

## Ailleron

### Major acquisition in the USA, in line with ongoing strategy

**US\$40.6m acquisition of US-based Prosoft LLC.** Prosoft LLC is a US software house with long-term relationships with a large group of US clients and a strong sales team, which Software Mind lacked to win more US orders. Prosoft's teams are located in the western hemisphere in the time zone of US customers, including Costa Rica, Honduras, Argentina and Brazil. The company acquired by SM should be consolidated from the beginning of 2Q24. We estimate that it generates PLN 150-160mln of revenue annually with an operating margin of just over 10%, the top several million PLN of operating profit. This large transaction will more than make it possible to use the remaining cash in Software Mind for acquisitions. Ailleron shareholders will account for half of the purchase amount, i.e. PLN 80m, or PLN 6.5 per ALL share. As a result of the acquisition, the share of SM's revenue from the US will increase to 50%, and the risk arising from the strengthening of the PLN, which has recently had a negative impact on margins, will also decrease. Both revenue and the vast majority of costs are incurred in USD in the acquired entity (teams at LatAm mostly paid in USD).

**Valuation and recommendation.** The beginning of the year is unlikely to bring a breakthrough in investor perceptions of the company, but we are counting on a positive earnings reception since the consolidation of the US acquisition, i.e. since the beginning of 2Q24. We are lowering our net profit estimate from PLN 24m to PLN 16m in 2024, but we still believe the company will be able to generate higher margins in the medium term once foreign exchange rates stabilise. The slight decrease in valuation of the existing business compensates to some extent for the slightly positive effect of the acquisition and, as a result, we adjust our target price downwards by only PLN 1 per share and set our price target at PLN 25 per share and reiterate our BUY recommendation.

**1Q24 forecasts.** We assume PLN 17mn revenue in FinTech and PLN 101mn in Software Mind, up 6% y/y. Yields at Software Mind are likely to remain below 10% due to the appreciation of the Polish currency, in particular by 9% y/y to the USD and by 8% y/y to the EUR on average in the quarter. The effect of the y/y appreciation will already be much less from 2Q24. We forecast an operating result of PLN 7m, including a decline of almost 40% y/y in Software Mind to PLN 8m and stabilisation at PLN -1m in FinTech.

PLNm	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24E	y/y	q/q
Revenues	76.7	101.7	111.7	123.3	110.6	115.7	114.4	126.2	118.0	7%	-6%
EBITDA	12.2	10.2	18.8	20.0	15.6	13.7	10.7	10.1	11.1	-29%	11%
EBIT	9.4	7.0	15.5	16.2	11.9	9.8	7.9	6.0	6.9	-42%	16%
Net profit	-0.7	3.0	5.6	5.3	2.8	1.8	-3.9	3.6	1.3	-55%	-65%
P/E 12M trailing	37.7	23.9	15.0	14.1	11.2	12.0	31.0	43.0	66.7		
EV/EBITDA 12M trailing	11.9	11.1	9.1	8.1	7.5	7.6	8.5	9.9	10.7		
revenues growth y/y	97%	120%	86%	73%	44%	14%	2%	2%	7%		
EBITDA margin	15.9%	10.0%	16.8%	16.2%	14.1%	11.8%	9.3%	8.0%	9.4%		
EBIT margin	12.3%	6.9%	13.9%	13.1%	10.8%	8.5%	6.9%	4.7%	5.9%		
Net profit margin	-	2.9%	5.0%	4.3%	2.6%	1.6%	-	2.9%	1.1%		

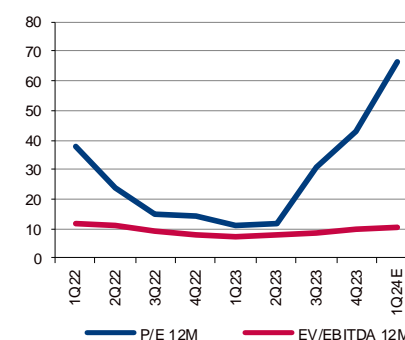
1Q24 Earnings  
22.05.2024

**Buy**  
(Previous: Buy, 26 PLN)

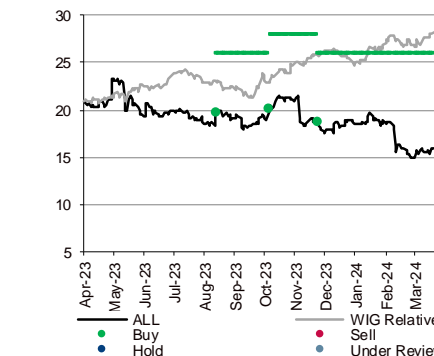
**Target Price: 25 PLN**  
**Current Price: 15.1 PLN**  
**Upside: 66%**

FACT SHEET	RECOMMENDATIONS	Date	Valuation	
Ticker	ALL	Buy	11.12.2023	26
Sector	TMT	Buy	23.10.2023	28
Price (PLN)	15.1	Buy	30.08.2023	26
52W range (PLN)	14 / 24.2			
Shares outstanding (m)	12.4			
Market Cap (PLNm)	187			
S&P Global ESG Scores	1			
3M Avg. Vol. (PLNm)	0.22			
Price perf.	1M 3M 1Y			
	1.3% -18.2% -27.4%			

P/E 12M vs EV/EBITDA 12M



ALL RELATIVE SHARE PRICE vs WIG



PLNm	2021	2022	2023	2024E	2025E	2026E
Revenues	212	410	467	592	695	751
EBITDA	36	61	50	77	108	117
EBIT	27	48	36	55	83	93
Net profit	7	13	4	15	27	31
EPS (PLN)	0.60	1.1	0.4	1.2	2.2	2.5
DPS (PLN)	0.3	0.3	1.0	0.5	0.5	0.5
P/E (x)	25.2	14.1	43.0	12.8	7.0	6.0
EV/EBITDA (x)	3.8	8.1	9.8	7.7	5.2	4.5
P/BV (x)	1.4	1.3	1.4	1.3	1.2	1.0
DY (%)	2.1%	2.1%	6.6%	3.3%	3.3%	3.3%

# Quarterly update 1Q'24

Poland | Equity Research

Valuation / Weight	Current		Previous		Change
DCF	24.8	100%	26.3	100%	-6%
Multiples	37.9	0%	40.2	0%	-6%

PLNm	2024E			2025E			2026E		
	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.
Revenues	592.4	523.4	13%	695.3	613.9	13%	750.8	-	-
EBITDA	76.6	84.0	-9%	107.5	103.5	4%	117.4	-	-
EBIT	55.3	68.4	-19%	83.2	86.0	-3%	92.6	-	-
Net profit	14.6	24.0	-39%	26.7	30.6	-13%	31.0	-	-
P/E (x)	12.8	7.8		7.0	6.1		6.0	-	-
EV/EBITDA (x)	7.7	7.6		5.2	5.8		4.5	-	-
P/BV (x)	1.3			1.2			1.0		
DY (%)	3.3%			3.3%			3.3%		

Multiples	2022	2023	2024E	2025E	2026E
P/E (x)	14.1	43.0	12.8	7.0	6.0
adj. P/E (x)	10.5	11.7	12.8	7.0	6.0
P/BV (x)	1.3	1.4	1.3	1.2	1.0
EV/EBITDA (x)	8.1	9.8	7.7	5.2	4.5
adj. EV/EBITDA (x)	8.1	9.8	7.7	5.2	4.5
EV/Sales (x)	0.5	0.4	0.5	0.4	0.3
FCFF Yield (%)	2.5%	5.3%	4.2%	8.5%	11.0%
DY (%)	2.1%	6.6%	3.3%	3.3%	3.3%

KPIs	2022	2023	2024E	2025E	2026E
EPS (PLN)	1.1	0.4	1.2	2.2	2.5
adj. EPS (PLN)	1.4	1.3	1.2	2.2	2.5
DPS (PLN)	0.3	1.0	0.5	0.5	0.5
BVPS (PLN)	11.5	10.6	11.3	12.9	14.9

Operational ratios	2022	2023	2024E	2025E	2026E
adj. EBITDA margin (%)	14.9%	10.7%	12.9%	15.5%	15.6%
EBIT margin (%)	11.7%	7.6%	9.3%	12.0%	12.3%
Net profit adj. margin (%)	3.2%	0.9%	2.5%	3.8%	4.1%
ROE (%)	12.9%	11.7%	10.8%	17.8%	18.0%
ROA (%)	3.8%	1.0%	3.0%	4.7%	4.9%
CAPEX/Sales (%)	6.6%	3.0%	2.2%	2.3%	2.3%
CAPEX/D&A (x)	2.1	1.0	0.6	0.6	0.7
Net debt/Equity (x)	0.0	0.0	0.7	0.5	0.2
Net debt/EBITDA (x)	0.1	0.1	1.3	0.7	0.4
Cash conversion cycle (days)	49	48	38	37	38
Inventory turnover (days)	1	0	0	0	0
Receivables turnover (days)	72	70	57	59	61
Payables turnover (days)	23	23	20	22	23

Income Statement (PLNm)	2021	2022	2023	2024E	2025E	2026E
<b>Revenues</b>	<b>212.4</b>	<b>410.1</b>	<b>466.8</b>	<b>592.4</b>	<b>695.3</b>	<b>750.8</b>
Revenues FinTech	56.4	64.0	73.7	81.1	92.5	99.9
Revenues Software Mind	153.4	344.4	390.5	508.7	600.2	648.3
Revenues other	7.0	5.1	2.6	2.6	2.6	2.6
EBIT FinTech	2.7	-1.5	-7.2	3.6	6.5	8.5
EBIT Software Mind	24.6	55.6	48.9	52.9	78.0	85.6
EBIT other	0.1	-2.4	0.1	0.0	0.0	0.0
<b>EBITDA</b>	<b>35.7</b>	<b>61.1</b>	<b>50.0</b>	<b>76.6</b>	<b>107.5</b>	<b>117.4</b>
adj. EBITDA	35.7	61.1	50.0	76.6	107.5	117.4
D&A	-8.3	-13.0	-14.5	-21.3	-24.3	-24.8
<b>EBIT</b>	<b>27.4</b>	<b>48.2</b>	<b>35.5</b>	<b>55.3</b>	<b>83.2</b>	<b>92.6</b>
Net financial costs	-0.2	-0.3	-2.7	-11.1	-9.8	-9.2
<b>EBT</b>	<b>25.5</b>	<b>47.9</b>	<b>32.9</b>	<b>44.3</b>	<b>73.4</b>	<b>83.4</b>
Income tax	-8.5	-9.3	-10.2	-9.3	-15.4	-17.5
Minority interest	-9.6	-25.3	-18.3	-20.4	-31.3	-34.9
<b>Net profit</b>	<b>7.4</b>	<b>13.2</b>	<b>4.3</b>	<b>14.6</b>	<b>26.7</b>	<b>31.0</b>
adj. Net profit	7.4	17.7	16.0	14.6	26.7	31.0

Balance Sheet (PLNm)	2021	2022	2023	2024E	2025E	2026E
<b>Non-current Assets</b>	<b>98.1</b>	<b>209.6</b>	<b>225.8</b>	<b>387.1</b>	<b>387.5</b>	<b>388.8</b>
<b>Current Assets</b>	<b>180.6</b>	<b>209.5</b>	<b>206.2</b>	<b>150.9</b>	<b>211.1</b>	<b>273.9</b>
Inventories	1.0	0.7	0.6	0.7	0.8	0.9
Receivables	62.9	98.6	81.6	103.6	121.6	131.3
Cash and cash equivalents	111.3	89.4	113.0	35.6	77.6	130.7
<b>Assets</b>	<b>278.7</b>	<b>419.1</b>	<b>432.0</b>	<b>538.0</b>	<b>598.6</b>	<b>662.7</b>
<b>Equity</b>	<b>133.0</b>	<b>141.9</b>	<b>130.7</b>	<b>139.1</b>	<b>159.6</b>	<b>184.4</b>
<b>Minority Interests</b>	<b>82.5</b>	<b>115.8</b>	<b>126.6</b>	<b>146.9</b>	<b>178.2</b>	<b>213.1</b>
<b>Non-current Liabilities</b>	<b>18.5</b>	<b>84.6</b>	<b>88.8</b>	<b>154.1</b>	<b>154.3</b>	<b>154.9</b>
Long-term borrowings	17.6	83.8	87.1	152.3	152.5	153.2
<b>Current Liabilities</b>	<b>44.7</b>	<b>76.9</b>	<b>86.0</b>	<b>97.9</b>	<b>106.5</b>	<b>110.2</b>
Short-term borrowings	4.7	14.8	32.9	32.9	32.9	32.9
Payables	19.3	33.2	25.9	37.8	46.4	50.1
<b>Equity and Liabilities</b>	<b>278.7</b>	<b>419.1</b>	<b>432.0</b>	<b>538.0</b>	<b>598.6</b>	<b>662.7</b>
<b>Net debt</b>	<b>-89</b>	<b>9</b>	<b>7</b>	<b>150</b>	<b>108</b>	<b>55</b>

Cash Flow Statement (PLNm)	2021	2022	2023	2024E	2025E	2026E
<b>Cash flow from operating activities</b>	<b>26.1</b>	<b>45.6</b>	<b>48.8</b>	<b>46.1</b>	<b>72.8</b>	<b>84.6</b>
Changes in working capital	1.0	-21.4	9.8	-10.2	-9.6	-6.1
D&A	8.3	13.0	14.5	21.3	24.3	24.8
<b>Cash flow from investing activities</b>	<b>-28.0</b>	<b>-126.7</b>	<b>-13.6</b>	<b>-173.7</b>	<b>-15.8</b>	<b>-17.0</b>
CAPEX	-12.3	-27.2	-14.2	-12.7	-15.8	-17.0
<b>Cash flow from financing activities</b>	<b>89.5</b>	<b>59.1</b>	<b>-11.7</b>	<b>50.2</b>	<b>-14.9</b>	<b>-14.6</b>
Dividend/Buy-back	-4.0	-4.0	-12.4	-6.2	-6.2	-6.2
<b>Net change in cash</b>	<b>87.6</b>	<b>-21.9</b>	<b>23.6</b>	<b>-77.4</b>	<b>42.1</b>	<b>53.0</b>
Cash opening balance	23.7	111.3	89.4	113.0	35.6	77.6
Cash closing balance	111.3	89.4	113.0	35.6	77.6	130.7

## ALL: DCF valuation

	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	TV
Sales	592.4	695.3	750.8	808.7	855.5	895.9	922.8	950.5	979.0	
EBITDA	76.6	107.5	117.4	124.2	130.0	135.1	139.2	143.4	147.7	
<b>EBIT</b>	<b>55.3</b>	<b>83.2</b>	<b>92.6</b>	<b>98.7</b>	<b>103.8</b>	<b>108.0</b>	<b>111.2</b>	<b>114.5</b>	<b>118.0</b>	
Tax rate	21%	21%	21%	21%	21%	21%	21%	20%	20%	
<b>NOPAT</b>	<b>43.7</b>	<b>65.7</b>	<b>73.2</b>	<b>78.0</b>	<b>82.0</b>	<b>85.3</b>	<b>88.3</b>	<b>91.2</b>	<b>94.1</b>	
Amortization	21.3	24.3	24.8	25.5	26.3	27.2	28.0	28.8	29.7	
Capex	-12.7	-15.8	-17.0	-18.2	-19.3	-20.5	-21.1	-21.7	-22.4	
Leased assets capex	-8.8	-8.9	-9.0	-9.2	-9.4	-9.6	-9.9	-10.2	-10.5	
Net WC investments	-10.2	-9.6	-6.1	-6.3	-5.1	-4.4	-4.5	-4.6	-4.7	
M&A, other adjustments	-161.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>FCF</b>	<b>-127.8</b>	<b>55.8</b>	<b>65.8</b>	<b>69.7</b>	<b>74.4</b>	<b>78.0</b>	<b>80.8</b>	<b>83.5</b>	<b>86.3</b>	<b>89.4</b>
Debt / (Debt + Equity)	45%	34%	19%	1%	0%	0%	0%	0%	0%	0%
RFR	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.0%
Market premium	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Unlevered beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Levered beta	1.64	1.40	1.19	1.01	1.00	1.00	1.00	1.00	1.00	1.00
Debt cost to tax (%)	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.6%	5.6%	5.6%	5.2%
Equity cost (%)	16.1%	14.6%	13.2%	12.1%	12.0%	12.0%	12.0%	12.0%	12.0%	11.5%
<b>WACC (%)</b>	<b>11.4%</b>	<b>11.5%</b>	<b>11.7%</b>	<b>12.0%</b>	<b>12.0%</b>	<b>12.0%</b>	<b>12.0%</b>	<b>12.0%</b>	<b>12.0%</b>	<b>11.5%</b>

PV FCF sum	214
FCF growth ratio in TV	2.5%
Discounted TV	370
Net debt, other adj.	309
Equity value (mln PLN)*	275
Dividend paid out	0.0
Number of shares (mln)	12.4
1 share value (PLN)	22.27
<b>12m TP</b>	<b>24.8</b>

Source: Trigon DM

	WACC		TV		
	9.5%	10.5%	11.5%	12.5%	13.5%
	26.6	24.7	23.1	21.8	20.7
	27.9	25.7	23.9	22.5	21.3
<b>g</b>	<b>29.4</b>	<b>26.8</b>	<b>24.8</b>	<b>23.2</b>	<b>21.9</b>
	31.0	28.1	25.8	24.1	22.6
	33.0	29.6	27.0	25.0	23.4

## ALL: Peer group valuation

Company	MC [m EUR]	EV/EBITDA			P/E		
		2024E	2025E	2026E	2024E	2025E	2026E
GLOBANT SA	7,895	17.8	14.6	12.0	30.3	25.8	20.8
ENDAVA PLC- SPON ADR	1,847	13.2	9.8	6.9	23.6	17.3	12.9
EPAM SYSTEMS INC	14,280	16.5	14.3	12.3	26.2	22.3	19.0
GRID DYNAMICS HOLDINGS INC	830	13.1	10.5	7.9	32.9	26.8	20.7
THOUGHTWORKS HOLDING INC	716	12.3	8.0	5.7	36.5	13.5	8.2
CAPGEMINI SE	36,092	10.9	10.0	9.3	17.0	15.5	14.1
COGNIZANT TECH SOLUTIONS-A	32,972	9.6	9.0	8.3	15.6	14.5	13.1
PERFICIENT INC	1,710	10.8	9.6	8.6	13.1	11.7	10.3
KAINOS GROUP PLC	1,463	14.5	13.0	11.3	21.9	19.5	17.0
NAGARRO SE	1,045	8.8	7.2	7.1	15.2	11.9	-
INNOFACTOR OYJ	47	5.7	5.2	5.1	9.3	7.8	7.4
IT LINK SA	57	7.5	6.7	-	13.6	12.2	-
<b>Median: foreign peers</b>		<b>11.6</b>	<b>9.7</b>	<b>8.3</b>	<b>19.4</b>	<b>15.0</b>	<b>13.6</b>
AILLERON		7.7	5.2	4.5	12.7	7.0	6.0
Valuation per share		39.3	51.8	46.7	23.0	32.3	34.1
<b>Average valuation for multipliers</b>		<b>45.9</b>			<b>29.8</b>		
		<b>average valuation</b>			<b>37.9</b>		

Source: Bloomberg, Trigon DM

## Risk factors

- 1) Risk of increased competition in the software house market,
- 2) Risk of losing customers,
- 3) Risk of losing key employees,
- 4) Risk of unsuccessful acquisitions,
- 5) Risk of customers' failure to meet payment deadlines,
- 6) Risk of claims from Pekao in connection with contract termination,
- 7) Currency risk

## Trigon Dom Maklerski S.A.

Plac Unii, Budynek B, ul. Puławska 2, 02-566 Warszawa

T: +48 22 330 11 11 | F: +48 22 330 11 12

W: <http://www.trigon.pl> | E: [repcja@trigon.pl](mailto:repcja@trigon.pl)



**NAGRŃDY  
PSIK**  
2023

### CEE EQUITY RESEARCH

**Grzegorz Kujawski**, Head of Research  
*Consumer, E-commerce, Financials*

**Maciej Marcinowski**, Deputy Head of Research  
*Strategy, Banks, Financials*

**Kacper Koproń**  
*Gaming, TMT*

**Katarzyna Kosiorek**  
*Biotechnology*

**Michał Kozak**  
*Oil&Gas, Chemicals, Utilities*

**Dominik Niszc**  
*TMT, E-commerce*

**Łukasz Rudnik**  
*Industrials, Metals&Mining*

**David Sharma**  
*Construction, Real Estate*

**Piotr Rychlicki**  
*Junior Analyst*

**Piotr Chodyra**  
*Junior Analyst*

### EQUITY SALES

**Grzegorz Skowroński**

### SALES TRADING

**Paweł Szczepański**, Head of Sales

**Michał Sopiński**, Deputy Head of Sales

**Paweł Czupryński**

**Hubert Kwiecień**

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### Glossary of professional terms:

capitalisation – market price multiplied by the number of a company's shares  
free float (%) – percentage of a company's shares held by shareholders with less than 5% of total voting rights attached to the shares, reduced by treasury shares held by the company  
min/max 52 wks – lowest/highest share price over the previous 52 weeks  
average turnover – average volume of share trading over the previous month

EBIT – operating profit  
EBITDA – operating profit before 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 a company's operating activities  
FCF – cash generated by a company after accounting for cash outflows to support its operations and maintain capital assets  
ROA – rate of return on assets  
ROE – rate of return on equity  
ROIC – rate of return on invested capital  
NWC – net working capital  
cash conversion cycle – length of time it takes for a company to convert its cash investments in production inputs into cash revenue from sale of its products or services  
gross profit margin – ratio of gross profit to net revenue  
EBITDA margin – ratio of the sum of operating profit and depreciation/amortisation to net revenue  
EBIT margin – ratio of operating profit to net revenue  
net margin – ratio of net profit to net revenue  
EPS – earnings per share  
DPS – dividend per share  
P/E – ratio of market price to earnings per share  
P/BV – ratio of market price to book value per share  
EV/EBITDA – ratio of a company's EV to EBITDA  
EV – sum of a company's current capitalisation and net debt  
DY – dividend yield, ratio of dividends paid to share price  
RFR – risk free rate  
WACC – weighted average cost of capital

### Recommendations of the Brokerage House

Issuer – AILLERON S.A.  
BUY – we expect the total return on an investment to reach at least 10%  
HOLD – we expect the price of an investment to be largely stable, with potential upside of up to 10%  
SELL – we expect negative total return on an investment of more than -0%

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### Valuation methods used

SOTP – sum-of-the-parts method, which consists in valuing a company by valuing its individual business lines separately and then summing them up.  
- Advantages: different valuation methods can be applied to diverse business lines; the approach is useful for assessing the value of a company e.g. in the case of planned acquisition or restructuring.  
- Disadvantages: the peer group for individual business lines is usually limited, the method does not adequately account for synergies between business segments.

Risk-adjusted net present value method (rNPV)  
- Advantages: accounting for probabilities assigned to future cash flows, providing a more realistic assessment of the present value of future cash flows and reflecting business-specific factors, especially in the case of innovative companies.  
- Disadvantages: subjectivity involved in the adoption of a discount rate, significant reliance on a number of assumptions, high level of complexity in the calculations and exclusion of qualitative factors from the valuation.

Discounted residual income method (DRI)  
- Advantages: valuation based on the excess of income over risk-adjusted opportunity cost to owners of capital, the method can be applied to companies that do not pay dividends or generate positive FCF.  
- Disadvantages: significant reliance on subjective judgements and assumptions, as well as sensitivity of the valuation to any changes in those variables.

Discounted dividend model (DDM)  
- Advantages: accounting for real cash flows to equity owners, the model works best for companies with a long history of dividend distribution.  
- Disadvantages: the method can be applied to dividend-paying companies only, it is not suitable for companies with a short history of dividend distribution.

Net asset value method (NAV)  
- Advantages: the approach is particularly relevant to holding companies with significant property, plant and equipment assets, the calculation of NAV is relatively straightforward.  
- Disadvantages: the method neglects future revenue or earnings potential and may not properly reflect the value of intangible assets.

Target multiple method  
- Advantages: the method can be applied to any company.  
- Disadvantages: it involves a high degree of subjectivity.

Replacement value method – it assesses the value of a company based on the costs of replacing its assets.  
- Advantages: the method is particularly relevant to companies with significant property, plant and equipment assets.  
- Disadvantages: it may be hard to capture the value of a company's intangible assets, reputation and market potential.

Liquidation value method – the sum of prices that the business would receive upon selling its individual assets on the open market.  
- Advantages: the method can capture the lowest threshold of a company's value.  
- Disadvantages: it may be hard to capture the value of a company's intangibles.

Basis of the valuation or methodology and the underlying assumptions used to evaluate the financial instrument or the issuer, or to set a price target for the financial instrument: DCF valuation

The valuation, methodology or underlying assumptions have not changed since the date when this Document was completed and first disseminated.

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