

Research

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Ailleron

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Buy

Strong quarter in SM, cash for further acquisitions

We are updating our model after the quarterly results and slightly raising the target price from 26 PLN to 27 PLN. The first quarter of consolidating the American company Prosoft LLC confirms the effectiveness of the M&A strategy, which in recent years has supported the scale of business growth. Software Mind's revenues increased from 153 million PLN in 2021 to 391 million PLN in 2023, and we expect 560 million PLN in 2025, maintaining an above-average operating margin at mid-teen levels.

2Q24 Results: Revenues grew by 23% year-on-year, EBIT by 104%, and net profit tripled year-on-year. For the first time, Prosoft LLC's results were consolidated, contributing 29.3 million PLN to revenues and 4.5 million PLN to EBITDA.

Forecasts. We have not significantly changed our forecasts. A weak quarter in FinTech led us to lower profitability assumptions for this segment, but on the other hand, Software Mind positively surprised us, where a margin of 16.6% implies that the group's contract portfolio is very profitable. This is the second consecutive quarter with an elevated margin after a weaker second half of last year. However, we remind that further strengthening of the PLN against the USD in 2H24 may negatively affect profitability. We have assumed an average EBIT margin in Software Mind for the second half of 15%. In 2025-26, we expect operating profit in SM to grow by 17% (including +10% organically) and 11%, respectively, with revenue growth of 20% and 10%. In FinTech, we assume a return to positive profitability next year, with EBIT at 4 million PLN in 2025 and 6 million PLN in 2026 (margin of 4% and 6%). Recent results in this area do not indicate the possibility of quickly approaching Software Mind's margins, which the company aims to achieve in this segment.

Valuation. Our target price of 27 PLN (previously 26 PLN) is based on a DCF model. The comparative valuation to a group of foreign entities gives a value of 45 PLN per share (18% higher than in July), including 37 PLN based on the P/E ratio. The rise in stock prices of selected companies from the bottom at the beginning of summer, coupled with further lowering of consensus by the sell-side, led to an increase in the international software house multiples, especially for 2025-26. However, the foreign companies in our peer group are significantly larger than Ailleron, which is why we only use the DCF method for determining the target price. Based on our forecasts for 2025-26, the company is valued at P/E of 9.4x and 7.9x, and at the target price of 27 PLN, P/E is 12.7x and 10.6x, respectively. Given the return to double-digit earnings growth and the company's significant exposure to U.S. clients, we do not believe these values would be excessive.

2Q24 Results Conference Summary:

- Total acquisition cost of Prosoft included in 1H24 amounted to 3.0 million PLN.
- Settlement with Pekao had a positive impact on FinTech revenues in 1H24 of 4.8 million PLN and a positive impact (almost 3 million PLN) on the segment's operating result.
- Number8's results are seasonally similar across the quarters of the year.
- Retention bonus for a selected group from Prosoft appeared in liabilities on the balance sheet for a two-year period (around 5 million PLN in financial liabilities), with costs related to this program amounting to around 700,000 PLN in 2Q24.
- Clients are increasing their budgets for the next year. Growth this year is only symbolic but should be noticeable in 2025.
- There are so many employees available in the market that there is no need to maintain a long 'bench.' Employees can be recruited relatively quickly for new projects.

PLNm	2021	2022	2023	2024E	2025E	2026E
Revenues	212	410	467	552	656	719
EBITDA	36	61	50	86	106	118
EBIT	27	48	36	70	85	97
Net profit	7	13	4	20	26	32
EPS (PLN)	0.60	1.07	0.29	1.64	2.13	2.56
P/E (x)	33.6	18.8	69.7	12.3	9.4	7.9
EV/EBITDA (x)	13.7	9.4	12.4	7.9	6.3	5.4
P/BV (x)	1.9	3.7	3.0	2.4	2.0	1.7
DY (%)	1.6%	1.6%	5.0%	0.0%	2.5%	2.5%

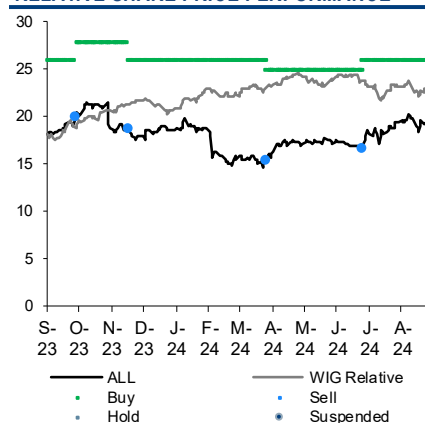
Source: Company, Trigon DM

 TP: 27 PLN
 Upside: +34%

FACT SHEET

Ticker	ALL		
Sector	IT		
Price (PLN)	20.1		
52wk Range (PLN)	14 / 21.5		
Number of shares (m)	12.4		
Market Cap (mPLN)	248		
Free-float	40%		
Avg Vol 3M (mPLN)	0.1		
Price performance	1M	3M	1Y
	-1.1%	12.1%	-14.3%

RELATIVE SHARE PRICE PERFORMANCE



RECOMMENDATIONS

RECOMMENDATIONS	DATE	TP
Buy	19.07.2024	26
Buy	19.04.2024	25
Buy	11.12.2023	26
Buy	23.10.2023	28
Buy	30.08.2023	26

SHAREHOLDERS

SHAREHOLDERS	Stake %
Rafał Styczeń	23.9%
Dariusz Orłowski	23.3%
Esaliens TFI	7.3%
Grzegorz Młynarczyk	5.7%

INVESTOR CALENDAR

3Q'24 Earnings	27.11.2024
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ANALYST

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DCF valuation

DCF Valuation Assumptions:

- 1) Risk-free rate: Set at 5.50% during the detailed forecast period, based on 10-year bonds, and 5.0% in terminal value (TV);
- 2) Market premium: 6.5%, following the methodology for smaller companies listed on the SWIG80 index;
- 3) Unlevered beta: 1.0x, with a residual growth rate of 2.5%, which is 2.5 percentage points lower than the risk-free rate in TV;
- 4) Incentive program: Included in cash flows within the DCF model.

ALL: DCF valuation

	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	TV
Sales	552.4	655.7	719.2	774.5	819.3	857.9	883.6	910.2	937.5	
EBITDA	86.5	105.6	117.7	124.8	131.2	136.7	140.8	145.0	149.4	
EBIT	69.7	85.4	97.0	103.3	108.7	113.2	116.6	120.1	123.7	
Tax rate	17%	19%	19%	19%	19%	19%	19%	20%	20%	
NOPAT	57.7	69.1	78.6	83.7	88.0	91.7	94.0	96.6	99.2	
Amortization	16.8	20.2	20.7	21.5	22.5	23.5	24.2	24.9	25.7	
Capex	-7.0	-11.7	-13.6	-15.2	-16.1	-17.1	-17.6	-18.1	-18.6	
Leased assets capex	-8.8	-8.9	-9.0	-9.2	-9.4	-9.6	-9.9	-10.2	-10.5	
Net WC investments	-5.3	-9.5	-6.9	-6.0	-4.9	-4.2	-4.3	-4.4	-4.4	
M&A, other adjustments	-167.0	-16.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCF	-113.6	42.6	69.7	74.7	80.2	84.4	86.5	88.9	91.3	94.9
Debt / (Debt + Equity)	41%	33%	17%	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	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	1.57	1.39	1.17	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Debt cost to tax (%)	5.8%	5.7%	5.7%	5.7%	5.7%	5.7%	5.6%	5.6%	5.6%	5.2%
Equity cost (%)	15.7%	14.5%	13.1%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	11.5%
WACC (%)	11.7%	11.7%	11.8%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	11.5%
PV FCF sum	247									
FCF growth ratio in TV	2.5%									
Discounted TV	409									
Net debt, other adj.	361									
Equity value (mln PLN)*	296									
Dividend paid out	0.0									
Number of shares (mln)	12.4									
1 share value (PLN)	23.92									
12m TP	26.7									

		WACC		TV	TV	
		9.5%	10.5%	11.5%	12.5%	13.5%
		28.6	26.5	24.9	23.5	22.3
		30.0	27.6	25.7	24.2	23.0
g	2.5%	31.5	28.8	26.7	25.0	23.6
	3.0%	33.3	30.2	27.8	25.9	24.4
	3.5%	35.4	31.8	29.0	26.9	25.2

Source: Trigon DM

Peer group valuation

ALL: Peer group valuation

Company	MC [m EUR]	EV/EBITDA			P/E		
		2024E	2025E	2026E	2024E	2025E	2026E
GLOBANT SA	7,488	17.7	15.4	13.0	30.0	25.9	21.4
ENDAVA PLC- SPON ADR	1,527	11.0	8.9	6.8	19.6	17.7	11.9
EPAM SYSTEMS INC	10,262	12.1	11.6	10.4	19.5	18.1	16.0
GRID DYNAMICS HOLDINGS INC	953	17.2	13.7	10.9	43.6	33.5	28.2
THOUGHTWORKS HOLDING INC	1,276	24.2	14.1	10.9	121.9	26.8	18.4
CAPGEMINI SE	33,184	10.6	10.0	9.3	16.3	15.3	14.1
COGNIZANT TECH SOLUTIONS-A	33,977	10.4	9.6	8.9	16.5	15.4	14.2
PERFICIENT INC	2,387	16.3	14.9	15.0	19.9	18.3	17.3
KAINOS GROUP PLC	1,310	12.6	13.0	11.4	19.6	18.9	16.9
NAGARRO SE	1,025	8.7	7.9	6.4	15.9	13.9	10.6
INNOFACTOR OYJ	61	8.5	7.2	6.4	16.0	12.9	10.5
IT LINK SA	44	6.0	5.4	5.1	10.4	9.3	8.6
Median: foreign peers		11.5	10.8	9.9	19.6	17.9	15.1
AILLERON		7.9	6.3	5.4	11.5	9.4	7.9
Valuation per share		45.3	57.0	58.6	34.1	38.2	38.6
Average valuation for multipliers			53.6			37.0	
			average valuation	45.3			

Source: Bloomberg, Trigon DM

Risk factors

- 1) Risk of increased competition in the software house market.
- 2) Risk of losing clients.
- 3) Risk of losing key employees.
- 4) Risk of unsuccessful acquisitions
- 5) Risk of clients failing to meet payment deadlines.
- 6) Risk of claims from Pekao in relation to contract termination.
- 7) Currency risk (especially the strengthening of the PLN against USD and EUR).

Income statement

	2021	2022	2023	2024E	2025E	2026E
Revenues	212	410	467	552	656	719
Revenues FinTech	56	64	74	83	93	100
Revenues Software Mind	153	344	391	467	560	616
Revenues other	7	5	3	3	3	3
EBIT FinTech	3	-1	-7	-1	4	6
EBIT Software Mind	25	56	49	71	83	92
EBIT other	0	-2	0	0	0	0
EBITDA	36	61	50	86	106	118
adj. EBITDA	36	61	50	86	106	118
D&A	-8	-13	-14	-17	-20	-21
EBIT	27	48	36	70	85	97
Net financial costs	0	0	-4	-10	-12	-11
EBT	26	48	32	60	73	86
Income tax	-9	-9	-11	-10	-14	-16
Minority interest	-10	-25	-17	-29	-33	-38
Net profit	7	13	4	20	26	32
adj. Net profit	7	18	16	22	26	32

EBITDA margin (%)	16.8%	14.9%	10.7%	15.7%	16.1%	16.4%
adj. EBITDA margin (%)	16.8%	14.9%	10.7%	15.7%	16.1%	16.4%
EBIT margin (%)	12.9%	11.7%	7.6%	12.6%	13.0%	13.5%
adj. Net profit margin (%)	3.5%	4.3%	3.4%	3.9%	4.0%	4.4%

change in revenue y/y	36%	93%	14%	18%	19%	10%
change in gross profit y/y	47%	64%	-7%	37%	21%	12%
change in adj. EBITDA y/y	50%	71%	-18%	73%	22%	11%
change in EBIT y/y	76%	76%	-26%	95%	23%	14%
change in adj. net profit y/y	-22%	139%	-10%	35%	22%	20%

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24
Revenues	111	116	114	126	107	143
Revenues FinTech	15	15	20	24	16	17
Revenues Software Mind	95	100	94	101	90	126
Revenues other	1	1	0	1	1	1
EBIT FinTech	-1	-3	-1	-2	-3	-1
EBIT Software Mind	13	15	12	9	13	21
EBIT other	0	-3	-3	-1	0	0
EBITDA	16	14	11	10	14	24
adj. EBITDA	16	14	11	10	14	24
D&A	-4	-4	-3	-4	-4	-4
EBIT	12	10	8	6	10	20
Net financial costs	-1	0	-8	5	0	-2
EBT	11	9	0	11	10	18
Income tax	-3	-2	-2	-4	-3	-1
Minority interest	-5	-5	-2	-4	-6	-9
Net profit	3	2	-4	3	2	8
adj. Net profit	3	7	2	5	3	8

EBITDA adj. margin	14.1%	11.8%	9.3%	8.0%	13.0%	16.9%
EBIT margin	10.8%	8.5%	6.9%	4.8%	9.6%	14.0%
net profit adj. margin	2.6%	5.8%	1.7%	3.6%	2.5%	5.6%

change in revenue y/y	44%	14%	2%	2%	-3%	23%
change in adj. EBITDA y/y	28%	34%	-43%	-49%	-11%	77%
change in EBIT y/y	27%	40%	-49%	-63%	-14%	104%
change in adj. Net profit y/y	232%	226%	-69%	-47%	-4%	19%

Źródło: Spółka, Trigon DM

Balance Sheet (PLNm)

	2021	2022	2023	2024E	2025E	2026E
Non-current Assets	98	210	226	392	409	411
PPE	23	28	43	51	51	52
Intangibles	18	29	35	41	41	42
Goodwill	55	150	145	297	314	314
Trade and other receivables	0	0	0	0	0	0
Investments	0	0	0	0	0	0
Other	2	3	3	3	3	3
Current Assets	181	209	209	180	225	292
Inventories	1	1	1	1	1	1
Receivables	63	99	82	97	115	126
Cash and cash equivalents	111	89	113	68	95	151
Other	5	21	14	14	14	14
Assets	279	419	436	572	634	703
Equity	133	67	84	104	125	150
Issued capital	42	42	42	42	42	42
Other	83	12	38	42	56	76
Net profit	7	13	4	20	26	32
Minority Interests	82	115	125	155	188	226
Non-current Liabilities	19	159	134	211	211	212
Long-term borrowings	18	84	87	164	164	165
Other	1	76	48	48	48	48
Current Liabilities	45	77	92	102	110	115
Short-term borrowings	5	15	33	33	33	33
Payables	19	33	26	36	44	49
Other	21	29	33	33	33	33
Equity and Liabilities	279	419	436	572	634	703
Net working capital	45	66	56	62	71	78
Net debt	-89	9	6	128	101	47
adj. Net debt	-52	7	20	81	66	35
Net debt/EBITDA (x)	-2.5	0.1	0.1	1.5	1.0	0.4
Net debt/Equity (x)	-0.7	0.1	0.1	1.2	0.8	0.3
ROE (%)	6%	18%	21%	23%	23%	23%
ROA (%)	3%	5%	4%	4%	4%	5%
Cash conversion cycle (days)	137	103	100	86	89	93
Inventory turnover (days)	-8	-1	-1	-1	-1	-1
Receivables turnover (days)	101	72	70	59	59	61
Payables turnover (days)	-44	-32	-30	-28	-30	-32

Cash Flow Statement (PLNm)

	2021	2022	2023	2024E	2025E	2026E
Cash flow from operating activities	26	46	55	61	70	83
Pre-tax profit	7	13	4	20	26	32
D&A	8	13	14	17	20	21
Changes in working capital	1	-21	10	-5	-10	-7
Change in inventories	4	0	0	0	0	0
Change in receivables	-8	-36	17	-15	-18	-11
Change in payables	4	14	-7	10	9	4
Other	9	41	27	29	33	38
Cash flow from investing activities	-28	-127	-20	-174	-28	-14
CAPEX	-12	-27	-12	-7	-12	-14
Other	-16	-100	-8	-167	-17	0
Cash flow from financing activities	90	59	-12	68	-15	-14
Net borrowings	97	69	15	77	0	1
Share issuance	0	0	0	0	0	0
Dividend/Buy-back	-4	-4	-12	0	-6	-6
Other	-4	-6	-14	-9	-9	-9
Net change in cash	88	-22	24	-45	27	56
Cash opening balance	24	111	89	113	68	95
Cash closing balance	111	89	113	68	95	151

Source: Company, Trigon DM

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2023

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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

RF – 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 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%

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.

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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.

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 method

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

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