

Ailleron

Margin improvement in SM, cash reserves for further acquisitions

Outlook. We maintain our valuation from the September report. The 2Q24 results positively surprised with Software Mind, where the 16.6% margin implies that the contract portfolio within the group is highly profitable. This marks the second consecutive quarter with an elevated margin, following a weaker second half of last year. However, we note that the strengthening of the PLN against the USD may have a slightly negative impact on profitability in 2H24. We have assumed an average EBIT margin of 15.5% in Software Mind for the second half of the year. For 2025-26, we project operating profit growth in SM of 16% (including 9% organically) and 11%, respectively, with revenue growth of 21% and 10%, respectively. In FinTech, we expect a return to positive profitability next year, with an EBIT of PLN 3m in 2025 and PLN 6m in 2026 (margin of 4% and 6%). The recent results in this area do not indicate the possibility of quickly approaching the margin levels of SM, which the company aims to achieve in this segment..

3Q24 forecasts. FinTech may continue to generate negative profitability, where, despite the positive impact of the settlement with Pekao, the company recorded a loss of PLN 0.6m in 2Q24. We have assumed that the loss in 3Q24 may be PLN 1m higher q/q. In Software Mind, we forecast an operating result PLN 1m lower than in the previous quarter (due to a stronger PLN), but number8 should continue to contribute stably (around PLN 4-5m per quarter to the result). A slightly higher tax rate than in 2Q24 leads to a more cautious assumption regarding net profit versus the previous quarter, but the y/y dynamic should be strongly positive. We estimate a PLN 4.4m profit compared to a PLN 3.9m loss a year ago (and a PLN 1.9m adjusted net profit in 3Q23). Traditionally, the best quarter for the company should be 4Q.

Valuation and recommendation. Our target price of PLN 27 (unchanged) is based on the DCF model. A comparative valuation against a group of foreign peers yields a per-share value of PLN 45, including PLN 37 based on the P/E ratio. The rise in stock prices of selected companies since the trough at the start of summer, coupled with further reductions in sell-side consensus, has resulted in an increase in international software house multiples, particularly for 2025-26. However, the foreign companies in our peer group are significantly larger than Ailleron, which is why we rely solely on the DCF method to set the target price. Based on our forecasts for 2025-26, the company is valued at a P/E of 9.8x and 8.2x, and at a target price of PLN 27, the P/E would be 12.7x and 10.5x, respectively. Assuming a return to double-digit profit growth and considering the company's substantial exposure to U.S. clients, we do not believe these are overly high valuations..

PLNm	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24E	y/y	q/q
Revenues	111.7	123.3	110.6	115.7	114.4	126.2	106.7	142.8	141.7	24%	-1%
EBITDA	18.8	20.0	15.6	13.7	10.7	10.2	13.8	24.1	22.5	111%	-7%
EBIT	15.5	16.2	11.9	9.8	7.9	6.0	10.2	20.0	18.0	129%	-10%
Net profit	5.6	5.3	2.8	1.8	-3.9	2.8	1.6	7.8	4.4	-	-44%
P/E12M trailing	20.8	19.5	15.4	16.6	42.9	72.5	112.2	31.2	15.6		
EV/EBITDA 12M trailing	11.4	10.3	9.5	9.5	10.7	12.5	15.9	13.1	10.9		
revenues growth y/y	86%	73%	44%	14%	2%	2%	-3%	23%	24%		
EBITDA margin	16.8%	16.2%	14.1%	11.8%	9.3%	8.0%	13.0%	16.9%	15.9%		
EBIT margin	13.9%	13.1%	10.8%	8.5%	6.9%	4.8%	9.6%	14.0%	12.7%		
Net profit margin	5.0%	4.3%	2.6%	1.6%	-	2.3%	1.5%	5.5%	3.1%		

3Q24 Earnings
27.11.2024

FACT SHEET		RECOMMENDATIONS	Date	Valuation
Ticker	ALL	Buy	25.09.2024	27
Sector	TMT	Buy	19.07.2024	26
Price (PLN)	20.9	Buy	19.04.2024	25
52W range (PLN)	14 / 21.6	Buy	11.12.2023	26
Shares outstanding (m)	12.4	Buy	23.10.2023	28
Market Cap (PLNm)	258	Buy	30.08.2023	26
S&P Global ESG Scores	1			
3M Avg. Vol. (PLNm)	0.16			
Price perf.	1M 7.5%	3M 26.2%	1Y 8.3%	

Buy

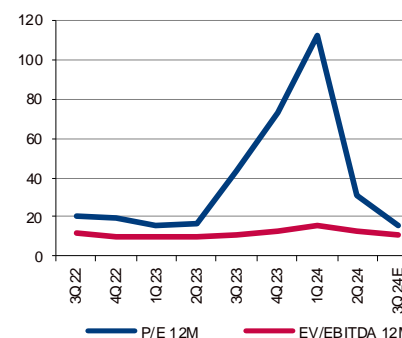
(Previous: Buy, 27 PLN)

Target Price: 27 PLN

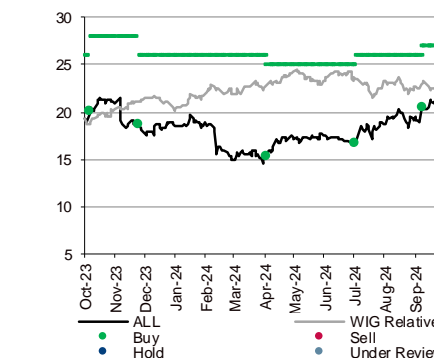
Current Price: 20.9 PLN

Upside: 29%

P/E 12M vs EV/EBITDA 12M



ALL RELATIVE SHARE PRICE vs WIG



PLNm	2021	2022	2023	2024E	2025E	2026E
Revenues	212	410	467	549	656	720
EBITDA	36	61	50	86	106	118
EBIT	27	48	36	70	85	97
Net profit	7	13	4	21	26	32
EPS (PLN)	0.60	1.1	0.3	1.7	2.1	2.6
DPS (PLN)	0.3	0.3	1.0	0.0	0.5	0.5
P/E (x)	34.9	19.5	72.5	12.4	9.8	8.2
EV/EBITDA (x)	5.8	9.7	12.7	8.1	6.5	5.5
P/BV (x)	1.9	3.8	3.1	2.5	2.1	1.7
DY (%)	1.5%	1.5%	4.8%	0.0%	2.4%	2.4%

Quarterly update 3Q'24

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Valuation / Weight	Obecna		Poprzednia		Zmiana
DCF	27.0	100%	26.7	100%	1%
Multiples	45.2	0%	45.3	0%	0%

PLNm	2024E			2025E			2026E		
	Nowa	Stara	Zmiana	Nowa	Stara	Zmiana	Nowa	Stara	Zmiana
Revenues	549	552	-1%	656	656	0%	719.5	719	0%
EBITDA	86	86	0%	106	106	0%	117.9	118	0%
EBIT	70	70	0%	85	85	0%	97.3	97	0%
Net profit	21	20	3%	26	26	0%	31.6	32	0%
P/E (x)	12.4	12.8		9.8	9.8		8.2	8.2	
EV/EBITDA (x)	8.1	8.6		6.5	6.8		5.5	5.6	
P/BV (x)	2.5			2.1			1.7		
DY (%)	0.0%			2.4%			2.4%		

Multiples	2022	2023	2024E	2025E	2026E
P/E (x)	19.5	72.5	12.4	9.8	8.2
adj. P/E (x)	14.6	16.1	11.6	9.8	8.2
P/BV (x)	3.8	3.1	2.5	2.1	1.7
EV/EBITDA (x)	9.7	12.7	8.1	6.5	5.5
adj. EV/EBITDA (x)	9.7	12.7	8.1	6.5	5.5
EV/Sales (x)	0.6	0.6	0.6	0.5	0.4
FCFF Yield (%)	2.1%	5.4%	6.7%	7.2%	9.3%
DY (%)	1.5%	4.8%	0.0%	2.4%	2.4%

KPIs	2022	2023	2024E	2025E	2026E
EPS (PLN)	1.1	0.3	1.7	2.1	2.6
adj. EPS (PLN)	1.4	1.3	1.8	2.1	2.6
DPS (PLN)	0.3	1.0	0.0	0.5	0.5
BVPS (PLN)	5.4	6.8	8.5	10.1	12.2

Operational ratios	2022	2023	2024E	2025E	2026E
adj. EBITDA margin (%)	14.9%	10.7%	15.7%	16.1%	16.4%
EBIT margin (%)	11.7%	7.6%	12.7%	13.0%	13.5%
Net profit adj. margin (%)	3.2%	0.8%	3.8%	4.0%	4.4%
ROE (%)	17.7%	21.2%	23.5%	22.8%	22.9%
ROA (%)	3.8%	0.8%	4.1%	4.3%	4.7%
CAPEX/Sales (%)	6.6%	2.6%	1.3%	1.8%	1.9%
CAPEX/D&A (x)	2.1	0.8	0.4	0.6	0.7
Net debt/Equity (x)	0.1	0.2	0.8	0.5	0.2
Net debt/EBITDA (x)	0.1	0.4	0.9	0.6	0.3
Cash conversion cycle (days)	49	48	39	37	38
Inventory turnover (days)	1	0	0	0	0
Receivables turnover (days)	72	70	59	59	61
Payables turnover (days)	23	23	20	22	24

Income Statement (PLNm)	2021	2022	2023	2024E	2025E	2026E
Revenues	212.4	410.1	466.8	549.3	656.0	719.5
Revenues FinTech	56.4	64.0	73.7	81.4	90.4	97.6
Revenues Software Mind	153.4	344.4	390.5	465.1	562.7	619.0
Revenues other	7.0	5.1	2.6	2.9	2.9	2.9
EBIT FinTech	2.7	-1.5	-7.2	-1.7	3.4	5.9
EBIT Software Mind	24.6	55.6	48.9	72.0	83.3	92.8
EBIT other	0.1	-2.4	0.1	0.0	0.0	0.0
EBITDA	35.7	61.1	50.1	86.4	105.7	117.9
adj. EBITDA	35.7	61.1	50.1	86.4	105.7	117.9
D&A	-8.3	-13.0	-14.5	-16.8	-20.2	-20.7
EBIT	27.4	48.2	35.6	69.5	85.5	97.3
Net financial costs	-0.2	-0.3	-3.8	-9.8	-12.1	-11.0
EBT	25.5	47.9	31.8	59.7	73.4	86.3
Income tax	-8.5	-9.3	-10.9	-9.0	-13.9	-16.4
Minority interest	-9.6	-25.3	-17.4	-29.9	-33.2	-38.3
Net profit	7.4	13.2	3.6	20.9	26.3	31.6
adj. Net profit	7.4	17.7	16.0	22.2	26.3	31.6

Balance Sheet (PLNm)	2021	2022	2023	2024E	2025E	2026E
Non-current Assets	98.1	209.6	226.2	392.3	409.2	411.2
Current Assets	180.6	209.5	209.5	180.8	226.2	293.3
Inventories	1.0	0.7	0.6	0.7	0.8	0.9
Receivables	62.9	98.6	81.6	96.1	114.7	125.8
Cash and cash equivalents	111.3	89.4	112.9	69.8	96.4	152.2
Assets	278.7	419.1	435.7	573.1	635.4	704.4
Equity	133.0	67.1	84.1	105.0	125.1	150.6
Minority Interests	82.5	115.4	125.4	155.3	188.5	226.7
Non-current Liabilities	18.5	159.5	134.1	211.2	211.4	212.4
Long-term borrowings	17.6	83.8	86.5	163.6	163.8	164.8
Current Liabilities	44.7	77.2	92.0	101.5	110.4	114.7
Short-term borrowings	4.7	14.8	32.9	32.9	32.9	32.9
Payables	19.3	33.2	25.9	35.4	44.3	48.6
Equity and Liabilities	278.7	419.1	435.7	573.1	635.4	704.4
Net debt	-89	9	6	127	100	45

Cash Flow Statement (PLNm)	2021	2022	2023	2024E	2025E	2026E
Cash flow from operating activities	26.1	45.6	55.2	62.6	69.8	83.7
Changes in working capital	1.0	-21.4	9.8	-5.0	-9.9	-6.9
D&A	8.3	13.0	14.5	16.8	20.2	20.7
Cash flow from investing activities	-28.0	-126.7	-19.8	-174.0	-28.2	-13.6
CAPEX	-12.3	-27.2	-12.1	-7.0	-11.7	-13.6
Cash flow from financing activities	89.5	59.1	-11.9	68.2	-14.9	-14.2
Dividend/Buy-back	-4.0	-4.0	-12.4	0.0	-6.2	-6.2
Net change in cash	87.6	-21.9	23.5	-43.2	26.6	55.9
Cash opening balance	23.7	111.3	89.4	112.9	69.8	96.4
Cash closing balance	111.3	89.4	112.9	69.8	96.4	152.2

ALL: DCF valuation

	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	TV
Sales	549.3	656.0	719.5	774.9	819.7	858.4	884.2	910.7	938.0	
EBITDA	86.4	105.7	117.9	125.0	131.5	137.0	141.1	145.4	149.7	
EBIT	69.5	85.5	97.3	103.6	108.9	113.5	116.9	120.4	124.0	
Tax rate	15%	19%	19%	19%	19%	19%	19%	20%	20%	
NOPAT	59.1	69.2	78.8	83.9	88.2	91.9	94.2	96.8	99.5	
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	-5.0	-9.9	-6.9	-6.0	-4.9	-4.2	-4.3	-4.4	-4.5	
M&A, other adjustments	-167.0	-16.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCF	-111.9	42.4	69.9	75.0	80.4	84.6	86.7	89.1	91.6	95.2
Debt / (Debt + Equity)	41%	32%	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	1.58	1.39	1.16	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Debt cost to tax (%)	5.9%	5.7%	5.7%	5.7%	5.7%	5.7%	5.6%	5.6%	5.6%	5.2%
Equity cost (%)	15.8%	14.5%	13.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	11.5%
WACC (%)	11.8%	11.7%	11.8%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	11.5%

PV FCF sum	251
FCF growth ratio in TV	2.5%
Discounted TV	414
Net debt, other adj.	367
Equity value (mln PLN)*	298
Dividend paid out	0.0
Number of shares (mln)	12.4
1 share value (PLN)	24.16
12m TP	27.0

Source: Trigon DM

	WACC		TV		
	9.5%	10.5%	11.5%	12.5%	13.5%
	29.0	26.8	25.1	23.8	22.6
	30.3	27.9	26.0	24.5	23.2
g	31.9	29.1	27.0	25.3	23.9
	33.7	30.5	28.1	26.2	24.6
	35.8	32.1	29.3	27.2	25.4

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		8.1	6.5	5.5	11.6	9.8	8.2
Valuation per share		44.7	56.6	58.3	35.2	38.1	38.6
Average valuation for multipliers		53.2			37.3		
Source: Bloomberg, Trigon DM		average valuation			45.3		

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

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**NAGRŃDY
PSIK**
2023

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General information

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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 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. 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

The Discounted Cash Flow (DCF) method values a company by estimating its future cash flows and discounting them back to their present value.
 - Advantages: future-oriented, flexible when it comes to assumptions, based on the intrinsic value of a company, widely accepted.
 - Disadvantages: sensitivity to assumptions, complexity, subjectivity, doesn't consider market sentiment or short-term fluctuations.
 The comparable valuation method values a company by comparing it to similar publicly traded companies.
 - Advantages: simplicity, transparency, benchmarking, reflects current market valuations and investor sentiment.
 - Disadvantages: lack of specificity, limited comparables, sensitive to market fluctuations, ignoring fundamental differences.
 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 (NPV)
 - 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.

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For detailed information on the valuation or methodology and underlying assumptions, as well as any previous recommendations concerning the Issuer's financial instruments disseminated during the preceding 12 months, go to the Brokerage House's website at www.trigon.pl.

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