



July 10, 2003

Germany
Mobile Telecommunications Services

Wapme Systems AG

Primary Exchange: Frankfurt Symbol: 549550/WPM
Prime Standard ISIN: DE0005495501

6 Month Price Target: €3.60
Volatility: High

Reason for Report: Initial Report

Rating: Short Term Buy

- **Wapme Systems AG's core business is the development and supply of software solutions (Value Added Services) for the mobile Internet. In addition, the company is active in the wholesale business for mobile telephone equipment through its subsidiary—More Phones GmbH.**
- Its main competence is the supply of back room technical services to companies such as Vodafone, Lycos Europe and Talkline which provide SMS (short messaging services), MMS (multimedia messaging services) and Premium SMS services to end customers.
- **Since its IPO in July 2000 the company has seen its business focus change with the fluctuations of the mobile Internet and messaging markets.** At first the focus was on developing software for the WAP mobile Internet platform. However WAP failed to live up to its early promise and new areas had to be sought.
- A comparison of revenues provided by the business units in 2001 and 2002 shows how Wapme's focus has changed:
 - Software Unit**—in-house development of mobile Internet software. **Revenues fell dramatically by 99% in 2002 to €0.035m.**
 - Value Added Services**—setup and delivery of messaging and mobile services. **Revenues in this unit increased by 315% in 2002 to €2.337m.**
 - Projects & Consulting**—advice and supply of services in marketing, telecommunications and IT. **In 2002 revenues rose by 56% to €3.565m.**
 - Trade**—mobile hardware and software wholesaler. The subsidiary More Phones GmbH was founded in October 2002. **This unit contributed €14.509m in revenue to the business in 2002 which was 740% higher than in 2001.**
- **Wapme System's Q1 2003 figures were substantially ahead of the previous quarter.** EBIT at -€0.339m was much improved, up a substantial 95% from -€6.942m in the previous quarter.
- Revenues were also much improved, increasing 55% from €15.082m in Q4 2002 to €23.424m in Q1 2003. €16.9m of this was generated by the subsidiary More Phones GmbH.
- The remaining €6.5m is largely accounted for by Wapme's leading position in the rapidly developing Premium SMS market. **Premium SMS provides a new way for mobile phone customers to pay for products and services in the €0.49 to €2.99 price range.** The relevant amount is billed to their phone after they key in a five digit short code.
- **The number of Premium SMS sent per day in Germany tripled in Q1 2003 compared to Q4 2002. We expect double digit growth in each of the remaining quarters in 2003.**
- While growing their revenues dramatically Wapme have managed to improve margins and reduce costs. The number of employees is down from 74 in Q1 2002 to 62 in Q1 2003.

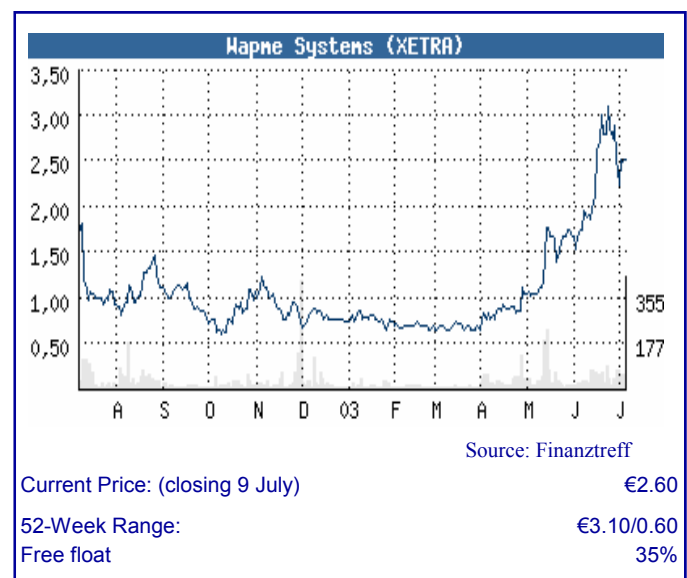
Financial History & Projections

	2000A	2001A	2002A	2003E	2004E
Revenue €m	3.576	9.072	20.447	109.234	130.256
Yr/Yr Growth	131%	154%	125%	434%	19%
EBITDA	-2.181	-1.258	-7.080	2.983	6.911
EBIT €m	-2.663	-3.379	-14.781	1.628	5.839
Net Income €m	-1.270	-1.731	-15.925	0.977	3.503
EPS €	-0.23	-0.32	-2.94	0.18	0.64

Stock Data

Market Capitalisation	€14.07m
Shares Outstanding	5,412,500
Liquid Assets	€3.646m
Total Assets	€19.726m
Working Capital	€4.249m
Total Shareholder's Equity	€9.346m
Book Value per Share	€1.73

Stock Overview



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Outlook

The outlook for Wapme in the short to medium term is very positive. The company announced that it had reached break-even on an EBITDA basis in March. This is an important milestone for the company and based on our analysis of the Premium SMS market we are expecting further positive news this year.

For Q2, we are projecting revenues of €27m which represents sequential revenue growth of 15%. We also expect the company to reach break-even on an EBIT basis in Q2.

For the full year 2003, we are projecting revenues of €109.234m and an EBIT of €1.628m. This is slightly below Wapme's current year guidance of €114m for revenues and €1.7m for EBIT. However these figures are still impressive. **Our revenue forecasts are 434% higher than last year and we believe that 2003 will represent the fourth year in a row of three digit revenue growth.**

Risks and Concerns

- One of the prime risks for a small, innovative company like Wapme in a rapidly growing market like Premium SMS is how the eventual entry of the big mobile service providers into this market will effect its business. Depending on the strength of its position at the time, this eventuality could be a positive or negative development for the company.
- We did have a question as to whether the management (young Management Board) would be capable of leading a company with over €100m in annual revenues. However our conversation with Management Board member, André Borutta allayed much of our concern. He impressed us with his firm grasp of the business and candid approach to past mistakes. The appointment of Michael Müller-Berg, Microsoft's German telecommunication division head, to the supervisory board is also a substantial addition. His experience, connections and knowledge should be of great benefit to the company.
- Our greatest concern is the situation with the Wapme subsidiary, More Phones GmbH. The Wapme Management Board members 'personally' own 27% of this company. We regard this as not being in the interests of shareholders and in fact see this as a bad corporate governance practice. We did mention this to André Borutta who assured us that management recognised this as a mistake and that they are in the process of rectifying the situation. We will re-examine this situation when Q2 results are published to make sure that whatever solution is found is in the interests of shareholders.

RECOMMENDATION

We are commencing our coverage of Wapme AG with a Short Term Buy recommendation and a 6 month price target of €3.60. This translates into a P/E ratio of 20 based on 2003 projected earnings.

Over the past three months the Wapme share price has appreciated 216% yet on a P/E basis the stock is still only trading at 14x 2003E. Given the incredible growth potential the company has and the good news flow we expect from Wapme this year we believe that a P/E ratio of 20 is reasonable, and that the share price will reach €3.60 over the next few months.

Management have made mistakes in the past but we believe they have learned from them and in the core business of Premium SMS/MMS Wapme is now the number 3 provider in Germany. In addition, the development of the 'trade' business has allowed the firm to somewhat diversify its risks and we are of the opinion that Wapme has now a stable, profitable business model.

Investors should assume that First Berlin has sought or is seeking a professional relationship with this company.

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The Analysts own no shares in this company.

First Berlin owns no shares in this company.

Rating system

LONG TERM BUY (outperform the market by 10% or more over a time span greater than one year)

MEDIUM TERM BUY (outperform the market by 10% or more within a year)

SHORT TERM BUY (outperform the market by 10% or more within the next 6 months)

MARKET PERFORM - (perform at market level)

SELL (under perform the market by 10% or more)

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