the Production management segment (metal production, logistics, industry) stood at 27 million euros, 22% above last year first quarter of 22.1 million euros.
- Though the target markets of the Metals and automotive industries still continue to suffer from the effects of covid during the first quarter of 2021, the metal division gain major contract in the USA that led to the significant increase in sales and earnings. The automotive division equally recorded increased sales as opposed to a fall in the first quarter of last year.
- PSI invested in the cloud-based partner business in Poland especially in the logistics segment which is generating a further increase in demand.
- EBIT doubled from 1.5 million euros of March 31st 2020 to 3 million euros of March 31st 2021 due to the fact that the products of this business segment are completely the cornerstone or backbone of the group business.

#### **b) Energy Management Segment**

- EBIT showed a 42% first quarter increase of 1.7 million euros as opposed to 1.2 million euros March 31st 2020 .



- Sales in the Energy Management especially the energy grid, energy trading, public transport etc, recorded an increase of 29.1 million euros in the first quarter (1%) as compared to 28.8 million euros of last year first quarter.
- Positive results achieved in the first quarter of the Grid business such as major contracts achieved from large existing distribution grid and rail electricity customers.
- Also additional positive outcome achieved in the Public transport in the first quarter such as contracts for electric bus depot; stabilised new orders at the Malaysian subsidiary PSI in control.

#### Group Sales Earnings:

- First quarter 2021 of PSI Group recorded new orders increased by 9.4% to 105million euros as opposed to last year 96 million euro (March 31st 2020) leading to first time increase in new order above one hundred euros in a first quarter.
- Volume of orders worth 197 million euros as of March 31st 2021, i.e. 5.4% excess above previous figure of 187 million euros of last year (March 31st 2020).
- Group sales (both segments) increased to 56.1 million euros in the Q1 of 2021 (10.3%) as opposed to 50.9 million euro of Q1 of 2020 with the Production Management segment recording the highest sales despite being largely affected by last year Covid 19 pandemic.
- EBIT increased by 77% i.e. from 2.46 million euros of March 31st 2020 to 4.35 million euros of March 31st 2021.
- Group net result equally shows large increase to 3.1 million euros as opposed 1.5 million euros first quarter of last year 2020.

#### CASHFLOWS:

- Current operations cashflow for the first quarter stood at 12.1 million, 41% in excess value as opposed to 8.6 million of last year first quarter.
- Cash and cash equivalents saw an increase by 26.9%, from 42.7 million of last year first quarter to 54.1 million euros which will be used for dividend payments and sale financing.
- Acquisition of the Prognos Energy GmbH and NEPLAN AG last year 2020, has encouraged PSI for further additional acquisitions to add to the core business.

#### • ASSETS

- No material change in the PSI Group's assets as compared to last fiscal year (31st Dec 2020)
- NUMBER OF EMPLOYEES
- Due to additional hiring of employees in the first quarter of 2021, the number of employees increased to 2,086 as compared to 2,005 employees March 31st 2020.

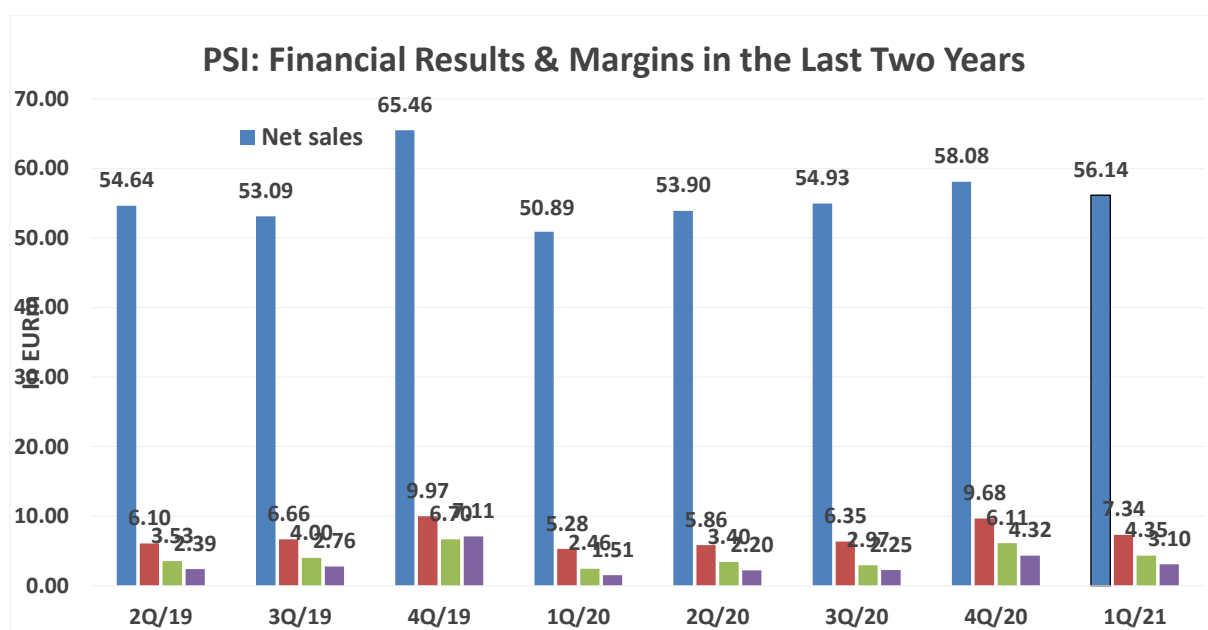
Q1 2021 Results and comparisons to previous quarters are shown in the following tables & graphs:

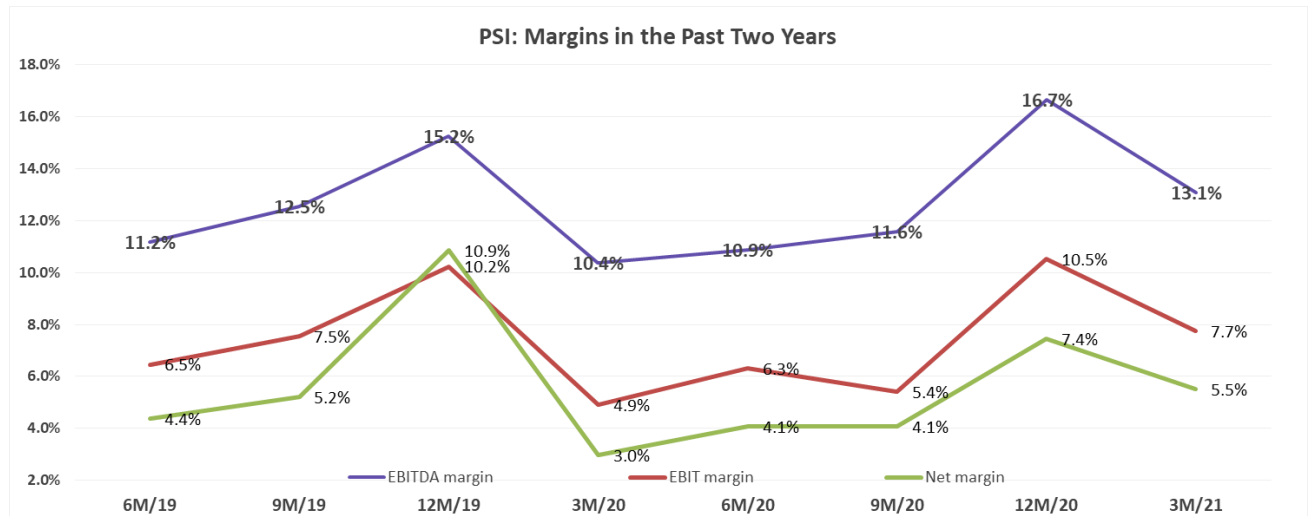
Q1 2021 vs Q1 2020			
in EURm	Q1 2021	Q1 2020	change yoy
Net sales	56,14	50,89	10,32%
EBITDA	7,34	5,28	39,04%
EBITDA margin	4,35	2,46	76,83%
EBIT	3,10	1,51	105,03%
EBIT margin	13,1%	10,4%	26,04%
Net income	7,7%	4,8%	60,29%
Net margin	5,5%	3,0%	85,85%

Source: Dr. Kalliwoda Research GmbH © 2020

Financial Results & Margins													
in EURm	1Q/18	2Q/18	3Q/18	4Q/18	1Q/19	2Q/19	3Q/19	4Q/19	1Q/20	2Q/20	3Q/20	4Q/20	1Q/21
Net sales	45.75	48.80	47.00	57.61	51.99	54.64	53.09	65.46	50.89	53.90	54.93	58.08	56.14
EBITDA	3.85	4.44	4.99	7.32	5.31	6.10	6.66	9.97	5.28	5.86	6.35	9.68	7.34
EBIT	2.80	3.40	3.90	5.40	3.00	3.53	4.00	6.70	2.46	3.40	2.97	6.11	4.35
Net income	1.92	2.36	2.57	3.75	2.00	2.39	2.76	7.11	1.51	2.20	2.25	4.32	3.10
EBITDA margin	8.4%	9.1%	10.6%	12.7%	10.2%	11.2%	12.5%	15.2%	10.4%	10.9%	11.6%	16.7%	13.1%
EBIT margin	6.1%	7.0%	8.3%	9.4%	5.8%	6.5%	7.5%	10.2%	4.8%	6.3%	5.4%	10.5%	7.7%
Net margin	4.2%	4.8%	5.5%	6.5%	3.8%	4.4%	5.2%	10.9%	3.0%	4.1%	4.1%	7.4%	5.5%

Source: Dr. Kalliwoda Research GmbH © 2021





## 1 Outlook

As the less cyclical Energy Management segment continued to grow by over 14% y-o-y in Q1, its revenue share increased rapidly. The main driver of this development is the business with electricity networks that in future should also take profit of the integration of renewable energy in the general electricity networks. Although numbers after 9M 2020 weakened a little compared to the strong start of 2020 in the Energy Management segment we expect to observe a similar development in future also driven by acquisitions like the most recent integration of Prognos Energy.

Our conservative valuation model points to a **12-month target price of EUR 39.00**, with an upside of around 30% from the current share price levels.

## 6. Financial Ratios

Fiscal year	2018	2019	2020	2021E	2022E	2023E	2024E
Gross margin	85.5%	85.8%	86.2%	85.8%	85.7%	85.7%	85.6%
EBITDA margin	10.1%	12.5%	12.5%	14.4%	16.0%	16.3%	16.5%
EBIT margin	7.8%	7.6%	6.9%	9.1%	11.0%	11.4%	11.9%
Net margin	5.3%	6.3%	4.7%	6.7%	8.2%	8.5%	8.8%
Return on equity (ROE)	12.7%	15.7%	10.2%	15.0%	18.0%	18.3%	18.6%
Return on assets (ROA)	5.7%	6.6%	4.0%	5.9%	7.4%	7.8%	8.2%
Net debt (in EURm)	8.50	39.72	37.85	34.98	31.71	28.02	23.86
Net gearing	9.8%	42.0%	37.7%	33.5%	28.2%	23.2%	18.3%
Equity ratio	41.5%	38.0%	38.7%	39.4%	40.9%	42.4%	44.0%
Current ratio	1.94	1.93	1.87	1.94	2.02	2.10	2.20
Quick ratio	1.28	1.20	1.09	1.15	1.23	1.31	1.39
Net interest cover	16.67	22.49	11.62	14.89	17.13	16.95	16.72
Net debt/EBITDA	0.42	1.42	1.39	1.04	0.80	0.66	0.53
Capex/Sales	3.1%	18.6%	9.2%	4.7%	5.7%	5.3%	4.9%
Working capital/Sales	9.6%	15.6%	12.7%	12.4%	12.3%	12.3%	12.3%
P/E	26.65	19.78	30.51	20.01	15.52	14.15	12.93

Dr. Kalliwoda Research GmbH © 2021

## 7. Contacts

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