

Fabrity Holding

Mission completed

The sale of the marketing business completes the Group's transformation process. In September, Fabrity Holding announced that it had signed an agreement to sell its marketing activities for PLN 22 million. The buyer is the strategic investor Kamikaze, part of the French group Altavia. Taking into account the success fee for key employees and management (PLN 4m), other transaction costs and income tax (PLN 2m), the company will receive approximately PLN 15m in cash.

Distribution of proceeds from the sale to shareholders. The Management Board has recommended initiating the process of distributing to shareholders the proceeds of the transaction in the amount of PLN 15 million. Based on the Company's capital structure, part of the distribution may be in the form of dividends, estimated at approximately PLN 8 million (PLN 3.25 per share), and the remainder may be in the form of e.g. share repurchases. The details of the payout, other than the dividend, will be decided at the EGM in January 2024. Our model assumes a dividend equivalent of PLN 6 per share next year and PLN 2 the following year.

Change in the position of Group CEO. Mr Pawel Wujec resigned as CEO, citing the fulfilment of the mission entrusted to him, i.e. the Group's transformation project and the creation of shareholder value. As of 1 November, Mr Tomasz Burczyński, former CEO of Fabrity Holding, will become CEO of Fabrity. The change means that the focus will be entirely on the development of the software business. The assumptions of the updated strategy will be finalised and presented in the coming months.

Forecasts and valuation. The marketing business has been classified as a discontinued operation, so we are not changing our long-term revenue and operating profit forecasts from 2025 and beyond as a result of the transaction. In the short term, we are instead allocating some of the holding company costs previously charged to marketing to the software business. We expect their impact on earnings to gradually diminish. As a result, we slightly lower our 2024 EBIT estimate from PLN 8.2m to PLN 7.6m. The lower net profit forecast is due to the discontinuation of the recognition of marketing profit below EBIT and the assumption of high dividends (lower financial income). In our valuation, we no longer use the sum-of-the-parts method and base 100% of our PT on the DCF model, where we add the value of the PerfectBot stake (we assume PLN 7.5m) to the enterprise value based on the software business cash flows and subtract 20% of the value of Fabrity (minority interests). Our DCF valuation increases by 11% to PLN 37 per share.

PLNm	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	y/y	q/q
Revenues	27,1	35,7	11,8	13,2	14,0	15,2	16,1	15,4	16,7	19%	8%
EBITDA	3,4	3,0	1,8	2,4	1,3	2,2	2,2	1,5	2,3	86%	59%
EBIT	1,8	1,4	1,2	1,7	1,0	1,5	1,6	0,9	1,8	81%	95%
Net profit	1,1	1,0	1,0	2,0,7	0,5	2,1	1,5	0,8	11,8	2343%	1379%
P/E 12M trailing	25,2	23,8	22,0	3,8	3,9	3,7	3,6	18,5	5,5		
EV/EBITDA 12M trailing	6,4	7,0	8,3	5,5	9,5	11,2	11,0	12,5	9,6		
revenues growth y/y	-7%	-2%	-63%	-54%	-48%	-58%	37%	17%	19%		
EBITDA margin	12,5%	8,4%	15,3%	18,2%	8,9%	14,5%	13,9%	9,5%	13,9%		
EBIT margin	6,5%	4,0%	10,0%	13,0%	7,0%	10,0%	10,0%	5,9%	10,6%		
Net profit margin	4,1%	2,8%	8,4%	156,4%	3,4%	13,7%	9,2%	5,2%	70,7%		

3Q23 Earnings

17.11.2023

FACT SHEET	RECOMMENDATIONS	Date	Valuation
Ticker	FAB	Hold	24.07.2023 37
Sector	TMT	Hold	05.06.2023 38
Price (PLN)	36,2	Hold	24.04.2023 35
52W range (PLN)	22 / 39,9	Buy	12.12.2022 30
Shares outstanding (m)	2,5	Buy	24.10.2022 31
Market Cap (PLNm)	89	Buy	21.07.2022 36
S&P Global ESG Scores	-	Buy	18.07.2022 36
3M Avg. Vol. (PLNm)	0,03	Buy	22.04.2022 31
Price perf.	1M 3M 1Y		
	1,1% -3,0% 47,1%		

Hold

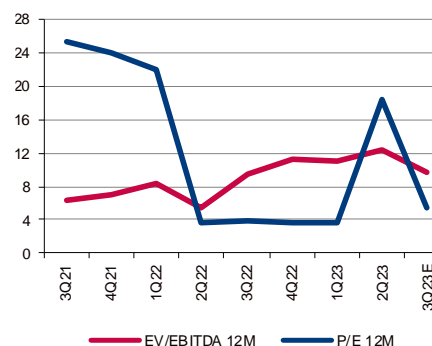
(Previous: Hold, 37 PLN)

Target Price: 37 PLN

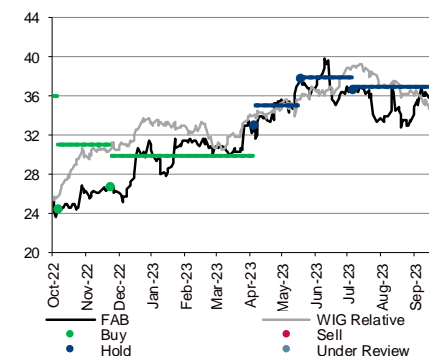
Current Price: 36.2 PLN

Upside: 2%

P/E 12M vs EV/EBITDA 12M



FAB RELATIVE SHARE PRICE vs WIG



PLNm	2020	2021	2022	2023E	2024E	2025E
Revenues	120	40,7	53,4	66,4	75,6	87,5
EBITDA	15	7,4	7,6	8,8	10,1	11,8
EBIT	8	5,0	5,0	6,5	7,6	9,1
Net profit	4	3,7	25,1	15,7	5,3	5,9
EPS (PLN)	1,74	1,6	10,2	6,4	2,2	2,4
DPS (PLN)	0,0	1,1	7,9	4,0	6,0	2,0
P/E (x)	20,8	23,8	3,6	5,7	16,8	15,1
EV/EBITDA (x)	5,6	12,9	11,2	9,2	8,7	7,3
P/BV (x)	3,2	2,9	2,6	2,3	3,0	2,9
DY (%)	0,0%	2,9%	21,8%	11,0%	16,6%	5,5%

Quarterly update 3Q'23

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Valuation / Weight	Current		Previous		Change	
DCF	37,0	100%	33,4	50%		11%
Multiples	40,4	0%	34,9	0%		16%
Valuation SOTP	-	0%	39,9	50%		-

PLNm	2023E			2024E			2025E		
	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.
Revenues	66,4	67,5	-2%	75,6	78,2	-3%	87,5	87	0%
EBITDA	8,8	9,6	-8%	10,1	10,9	-8%	11,8	12	-2%
EBIT	6,5	7,0	-7%	7,6	8,2	-7%	9,1	9	0%
Net profit	15,7	6,6	140%	5,3	7,1	-25%	5,9	8	-24%
P/E (x)	5,7	13,6		16,8	12,6		15,1	11,5	
EV/EBITDA (x)	9,2	8,5		8,7	8,1		7,3	7,2	
P/BV (x)	2,3			3,0			2,9		
DY (%)	11,0%			16,6%			5,5%		

Multiples	2021	2022	2023E	2024E	2025E
P/E (x)	23,8	3,6	5,7	16,8	15,1
adj. P/E (x)	23,8	15,9	14,9	16,8	15,1
P/BV (x)	2,9	2,6	2,3	3,0	2,9
EV/EBITDA (x)	12,9	11,2	9,2	8,7	7,3
adj. EV/EBITDA (x)	10,3	13,9	11,2	10,4	8,5
EV/Sales (x)	2,2	1,6	1,2	1,2	1,0
FCFF Yield (%)	2,1%	-1,5%	4,9%	5,5%	5,4%
DY (%)	2,9%	21,8%	11,0%	16,6%	5,5%

KPIs	2021	2022	2023E	2024E	2025E
EPS (PLN)	1,6	10,2	6,4	2,2	2,4
adj. EPS (PLN)	1,6	2,3	2,4	2,2	2,4
DPS (PLN)	1,1	7,9	4,0	6,0	2,0
BVPS (PLN)	12,3	13,7	16,1	12,2	12,6

Operational ratios	2021	2022	2023E	2024E	2025E
marża ZBnS (%)	18,3%	18,1%	18,1%	18,4%	18,8%
adj. EBITDA margin (%)	22,7%	11,5%	10,9%	11,2%	11,6%
EBIT margin (%)	12,2%	9,3%	9,8%	10,0%	10,4%
Net profit adj. margin (%)	9,2%	46,9%	23,7%	7,0%	6,8%
ROE (%)	13,7%	17,9%	16,3%	15,2%	19,3%
ROA (%)	6,1%	41,6%	24,7%	8,6%	10,4%
CAPEX/Sales (%)	7,6%	5,1%	1,8%	1,9%	2,0%
CAPEX/D&A (x)	0,5	1,0	0,5	0,6	0,6
Net debt/Equity (x)	-0,1	-0,4	-0,5	-0,4	-0,4
Net debt/EBITDA (x)	-0,5	-1,8	-2,0	-1,1	-1,1
Cash conversion cycle (days)	145	99	78	77	69
Inventory turnover (days)	0	0	0	0	0
Receivables turnover (days)	237	144	106	106	98
Payables turnover (days)	91	45	28	29	29

Income Statement (PLNm)	2020	2021	2022	2023E	2024E	2025E
Revenues	119,7	40,7	53,4	66,4	75,6	87,5
COGS	-104,1	-33,3	-43,8	-54,4	-61,7	-71,1
Gross Profit	15,6	7,5	9,6	12,0	13,9	16,5
Selling costs	0,0	0,0	0,0	0,0	0,0	0,0
G&A costs	-8,9	-2,5	-4,7	-5,8	-6,5	-7,6
Profit on sales	6,7	4,9	5,0	6,2	7,4	8,9
Other operating items, net	1,3	0,0	0,0	0,3	0,2	0,2
EBITDA	14,7	7,4	7,6	8,8	10,1	11,8
adj. EBITDA	13,5	9,2	6,2	7,2	8,5	10,1
D&A	-6,7	-6,6	-2,6	-2,3	-2,5	-2,8
EBIT	8,0	5,0	5,0	6,5	7,6	9,1
Net financial costs	-1,0	-0,3	22,1	12,4	0,5	0,0
EBT	7,0	4,6	27,1	18,9	8,1	9,1
Income tax	-2,1	-1,0	-3,0	-3,6	-1,5	-1,7
Minority interest	0,8	0,7	0,8	1,0	1,2	1,5
Net profit	4,0	3,7	25,1	15,7	5,3	5,9
adj. net profit	4,0	3,7	5,6	6,0	5,3	5,9

Balance Sheet (PLNm)	2020	2021	2022	2023E	2024E	2025E
Non-current Assets	23,1	8,7	9,3	13,6	11,8	10,5
Current Assets	39,4	51,0	51,6	53,0	44,7	47,4
Inventories	0,0	0,0	0,0	0,0	0,0	0,0
Receivables	27,6	25,2	17,0	21,6	22,3	24,8
Cash and cash equivalents	9,6	10,1	17,8	25,2	16,2	16,3
Assets	62,5	59,6	60,9	66,6	56,5	57,9
Equity	26,1	28,6	33,8	39,7	30,2	31,2
Minority Interests	2,5	3,2	3,9	4,4	5,2	6,0
Non-current Liabilities	7,4	2,7	3,8	7,6	6,1	4,6
Long-term borrowings	4,7	1,0	2,8	5,8	4,3	2,8
Current Liabilities	26,4	25,0	19,4	14,8	15,0	16,1
Short-term borrowings	4,2	5,3	1,6	1,5	0,9	0,9
Payables	11,8	8,6	4,6	5,7	6,5	7,5
Equity and Liabilities	62,5	59,6	60,9	66,6	56,5	57,9
	-1	-4	-13	-18	-11	-13

Cash Flow Statement (PLNm)	2020	2021	2022	2023E	2024E	2025E
Cash flow from operating activities	17,1	9,5	5,4	7,6	8,6	8,6
Changes in working capital	3,3	-2,4	-6,3	1,5	0,1	-1,5
D&A	6,7	6,6	4,8	2,3	2,5	2,8
Cash flow from investing activities	-3,1	-2,9	28,5	-1,2	-1,5	-1,7
CAPEX	-2,9	-3,1	-2,7	-1,2	-1,5	-1,7
Cash flow from financing activities	-8,5	-6,0	-24,8	1,0	-16,2	-6,7
Dividend/Buy-back	0,0	-2,4	-19,5	-9,9	-14,8	-4,9
Net change in cash	5,5	0,6	9,1	7,4	-9,0	0,1
Cash opening balance	4,1	9,6	10,1	17,8	25,2	16,2
Cash closing balance	9,6	10,1	17,8	25,2	16,2	16,3

FAB: DCF valuation

	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	TV
Sales	66,4	75,6	87,5	95,4	104,0	110,2	116,8	123,8	131,3	
EBITDA	8,8	10,1	11,8	12,9	14,1	14,9	15,8	16,8	17,8	
EBIT	6,5	7,6	9,1	9,9	10,8	11,5	12,1	12,9	13,6	
Tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	
NOPAT	5,3	6,1	7,3	8,0	8,8	9,3	9,8	10,4	11,0	
Amortization	2,3	2,5	2,8	3,0	3,3	3,5	3,7	3,9	4,1	
Capex	-1,2	-1,5	-1,7	-1,9	-2,0	-2,2	-2,3	-2,4	-2,6	
Lease payments	-2,5	-2,4	-2,3	-2,3	-2,3	-2,3	-2,3	-2,4	-2,4	
Net WC investments	1,5	0,1	-1,5	-1,2	-1,3	-0,9	-1,0	-1,1	-1,1	
M&A, other adjustments	15,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
FCF	21,1	4,9	4,6	5,7	6,4	7,3	7,9	8,5	9,1	9,5
Debt / (Debt + Equity)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
RFR	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	5,0%
Market premium	7,5%	7,5%	7,5%	7,5%	7,5%	7,5%	7,5%	7,5%	7,5%	7,5%
Unlevered beta	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00
Levered beta	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00
Debt cost to tax (%)	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	6,1%	5,3%
Equity cost (%)	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%	12,5%
WACC (%)	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%	13,5%	12,5%

PV FCF sum 2021-29	53
FCF growth ratio in TV	3,0%
Discounted TV	33
Net debt, other adj.	-4
Equity value (mln PLN)	89
Number of shares (mln)	2,5
1 share value PLN	36,1
Dividend per share paid out	4,00
12m TP	37,0

		10,5%	11,5%	WACC TV 12,5%	13,5%	14,5%
	2,0%	38,6	37,0	35,8	34,7	33,9
	2,5%	39,5	37,7	36,4	35,2	34,3
g	3,0%	40,5	38,6	37,0	35,8	34,7
	3,5%	41,7	39,5	37,7	36,4	35,2
	4,0%	43,0	40,5	38,6	37,0	35,8

Source: Trigon DM

FAB: Peer group valuation

Company	MC	EV/EBITDA			P/E		
	[m EUR]	2023P	2024P	2025P	2023P	2024P	2025P
GLOBANT SA	7 689	18,5	15,7	12,7	33,2	27,9	22,0
ENDAVA PLC- SPON ADR	3 145	15,0	18,5	12,8	21,9	29,5	20,2
GRID DYNAMICS HOLDINGS INC	846	14,6	12,0	8,6	35,6	28,7	21,1
EPAM SYSTEMS INC	13 159	15,0	13,8	11,5	23,8	21,7	18,2
Median: IT foreign (weight 50%)		15,0	14,7	12,1	28,5	28,3	20,6
ASSECO POLAND		5,1	4,5	4,1	11,6	11,6	10,7
COMARCH		4,9	4,0	3,6	13,0	12,2	11,1
AILLERON		8,7	6,7	5,3	10,6	9,5	7,6
ASSECO BUSINESS SOLUTIONS		9,8	8,6	8,0	15,2	13,4	12,7
Median: IT domestic (weight 50%)		6,9	5,6	4,7	12,3	11,9	10,9
average weighted		10,9	10,2	8,4	20,4	20,1	15,8
Valuation per share		35	38	38	50	43	38
average weighted for multiples			37			44	
average weighted valuation				40			

Source: Bloomberg, Trigon DM

Risk factors

1) Risk related to increased competition on the software houses market, 2) General economic situation, 3) Risk of losing customers, 4) Risk of losing key employees, 5) Risk of failure of the PerfectBot project, 6) Risk of customers failing to meet payment deadlines, 7) Currency risk (Fabrity generates revenues in Western Europe)

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Definitions
capitalisation – market price multiplied by the number of a company's shares
free float (%) – a percentage of a company's shares held by shareholders with less than 5% shareholding reduced by treasury shares held by the company
min/max 52 wks – minimum/maximum share price within the last 52 weeks
average turnover – average volume of share trading within the last month

EBIT – operating profit
EBITDA – operating profit increased by depreciation and amortisation
adjusted profit – net profit adjusted for one-off items
CF – cash flow
capex – sum of investment expenditures on fixed assets
OCF – cash generated through the operational activities of the company
FCF – cash generated by the company after taking into account outflows to support operations and retained capital

ROA – rate of return on assets
ROE – rate of return on equity
NWC – net working capital
Cash conversion cycle – period from the moment of expenditure of cash for the purchase of production factors until the moment of receipt of cash revenues from the sale of manufactured goods or services.

Gross profit margin – a ratio of gross profit to net revenue
EBITDA margin – a ratio of sum of operating profit and depreciation/amortisation to net revenue
EBIT margin – a ratio of operating profit to net revenue
net margin – a ratio of net profit to net revenue

EPS – earnings per share
DPS – dividends per share
P/E – a ratio of market price to earnings per share
P/BV – a ratio of market price to book value per share
EV/EBITDA – a company's EV to EBITDA ratio
EV – sum of a company's current capitalisation and net debt
DY – dividend yield, dividend paid to share price ratio

RFR - risk-free rate
WACC - weighted average cost of capital
ISSUER – Fabrity Holding S.A.

Recommendations of the Brokerage House
BUY – we expect that the rate of return on an investment will be at least 10%
NEUTRAL – we expect the price of an investment to be relatively stable, optionally it will increase no greater than 10%
SELL – we expect that an investment will make a loss greater than 0%
Recommendation prepared by: Dominik Niszcz

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