Ailleron – 2022 year of dynamic development

Record 2022 results, creating a high comparative base, along with signals from the company regarding operations, cause us to revise our valuation and forecast 13% revenue growth for 2023, with a return to faster growth expected from '24 with the impact of the announced acquisition. We are positive about the parent's plan to improve profitability to Software Mind (SM). As a result, we value the company in a 24-month horizon at PLN 30.0/share, which gives 28% upside potential.

Record-breaking 2022 results

The main influence on the results achieved in 2022 was the significant improvement in the dominant Technology Services segment. Performance at the consolidated level should also be evaluated very well. Revenues were 4% above our forecasts, EBIT and EBITDA also exceeded expectations. Net profit amounted to PLN 38.5 million vs. PLN 30.1 million forecast by us. The reported net profit of CU amounted to PLN 13.2 million, despite the burden of costs related to M&A processes (PLN 2.3 million) and the write-down of the Robowealth and Chatbot project's CCI (PLN 1.95 million), and was 28% above our forecast. The strong liquidity position is noteworthy, with nearly PLN 16 million of net cash in the group despite completed acquisitions for nearly PLN 130 million.

Software Mind assumes at least one acquisition in '23

Software Mind has about PLN 70 million in cash, which, together with the loan, gives it the potential to continue its growth through acquisitions. According to the company's declarations, it is in the analysis process and wants to make at least one acquisition this year. The group is interested in entities employing 100-500 specialists, located close to target customers, i.e. primarily in the US, Germany and the UK.

Parent company focused on Financial Technology Services (FTS)

Ailleron intends to focus on improving profitability this year as part of the implementation of its FTS strategy until 2026, which involves increasing the scale of its business by focusing on software development services supported by the company's off-the-shelf platforms and components for financial institutions while reducing investments in its own products. The company assumes a significant increase in the scale of FinTech business in the time&material billing model, avoiding the fixed price model. The strategy also aims to improve Ailleron's profitability to the level achieved by Software Mind (18.6% EBITDA profitability in '22) and generate significant cash.

HotelTech's MBO process completed

According to the promise agreement, the transfer of ownership of HotelTech's OCP took place on January 1, 2023 (in 2022, the negative EBIT contribution was about PLN 2 million). The buyer is a company controlled by a key member of HotelTech's staff, and the transaction represents a kind of management buyout. Ailleron was left with intangible assets related to the rights to use the iLumio software, for which a monthly fee is to be paid to Ailleron for 10 years.

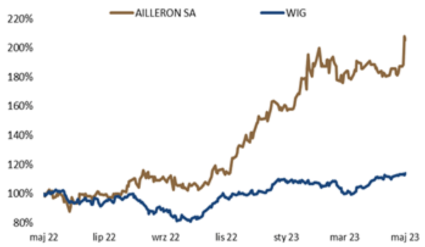
Our 24-month price target (PT) for Ailleron SA is based on both peer multiples and a DCF (equal weighted) resulting in a PT of PLN 30.0/share.

PLNm	2021	2022	2023P	2024P	2025P
Revenues	217	410	462	578	637
EBITDA	36	64	62	75	82
Net profit	7	14	13	18	21
EPS	0,57	1,05	1,02	1,39	1,61
DPS	0,3	0,3	0,3	1,4	1,4
P/E (x)	19,9	15,2	22,1	16,5	14,5
EV/EBITDA (x)	4,0	5,3	9,0	7,7	7,2

Source: ALL, Noble Securities, F - forecasts Noble Securities

NOBLE SECURITIES DOM MAKLERSKI

Current price	23,4 zł
Valuation	**30,0 zł**
Upside/downside	+28%
Market cap.	289 mln zł
Free float	39,6%
Avg. Vol. 6M	20 730



Źródło: Serwis informacyjny Bloomberg, Noble Securities

PROFIL SPÓŁKI

The activities of the Ailleron group focus on providing specialized products for the financial, telecommunications and hospitality industries. The group's offer includes interactive finance (LiveBank), use of multimedia during leisure time and mobile entertainment. The group is also engaged in outsourcing of IT services provided both domestically and to international clients.

STRUKTURA AKCJONARIATU

IFF SA i podm. powiązane	23,64%
Dariusz Orłowski i pow.	23,33%
ESALIENS TFI	7,75%
Grzegorz Młynarczyk	5,67%
Pozostali	39,61%

Źródło: Spółka, Stooq.pl,

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VALUATION

We use two methods to value Ailleron 1) DCF and 2) Peers multiples valuation (both equally weighted). Our 24-month price target (PT) for Ailleron equals PLN 30.0 / share. Please note that in the calculation we take into account the Management Option Programme adopted by the EGM on 24 September 2021 in its entirety, i.e. we assume the issue of 821,076 new shares.

In table below we present valuation summary:

Valuation summary	Weight (x)	Per share (PLN)	Previously	Change%
DCF	0,50	22,1	11,1	99%
Peers	0,50	24,7	15,4	61%
Średnia ważona metod		23,4	13,3	76%
Target price (24M)		**30,0**	**17,5**	72%
Current price		23,4	12	95%
Upside/downside		28%	46%	

Source: Noble Securities

DCF VALUATION

Assumptions:

- Value of cash flows discounted as of the beginning of May 2023 (previously beginning of October 2022),
- Net debt (MSR17) level as of December 31, 2022 of -14 million (previously -87 million),
- Long-term growth rate after the forecast period equal to 1.0% (no change),
- Effective tax rate at 26,4% (previously 28%),
- Risk-free rate at 5.90% (previously 7.73%), Risk premium at 7.40% (previously 7.19%), Net debt / EV 10% (unchanged), Cost of debt 7.5% (unchanged), Beta at 1.0 (unchanged).

DCF AND SENSITIVITY ANALYSIS

DCF	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P	2031P	2032P
Revenues	461,7	578,1	637,3	701,3	770,4	844,9	925,0	1 011,0	1 103,0	1 201,4
NOPAT	35,7	45,6	50,1	55,0	60,4	66,1	72,3	78,9	86,4	127,8
Depreciation and amortization	13,3	13,4	13,5	13,5	13,6	13,7	13,7	13,8	13,9	13,0
Change in WC	-13,9	-23,6	-8,1	-8,5	-9,0	-9,4	-9,8	-10,2	-10,5	-10,8
CAPEX	-138,2	-9,6	-10,0	-10,5	-11,1	-11,7	-12,3	-13,1	-14,0	-13,0
FCFF	-103,1	25,8	45,4	49,5	54,0	58,8	63,9	69,5	75,8	116,9
WACC	**12,5%**	**12,5%**	**12,5%**	**12,5%**	**12,5%**	**12,5%**	**12,5%**	**12,5%**	**12,5%**	**12,5%**
Discount factor	0,93	0,83	0,73	0,65	0,58	0,52	0,46	0,41	0,36	0,32
DFCFF	-95,8	21,3	33,3	32,3	31,3	30,3	29,3	28,3	27,4	37,6

Sum of DFCFF to 2030	175
Growth rate (g)	1,0%
Residual value 2030	1 025
Discounted Residual value	329
Enterprise Value (EV)	504
Net debt 31.12.2021	-16
Minorities	229
Equity Value	291
Shares (ths.)	13,2
Equity Value per share	22,1

Sensitivity analysis					
	Growth rate (g)				
	-1%	0%	1%	2%	3%
WACC - 1,0%	22,4	23,7	25,3	27,3	29,7
WACC - 0,5%	21,0	22,2	23,6	25,3	27,4
WACC	19,8	20,8	22,1	23,5	25,3
WACC + 0,5%	18,6	19,5	20,6	21,9	23,5
WACC + 1,0%	17,5	18,4	19,3	20,5	21,9

Source: Noble Securities

Below we present a sensitivity analysis of the DCF model depending on the risk-free rate and risk premium:

Sensitivity analysis					
	Risk-free rate				
	3,9%	4,9%	5,9%	6,9%	7,9%
MRP - 2%	38,2	32,8	28,5	25,0	22,1
MRP - 1%	32,8	28,5	25,0	22,1	19,6
MRP	28,5	25,0	22,1	19,6	17,5
MRP + 1%	25,0	22,1	19,6	17,5	15,7
MRP + 2%	22,1	19,6	17,5	15,7	14,2

Source: Noble Securities

Below we present Cost of Equity and WACC calculation:

WACC	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P	2031P	2032P
Risk free rate	5,90%	5,90%	5,90%	5,90%	5,90%	5,90%	5,90%	5,90%	5,90%	5,90%
Market risk premium	7,40%	7,40%	7,40%	7,40%	7,40%	7,40%	7,40%	7,40%	7,40%	7,40%
Beta	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0
Cost of equity	**13,3%**	**13,3%**	**13,3%**	**13,3%**	**13,3%**	**13,3%**	**13,3%**	**13,3%**	**13,3%**	**13,3%**
Effective tax rate	26,4%	26,4%	26,4%	26,4%	26,4%	26,4%	26,4%	26,4%	26,4%	26,4%
Cost of debt	7,50%	7,50%	7,50%	7,50%	7,50%	7,50%	7,50%	7,50%	7,50%	7,50%
Cost of debt after tax bracket	5,52%	5,52%	5,52%	5,52%	5,52%	5,52%	5,52%	5,52%	5,52%	5,52%
Net debt/EV	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%
WACC	**12,5%**	**12,5%**	**12,5%**	**12,5%**	**12,5%**	**12,5%**	**12,5%**	**12,5%**	**12,5%**	**12,5%**

Source: Noble Securities

PEERS MULTIPLES VALUATION

We based our comparative analysis on selected Polish and foreign companies. The analysis was carried out using P/E and EV/EBITDA multiples (equally weighted). Both multipes show that Ailleron the company is generally trading at a discount on both indices relative to peers.

Peers valuation summary of Ailleron:

Company	Market cap (PLNm)	P/E (x)			EV/EBITDA (x)		
		2023F	2024F	2025F	2023F	2024F	2025F
ASSECOBS	1 327	14,0	13,1	12,3	9,2	8,5	7,9
COMARCH	1 171	12,5	11,2	10,4	4,0	3,5	
NEOGRID PARTICIP	270	19,3	12,1	10,2			
ACCELYA SOLUTION	215	10,2	9,4	8,2	6,2	5,5	5,3
BILOT OYJ	243	50,6	21,9	15,4	13,5	9,4	6,5
LSISOFT	207	12,3	9,0	9,2	3,5	2,6	2,5
ECKOH PLC	562	19,5	18,5	16,8	11,2	9,9	8,6
SYLOGIST LTD	300	36,3	18,6	12,1	7,5	6,1	5,1
ZEDGE INC-B	241	68,6	14,9	9,3	56,9	9,4	
LIVECHAT SOFTWAR	3 734	21,8	18,8	17,3	18,5	15,7	14,3
WEDIA	105	30,5	17,6	14,3	6,1	4,2	3,1
PROLOGUE - REG	774	26,3	23,1	18,6	8,8	7,4	6,3
IT LINK SA	206	10,8	9,8	9,5	4,8	4,4	4,3
AVERAGE		**25,6**	**15,2**	**12,6**	**12,5**	**7,2**	**6,4**
Ailleron	288	22,1	16,5	14,5	9,0	7,7	7,2
Premium/discunt to average (%)		-14%	8%	15%	-28%	6%	12%
Implied fair value of Ailleron		27,0	21,5	20,3	40,6	20,6	18,4
Implied fair value of Ailleron				**24,7**			

Source: Bloomberg, Noble Securities, data on: 2023.05.18 10:10

Balance Sheet		2021	2022	2023F	2024F	2025F
Assets		**277,4**	**419,1**	**515,4**	**540,8**	**572,1**
Non-current Assets		**96,5**	**209,6**	**334,6**	**330,8**	**327,3**
Tangible assets		22,8	28,4	40,1	36,4	32,9
Investments in subsidiaries		1,4	0,1	0,1	0,1	0,1
Intangible assets		69,3	178,4	291,5	291,5	291,5
Other non-current assets		3,0	2,9	2,9	2,9	2,9
Current Assets		**180,9**	**209,5**	**180,8**	**210,1**	**244,7**
Inventories		1,0	0,7	0,8	1,1	1,2
Trade receivables		59,6	94,4	115,4	150,9	166,3
Cash and cash equivalents		111,3	89,4	39,5	33,1	52,2
Other current assets		8,8	25,0	25,0	25,0	25,0
Liabilities		**277,4**	**419,1**	**515,4**	**540,8**	**572,1**
Equity		**132,9**	**141,9**	**151,4**	**151,4**	**154,2**
Non-current liabilities	82,6		115,8	135,2	159,6	185,6
Loans, borrowings and other financial liabilities		**20,7**	**84,6**	**144,6**	**133,6**	**128,6**
Other		17,6	83,8	143,8	132,8	127,8
Current liabilities		3,1	0,8	0,8	0,8	0,8
Loans, borrowings and other financial liabilities		**41,1**	**76,9**	**84,2**	**96,3**	**103,7**
Accounts payable		5,7	16,8	16,8	16,8	16,8
Other		19,3	33,2	40,5	52,6	60,0
Source: Company, Noble Securities		16,2	26,9	26,9	26,9	26,9

Profil and loss account	2021	2022	2023F	2024F	2025F
Sales revenues	**216,8**	**410,1**	**461,7**	**578,1**	**637,3**
Gross profit	**70,4**	**115,3**	**101,8**	**127,5**	**140,5**
Selling costs	-21,1	-19,7	-11,8	-14,8	-16,4
Administration costs	-21,9	-41,4	-40,7	-50,5	-55,6
Other operating revenues and expenses	0,0	-3,6	-0,9	-0,3	-0,4
EBIT	**27,4**	**50,6**	**48,5**	**61,9**	**68,1**
Financial income and costs	-1,8	-0,3	-3,9	-3,8	-3,9
Share in profits of entities valued using the equity method.	0,0	-0,2	-0,2	-0,2	-0,2
Income tax	-8,5	-9,8	-11,8	-15,3	-17,0
Net profit	**17,1**	**40,5**	**32,8**	**42,7**	**47,2**
Net profit attributable to equity holders of the parent	**7,5**	**13,9**	**13,5**	**18,4**	**21,2**
Amortisation and depreciation	8,3	13,0	13,3	13,4	13,5
EBITDA	**35,8**	**63,5**	**61,8**	**75,3**	**81,5**

Source: Company, Noble Securities

Cash flow statement	2021	2022	2023F	2024F	2025F
Profit before tax	25,6	50,1	44,4	57,9	64,0
Depreciation and amortization	8,3	13,0	13,3	13,4	13,5
Other	14,4	2,4	4,6	4,6	4,7
Change in working capital	-12,8	-8,2	-13,9	-23,6	-8,1
Income tax paid	-13,2	-11,6	-11,8	-15,3	-17,0
CF from operating activities	**22,3**	**45,6**	**36,6**	**36,9**	**57,0**
CAPEX	-9,1	-7,6	-132,2	-3,6	-4,0
Other	-22,5	-119,1	-3,2	-3,2	-3,3
CF from investment activities	**-31,5**	**-126,7**	**-135,3**	**-6,8**	**-7,3**
Increase of share capital	0,0	0,0	0,0	0,0	0,0
Change of financial liabilities	-14,9	63,9	54,0	-17,0	-11,0
Other	112,4	0,0	0,0	0,0	0,0
Interest paid and received	0,0	-0,8	-1,2	-1,1	-1,1
Dividends and other proceeds to shareholders	-4,0	-4,0	-4,0	-18,3	-18,4
CF from financial activities	**93,5**	**59,1**	**48,8**	**-36,5**	**-30,6**
CF	**84,3**	**-21,9**	**-49,9**	**-6,4**	**19,1**
Cash at the beginning of the period	25,3	111,3	89,4	39,5	33,1
Cash at the end of the period	109,5	89,4	39,5	33,1	52,2

Źródło: Spółka, Noble Securities

Selected indicators	2021	2022	2023F	2024F	2025F
EBITDA margin	32,47%	28,11%	22,05%	22,05%	22,05%
EBIT margin	16,49%	15,49%	13,39%	13,02%	12,79%
Net profit margin	7,9%	9,9%	7,1%	7,4%	7,4%
Net debt	-88,1	11,1	121,0	116,4	92,3
Net debt/EBITDA	-2,5	0,2	2,0	1,5	1,1
Number of shares issued	12,4	12,6	12,8	13,0	13,2
Dividend per share	0,32	0,31	0,31	1,41	1,40
P/BV	1,1	1,5	2,0	2,0	2,0

Source: Company, Noble Securities

Annual growth rates	2021	2022	2023F	2024F	2025F
Revenues	39%	89%	13%	25%	10%
EBITDA	50%	78%	-3%	22%	8%
EBIT	77%	84%	-4%	28%	10%
Net profit	81%	137%	-19%	30%	11%

Source: Company, Noble Securities

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CLOSING REMARKS

Analyst preparing the Report: Dariusz Dadej
Date and time of completion of the Report: 18.05.2023, 14:09 . Date and time of the first dissemination of the Report: 18.05.2023, 14:25.

NS is subject to the supervision of the Polish Financial Supervision Authority.

Recently published by NS research reports concerning AILLERON SA			
Direction of recommendation	nd	nd	nd
Date of publication	2021-09-02	2022-03-03	2022-10-17
Stock price from the date of report	13,65	11,40	12,00
Target price	25,2	19,1	17,5
WIG index from the date of report	71 093,3	61 010,2	46 570,4

All recommendations distributed by NS in last 12 months:

Company	Direction	Target price	Price at publication	Current price	Difference to price target	Date of publication (1)	Validity date (2)	Prepared by (3)
Sonel	nd	12,9	10,6	10,75	20%	17.05.2023	24M	Michał Sztabler
TIM	nd	41,6	49,2	49,25	-16%	16.05.2023	24M	Michał Sztabler
MO-BRUK	Accumulate	337,2	290,0	279,50	21%	09.05.2023	9M	Dariusz Dadej
Selvita	Accumulate	83,0	74,6	77,10	8%	08.05.2023	9M	Krzysztof Radojewski
XTB	Buy	78,9	35,3	42,60	85%	26.04.2023	9M	Mateusz Chrzanowski
Aplisens	nd	20,3	17,3	17,30	17%	21.04.2023	24M	Michał Sztabler
Bioton	nd	5,3	3,5	3,84	39%	20.04.2023	24M	Krzysztof Radojewski
MCI Capital	nd	36,1	19,5	20,80	74%	20.04.2023	24M	Krzysztof Radojewski
Amica	Accumulate	84,8	79,7	76,40	11%	24.03.2023	9M	Mateusz Chrzanowski
Dino Polska	Reduce	358,6	415,5	403,20	-11%	21.03.2023	9M	Dariusz Dadej
Eurocash	Buy	18,7	13,8	17,95	4%	21.03.2023	9M	Dariusz Dadej
Pepco Group	Accumulate	50,1	43,7	40,62	23%	20.02.2023	9M	Dariusz Dadej
LW Bogdanka	Buy	72,5	52,8	40,10	81%	27.01.2023	9M	Michał Sztabler
Molecure	Buy	20,8	14,7	22,90	-9%	05.01.2023	9M	Krzysztof Radojewski
Celon Pharma	Buy	30,9	15,1	14,00	121%	05.01.2023	9M	Krzysztof Radojewski
Captor Therapeutics	Buy	192,0	164,0	158,00	22%	05.01.2023	9M	Krzysztof Radojewski
Ryvu Therapeutics	Buy	85,4	54,6	56,30	52%	05.01.2023	9M	Krzysztof Radojewski
Forte	Hold	21,3	21,0	26,40	-19%	03.01.2023	9M	Dariusz Dadej
LW Bogdanka	Buy	51,5	38,2	40,10	28%	28.12.2022	9M	Michał Sztabler
Wielton	Hold	6,6	6,7	9,54	-31%	28.12.2022	9M	Michał Sztabler
TIM	nd	37,9	28,2			12.12.2022	24M	Michał Sztabler
Aplisens	nd	18,3	14,4	17,30	6%	06.12.2022	24M	Michał Sztabler
Apator	Reduce	12,9	15,0	15,70	-18%	06.12.2022	9M	Michał Sztabler
Sonel	nd	10,2	9,7			06.12.2022	24M	Michał Sztabler

MO-BRUK	Buy	371,7	293,0			26.10.2022	24M	Dariusz Dadej
LW Bogdanka	Hold	30,5	30,6	40,10	-24%	20.10.2022	9M	Michał Sztabler
Selvita	Accumulate	97,5	86,0			20.10.2022	9M	Krzysztof Radojewski
Ailleron	nd	17,5	12,0	20,50	-15%	17.10.2022	24M	Dariusz Dadej
MCI Capital	nd	29,6	16,1			07.10.2022	24M	Krzysztof Radojewski
Bioton	nd	4,7	3,8			06.09.2022	24m	Krzysztof Radojewski
Dino Polska	Reduce	286,8	351,5			10.08.2022	9M	Dariusz Dadej
Eurocash	Accumulate	13,0	12,1			10.08.2022	9M	Dariusz Dadej
Amica	Hold	69,7	71,4			05.08.2022	9M	Michał Sztabler
Wielton	Reduce	4,9	5,5			12.07.2022	9M	Michał Sztabler
Krynicki Recykling	nd	20,9	22,6			04.07.2022	24M	Dariusz Dadej
Captor Therapeutics	Buy	163,0	116,0			28.06.2022	9M	Krzysztof Radojewski
Celon Pharma	Buy	29,3	14,9			28.06.2022	9M	Krzysztof Radojewski
Molecure	Buy	21,7	13,2			28.06.2022	9M	Krzysztof Radojewski
Ryvu Therapeutics	Buy	51,8	23,5			28.06.2022	9M	Krzysztof Radojewski
CD Projekt	Sell	74,1	94,4			24.06.2022	9M	Maciej Kietliński
Ten Square Games	Sell	98,6	117,0			24.06.2022	9M	Maciej Kietliński
Apator	Reduce	12,2	14,8			06.06.2022	9M	Michał Sztabler
Aplisens	nd	16,0	14,1			06.06.2022	24M	Michał Sztabler
Sonel	nd	10,2	9,8			06.06.2022	24M	Michał Sztabler
TIM	nd	54,3	31,4			06.06.2022	24M	Michał Sztabler

(1) Date of publication is simultaneously date of first publication,

(2) recommendation is valid for a period of 9 months, unless it is previously updated

(3) Job position: Krzysztof Radojewski - Senior Equity Analyst, Michał Sztabler - Equity Analyst, Dariusz Dadej - Equity Analyst, Maciej Kietliński - Equity Analyst till 2022-06-30

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