

## Fabrity Holding

### Good dynamics expected in 2Q, still challenging market conditions

**2Q24 forecast.** The acquired Panda Group (51% stake), consolidated throughout the quarter, will be reflected in the results, with annual revenues of 6-7 million PLN and an operational margin similar to Fabrity's business. We assume an 18% y/y sales growth and a doubling of the operating result. Similar to 1Q24, low-margin revenues from license resale may have a smaller share than last year, significantly impacting the operating margin, while service sales to large clients should weigh more. We assume a 10% EBIT margin (compared to 10% in 1Q24 and 6% in 2Q23), which is pressured by the strong PLN but supported by a very low "bench" level.

**PerfectBot.** The company is working on product development and a client console to speed up the implementation process and is still in the phase of increased investments. In 1Q24, the impact on Fabrity's result was 0.25 million PLN. We believe that the scale of losses may remain at a similar or slightly lower level in 2Q24. In our valuation, we consider PerfectBot's shares at the last financing price (slightly over 3 PLN per Fabrity share), but we see the risk that prolonged losses may result in the need for additional funding.

**Key financial assumptions for the 2024-26 strategy.** We remind you of the key financial assumptions for the 2024-26 strategy presented in June: 1) EBIT margin 10-12.5%, 2) Revenue growth '24-26 CAGR 12-20% (lower end organically, higher likely with acquisitions), 3) Increase in the number of workers from the current approximately 300 to 450-500. Our current forecasts, where we estimate sales growth of +15% in 2025 and +10% in 2026 and an EBIT margin of 10.2% in 2025, are closer to the lower end of the communicated profitability and revenue dynamics range in the strategy, but we do not assume acquisitions.

**Forecasts and valuation.** We update our target price over a 12-month horizon from 39 PLN to 38 PLN. The change is mainly due to the dividend cut (3.25 PLN) partially offset by the assumption that the company will be able to recover the tax from the sale of Oktawave and marketing companies, totalling 4.3 million PLN, which is over 1.7 PLN per share. Additionally, the time factor increases the valuation by approximately 1 PLN per share each quarter. In our forecasts for this year, we assumed that part of the tax related to marketing companies, which Fabrity has already received from the tax office, will increase net profit in 2Q24, and in the second half of the year, the profit will be positively impacted by a similar situation regarding the sale of Oktawave (the dispute with the tax office on this matter is still ongoing). We slightly reduce our revenue and EBITDA forecasts by 3-4% for 2024-26, while the net profit forecast increases to 8.7 million PLN in 2024. We maintain our HOLD recommendation.

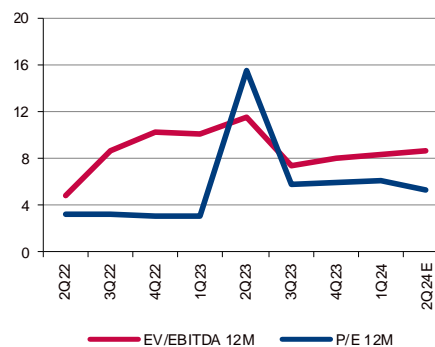
PLNm	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24E	y/y	q/q
Revenues	13.2	13.3	15.2	16.1	15.4	17.8	19.4	18.9	18.2	18%	-4%
EBITDA	2.4	1.2	2.2	2.2	1.5	2.4	2.5	2.4	2.4	66%	3%
EBIT	1.7	0.5	1.5	1.6	0.9	1.9	2.0	1.8	1.8	101%	1%
Net profit	20.7	1.3	1.4	1.5	0.8	9.4	1.2	1.0	2.9	269%	198%
P/E 12M trailing	3.2	3.2	3.2	3.1	15.4	5.9	6.0	6.2	5.3		
EV/EBITDA 12M trailing	4.8	8.6	10.3	10.2	11.5	7.4	8.0	8.4	8.6		
revenues growth y/y	-54%	-51%	-58%	37%	17%	33%	28%	17%	18%		
EBITDA margin	18.2%	9.1%	14.5%	13.9%	9.5%	13.8%	12.9%	12.5%	13.4%		
EBIT margin	13.0%	4.1%	10.0%	10.0%	5.9%	10.7%	10.2%	9.5%	10.0%		
Net profit margin	156.4%	9.9%	9.2%	9.2%	5.2%	53.1%	6.2%	5.2%	16.2%		

2Q24 Earnings

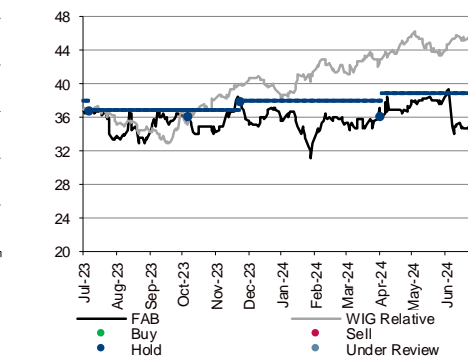
30.08.2024

FACT SHEET		RECOMMENDATIONS		Date	Valuation
Ticker	FAB	Hold		19.04.2024	39
Sector	TMT	Hold		11.12.2023	38
Price (PLN)	34.0	Hold		23.10.2023	37
52W range (PLN)	25 / 39,9	Hold		24.07.2023	37
Shares outstanding (m)	2.3	Hold		05.06.2023	38
Market Cap (PLNm)	77	Hold		24.04.2023	35
S&P Global ESG Scores	---	Buy		12.12.2022	30
3M Avg. Vol. (PLNm)	0.03	Buy		24.10.2022	31
Price perf.	1M 3M 1Y				
	4.9% 5.5% 40.1%				

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	76.1	87.3	95.9
EBITDA	7	7.6	8.7	9.7	11.5	12.5
EBIT	5	5.0	6.4	7.3	8.9	9.7
Net profit	4	25.1	12.9	8.7	5.4	6.4
EPS (PLN)	1.62	10.2	5.3	3.8	2.4	2.8
DPS (PLN)	1.1	7.9	4.0	6.6	2.2	2.5
P/E (x)	21.0	3.3	6.5	9.6	15.6	13.0
EV/EBITDA (x)	10.1	10.3	8.0	7.7	6.3	5.5
P/BV (x)	2.8	2.5	2.3	2.5	2.5	2.4
DY (%)	3.1%	23.2%	11.8%	19.6%	6.5%	7.4%

# Quarterly update 2Q'24

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Valuation / Weight	Current		Previous		Change
DCF	38.3	100%	39.2	100%	-2%
Multiples	40.3	0%	40.4	0%	0%

PLNm	2024E			2025E			2026E		
	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.
Revenues	76.1	78.8	-3%	87.3	90.5	-4%	95.9	99	-4%
EBITDA	9.7	10.0	-4%	11.5	11.8	-3%	12.5	13	-3%
EBIT	7.3	7.5	-3%	8.9	9.0	-1%	9.7	10	-1%
Net profit	8.7	4.9	78%	5.4	5.4	-1%	6.4	6	-1%
P/E (x)	8.8	15.8		14.3	14.1		12.0	11.9	
EV/EBITDA (x)	7.7	6.8		6.3	5.5		5.5	4.8	
P/BV (x)	2.5			2.5			2.4		
DY (%)	19.6%			6.5%			7.4%		

Multiples	2022	2023	2024E	2025E	2026E
P/E (x)	3.3	6.5	9.6	15.6	13.0
adj. P/E (x)	15.0	15.3	17.3	14.3	12.0
P/BV (x)	2.5	2.3	2.5	2.5	2.4
EV/EBITDA (x)	10.3	8.0	7.7	6.3	5.5
adj. EV/EBITDA (x)	12.7	9.7	9.0	7.2	6.3
EV/Sales (x)	1.5	1.0	0.9	0.8	0.7
FCFF Yield (%)	-1.9%	3.7%	11.4%	7.9%	10.8%
DY (%)	23.2%	11.8%	19.6%	6.5%	7.4%

KPIs	2022	2023	2024E	2025E	2026E
EPS (PLN)	10.2	5.3	3.8	2.4	2.8
adj. EPS (PLN)	2.3	2.2	2.0	2.4	2.8
DPS (PLN)	7.9	4.0	6.6	2.2	2.5
BVPS (PLN)	13.7	15.0	13.5	13.7	14.0

Operational ratios	2022	2023	2024E	2025E	2026E
marża ZBnS (%)	18.1%	18.7%	9.6%	10.0%	9.9%
adj. EBITDA margin (%)	11.5%	10.3%	11.0%	11.5%	11.5%
EBIT margin (%)	9.3%	9.3%	9.6%	10.2%	10.1%
Net profit adj. margin (%)	46.9%	18.8%	11.4%	6.2%	6.7%

ROE (%)	17.9%	15.4%	13.2%	17.5%	20.5%
ROA (%)	41.6%	22.2%	16.7%	11.0%	13.0%
CAPEX/Sales (%)	5.1%	1.7%	1.7%	1.8%	2.0%
CAPEX/D&A (x)	1.0	0.5	0.6	0.6	0.7
Net debt/Equity (x)	-0.4	-0.6	-0.5	-0.6	-0.7
Net debt/EBITDA (x)	-1.8	-2.6	-1.7	-1.7	-1.8

Cash conversion cycle (days)	99	75	79	74	69
Inventory turnover (days)	0	0	0	0	0
Receivables turnover (days)	144	103	108	102	99
Payables turnover (days)	45	27	29	28	29

Income Statement (PLNm)	2021	2022	2023	2024E	2025E	2026E
<b>Revenues</b>	<b>40.7</b>	<b>53.4</b>	<b>68.7</b>	<b>76.1</b>	<b>87.3</b>	<b>95.9</b>
COGS	-33.3	-43.8	-55.8	-68.8	-78.6	-86.4
<b>Gross Profit</b>	<b>7.5</b>	<b>9.6</b>	<b>12.9</b>	<b>7.3</b>	<b>8.7</b>	<b>9.5</b>
Selling costs	0.0	0.0	0.0	0.0	0.0	0.0
G&A costs	-2.5	-4.7	-6.3	0.0	0.0	0.0
Profit on sales	4.9	5.0	6.6	7.3	8.7	9.5
Other operating items, net	0.0	0.0	-0.2	0.0	0.2	0.2
<b>EBITDA</b>	<b>7.4</b>	<b>7.6</b>	<b>8.7</b>	<b>9.7</b>	<b>11.5</b>	<b>12.5</b>
adj. EBITDA	9.2	6.2	7.1	8.4	10.0	11.0
D&A	-6.6	-2.6	-2.3	-2.4	-2.5	-2.8
<b>EBIT</b>	<b>5.0</b>	<b>5.0</b>	<b>6.4</b>	<b>7.3</b>	<b>8.9</b>	<b>9.7</b>
Net financial costs	-0.3	22.1	9.2	0.0	-0.1	0.1
<b>EBT</b>	<b>4.6</b>	<b>27.1</b>	<b>15.6</b>	<b>7.3</b>	<b>8.8</b>	<b>9.8</b>
Income tax	-1.0	-3.0	-3.0	2.8	-1.7	-1.9
Minority interest	0.7	0.8	1.1	1.4	1.8	1.5
<b>Net profit</b>	<b>3.7</b>	<b>25.1</b>	<b>12.9</b>	<b>8.7</b>	<b>5.4</b>	<b>6.4</b>
adj. net profit	3.7	5.6	5.5	4.4	5.4	6.4

Balance Sheet (PLNm)	2021	2022	2023	2024E	2025E	2026E
<b>Non-current Assets</b>	<b>8.7</b>	<b>9.3</b>	<b>6.2</b>	<b>5.4</b>	<b>3.3</b>	<b>1.3</b>
<b>Current Assets</b>	<b>51.0</b>	<b>51.6</b>	<b>49.3</b>	<b>43.1</b>	<b>46.1</b>	<b>48.8</b>
Inventories	0.0	0.0	0.0	0.0	0.0	0.0
Receivables	25.2	17.0	21.6	23.4	25.4	26.4
Cash and cash equivalents	10.1	17.8	25.1	17.1	18.1	19.8
<b>Assets</b>	<b>59.6</b>	<b>60.9</b>	<b>55.5</b>	<b>48.5</b>	<b>49.4</b>	<b>50.1</b>
<b>Equity</b>	<b>28.6</b>	<b>33.8</b>	<b>36.9</b>	<b>30.6</b>	<b>31.0</b>	<b>31.7</b>
<b>Minority Interests</b>	<b>3.2</b>	<b>3.9</b>	<b>5.0</b>	<b>5.8</b>	<b>6.9</b>	<b>7.5</b>
<b>Non-current Liabilities</b>	<b>2.7</b>	<b>3.8</b>	<b>2.9</b>	<b>1.4</b>	<b>-0.1</b>	<b>-1.6</b>
Long-term borrowings	1.0	2.8	1.6	0.1	-1.4	-2.9
<b>Current Liabilities</b>	<b>25.0</b>	<b>19.4</b>	<b>10.7</b>	<b>10.7</b>	<b>11.6</b>	<b>12.3</b>
Short-term borrowings	5.3	1.6	0.9	0.3	0.3	0.3
Payables	8.6	4.6	5.7	6.3	7.3	8.0
<b>Equity and Liabilities</b>	<b>59.6</b>	<b>60.9</b>	<b>55.5</b>	<b>48.5</b>	<b>49.4</b>	<b>50.1</b>
<b>Net Debt</b>	<b>-4</b>	<b>-13</b>	<b>-23</b>	<b>-17</b>	<b>-19</b>	<b>-22</b>

Cash Flow Statement (PLNm)	2021	2022	2023	2024E	2025E	2026E
<b>Cash flow from operating activities</b>	<b>9.5</b>	<b>5.4</b>	<b>5.2</b>	<b>10.5</b>	<b>8.2</b>	<b>10.0</b>
Changes in working capital	-2.4	-6.3	-4.8	-1.2	-1.0	-0.3
D&A	6.6	4.8	2.3	2.4	2.5	2.8
<b>Cash flow from investing activities</b>	<b>-2.9</b>	<b>28.5</b>	<b>13.8</b>	<b>-3.3</b>	<b>-1.6</b>	<b>-1.9</b>
CAPEX	-3.1	-2.7	-1.2	-1.3	-1.6	-1.9
<b>Cash flow from financing activities</b>	<b>-6.0</b>	<b>-24.8</b>	<b>-11.6</b>	<b>-15.2</b>	<b>-5.5</b>	<b>-6.4</b>
Dividend/Buy-back	-2.4	-19.5	-9.8	-15.1	-5.0	-5.7
Net change in cash	0.6	9.1	7.3	-8.0	1.0	1.7
Cash opening balance	9.6	10.1	17.8	25.1	17.1	18.1
Cash closing balance	10.1	17.8	25.1	17.1	18.1	19.8

## FAB: DCF valuation

	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	TV
Sales	76.1	87.3	95.9	105.3	111.6	117.2	122.5	127.4	131.2	
EBITDA	9.7	11.5	12.5	13.7	14.5	15.2	15.9	16.5	17.0	
<b>EBIT</b>	<b>7.3</b>	<b>8.9</b>	<b>9.7</b>	<b>10.6</b>	<b>11.1</b>	<b>11.6</b>	<b>12.1</b>	<b>12.6</b>	<b>13.0</b>	
Tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	
<b>NOPAT</b>	<b>5.9</b>	<b>7.2</b>	<b>7.9</b>	<b>8.6</b>	<b>9.0</b>	<b>9.4</b>	<b>9.8</b>	<b>10.2</b>	<b>10.5</b>	
Amortization	2.4	2.5	2.8	3.1	3.4	3.6	3.8	3.9	4.0	
Capex	-1.3	-1.6	-1.9	-2.2	-2.5	-2.6	-2.7	-2.8	-2.9	
Leased assets capex	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	
Net WC investments	-1.2	-1.0	-0.3	-0.3	0.4	-0.7	-0.6	-0.6	-0.5	
M&A, other adjustments	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>FCF</b>	<b>6.7</b>	<b>5.8</b>	<b>7.1</b>	<b>7.7</b>	<b>8.8</b>	<b>8.2</b>	<b>8.7</b>	<b>9.2</b>	<b>9.7</b>	<b>10.1</b>
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%
<b>WACC (%)</b>	<b>13.0%</b>	<b>13.0%</b>	<b>13.0%</b>	<b>13.0%</b>	<b>13.0%</b>	<b>13.0%</b>	<b>13.0%</b>	<b>13.0%</b>	<b>13.0%</b>	<b>12.5%</b>

		10.5%	11.5%	WACC TV	12.5%	13.5%	14.5%
PV FCF sum	45						
FCF growth ratio in TV	3.0%						
Discounted TV	35						
Net debt, other adj.	-11	2.0%	39.9	38.3	37.0	35.9	34.9
Equity value (mln PLN)	91	2.5%	40.9	39.0	37.6	36.4	35.4
Number of shares (mln)	2.5	<b>g</b> 3.0%	42.0	39.9	<b>38.3</b>	37.0	35.9
1 share value PLN	36.8	3.5%	43.2	40.9	39.0	37.6	36.4
Dividend per share paid out	3.25	4.0%	44.7	42.0	39.9	38.3	37.0
<b>12m TP</b>	<b>38.3</b>						

Source: Trigon DM

## FAB: Peer group valuation

Company	MC [m EUR]	EV/EBITDA			P/E		
		2024E	2025E	2026E	2024E	2025E	2026E
GLOBANT SA	7,075	15.6	13.8	11.4	27.7	23.4	19.6
ENDAVA PLC- SPON ADR	1,605	12.0	9.4	6.5	20.7	18.0	12.2
GRID DYNAMICS HOLDINGS INC	746	11.8	9.4	7.0	31.9	25.6	19.3
EPAM SYSTEMS INC	9,963	11.1	10.2	9.0	18.4	16.9	14.8
<b>Median: IT foreign (weight 50%)</b>		<b>11.9</b>	<b>9.8</b>	<b>8.0</b>	<b>24.2</b>	<b>20.7</b>	<b>17.0</b>
ASSECO POLAND		5.7	5.1	4.7	11.8	10.6	9.7
COMARCH		7.5	6.1	5.3	20.2	15.8	13.9
AILLERON		7.2	5.6	4.8	10.3	7.6	6.5
ASSECO BUSINESS SOLUTIONS		11.5	9.8	8.9	17.5	14.8	13.7
<b>Median: IT domestic (weight 50%)</b>		<b>7.4</b>	<b>5.9</b>	<b>5.1</b>	<b>14.6</b>	<b>12.7</b>	<b>11.7</b>
<b>average weighted</b>		<b>9.6</b>	<b>7.8</b>	<b>6.5</b>	<b>19.4</b>	<b>16.7</b>	<b>14.4</b>
<b>Valuation per share</b>		<b>43</b>	<b>42</b>	<b>39</b>	<b>38</b>	<b>40</b>	<b>41</b>
<b>average weighted for multiples</b>			<b>41</b>			<b>40</b>	
<b>average weighted valuation</b>			<b>40</b>				

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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### 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 15%  
 HOLD – we expect the price of an investment to be largely stable, with potential upside of up to 15%  
 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.

This Document was not disclosed to the issuer and subsequently amended. This Document has remained unchanged since the day it was completed and first disseminated.

The Research Team, which produces recommendations, relies exclusively on verified sources, publicly available as part of commercial knowledge bases and databases (periodic reports of issuers, Bloomberg, Reuters, Statistics Poland), as well as in-house analyses.

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