

Fabrity Holding

First step in new strategy made: acquisition in the IT segment

Acquisition of Panda Group. In February, Fabrity acquired 51% of Panda Group from two of its founders and managers for PLN 2m. In addition, the earn-out if certain targets are met over the next two to three years is PLN 2.1m. Panda Group specialises in the implementation of the Adobe Commerce platform (until recently Magento) for the e-commerce sector. Panda Group's revenue is approximately PLN 6m per year. The transaction is small in scale from Fabrity's perspective, but it is a good step towards strengthening the group's position: scale of operations and diversification of customer base are important in the software house sector.

Strategy update expected, share buyback. A presentation of the group's updated strategy is planned in the coming months, probably later in 2Q24. A reminder of the share buyback implemented in April, for which the company is allocating PLN 7.7m. Including the subsequent dividend, the distribution to shareholders will amount to PLN 15m.

PerfectBot. In 3Q23, the company began commercialisation of PerfectBot GPT in English-speaking markets, where it has acquired dozens of paying customers (medium-sized online shops) and over 100 customers are testing a trial version of the chatbot. An expanded version of the product (greater automation of operation and installation), as well as a multilingual version, is planned for launch in 2Q24.

Targets for 2024. According to the annual report, targets for 2024 include maintaining double-digit revenue growth and maintaining double-digit EBITDA profitability.

Forecasts and valuation. Following strong 4Q23 results, the company had net cash of PLN 23m, providing a cushion for possible further acquisitions. The current difficult market situation and strong PLN prompt us to maintain our cautious forecasts for this year. We raise our target price slightly from PLN 38 per share to PLN 39 and reiterate our HOLD recommendation. The company remains relatively highly valued compared to other software houses listed on the market, but we appreciate Fabrity's stable margins, large liquidity cushion, high distribution to shareholders and the prospect of organic growth in the medium term..

PLNm	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24E	y/y	q/q
Revenues	11.8	13.2	13.3	15.2	16.1	15.4	17.8	19.4	16.9	5%	-13%
EBITDA	1.8	2.4	1.2	2.2	2.2	1.5	2.4	2.5	2.1	-7%	-17%
EBIT	1.2	1.7	0.5	1.5	1.6	0.9	1.9	2.0	1.6	-3%	-21%
Net profit	1.0	20.7	1.3	1.4	1.5	0.8	9.4	1.2	1.1	-25%	-8%
P/E 12M trailing	22.4	3.8	3.8	3.7	3.7	18.3	6.9	7.0	7.3		
EV/EBITDA 12M trailing	8.2	5.3	9.4	11.1	10.9	12.4	8.2	8.7	8.9		
revenues growth y/y	-63%	-54%	-51%	-58%	37%	17%	33%	28%	5%		
EBITDA margin	15.3%	18.2%	9.1%	14.5%	13.9%	9.5%	13.8%	12.9%	12.4%		
EBIT margin	10.0%	13.0%	4.1%	10.0%	10.0%	5.9%	10.7%	10.2%	9.3%		
Net profit margin	8.4%	156.4%	9.9%	9.2%	9.2%	5.2%	53.1%	6.2%	6.6%		

1Q24 Earnings

24.05.2024

FACT SHEET	RECOMMENDATIONS	Date	Valuation	
Ticker	FAB	Hold	11.12.2023	38
Sector	TMT	Hold	23.10.2023	37
Price (PLN)	37.1	Hold	24.07.2023	37
52W range (PLN)	30.7 / 39.9	Hold	05.06.2023	38
Shares outstanding (m)	2.5	Hold	24.04.2023	35
Market Cap (PLNm)	91	Buy	12.12.2022	30
S&P Global ESG Scores	-	Buy	24.10.2022	31
3M Avg. Vol. (PLNm)	0.04	Buy	21.07.2022	36
Price perf.	1M 4.8%	3M 3.9%	1Y 10.7%	

Hold

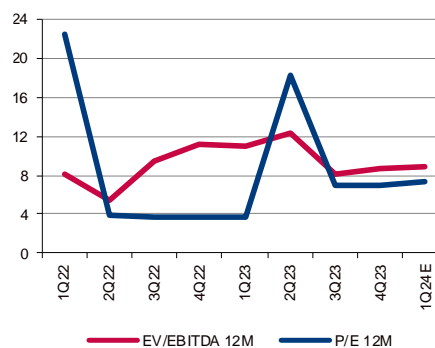
(Previous: Hold, 38 PLN)

Target Price: 39 PLN

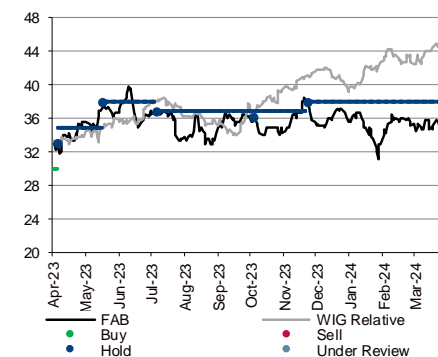
Current Price: 37.1 PLN

Upside: 5%

P/E 12M vs EV/EBITDA 12M



FAB RELATIVE SHARE PRICE vs WIG



PLNm	2021	2022	2023	2024E	2025E	2026E
Revenues	41	53.4	68.7	78.8	90.5	99.4
EBITDA	7	7.6	8.7	10.0	11.8	12.9
EBIT	5	5.0	6.4	7.5	9.0	9.8
Net profit	4	25.1	13.0	4.9	5.4	6.5
EPS (PLN)	1.62	10.2	5.3	2.0	2.2	2.6
DPS (PLN)	1.1	7.9	4.0	6.0	2.0	2.2
P/E (x)	23.0	3.7	7.1	18.7	16.8	14.1
EV/EBITDA (x)	11.1	11.1	8.7	8.5	7.0	6.2
P/BV (x)	3.0	2.7	2.5	3.4	3.3	3.2
DY (%)	2.8%	21.3%	10.8%	16.2%	5.4%	5.9%

Quarterly update 1Q'24

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Valuation / Weight	Current		Previous		Change	
DCF	39.2	100%	37.8	100%		4%
Multiples	40.4	0%	41.0	0%		-1%
Valuation SOTP						

PLNm	2024E			2025E			2026E		
	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.
Revenues	78.8	78.7	0%	90.5	91.1	-1%	99.4	-	-
EBITDA	10.0	9.8	2%	11.8	11.7	1%	12.9	-	-
EBIT	7.5	7.3	2%	9.0	9.0	1%	9.8	-	-
Net profit	4.9	5.1	-3%	5.4	5.8	-6%	6.5	-	-
P/E (x)	18.7	18.1		16.7	15.8		14.1	-	-
EV/EBITDA (x)	8.5	8.7		7.0	7.1		6.2	-	-
P/BV (x)	3.4			3.3			3.2		
DY (%)	16.2%			5.4%			5.9%		

Multiples	2022	2023	2024E	2025E	2026E
P/E (x)	3.7	7.1	18.7	16.8	14.1
adj. P/E (x)	16.3	16.7	18.7	16.7	14.1
P/BV (x)	2.7	2.5	3.4	3.3	3.2

EV/EBITDA (x)	11.1	8.7	8.5	7.0	6.2
adj. EV/EBITDA (x)	13.7	10.6	10.1	8.2	7.2
EV/Sales (x)	1.6	1.1	1.1	0.9	0.8

FCFF Yield (%)	-1.6%	3.1%	4.4%	6.9%	9.0%
DY (%)	21.3%	10.8%	16.2%	5.4%	5.9%

KPIs	2022	2023	2024E	2025E	2026E
EPS (PLN)	10.2	5.3	2.0	2.2	2.6
adj. EPS (PLN)	2.3	2.2	2.0	2.2	2.6
DPS (PLN)	7.9	4.0	6.0	2.0	2.2
BVPS (PLN)	13.7	15.0	11.0	11.2	11.7

Operational ratios	2022	2023	2024E	2025E	2026E
marża ZBnS (%)	18.1%	17.3%	17.7%	18.1%	18.1%
adj. EBITDA margin (%)	11.5%	10.3%	10.7%	11.2%	11.1%
EBIT margin (%)	9.3%	9.3%	9.5%	10.0%	9.9%
Net profit adj. margin (%)	46.9%	18.8%	6.2%	6.0%	6.5%

ROE (%)	17.9%	15.5%	15.3%	19.9%	23.1%
ROA (%)	41.6%	22.3%	9.7%	11.9%	13.9%
CAPEX/Sales (%)	5.1%	1.7%	1.8%	1.9%	2.0%
CAPEX/D&A (x)	1.0	0.5	0.6	0.6	0.6
Net debt/Equity (x)	-0.4	-0.6	-0.5	-0.5	-0.6
Net debt/EBITDA (x)	-1.8	-2.6	-1.2	-1.3	-1.4

Cash conversion cycle (days)	99	75	78	74	70
Inventory turnover (days)	0	0	0	0	0
Receivables turnover (days)	144	103	106	102	99
Payables turnover (days)	45	27	29	28	29

Income Statement (PLNm)	2021	2022	2023	2024E	2025E	2026E
Revenues	40.7	53.4	68.7	78.8	90.5	99.4
COGS	-33.3	-43.8	-56.9	-64.8	-74.1	-81.4
Gross Profit	7.5	9.6	11.9	13.9	16.4	17.9
Selling costs	0.0	0.0	0.0	0.0	0.0	0.0
G&A costs	-2.5	-4.7	-5.8	-6.6	-7.6	-8.3
Profit on sales	4.9	5.0	6.1	7.3	8.8	9.6
Other operating items, net	0.0	0.0	0.3	0.2	0.2	0.2
EBITDA	7.4	7.6	8.7	10.0	11.8	12.9
adj. EBITDA	9.2	6.2	7.1	8.5	10.1	11.1
D&A	-6.6	-2.6	-2.2	-2.5	-2.8	-3.1
EBIT	5.0	5.0	6.4	7.5	9.0	9.8
Net financial costs	-0.3	22.1	9.2	0.3	-0.1	0.1
EBT	4.6	27.1	15.6	7.8	8.9	10.0
Income tax	-1.0	-3.0	-3.0	-1.5	-1.7	-1.9
Minority interest	0.7	0.8	1.1	1.5	1.8	1.6
Net profit	3.7	25.1	13.0	4.9	5.4	6.5
adj. net profit	3.7	5.6	5.5	4.9	5.4	6.5

Balance Sheet (PLNm)	2021	2022	2023	2024E	2025E	2026E
Non-current Assets	8.7	9.3	6.2	5.6	3.6	1.5
Current Assets	51.0	51.6	49.3	39.7	42.8	45.8
Inventories	0.0	0.0	0.0	0.0	0.0	0.0
Receivables	25.2	17.0	21.6	24.3	26.4	27.5
Cash and cash equivalents	10.1	17.8	25.1	12.9	13.8	15.8
Assets	59.6	60.9	55.5	45.3	46.4	47.4
Equity	28.6	33.8	36.9	27.1	27.6	28.7
Minority Interests	3.2	3.9	5.0	5.9	6.9	7.6
Non-current Liabilities	2.7	3.8	2.9	1.4	-0.1	-1.6
Long-term borrowings	1.0	2.8	1.6	0.1	-1.4	-2.9
Current Liabilities	25.0	19.4	10.7	10.9	11.9	12.6
Short-term borrowings	5.3	1.6	0.9	0.3	0.3	0.3
Payables	8.6	4.6	5.7	6.6	7.6	8.3
Equity and Liabilities	59.6	60.9	55.5	45.3	46.4	47.4
	-4	-13	-23	-12	-15	-18

Cash Flow Statement (PLNm)	2021	2022	2023	2024E	2025E	2026E
Cash flow from operating activities	9.5	5.4	5.2	6.7	9.0	10.7
Changes in working capital	-2.4	-6.3	-4.8	-1.8	-1.1	-0.3
D&A	6.6	4.8	2.2	2.5	2.8	3.1
Cash flow from investing activities	-2.9	28.5	13.8	-3.4	-1.7	-2.0
CAPEX	-3.1	-2.7	-1.2	-1.4	-1.7	-2.0
Cash flow from financing activities	-6.0	-24.8	-11.6	-15.6	-6.3	-6.7
Dividend/Buy-back	-2.4	-19.5	-9.8	-14.8	-4.9	-5.4
Net change in cash	0.6	9.1	7.3	-12.2	1.0	1.9
Cash opening balance	9.6	10.1	17.8	25.1	12.9	13.8
Cash closing balance	10.1	17.8	25.1	12.9	13.8	15.8

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FAB: DCF valuation

	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	TV
Sales	78.8	90.5	99.4	109.1	115.6	121.9	128.0	133.2	137.1	
EBITDA	10.0	11.8	12.9	14.1	14.9	15.8	16.5	17.2	17.7	
EBIT	7.5	9.0	9.8	10.7	11.2	11.8	12.4	12.9	13.3	
Tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	
NOPAT	6.1	7.3	8.0	8.7	9.1	9.6	10.1	10.5	10.8	
Amortization	2.5	2.8	3.1	3.4	3.7	3.9	4.1	4.3	4.4	
Capex	-1.4	-1.7	-2.0	-2.3	-2.6	-2.7	-2.9	-3.0	-3.1	
Leased assets capex	-1.6	-1.6	-1.6	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	
Net WC investments	-1.8	-1.1	-0.3	-0.4	0.3	-1.0	-0.9	-0.8	-0.6	
M&A, other adjustments	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCF	1.8	5.7	7.1	7.7	8.9	8.1	8.7	9.3	9.8	10.3
Debt / (Debt + Equity)	0%	0%	0%	0%	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	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 (%)	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.3%
Equity cost (%)	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	12.5%
WACC (%)	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	12.5%

PV FCF sum	39									
FCF growth ratio in TV	3.0%									
Discounted TV	34									
Net debt, other adj.	-12									
Equity value (mln PLN)	86									
Number of shares (mln)	2.5									
1 share value PLN	34.7									
Dividend per share paid out	0.00									
12m TP	39.2									

Source: Trigon DM

		10.5%	11.5%	WACC TV 12.5%	13.5%	14.5%
	2.0%	40.8	39.2	37.9	36.8	35.9
	2.5%	41.8	40.0	38.5	37.4	36.4
g	3.0%	42.9	40.8	39.2	37.9	36.8
	3.5%	44.1	41.8	40.0	38.5	37.4
	4.0%	45.5	42.9	40.8	39.2	37.9

FAB: 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
GRID DYNAMICS HOLDINGS INC	830	13.1	10.5	7.9	32.9	26.8	20.7
EPAM SYSTEMS INC	14,280	16.5	14.3	12.3	26.2	22.3	19.0
Median: IT foreign (weight 50%)		14.9	12.4	10.0	28.3	24.1	19.9
ASSECO POLAND		5.3	4.9	4.4	11.6	10.5	9.7
COMARCH		7.0	6.0	5.3	18.5	15.4	13.5
AILLERON		7.7	5.2	4.5	12.7	7.0	6.0
ASSECO BUSINESS SOLUTIONS		11.9	10.2	9.6	18.1	15.5	14.7
Median: IT domestic (weight 50%)		7.3	5.6	4.9	15.4	12.9	11.6
average weighted		11.1	9.0	7.4	21.8	18.5	15.7
Valuation per share		41	40	36	43	41	42
average weighted for multiples			39			42	
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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Disclaimer

General information

The Document has been prepared by Trigon Dom Maklerski S.A. (the "Brokerage House"), for remuneration, on behalf of Warsaw Stock Exchange S.A. (the "WSE"), based on agreement for the provision of services for the preparation of analytical reports (the "Agreement"), which is supervised by the Polish Financial Supervision Authority. In the first place, the Document is addressed to selected clients of the Brokerage House who use its services in the area of research and recommendations. It may, however, be distributed to a wider public from the date specified therein (by posting it on the Brokerage House website, providing it to entities that may quote it in media, in whole or in parts as they see fit, or otherwise) as a recommendation within the meaning of the Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/124/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC Text with EEA recommendation ("Regulation").

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 – FABRITY HOLDING 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%

Recommendations of the Brokerage House are valid for a period of 12 months from their issuance or until the price target of the financial instrument is achieved.
The Brokerage House may update its recommendations at any time, depending on the prevailing market conditions or the judgement of persons who produced a given recommendation.
Short-term recommendations (particularly those designated as speculative) may be valid for shorter periods of time. Short-term recommendations designated as speculative involve a higher investment risk.
Document prepared by: Dominik Niszcz

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.

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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

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