

# SMT S.A.



Price target: PLN 26.50

Update

Rating: BUY

**Since our last report in Feb 2015, the structure of SMT has undergone significant changes.** In line with its new strategy, which was announced on 8 April, the company acquired the remaining 38.8% in iAlbatros, which in management's opinion has the highest international growth potential. The non-core subsidiaries Codemedia, SMT Software Services and Attorn, which either have limited international potential or operate in very competitive industries, have been sold in the last months. While SATIS GPS may be merged with iAlbatros due to potential synergies, we believe that the remaining subsidiaries e.g. 3D studio Xantus will be dissolved soon.

**We expect that the sale of non-core assets generates a net cash inflow for SMT of c. PLN 147m in 2015, of which a part could be used for a share buyback in 2016E-17E.** While the book profit from the sale of Attorn (PLN 8.4m) was already accounted for in the annual report 2014, we expect that the sale of SMT Software Services and Codemedia has likely generated a gain of PLN 65m and PLN 0.4m respectively on a consolidated basis. Although Codemedia has had operational problems in the recent past, we think that given current market valuations of global advertising companies and solid growth prospects for advertising in Poland the transaction was done at unfavorable terms. In our view, it would have been much better if SMT's management had first restructured Codemedia before selling it.

**SMT's 9M/15 report reflects the new company structure and announced sale of non-core assets.** Revenues reached PLN 97m (+3.5% y-o-y), however those of iAlbatros increased by c. 80% y-o-y. EBIT advanced from PLN -3.5m in 9M/14 to PLN 2.4m and adjusted net income (excl. profit from sale of non-core assets and result from discontinued operations) improved from PLN -9.2m to PLN 0.4m, indicating better performance of SMT's core operations.

**Due to the organizational changes we have adjusted our model of SMT, which however leaves our 12-months PT of PLN 26.50 unchanged.** In our view, the main share price triggers are the following: (1) Increasing contract volumes at iAlbatros and further international expansion (2) Share purchases of PLN 12.5m, which Mr Khanfir (iAlbatros' CEO) is obliged to conduct by June 2016 and (3) potential share buyback by SMT in 2016E-17E, which could significantly lower its P/E ratio. We would like to emphasize that iAlbatros' current backlog until 2020E is worth >PLN 1.2bn.

in PLNm	2014	2015E	2016E	2017E	2018E	2019E
Net sales	236.01	124.00	170.80	262.30	462.01	707.92
EBITDA	18.22	4.71	8.39	14.07	26.52	41.63
EBIT	14.78	3.10	6.17	10.66	20.51	32.42
Net income	25.08	76.57	4.35	8.32	16.69	26.66
EPS	2.22	6.70	0.37	0.71	1.43	2.29
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
RoE	41.39%	65.73%	2.69%	4.94%	9.23%	13.16%
Net gearing	2.35%	-69.80%	-75.02%	-67.34%	-49.87%	-34.09%
EV/Sales	0.23x	0.44x	0.32x	0.21x	0.12x	0.08x
EV/EBITDA	3.00x	11.59x	6.51x	3.88x	2.06x	1.31x
P/E	6.63x	2.19x	39.38x	20.62x	10.27x	6.43x
Adj. P/E	20.84x	262.07x	39.38x	20.62x	10.27x	6.43x

## Company profile

SMT S.A. is a Polish technology group, which already generates c. 40% of its revenues on international markets. Its main subsidiaries include iAlbatros (E-Procurement tool for travel and expense management) and SATIS GPS (GPS-/GIS-based tool for monitoring of vehicles and machines).

Website	www.smtsa.pl
Sector	Technology/IT
Country	Poland
ISIN	PLADVPL00029
Reuters	SMT.P.WA
Bloomberg	SMT.PW

## Share information

Last price	14.70
Number of shares (m)	11.31
Market cap. (PLNm)	166.23
Market cap. (EURm)	38.07
52-weeks range	PLN 19.99 / PLN 12
Average volume	8,409

## Performance

4-weeks	-7.55%
13-weeks	-11.45%
26-weeks	-2.97%
52-weeks	-1.34%
YTD	15.11%

## Shareholder structure

Investors TFI S.A.	13.02%
Agencja Reklamowa Czart	7.38%
MetLife PTE	6.77%
Templeton Asset Management	5.08%
Free float	67.75%

## Financial calendar

Q4/15 report (expect.)	March 2, 2016
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## Analyst

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## **Takeover of 100% in iAlbatros and sale of non-core assets**

With its strategy, which was released on 8 April 2015, SMT announced its intention to acquire the remaining 38.8% in iAlbatros (SaaS-based E-Procurement tool for travel & expense management) and focus its efforts on the further development of the subsidiary, which in management's opinion has the highest growth potential on international markets. The takeover was completed in Q3/15 and valued 100% of iAlbatros at PLN 86.3m. First, SMT issued 354.4 new shares at PLN 28.90 per share (PLN 10.2m), which were given to Mr Moncef Khanfir, the CEO of iAlbatros and Vice President of the Board of SMT, and other minority shareholders of iAlbatros with a 3-year lock-up. Second, Mr Khanfir and the other shareholders additionally received cash of PLN 12.5m and PLN 10.8m respectively for their remaining shares in iAlbatros, whereby Mr Khanfir was obliged to use all his proceeds from that transaction for purchasing SMT's stock through the stock exchange by June 2016. Those shares will also be subject to a 3-year lock-up.

Apart from SATIS GPS (GPS-/GIS-based tool for monitoring of vehicle and machine parks), where SMT sees synergies with iAlbatros, all other subsidiaries were supposed to be sold or dissolved in the near future. The disposal of Attorn (SaaS-based tool for receivables management) was already completed on 31 December 2014, while the sale of SMT Software Services (IT outsourcing services) and Codemedia (performance-based advertising agency) was announced in Q3/15. The respective proceeds should already be visible on SMT's accounts.

### **SMT Software Services**

SMT announced the sale of 100% subsidiary SMT Software Services on 17 September 2015, while the deal was signed on 30 November. The buyer was Creston Investments Sp. z.o.o, an entity owned by Enterprise Investors, one of the largest private equity funds in the CEE region. While the deal value amounted to PLN 151m (PLN 169m minus PLN 18m of inter-company loans), we estimate that after accounting for e.g. net debt and consulting fees SMT received c. PLN 130m on signing date. According to our calculation, the transaction gain equaled PLN 65m.

In 2014, SMT Software Services, which made up SMT's Technology Outsourcing segment, had revenues of PLN 71.1m and a net profit of PLN 6.2m. Although the business has generated a stable cash flow for SMT in the past and market valuations of other IT outsourcing providers are currently very high, we think the implied 2014 P/E multiple of the transaction of 24.4x is attractive. The reasons are (1) the IT outsourcing business is project-based, while strategic or financial investors usually prefer product-based businesses and (2) SMT Software Services faces intense cost pressure as there is an increasing shortage of skilled software programmers in Poland.

Company	EV/Sales	P/E
	2014	2014
Luxoft Holding Inc. (USD)	4.57x	38.77x
EPAM Systems Inc. (USD)	5.06x	53.09x
PGS Software S.A. (PLN)	7.25x	38.45x
<b>Median</b>	<b>5.06x</b>	<b>38.77x</b>

Source: Thomson Reuters Eikon, East Value Research GmbH

### Codemia

Codemia, which SMT (back then Grupa ADV) founded in 2008, is a provider of performance-based marketing services. On 30 September 2015, SMT announced the sale of the subsidiary to its management for max. PLN 17.7m. However, while PLN 8.7m have already been paid to SMT, we believe the earn-out of PLN 9m, which is dependent on Codemia's results in 2016E-18E, is currently not very likely as the subsidiary faces strong competition from large global advertising conglomerates and technology-based providers. Given that Codemia had revenues of PLN 70.9m and net income of PLN 2m in 2014, the transaction value excl. earn-out implies a P/E of 4.4x. Nevertheless, according to our calculation the deal should result in a transaction gain on a consolidated level of PLN 0.4m.

In our opinion, the valuation of the transaction is low both compared to current trading multiples of other advertising companies and the transaction multiples of recent M&A deals in the Polish advertising sector. As the Polish online advertising sector is expected to grow at >10% y-o-y over the next few years (Source: e.g. ZenithOptimedia), we believe that it would have been a much better idea for SMT to sell Codemia only after a restructuring. We would also like to emphasize that the delisting of the subsidiary from the NewConnect segment of the Warsaw Stock Exchange in 2012 was conducted at a valuation of PLN 49.4m.

Global advertising companies will continue to consolidate the market in the coming years, suggesting that SMT was not in a hurry to sell Codemia as soon as possible. According to corporate finance firm Ciesco, the number of M&A deals in the global digital, media, advertising and technology industry amounted to 790 in 9M/15, with a combined value of USD 17.5bn in Q3/15 alone (Q3/14: USD 8.7bn). WPP and Dentsu were the most-active marketing communications companies in 9M/15. As advertisers and ad agencies are demanding more efficient ad buys, which is only possible with a respective scale of operations, market experts believe that there is room for just c. 10 major online ad companies worldwide in the long-term, down from the hundreds that exist today.

<b>Company</b>	<b>EV/Sales 2014</b>	<b>P/E 2014</b>
WPP PLC (GBP)	1.99x	18.13x
Dentsu Inc. (JPY)	2.78x	24.16x
Havas SA (EUR)	1.78x	22.35x
Omnicom Group Inc. (USD)	1.42x	17.06x
Interpublic Group Inc. (USD)	1.36x	19.64x
Syzygy AG (EUR)	1.86x	25.37x
<b>Median</b>	<b>1.82x</b>	<b>21.00x</b>

Source: Thomson Reuters Eikon, East Value Research GmbH

<b>Target</b>	<b>Buyer</b>	<b>Date</b>	<b>Implied deal value for 100% (excl. earn-out)</b>	<b>Implied P/E (excl. earn- out)</b>
Socializer S.A.	Dentsu Aegis	Jan 2014	PLN 27.5m	6.7x
Lemon Sky Sp. z.o.o S.K.A	WPP	Feb 2014	PLN 21.8m	10.4x
Marketing Wizards Sp. z.o.o	Dentsu Aegis	Jun 2015	n.a	n.a

Source: Google search, websites of WPP and Dentsu, East Value Research GmbH

### **Attorn**

On 29 July 2015, SMT announced that on 31 December 2014 its subsidiary SATIS GPS sold 54% in Attorn (SaaS-based tool for receivables management) to Attorn's management for PLN 9m. Attorn was founded in 2013. In our view, the deal was beneficial for SMT's shareholders as it resulted in a book gain of PLN 8.4m. Unfortunately, SMT did not disclose Attorn's results in 2014.

## 9M 2015 results

### Revenues and Profitability

SMT's 9M/15 figures reflect the new company structure. Between January and September 2015, revenues reached PLN 97m, which corresponded to a y-o-y growth of 3.5%. While iAlbatros grew by c. 80% y-o-y, SATIS GPS reported a decrease as last year its sales were extraordinarily high due to the contract for the provision of prisoner bracelets from the Polish Ministry of Justice.

While iAlbatros and SATIS GPS together generated sales of PLN 77.5m, other revenues in 9M/15 amounted to PLN 19.5m and were in our view mainly related to the completed public projects. However, SMT will not apply for any such projects anymore and the respective subsidiary SMT Systems Integration will be dissolved soon.

in PLNm	9M/15*	9M/14**	change (%)
<b>Net sales</b>	<b>96.97</b>	<b>93.68</b>	3.5%
<b>EBITDA</b>	<b>3.62</b>	<b>-1.14</b>	-418.6%
<i>EBITDA margin</i>	<i>3.7%</i>	<i>-1.2%</i>	
<b>EBIT</b>	<b>2.35</b>	<b>-3.54</b>	-166.4%
<i>EBIT margin</i>	<i>2.4%</i>	<i>-3.8%</i>	
<b>Net income</b>	<b>11.22</b>	<b>20.07</b>	-44.1%
<i>Net margin</i>	<i>11.6%</i>	<i>21.4%</i>	
<b>Net income (adj.)</b>	<b>0.39</b>	<b>-9.18</b>	-104.2%
<i>Net margin</i>	<i>0.4%</i>	<i>-9.8%</i>	

\* Net income in 9M/15 includes results from discontinued operations of PLN 10.8m

\*\* 9M/14 net income accounts for profit from sale of subsidiary Lemon Sky of PLN 18m and result from discontinued operations of PLN 11.3m

Source: Company information, East Value Research GmbH

In the first three quarters of 2015, EBIT (PLN 2.4m vs. PLN -3.5m) improved significantly y-o-y. In our view, this resulted mainly from a high loss of subsidiary SMT Systems Integration in 9M/14, which until the completion of projects only had costs. Net income in 9M/15 was lower y-o-y as last year's figure also accounted for the gain from the sale of subsidiary Lemon Sky. However, adjusted net income, which excludes results from discontinued operations and transaction gains, improved from PLN -9.2m in 9M/14 to PLN 0.4m.

## Balance sheet and Cash flow

At the end of 9M/15, SMT had equity of PLN 77.2m, which corresponded to a share in the balance sheet total of 43.9%. Working capital increased from PLN 42.1m last year to PLN 44.3m, which mainly stemmed from lower current liabilities. Between January and September 2015, the company generated an operating cash flow of PLN -14.2m (9M/14: PLN -48.8m), which resulted from significantly lower investments in working capital (PLN -8m vs. PLN -61.7m). Cash flow from investing deteriorated from PLN 14.5m to PLN -17.5m as last year it was affected by the disposal of Lemon Sky. Cash flow from financing equaled PLN 18.1m vs. PLN 20.9m in 9M/14.

At the end of September 2015, SMT had interest-bearing debt of PLN 49.1m (9M/14: PLN 26.2m) and cash and short-term financial assets of PLN 30.6m (PLN 24.5m). As of 30/09/2015, the company's net debt position amounted to PLN 18.4m (PLN 1.7m).

## Changes to our forecasts

### Revenues and Profitability

We have adjusted our model of SMT in order to account for the sale of subsidiaries SMT Software Services and Codemedia as well as the forecasts for iAlbatros, which management published during its presentation on 8 April 2015. While our estimates for full-year 2015 include iAlbatros, SATIS GPS, SMT Systems Integration and Xantus, we have assumed that the last two subsidiaries will be dissolved by the end of this year.

*iAlbatros:* iAlbatros is a SaaS-based E-Procurement tool for travel and expense management with a database of >200k hotels worldwide. Its competitive advantages are its sophisticated technology, user-friendliness, availability on multiple platforms incl. mobile devices and powerful Enterprise Resource Planning (ERP) functionality. Moreover, in contrast to many competitors, who have to connect to third-party services e.g. HRS.com, it is a proprietary integrated hotel procurement solution. iAlbatros operates in a sector, which according to GBTA Foundation will grow from USD 186.3bn in 2014 to USD 210.6bn in 2016E (CAGR of 6.3%) in the five largest Western European markets Germany, UK, France, Italy and Spain.

Although we regard the fact that almost all new contracts are from France as a quite significant risk, we believe that SMT's guidance for iAlbatros is conservative. Since 2014, iAlbatros has signed several very significant multi-year contracts e.g. with GDF Suez, AMUE, Technip and Ferrero. In addition, in Q4/15 the subsidiary introduced new functionalities for its tool relating to booking of flights and railway trips and hence is now able to offer its customers an even more complex travel management solution.

In our model, we have assumed slightly higher revenues in 2016E-2019E than provided by management. By 2024E, we expect that the subsidiary's revenues will grow at a CAGR of 31.8% and the net margin will reach 4.1%. While iAlbatros' fixed costs are mostly related to software development, implementation and maintenance, its profitability increases with the volume of bookings that are processed by its software.

iAlbatros - major contracts	Country	Duration	Max. value	Comment
Engie (prev. GDF Suez)	France	2015-20	EUR 135m/PLN 585m	Objective is implementation of iAlbatros tool in 70 countries for c. 200k employees
AMUE	France	2014-17	EUR 136m/PLN 589m	AMUE is in charge of business hotel bookings for 85 French universities
Technip	France	2015-17	EUR 30m/PLN 130m	Technip conducts infrastructure projects in the energy sector and has c. 38k employees
Cap5voyages	France	2014-17	EUR 3m/PLN 13m	French chain of travel agencies
Conti Travel	Italy	2014-16	EUR 3m/PLN 13m	Italian chain of travel agencies
Ferrero	Italy	2015-18	EUR 18-24m/PLN 78-104m	Italian producer of sweets
IRD	France	2015-19	c. EUR 5m/PLN 21.7m	French international center for research on development
Globeo Travel	France	2015-	EUR 11.8m per year/PLN 51.1m	French chain of travel agencies; contract volume was increased in 2015 by EUR 8.3m per year
Havas Voyages	France	2015-	EUR 50-150m per year/PLN 216.7-650.1m	French chain of travel agencies; so far, only a letter-of-intent has been signed

Source: Company information, East Value Research GmbH

iAlbatros guidance	2015E	2016E	2017E	2018E	2019E
<b>Revenues</b>	<b>111.30</b>	<b>159.60</b>	<b>249.90</b>	<b>449.40</b>	<b>695.10</b>
<i>y-o-y growth</i>	<i>71.7%</i>	<i>43.4%</i>	<i>56.6%</i>	<i>79.8%</i>	<i>54.7%</i>
<b>Net income</b>	<b>1.80</b>	<b>4.20</b>	<b>8.10</b>	<b>17.70</b>	<b>28.00</b>
<i>Net margin</i>	<i>1.6%</i>	<i>2.6%</i>	<i>3.2%</i>	<i>3.9%</i>	<i>4.0%</i>

Source: Company information, East Value Research GmbH

**SATIS GPS:** SATIS GPS is a GPS-/GIS-based SaaS application for monitoring and management of vehicle and machine fleets. Its main competitive advantages are its stability and ERP (Enterprise Resource Planning) functionality. The subsidiary operates on a market, which according to MarketsandMarkets will grow from USD 20bn worldwide this year to USD 47.6bn by 2020E (CAGR 15-20E of 18.9%), with Europe accounting for the highest share then. Apart from Poland, in the past SATIS GPS has also signed contracts with customers e.g. in Germany, Saudi-Arabia and Kenya.

We believe that in 2015 SATIS GPS will generate sales of PLN 10m, but with net profit close to zero due to costs of its business development team. In the long run, we expect that its revenues will grow at a CAGR 14-24E of 3.1% and that the net margin will reach c. 10%.



We would like to emphasize that SATIS' results in 2014 were significantly impacted by the contract for the provision of prisoner bracelets with the Polish Ministry of Justice, which is now over. Moreover, it seems likely that instead of selling it SMT will decide to merge SATIS GPS with iAlbatros as there are significant synergies between the two subsidiaries.

*Others:* In our opinion, SMT Systems Integration (public IT projects) and Xantus (3D animation studio) will together generate revenues of PLN 19.7m in full-year 2015.

in PLNm	2015E*	2016E	2017E	2018E	2019E
<b>Process Outsourcing</b>	<b>104.30</b>	<b>170.80</b>	<b>262.30</b>	<b>462.01</b>	<b>707.92</b>
<i>(% of sales)</i>	<i>84.1%</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>
iAlbatros (booking volumes)	94.30	160.60	251.90	451.40	697.10
SATIS GPS	10.00	10.20	10.40	10.61	10.82
Net margin iAlbatros	0.5%	2.6%	3.1%	3.5%	3.7%
Net margin SATIS GPS	0.0%	1.5%	4.0%	6.5%	8.0%
<b>Others</b>	<b>19.70</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<i>(% of sales)</i>	<i>15.9%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
Net margin	1.9%	0.0%	0.0%	0.0%	0.0%
<b>Total net sales</b>	<b>124.00</b>	<b>170.80</b>	<b>262.30</b>	<b>462.01</b>	<b>707.92</b>
<i>(change y-o-y)</i>	<i>n.a</i>	<i>37.7%</i>	<i>53.6%</i>	<i>76.1%</i>	<i>53.2%</i>

\* Full-year 2014 numbers, which account for the disposal of non-core assets, have not yet been published

Source: East Value Research GmbH

in PLNm	2015E*	2016E	2017E	2018E	2019E
<b>Net sales</b>	<b>124.00</b>	<b>170.80</b>	<b>262.30</b>	<b>462.01</b>	<b>707.92</b>
<b>EBITDA</b>	<b>4.71</b>	<b>8.39</b>	<b>14.07</b>	<b>26.52</b>	<b>41.63</b>
<i>EBITDA margin</i>	<i>3.8%</i>	<i>4.9%</i>	<i>5.4%</i>	<i>5.7%</i>	<i>5.9%</i>
<b>EBIT</b>	<b>3.10</b>	<b>6.17</b>	<b>10.66</b>	<b>20.51</b>	<b>32.42</b>
<i>EBIT margin</i>	<i>2.5%</i>	<i>3.6%</i>	<i>4.1%</i>	<i>4.4%</i>	<i>4.6%</i>
<b>Net income</b>	<b>76.57</b>	<b>4.35</b>	<b>8.32</b>	<b>16.69</b>	<b>26.66</b>
<i>Net margin</i>	<i>61.7%</i>	<i>2.5%</i>	<i>3.2%</i>	<i>3.6%</i>	<i>3.8%</i>
<b>Net income (adj.)</b>	<b>0.63</b>	<b>4.35</b>	<b>8.32</b>	<b>16.69</b>	<b>26.66</b>
<i>Net margin</i>	<i>0.5%</i>	<i>2.5%</i>	<i>3.2%</i>	<i>3.6%</i>	<i>3.8%</i>

\* Net income (adj.) without one-offs of PLN 75.9m

Source: East Value Research GmbH

### CAPEX and Working capital

We expect that the share of gross CAPEX in SMT's total sales will amount to c. 1.5% in the long run, while working capital should equal 14.3%. In our view, the cash conversion cycle will be 30 days in the long run.



## Valuation

We have valued SMT only by using a DCF as in our view there is no other listed company, which is comparable to it in terms of size and market positioning. We have discounted the cash flows to 1 January 2016, however used the net cash estimate as of 31 December 2015 in order to account for the recently conducted disposals of non-core assets.

### DCF model

in PLNm	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
<b>Net sales</b>	<b>170.80</b>	<b>262.30</b>	<b>462.01</b>	<b>707.92</b>	<b>777.85</b>	<b>854.75</b>	<b>939.33</b>	<b>985.95</b>	<b>1,034.89</b>
(y-o-y change)	37.7%	53.6%	76.1%	53.2%	9.9%	9.9%	9.9%	5.0%	5.0%
<b>Operating profit</b>	<b>6.17</b>	<b>10.66</b>	<b>20.51</b>	<b>32.42</b>	<b>38.19</b>	<b>44.98</b>	<b>48.00</b>	<b>49.89</b>	<b>51.05</b>
(operating margin)	3.6%	4.1%	4.4%	4.6%	4.9%	5.3%	5.1%	5.1%	4.9%
<b>NOPLAT</b>	<b>5.00</b>	<b>8.64</b>	<b>16.61</b>	<b>26.25</b>	<b>30.94</b>	<b>36.43</b>	<b>38.88</b>	<b>40.41</b>	<b>41.35</b>
+ Depreciation & amortisation	2.22	3.41	6.01	9.20	10.11	11.11	12.21	12.82	13.45
= Net operating cash flow	7.22	12.05	22.61	35.46	41.05	47.54	51.09	53.23	54.81
- Total investments (Capex and WC)	6.43	-16.02	-38.61	-49.35	-21.73	-23.77	-25.96	-20.37	-21.42
Capital expenditure	-2.60	-5.26	-10.02	-14.14	-11.53	-12.67	-13.92	-13.77	-14.45
Working capital	9.02	-10.76	-28.59	-35.20	-10.20	-11.10	-12.04	-6.60	-6.96
= Free cash flow (FCF)	13.65	-3.97	-16.00	-13.89	19.32	23.77	25.13	32.86	33.39
<b>PV of FCFs</b>	<b>12.07</b>	<b>-3.10</b>	<b>-11.08</b>	<b>-8.50</b>	<b>10.47</b>	<b>11.39</b>	<b>10.65</b>	<b>12.32</b>	<b>11.08</b>
<b>PV of FCFs in explicit period</b> 45.29									
<b>PV of FCFs in terminal period</b> 116.54									
<b>Enterprise value (EV)</b>	<b>161.83</b>								
+ Net cash / - net debt (31 December 2015)	111.60								
- Minorities	0.00								
<b>Shareholder value</b>	<b>273.42</b>								
<b>Number of shares outstanding (m)</b>	<b>11.66</b>								
		<b>Terminal EBIT margin</b>							
<b>WACC</b>	<b>13.0%</b>		<b>1.9%</b>	<b>2.9%</b>	<b>3.9%</b>	<b>4.9%</b>	<b>5.9%</b>	<b>6.9%</b>	<b>7.9%</b>
Cost of equity	13.0%	<b>9.0%</b>	24.85	30.25	35.64	41.04	46.44	51.83	57.23
Pre-tax cost of debt	10.4%	<b>10.0%</b>	22.87	27.22	31.57	35.93	40.28	44.63	48.99
Normal tax rate	19.0%	<b>11.0%</b>	21.31	24.88	28.45	32.02	35.59	39.16	42.73
After-tax cost of debt	8.4%	<b>12.0%</b>	20.06	23.03	25.99	28.96	31.92	34.89	37.85
Share of equity	100.0%	<b>13.0%</b>	19.04	21.52	24.01	<b>26.50</b>	28.99	31.48	33.97
Share of debt	0.0%	<b>14.0%</b>	18.18	20.29	22.39	24.50	26.61	28.72	30.83
<b>Fair value per share in PLN (today)</b>	<b>23.44</b>	<b>15.0%</b>	17.45	19.25	21.05	22.85	24.65	26.45	28.25
<b>Fair value per share in PLN (in 12 months)</b>	<b>26.50</b>								

Source: East Value Research GmbH

### Peer Group Analysis

The following summarizes the companies, which in our view are comparable to SMT's main subsidiary iAlbatros.

Our list only contains providers of Travel & Expense Management solutions. It is important to note that iAlbatros does not directly compete with the large Global Distribution Systems (GDS) such as Amadeus IT Holding SA, Sabre Corp. and Travelport Worldwide Ltd., which enable automated transactions between travel vendors and agencies. Instead, the subsidiary is using the APIs (Application Programming Interfaces) of those companies in its own software solution.

- (1) *Fraedom (previously Spendvision)*: Fraedom, which is based in London/UK, has developed a modular software solution that helps automate and manage the entire Travel & Expense management process. It can be integrated with different kinds of Travel Management Companies (TMCs), Online Booking Tools (OBTs), Global Distribution Systems (GDSs) and ERPs. Fraedom belongs to the listed Hogg Robinson Group, an international corporate travel services company, which in fiscal-year 2014/15 had revenues of GBP 330.1m. Its client list includes e.g. De Beers, Visa, Mitsubishi and Barclaycard.
- (2) *KDS*: KDS, which is based in Paris/France, has developed SaaS solutions (Maverick, T&E Flex, Neo), which address the complete Travel and Expense (T&E) lifecycle, from policy definition and enforcement, online self-booking, through automated expense processing and invoice reconciliation. KDS is iAlbatros' main competitor in France. Its customers include e.g. Airbus, Alcatel-Lucent, Carrefour, Coca-Cola, Henkel and Vinci.
- (3) *Concur Technologies*: Concur Technologies Inc., which is based in Bellevue/US, is a provider of integrated travel and expense management solutions for corporate clients. The company delivers cloud computing software solutions mainly in the US (84% of total sales), which are mostly provided on a subscription basis. It has >20,000 customers in >150 countries. In fiscal-year 2014/15, Concur generated sales of USD 703m. It employs c. 4,900 employees.

In September 2014, the German software company SAP announced that it would buy 100% in Concur for USD 8.3bn in order to strengthen its operations in the area of cloud services further.

- (4) *MobileXpense*: MobileXpense, which is based in Brussels/Belgium, has developed a SaaS-based end-to-end solution for Travel & Expense Management, which according to our research is directed mainly at European customers. It supports integration with different partners e.g. travel management companies, online booking tools, credit card providers. The company's client list includes e.g. Fuji Film, ADVA Optical Systems, Danone, Brussels Airlines.

## Profit and loss statement

in PLNm	2014*	2015E	2016E	2017E	2018E	2019E
<b>Revenues</b>	<b>236.01</b>	<b>124.00</b>	<b>170.80</b>	<b>262.30</b>	<b>462.01</b>	<b>707.92</b>
Cost of goods sold	-191.50	-109.37	-147.74	-225.84	-396.18	-605.98
<b>Gross profit</b>	<b>44.52</b>	<b>14.63</b>	<b>23.06</b>	<b>36.46</b>	<b>65.84</b>	<b>101.94</b>
Other operating income	5.86	0.40	0.41	0.42	0.42	0.43
Selling & administration expenses	-28.04	-9.92	-14.52	-22.30	-39.27	-60.17
Other operating expenses	-4.12	-0.40	-0.55	-0.51	-0.47	-0.57
<b>EBITDA</b>	<b>18.22</b>	<b>4.71</b>	<b>8.39</b>	<b>14.07</b>	<b>26.52</b>	<b>41.63</b>
Depreciation & amortization	-3.44	-1.61	-2.22	-3.41	-6.01	-9.20
<b>Operating income</b>	<b>14.78</b>	<b>3.10</b>	<b>6.17</b>	<b>10.66</b>	<b>20.51</b>	<b>32.42</b>
Net financial result	-0.47	-1.20	-0.80	-0.40	0.10	0.50
<b>EBT</b>	<b>14.31</b>	<b>1.90</b>	<b>5.37</b>	<b>10.26</b>	<b>20.61</b>	<b>32.92</b>
Profit/loss from discontinued operations	17.10	75.93	0.00	0.00	0.00	0.00
Income taxes	-5.21	-1.03	-1.02	-1.95	-3.92	-6.26
Minority interests	-1.13	-0.24	0.00	0.00	0.00	0.00
<b>Net income / loss</b>	<b>25.08</b>	<b>76.57</b>	<b>4.35</b>	<b>8.32</b>	<b>16.69</b>	<b>26.66</b>
EPS	2.22	6.70	0.37	0.71	1.43	2.29
DPS	0.00	0.00	0.00	0.00	0.00	0.00
<b>Share in total sales</b>						
Revenues	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Cost of goods sold	-81.14 %	-88.20 %	-86.50 %	-86.10 %	-85.75 %	-85.60 %
Gross profit	18.86 %	11.80 %	13.50 %	13.90 %	14.25 %	14.40 %
Other operating income	2.48 %	0.32 %	0.24 %	0.16 %	0.09 %	0.06 %
Selling & administration expenses	-11.88 %	-8.00 %	-8.50 %	-8.50 %	-8.50 %	-8.50 %
Other operating expenses	-1.74 %	-0.32 %	-0.32 %	-0.19 %	-0.10 %	-0.08 %
EBITDA	7.72 %	3.80 %	4.92 %	5.37 %	5.74 %	5.88 %
Depreciation & amortization	-1.46 %	-1.30 %	-1.30 %	-1.30 %	-1.30 %	-1.30 %
Operating income	6.26 %	2.50 %	3.62 %	4.07 %	4.44 %	4.58 %
Net financial result	-0.20 %	-0.97 %	-0.47 %	-0.15 %	0.02 %	0.07 %
EBT	6.06 %	1.53 %	3.15 %	3.91 %	4.46 %	4.65 %
Profit/loss from discontinued operations	7.25 %	61.23 %	0.00 %	0.00 %	0.00 %	0.00 %
Income taxes	-2.21 %	-0.83 %	-0.60 %	-0.74 %	-0.85 %	-0.88 %
Minority interests	-0.48 %	-0.19 %	0.00 %	0.00 %	0.00 %	0.00 %
Net income / loss	10.63 %	61.75 %	2.55 %	3.17 %	3.61 %	3.77 %

\* Results include Codemedia and SMT Software Services, which were sold in Q3/15; also, they account for a one-off of PLN 17.4m from the sale of the advertising agency Lemon Sky

## Balance Sheet

in PLNm	2014*	2015E	2016E	2017E	2018E	2019E
<b>Assets</b>						
Cash and cash equivalents	14.41	131.41	92.25	84.30	61.59	39.98
Inventories	1.29	6.29	2.02	1.86	3.26	4.98
Trade accounts and notes receivables	59.10	30.58	30.42	43.12	75.95	116.37
Other receivables	29.73	18.60	17.08	26.23	46.20	70.79
Financial assets available-for-sale	0.07	0.07	0.08	0.09	0.10	0.11
Other short-term financial assets	17.72	30.00	31.00	32.00	33.00	34.00
Assets-held-for-sale	0.00	0.00	0.00	0.00	0.00	0.00
<b>Current assets</b>	<b>122.31</b>	<b>216.95</b>	<b>172.85</b>	<b>187.59</b>	<b>220.09</b>	<b>266.23</b>
Property, plant and equipment	2.60	1.50	1.52	1.54	1.56	1.58
Other intangible assets	5.82	3.06	3.42	5.25	9.24	14.16
Goodwill	7.37	4.40	4.40	4.40	4.40	4.40
Investments in subsidiaries	0.54	0.29	0.39	0.60	1.06	1.63
Other assets	8.81	4.63	6.38	9.79	17.25	26.43
Deferred tax assets	2.76	0.00	0.00	0.00	0.00	0.00
<b>Non-current assets</b>	<b>27.90</b>	<b>13.88</b>	<b>16.11</b>	<b>21.59</b>	<b>33.52</b>	<b>48.21</b>
<b>Total assets</b>	<b>150.21</b>	<b>230.83</b>	<b>188.96</b>	<b>209.18</b>	<b>253.61</b>	<b>314.44</b>
<b>Liabilities</b>						
Short-term financial liabilities	14.44	12.50	0.00	0.00	0.00	0.00
Other liabilities	9.98	6.34	8.73	13.40	23.61	36.17
Trade payables	29.02	13.48	14.17	20.42	35.82	54.79
Other provisions	2.46	1.24	1.71	2.62	4.62	7.08
Pension provision	0.22	0.09	0.12	0.18	0.32	0.50
Liabilities relating to assets-held-for-sale	0.00	0.00	0.00	0.00	0.00	0.00
<b>Current liabilities</b>	<b>56.12</b>	<b>33.65</b>	<b>24.72</b>	<b>36.63</b>	<b>64.37</b>	<b>98.54</b>
Long-term financial debt	19.25	37.30	0.00	0.00	0.00	0.00
Deferred tax liabilities	0.13	0.00	0.00	0.00	0.00	0.00
<b>Long-term liabilities</b>	<b>19.37</b>	<b>37.30</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Total liabilities</b>	<b>75.49</b>	<b>70.95</b>	<b>24.72</b>	<b>36.63</b>	<b>64.37</b>	<b>98.54</b>
<b>Shareholders equity</b>	<b>73.08</b>	<b>159.88</b>	<b>164.24</b>	<b>172.55</b>	<b>189.24</b>	<b>215.90</b>
Minority interests	1.64	0.00	0.00	0.00	0.00	0.00
<b>Total liabilities and equity</b>	<b>150.21</b>	<b>230.83</b>	<b>188.96</b>	<b>209.18</b>	<b>253.61</b>	<b>314.44</b>

\* Includes Codemedia and SMT Software Services, which were sold in Q3/15

## Cash Flow Statement

in PLNm	2014	2015E	2016E	2017E	2018E	2019E
Net income / loss	25.08	76.57	4.35	8.32	16.69	26.66
Depreciation & amortization	3.44	1.61	2.22	3.41	6.01	9.20
Change of working capital	-64.83	15.47	9.02	-10.76	-28.59	-35.20
Others	-10.98	-1.41	-0.47	-0.92	-2.00	-2.46
<b>Net operating cash flow</b>	<b>-47.29</b>	<b>92.24</b>	<b>15.13</b>	<b>0.05</b>	<b>-7.90</b>	<b>-1.80</b>
<b>Cash flow from investing</b>	<b>12.01</b>	<b>5.22</b>	<b>-2.60</b>	<b>-5.26</b>	<b>-10.02</b>	<b>-14.14</b>
Free cash flow	-35.28	97.46	12.53	-5.21	-17.92	-15.94
<b>Cash flow from financing</b>	<b>33.37</b>	<b>19.55</b>	<b>-51.69</b>	<b>-2.74</b>	<b>-4.79</b>	<b>-5.67</b>
Change of cash	-1.92	117.00	-39.16	-7.95	-22.71	-21.61
Cash at the beginning of the period	16.32	14.41	131.41	92.25	84.30	61.59
Cash at the end of the period	14.41	131.41	92.25	84.30	61.59	39.98

## Financial ratios

	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E
<b>Profitability and balance sheet quality</b>								
Gross margin	18.86%	11.80%	13.50%	13.90%	14.25%	14.40%	14.72%	14.85%
EBITDA margin	7.72%	3.80%	4.92%	5.37%	5.74%	5.88%	6.21%	6.56%
EBIT margin	6.26%	2.50%	3.62%	4.07%	4.44%	4.58%	4.91%	5.26%
Net margin	10.63%	61.75%	2.55%	3.17%	3.61%	3.77%	4.07%	4.38%
Return on equity (ROE)	41.39%	65.73%	2.69%	4.94%	9.23%	13.16%	13.66%	14.07%
Return on assets (ROA)	18.41%	40.82%	2.46%	4.38%	7.17%	9.21%	9.18%	9.53%
Return on capital employed (ROCE)	9.99%	1.55%	3.04%	5.01%	8.78%	12.16%	12.50%	12.78%
Economic Value Added (in PLNm)	-2.87	-22.66	-16.42	-13.87	-8.08	-1.91	-1.36	-0.76
Net debt (in PLNm)	1.72	-111.60	-123.21	-116.21	-94.37	-73.59	-91.57	-114.11
Net gearing	2.35%	-69.80%	-75.02%	-67.34%	-49.87%	-34.09%	-36.99%	-40.03%
Equity ratio	48.65%	69.26%	86.92%	82.49%	74.62%	68.66%	69.62%	70.61%
Current ratio	2.18	6.45	6.99	5.12	3.42	2.70	2.81	2.92
Quick ratio	1.63	5.71	6.22	4.35	2.65	1.93	2.04	2.15
Net interest cover	31.71	2.58	7.72	26.66	-205.13	-64.85	-42.44	-34.60
Net debt/EBITDA	0.09	-23.68	-14.68	-8.26	-3.56	-1.77	-1.90	-2.03
Tangible BVPS	6.18	14.63	14.13	14.72	15.85	18.13	20.85	24.06
Capex/Sales	5.45%	4.21%	-1.52%	-2.01%	-2.17%	-2.00%	-1.48%	-1.48%
Working capital/Sales	21.66%	28.75%	15.59%	14.25%	14.28%	14.29%	14.32%	14.33%
Cash Conversion Cycle (in days)	39	66	35	30	30	30	30	30
<b>Trading multiples</b>								
EV/Sales	0.23	0.44	0.32	0.21	0.12	0.08	0.07	0.06
EV/EBITDA	3.00	11.59	6.51	3.88	2.06	1.31	1.13	0.97
EV/EBIT	3.70	17.62	8.85	5.12	2.66	1.69	1.43	1.21
P/Tangible BVPS	2.38	1.00	1.04	1.00	0.93	0.81	0.71	0.61
P/E	6.63	2.19	39.38	20.62	10.27	6.43	5.41	4.57
Adj. P/E	20.84	262.07	39.38	20.62	10.27	6.43	5.41	4.57
P/FCF	-4.71	1.72	13.68	-32.93	-9.57	-10.75	8.86	7.13

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