ALTA Invest

Technology

DATALAB D.D.

4th November 2013 www.datalab.si

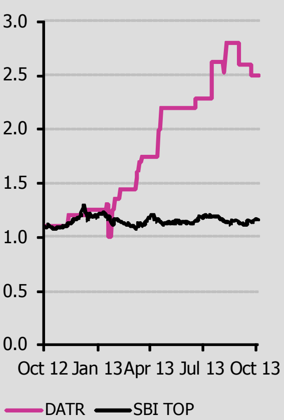
LJSE ticker: DATR
Bloomberg: DATR SV

Target price:
5.0 EUR

Previous target price:
5.0 EUR, BUY (17.05.13)

Recommendation:
BUY

12 months stock performance in EUR



Growth company.

Regional exposure.

Ambitious plan.

Attractive valuation.

ESOP programme.

Stock data as of 04.11.2013			
Market price (EUR)	2.50	Market Cap (EUR)	4.2
52 week range (EUR)	1.01-2.80	No. of Shares	1.7
Avg. daily trade vol., EUR(k)	3.50	Free float	61%
Average daily % of stock traded	0.113%	Dividend yield	0.0%

Price performance	3 months	12 months	Multiples:	TTM	2014F
			P/E	6.3	5.0
price change in %	9.2%	127.1%	EV/Sales	0.9	0.8
SBI TOP index change in %	-2.4%	6.0%	EV/EBITDA	3.5	2.6
relative to SBI TOP index in %	11.9%	114.2%	EV/EBIT	10.2	5.9

Key figures (According to International Accounting Standards) *Consolidated data in thousand EUR.*

Income statement:

thousand €	2012	2013	2014F	2015F
Sales	5,940.3	6,635.5	8,031.9	11,070.7
Growth yoy	*15.4%*	*11.7%*	*21.0%*	*37.8%*
EBITDA	1,648.1	1,876.0	2,361.5	3,537.3
Margin	*27.7%*	*28.3%*	*29.4%*	*32.0%*
EBIT	558.0	609.1	1,049.4	2,043.8
Margin	*9.4%*	*9.2%*	*13.1%*	*18.5%*
Net income	551.2	651.5	868.8	1,671.1
Growth	*9.3%*	*18.2%*	*33.3%*	*92.3%*
EPS	**0.33**	**0.38**	**0.48**	**0.86**

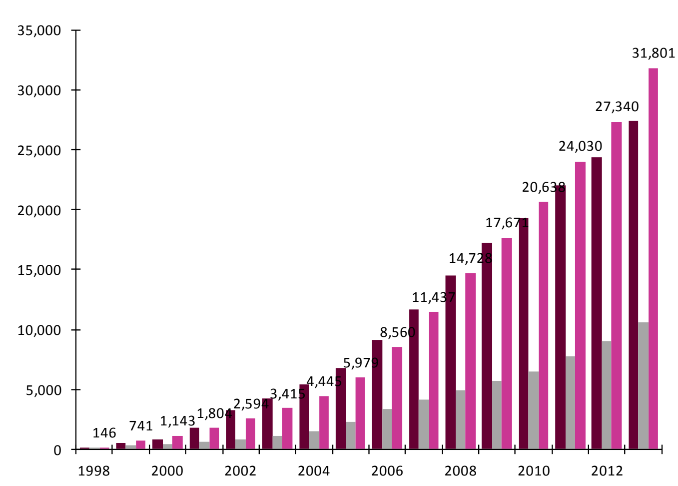
Balance sheet:

thousand €	2012	2013	TTM
Investments	137.1	210.2	210.2
Cash	163.3	205.4	205.4
Debt	1,697.0	2,296.2	2,296.2
Net debt	1,396.6	1,880.6	1,880.6
Equity	3,949.5	4,541.7	4,541.7
Assets	7,202.7	8,383.6	8,383.6
Fin. D/E	43.0%	50.6%	50.6%
Fin. D/A	23.6%	27.4%	27.4%
Debt/EBITDA	1.0	1.2	0.6

* EPS includes new issued shares due to ESOP program. Fiscal year for Datalab Group is from 1st July till 30th of June (difference to calendar year).

Investment Thesis:

- **High growth:** Datalab has a high growth rate of users, customers and value of installed base. Namely it had an average yearly growth of 45.4% in 1998 to 2013 period for installed value in EUR, a 40.3% CAGR for costumers (companies) and 43.2% CAGR for number of users. Respective average annual growth rates in 2008 to 2013 period are 13.6%, 16.8% and 16.6%, while for 2013 versus 2012 12.6%, 17.7% and 16.3% to EUR 27.5m, 10.640 companies and 31.801 users. Some slowdown versus beginning years is normal and what is encouraging is that growth rates in the last 5 years remain strong and healthy. Even more so because this was achieved in harsh economic environment, as Slovenia remained in recessionary environment during 2013, negatively affecting new license sales and license pricing, and while bankruptcy procedures are eradicating some clients and with it consumer base. We note however that the discrepancy between install base growth and revenues growth in 2013 versus 2012 is in the fact that Datalab is trying to catch new customers also through more favorable pricing.



	2009	2010	2011	2012	2013
New license value in EUR 000	2,669	2,040	2,830	2,319	3,066
New companies	784	835	1,246	1,285	1,605
New users	2,943	2,967	3,392	3,317	4,454
New hosting licenses		52	133	272	534
New hosting license value in EUR 000		50	122	241	360

ALTA Invest, investicijske storitve, d.d.
Železna cesta 18
SI-1000 Ljubljana
Slovenia
phone: + 386 1 32 00 300
e-mail: invest@alta.si
http://www.alta.si

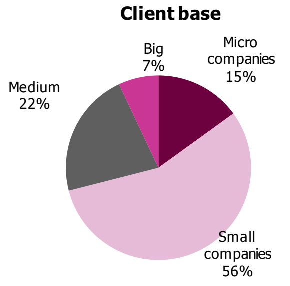
Head of Research:
Sašo Stanovnik
saso.stanovnik@alta.si

Head of Trading:
Igor Taljat
igor.taljat@alta.si

Here we have to also note that Datalab is a rare IT company listed on the exchange on the domestic market (as well as in region) and a rare real growth company.

The crucial numbers to look at for growth is the increase in number of users. This is translating into current and future revenues. Here the important fact is that their sales partners continue to push Datalabs solutions (mainly Pantheon) and that training program is successful in order to capture new users (individual and adapted solutions).

The reason for management optimism for the future, as they expect more than 30% yearly growth (30% to 90% for all segments in all markets), can be found in a current environment of fragmented IT suppliers (most have only EUR 1 to 2m of revenues). As the complexity of platform and application grows, so will the need for R&D and with it economy of scale. This is even more likely in case of significant tax, accounting or regulatory changes (for example Croatia's entrance to European Union on July 1st 2013; more efficient tax evasion prevention etc.). Smaller competitors will not be able to provide sufficient IT support so their customers will likely switch to bigger companies (opportunity for Datalab). Recession is helping in that respect, as more price pressures are putting more pressure on economy of scale and therefore consolidation in the region (sentiment change for consolidation has been seen by Datalab's management in the current year). Here we must also note that growth potential can also be seen when comparing current customer base with all the companies in the region. Also Datalab is counting on constant acquisition growth (not just organic) through which they would gain new customer base. With management guidance of at least 30% growth, Datalab is definitely a growth company and their growth is relatively inexpensive (PEG of only 0.24); however management will have to deliver this growth.



- **Regional Exposure:** The company is present in the whole Balkan region, with a nice diversification of sales, which is actually increasing. Namely in 2013, Datalab achieved 38% of sales on the domestic market (45% in 2012), 19% in Croatia (16% in 2012), 14% in Bosnia and Herzegovina (12% in 2012), 14% in Serbia, 5% in Montenegro, 9% in Macedonia and 1.4% in Bulgaria. On the domestic market the company had around 9% market share (small and mid-size companies; ranked third place; 2010 data) which they probably kept during 2013.

Regional segmentation on growth dynamics is seen in following table:

Licence sold by country	2007	2008	2009	2010	2011	2012	2013
Slovenia	1,097	1,004	772	577	724	730	1,215
Croatia	407	560	374	494	741	515	954
BiH	675	573	750	531	901	723	705
Serbia	644	774	630	696	738	631	813
Montenegro	38	165	138	95	198	190	201
Macedonia	43	63	259	296	258	345	432
Kosovo	5	0	18	49	48	58	15
Bulgaria	0	21	22	81	37	10	42
Total	2,909	3,160	2,963	2,819	3,645	3,202	4,377

New clients	2007	2008	2009	2010	2011	2012	2013
Slovenia	299	245	238	257	372	424	696
Croatia	109	138	116	140	116	133	310
BiH	200	144	194	165	429	422	202
Serbia	134	132	146	138	236	170	214
Montenegro	10	56	44	54	42	52	63
Macedonia	20	14	43	64	54	78	114
Kosovo	1	0	6	9	5	9	4
Bulgaria	0	1	9	17	12	5	6
Total	773	730	796	844	1,266	1,293	1,609

In 2013 they will continued by expanding into Albania (together with Swiss company Mattig Management Partners). If Albanian operation will go well they could re-enter Romanian market as well. In Macedonia they succeeded in developing cloud services for SME together with MK Telekom. As for Bulgaria, the operations are temporarily suspended.

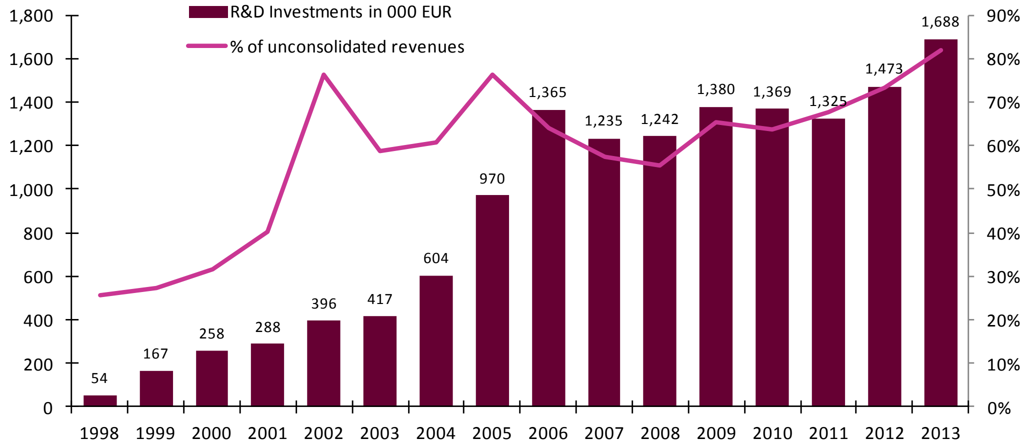
An interesting fact here provided by Datalab is that in order to cover cost of entering a new market they need about 2000 users that usually translates into 600 companies. This means there are normally 3 to 4 users per costumer (company) for their product. Also we must note the focus of the company is on medium, smaller and micro companies in the region.

- **Ambitious strategy.** Datalab strategic plan is very ambitious and its realization would mean that the growth of the company would accelerate and with it the value of its shares. Namely they see 30 to 90% growth in all segments in next few years. Given the 2013 guidance, management delivered in terms of revenues (EUR 6.6m versus guided EUR 6.5m) but missed in terms of net income (EUR 0.7m versus guided EUR 1.2m). Most likely this is a consequence of tougher price environment. We note that in 2012 they guided revenue dynamic of EUR 9.4m for 2014 and 14.9m for 2015, with EUR 2.5m and 4.9m net profit respectively.

This plan shows that management is confident that the region has high growth potential for its services and products and that Datalabs PANTHEON is a very competitive product, especially given current environment. Additionally margins should expand considerably through economies of scale (R&D costs per revenue) and improve profitability. Plan also shows ambition, innovation and boldness of the company and its management. For example they will try to capitalize on changes in agriculture sector in Europe, where European Commision will want a larger administration data for subsidies (FarmAccounting).

- **PharmAccounting prospects:** PharmAccounting project has a significant growth prospect as this is relatively new and underdeveloped area with only a few IT players. Therefore although this part of business currently has only a low stake in Datalabs revenue structure it can be a very important factor in future growth and growth perspective of the company. It also shows the innovative strength in Datalab. Additionally EU is supporting financing of R&D, which lowers the overall risk profile of this project.

- **R&D orientated company:** They are still implementing around 160 improvements per month and one major version of product every quarter, although the company in 2013 focused more on bigger upgrades. New product generation is envisioned every four years with development cost of around EUR 3m. This means a CAPEX cycle of 4 years in the amount of EUR 3m with possible future trends shortening this cycle. But this also means Datalab is keeping pace with competition and is improving customer experience and satisfaction.



Additionally we note that the number of errors decreased from 579 in 2011 and 503 in 2012 to 404 in 2013.

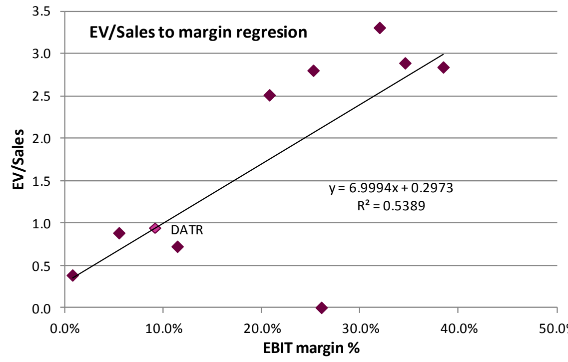
We also note that so far Slovenian government was more inclined to R&D tax benefits. Effective tax rate should therefore be around 0 in the following years, positively affecting net income. This materialized in 2013 and helped the annual bottom line. We see this continuing in future years.

- **Consumer retention easier due to switching problems**: Users don't like switching platforms or applications as this creates significant costs and takes time for training. Also they are unaccustomed to the new platform. Therefore as long as IT provider is providing sufficient support and provides proper and timely upgrades it will maintain most of its users (high barriers for switching). 2012 data showed Datalabs customer satisfaction is high so we are assured that there will be a very high level of customer retention. This thesis is supported by churn rate.

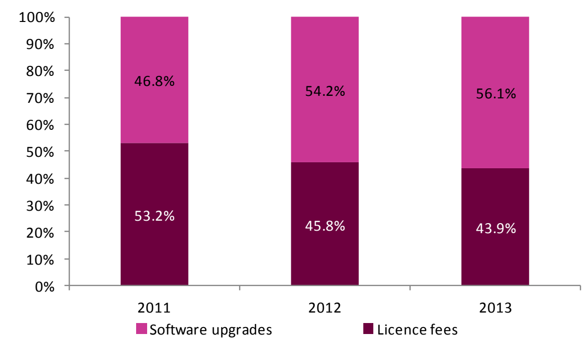
On the other hand switching problems is problematic for Datalab in terms of gaining new customers. But here management believes that partly this can be resolved by acquiring smaller companies (so called "partner from competitor") and partly there will be switching due to smaller IT companies failing to provide sufficient support (as they will not have a cash flow for needed

R&D to keep pace with IT and regulatory changes). Additionally their distribution also comes through accountants, as they are motivated to push for the same platform in all of their companies. This is a prudent strategy to generate new customers and then retaining them.

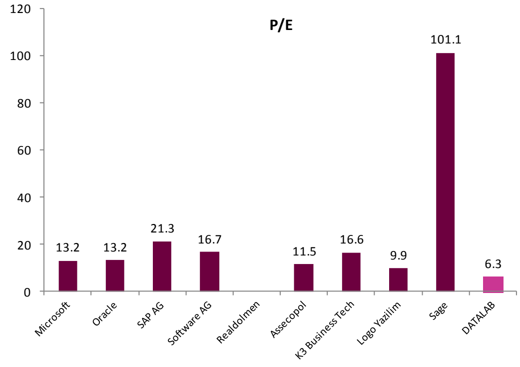
- **Margin expansion possibility:** Currently the company is in a growth phase so the focus is on gaining user base. Due to high investments into solutions (CAPEX) on one hand and still relatively low user base on the other, operating margins remain low (high ratio of R&D expenses to sales). We believe that further on we can see an increase in EBIT margin as costs will distribute on wider user base (especially amortization costs as they are tied to R&D). We here especially emphasize the regression between sales multiple and margin (also given in relative valuation segment of this document) shows valuation upside if this thesis of increased future margin materializes.

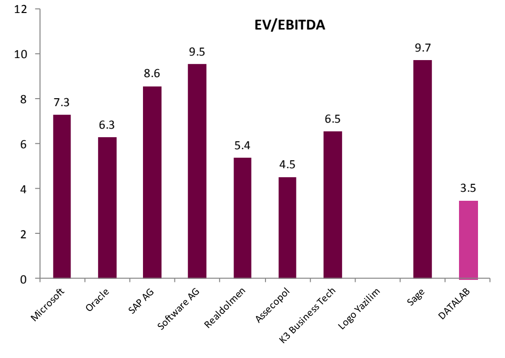


- **Improving revenue mix:** Since retention ratio of customers is high and company is maturing to some extent, the revenue mix is slowly rebalancing toward upgrade fees and other more stabile maintenance connected fees (already bigger share of fees is coming from upgrade fees than new user fees). This gives the company more visibility of revenues as well as more recession proof business model. Additionally margins could benefit as well (with increases in upgrade fees). In turn this lowers the risk profile of the company.



- **Attractive valuation:** With current TTM P/E multiple of 6.3 and EV/EBITDA multiple of 3.5 we can hardly say this company is expensive, especially for IT company that plans high growth. Also P/B is at 0.9 and EV/Sales at 0.9.





- **ESOP program:** The company has a program to pay employees a variable in a form of companies stock options (through transferal of its own shares or issuing new shares). This stock option plan is trying to tie employee's motivation with shareholding interests, providing better incentive (motivation) and is also favorably taxed. Overall we see this option plan as positive.

- **Not focused on government contracts:** Their mix of customers practically excludes government and big state owned companies, so the revenues are less under threat due to different political lobbying and therefore healthier (and stabile), while this also proves their competitiveness. On the other hand part of their revenues (5.2% of revenues excluding capitalized own products in 2013) comes from »Subsidies, grants, allowances, compensations and other revenue« given by different governments. This source of revenues can be tricky and we deem these revenues as less healthy than regular business revenues.

Risks:

- **Timing of revenue growth acceleration unknown:** Although we believe the magement thesis for increase in future growth rates (to be above 30% per year), we see the problem in forecasting the exact timing. Namely users will swich to Datalab and other bigger IT providers in mass only when smaller IT companies will not be able to keep pace with R&D expenses. This could happen in 2013-2014 period or a couple of years later. This is recognised by managament and they will adapt to the dynamic with costs, hiring and R&D expenses. Nevertheless this also means that management guidance, as well as our forecasts, could miss severely (in level and timing). Namely in scenario where current dynamic remains in place and without acquisition and industry consolidation growth, we can see only around 11% growth of revenues in future years. Although this is still a nice growth rate it loweres our valuation and it somewhat erodes growth story (PEG 0.66). Current environment is currently not helping Datalab and the timing of acceleration could be delayed for another year.

  Additional risk factor that cannot be ignored is threat of big competitors (like SAP or Microsoft) in terms of revenue growth and margins of Datalab. Namely, these big players have substantial advantage in brand name and especially economies of scale, although they are less focused and flexible for providing services to smaller companies.

- **Weak macroeconomic situation:** The situation in Slovenia did not improve during 1H13 and will not significantly improve during 2H13. If GDP contracted by 2.5% in Slovenia in 2012, it should further decrease by 2.4% YoY in 2013 according to IMAD (institute of Macroeconomic Analysis and Development). As for 2014 IMAD again sees a 0.8% YoY contraction of GDP with 2.7% decrease in private consumption and 4.0% lower fixed investments (versus 1.6% decrease in 2013). Only in 2015 IMAD for now envisions a weak recovery. Situation in Croatia is also concerning as its GDP fell by 2.0% in 2012 and is forecasted to fell by 0.6% in 2013. On the other hand other markets are beginning to recover, although the economic situation is still fragile. Overall we can state Datalab will face one more though year, as customers will continue to postpone any major IT infrastructure change or upgrades, but after that economic environment should gradually pick up and with it help Datalab goals regarding growth.

  A negative side effect of more cost saving orientated customers is a trend of shift to hosting. The evidence of this is that in 2012 new license sale fell by 10.8%, the most in 10 years. Also compared to 16% license growth in 2013, there was a 96% rise in hosting licenses. Additionally negative effect is seen in pricing pressures and therefore margin erosion, so overall profitability will be affected.

Country	2011	2012	2013F	2014F	2015F	2016F	2017F	2018F
Albania	2.80	1.60	1.70	2.10	2.50	2.50	2.50	2.50
Bosnia and Herzegovina	1.26	-0.70	0.50	2.00	3.50	4.00	4.00	4.00
Bulgaria	1.84	0.78	0.50	1.60	2.50	2.50	3.00	3.00
Croatia	-0.05	-1.98	-0.60	1.50	2.00	2.50	2.50	2.50
Kosovo	5.19	2.35	2.64	4.24	4.55	5.00	4.50	4.50
FYR Macedonia	2.86	-0.27	2.19	3.22	3.63	3.99	3.96	3.97
Montenegro	3.22	-0.55	1.52	2.19	2.29	2.39	2.62	2.73
Serbia	1.57	-1.75	2.00	1.96	2.20	2.50	2.75	3.00
Slovenia	0.71	-2.54	-2.59	-1.45	0.86	2.11	2.44	2.63

  Source: International Monetary Fund, World Economic Outlook Database, October 2013

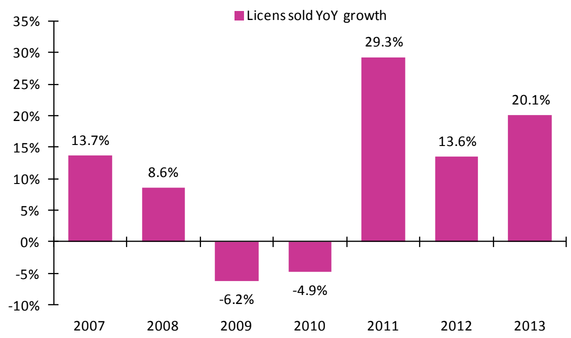
  Additionally although region presents an opportunity, Balkan region is also a highly macroeconomically and politically unstable region with a legal system and controlling mechanism still in early stages of development. Firstly, providing profitable growth in the region is difficult and evades many other Slovenian companies that expanded into the region. Secondly, payment discipline can be a problem. Datalab had EUR 399,230 receivables overdue on 30.6.2013 versus 269,809 on 30.6.2013 (of which 229,376 more than 30 days; nominal value of receivables EUR 352,004). This represents or 25% of all receivables versus 23% a year ago. So there is a risk of further receivables write-off that would affect net income (but not cash flow), however management is trying to cope with this risk through regular activation codes and pushing for payment discipline.

- **Intangibles risk:** There is EUR 5,681 thousand of intangibles in the company's balance sheet or 122% of equity. Although this is somewhat normal for an IT company having intellectual property etc. (Pantheon represents EUR 5,226 thousand; Farm Accounting EUR 310 thousand), this poses some risk for severe and quick balance sheet deterioration, a risk to equity capital value and a risk for one offs in income statement. Also acquisitions create goodwill that can be easily impaired if plans do not materialize. This will create impairment risk that would affect bottom line numbers.

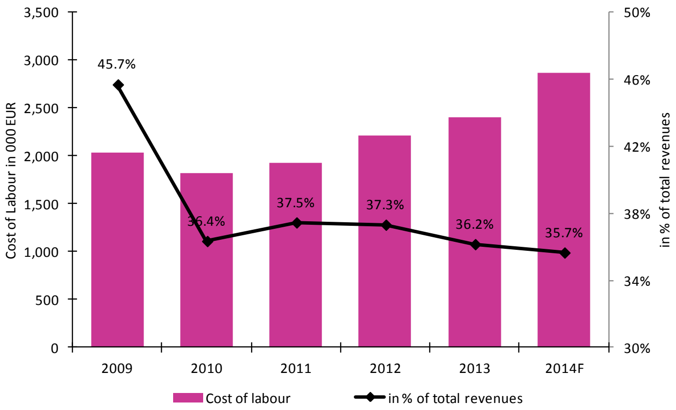
We must also note that in order to retain customers the Group needs to maintain high R&D expenses. CAPEX in intangibles in the last few years was in average around 40% of all net sales revenues (70% of Datalabs d.d. revenues). Significantly lower R&D expenses would probably lead to a loss of users with a couple of year lag. Nevertheless management believes net CAPEX should lighten in 3 to 5 years period.

- **Complex relation with sales partners:** Their sales partners are not only selling Pantheon platform but additional applications for platform (170 providers have around 700 aplication on Datalabs market). Here Datalab must be carefull not to provide additional solutions that are in direct competition with its sales partner solution (CRM solutions, online shopping solutions etc.). This is somewhat limiting the range of sales products of Datalab. Also in can easily happen that their sales partners are pushing more on implementation of their own additional application and less of Datalabs solutions as this means more share of revenues for them.

- **License sales growth volatility:** New license sold in a year varies significantly from a year to year. If we take into account years from 2007 onwards, the growth rate of new clients varied from -5.6% to 50.9%. Also new license sales varied from -10.8% to 30.7%. Although these ranges still point to a positive skew, this sales volatility is creating some level of unpredictability. For shares and results this creates a higher level of risk.



- **Possible implementations bottleneck:** It is not enough just to gain new customers and with it users, but also their retention. In order to retain customers Datalab has to provide on time user training and maintenance. Without this the switch to competitor's solutions is more likely. Datalab is trying to widen this bottleneck through more user friendly solutions and solutions that need less maintenance. Nevertheless to prevent this bottleneck Datalabs cost of labor could increase (+21% and +13% in number of employees for 2012 and 2013 respectively).



- **Dilution effect of ESOP:** ESOP plan can dilute EPS and valuation of the stock due to constant increase of shares. If Datalabs liquidity will sufice, ESOP program will be carried through buyback of its own shares. In this case we see less of a dilution and main issue will be the buyback price. If liquidity needs won't be good enough due to expansion and R&D activities, then additional shares will be issued for ESOP program. This will dilute the stock value and constant monitoring of this program is needed. In 2012 Datalab issued 64,327 new shares (+3.9%) while it has 27,887 treasury shares. On 30.06.2013 Datalab has 20,034 treasury shares and 1,737,412 outstanding shares. It bought back 16.434 shares.

2013 Results and Recent news

Double digit growth or revenues and net income.

thousand €	2012	2013	YoY	4Q12	3Q13	4Q13	QoQ	YoY
Sales	5,940.3	6,635.5	**11.7%**	1,808.2	2,977.7	1,809.4	**-39.2%**	**0.1%**
EBITDA	1,576.1	1,786.6	**13.4%**	517.5	869.4	412.3	**-52.6%**	**-20.3%**
Margin	26.5%	26.9%		28.6%	29.2%	22.8%		
EBIT	558.0	609.1	**9.2%**	262.1	262.5	140.7	**-46.4%**	**-46.3%**
Margin	9.4%	9.2%		14.5%	8.8%	7.8%		
Net income	551.2	651.5	**18.2%**	242.0	226.7	243.4	**7.4%**	
Margin	9.3%	9.8%		13.4%	7.6%	13.5%		

Double digit net sales growth.

- Revenues increased by 11.7% YoY in 2013, which is a slight slowdown versus 1H13 when YoY increase was at 13.1%. This is due to weak 4Q13 with only a 0.1% YoY increase in revenues. However management commented that new license sales are bottoming out (up by 4% YoY), while hosting services continued its upward trend (+54%) and maintenance fees recording a healthy 12% YoY growth. We note marketing revenues surged by 49% while education revenues dropped by 65% YoY. Here we note that the problem continues in pricing due to which revenues are not following the growth rates of new users.

Due to growth on foreign markets.

- Revenues on the domestic market increased by 2.2% to EUR 3.802m, where adverse economic environment is limiting demand for their products, especially for licensing. On foreign markets Datalab Group recorded significantly higher 23.8% YoY growth rate, showing a better economic environment versus the domestic market and a better penetration possibility. Balance between new license and maintenance fees is now in favor of the former. Namely revenue mix between new license sold and software upgrades is at 44%:56% or EUR 1.6m versus EUR 2.1m.
- Other revenues increased by 12.1% to EUR 1.963m and are in majority represented by capitalized own products.

Operating margin slightly contracted.

- COGS increased by 13.1% YoY therefore slightly deteriorating gross margin. Namely COGS amounted to EUR 2.318m and represented 46% of all operating costs. On the other hand labor costs increased by 8.2% YoY to EUR 2.400m (48% of all costs; with headcount increase by 18 to 157). D&A costs amounted to EUR 1.177m and surged 74% YoY. Other costs also increased and as a consequence operating costs increased by 23.1% YoY.
- EBIT increased by 9.2% YoY while margins eroded slightly by 0.2% p.p.
- Net financial expenses improved from -153 thousand EUR to -96 thousand EUR. The main contributor was the absence of write-offs in the amount of EUR 67 thousand. However also interest expenses were lower despite higher financial gearing.

But net income surged by 18.2% YoY.

- Deferred tax increase helped net income to grow by 18.2%. This lower (wiped out) effective tax rate was expected and should boost bottom line also in future years.
- Operating cash flow deteriorated from EUR 1.9m to EUR 1.5m in 2013 due to NWC increase.
- Intangibles are at EUR 5.7m on 30.06.2013, with total assets at EUR 8.4m and equity of EUR 4.7m (+ EUR 0.7m YoY). Account receivables increased by 14.7% YoY or by 189 thousand EUR. Inventories on the other hand decreased (due to write-off), but the amount is negligible. Payables increased by only 2.3% YoY, therefore net working capital need increased by 132 thousand EUR.
- Financial debt stood at EUR 2.3m, 34.9% more YoY or EUR 0.6m. Here we note structure improved as 74% of outstanding debt is long term (previously 52%).

in EUR	Slovenia			Coratia			BiH			Serbia		
	2013	2012	YoY	2013	2012	YoY	2013	2012	YoY	2013	2012	YoY
Net sales	**1,890**	**2,042**	**-7%**	**916**	**706**	**30%**	**706**	**563**	**25%**	**679**	**620**	**10%**
Domestic market	**1,831**	**1,984**	**-8%**	**816**	**609**	**34%**	**688**	**552**	**25%**	**652**	**596**	**9%**
Licence fees	281	435	-35%	390	256	52%	341	244	40%	288	329	-12%
Software upgrades	1,045	1,000	4%	324	315	3%	245	210	17%	290	199	46%
Membership fees	39	43	-9%	16	17	-6%	11	14	-21%	17	19	-11%
Services	195	157	24%	35	10	250%	61	57	7%	38	36	6%
Marketing	3	17	-82%	23	9	156%	21	10	110%	6	4	50%
Training	45	193	-77%	9	3	200%	9	14	-36%	8	8	0%
Hosting	205	137	50%	2	0		0	0		0	0	
Other	0	0		17	0		0	3	-100%	5	0	
Rent	0	0		0	0		0	0		0	2	-100%
Foreign market	**59**	**83**	**-29%**	**100**	**97**	**3%**	**19**	**8**	**138%**	**27**	**24**	**13%**
Licence fees	19	27	-30%	0	0		1	0		0	1	-100%
Software upgrades	16	11	45%	0	0		0	0		1	2	-50%
Membership fees	0	0		0	0		0	0		0	0	
Services	2	0		0	0		0	0		0	0	
Marketing	6	0		0	0		0	0		0	0	
Training	15	21	-29%	0	0		0	0		0	0	
Cooperation work	0	25	-100%	100	97	3%	18	7	157%	26	20	30%
Other	0	0		0	0		0	0		0	0	
Expenses	1,835	1,815	1%	921	698	32%	668	601	11%	711	682	4%
COGS	1,136	1,184	-4%	672	449	50%	477	442	8%	520	480	8%
Licence fees	85	861	-90%	111	295	-62%	94	145	-35%	101	123	-18%
Rent	46	39	18%	13	13	0%	17	19	-11%	19	19	0%
Cost of services	343	273	26%	261	137	91%	188	113	66%	136	193	-30%
of that sales	84	109	-23%	118	11	973%	88	47	87%	72	128	-44%
Labour costs	670	615	9%	240	216	11%	168	142	18%	179	183	-2%
Financial Revenues	6	6	0%	4	0		0	58	-100%	7	16	-56%
Financial Expenses	11	10	10%	0	0		0	188	-100%	2	36	-94%
Net Profit	59	198	-70%	3	2	50%	41	-36	-214%	-46	-57	-19%

in EUR	Montenegro			Macedonia			Bulgaria			Total		
	2013	2012	YoY	2013	2012	YoY	2013	2012	YoY	2013	2012	YoY
Net sales	**244**	**183**	**33%**	**453**	**393**	**15%**	**71**	**22**	**222.7%**	**4,960**	**4,529**	**10%**
Domestic market	**244**	**183**	**33%**	**333**	**288**	**16%**	**71**	**22**	**222.7%**	**4,636**	**4,234**	**9%**
Licence fees	102	87	17%	162	154	5%	26	4	550.0%	1,591	1,509	5%
Software upgrades	79	51	55%	54	55	-2%	15	5	200.0%	2,052	1,835	12%
Membership fees	0	0		3	3	0%	1	1	0.0%	87	97	-10%
Services	61	44	39%	107	62	73%	28	11	154.5%	525	377	39%
Marketing	0	0		1	0		0	0		54	40	35%
Training	2	0		2	14	-86%	0	1	-100.0%	74	233	-68%
Hosting	0	0		2	0		1	0		210	137	53%
Other	0	0		0	0		0	0		22	3	633%
Rent	0	0		0	0		0	0		0	2	-100%
Foreign market	**0**	**0**		**120**	**105**	**14%**	**0**	**0**		**325**	**317**	**3%**
Licence fees	0	0		13	30	-57%	0	0		33	58	-43%
Software upgrades	0	0		10	5	100%	0	0		27	18	50%
Membership fees	0	0		0	1	-100%	0	0		0	1	-100%
Services	0	0		24	18	33%	0	0		26	18	
Marketing	0	0		0	0		0	0		6	0	
Training	0	0		0	0		0	0		15	21	-29%
Cooperation work	0	0		73	51	43%	0	0		217	200	9%
Other	0	0		0	0		0	0		0	0	
Expenses	200	153	31%	443	370	20%	74	70	5.7%	4,863	4,389	11%
COGS	106	78	36%	250	211	18%	15	21	-28.6%	3,176	2,865	11%
Licence fees	68	46	48%	123	81	52%	8	4	100.0%	590	1,555	-62%
Rent	7	7	0%	16	11	45%	0	3	-100.0%	120	111	8%
Cost of services	30	22	36%	104	107	-3%	7	8	-12.5%	1,075	853	26%
of that sales	0	0		37	40	-8%	5	0		404	335	21%
Labour costs	93	75	24%	186	152	22%	60	48	25.0%	1,597	1,431	12%
Financial Revenues	0	0		0	0		0	0		17	80	
Financial Expenses	0	15	-100%	3	1	200%	0	1	-100.0%	16	251	-94%
Net Profit	44	14	214%	7	19	-63%	-6	-48	-87.5%	102	92	11%

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Relative valuation:

Trades at significant discount…

Company name	EV/S TTM	EV/S 2014F	EV/S 2015F	EV/EBITDA TTM	EV/EBITDA 2014F	EV/EBITDA 2015F	EV/EBIT TTM	EV/EBIT 2014F	EV/EBIT 2015F
Microsoft	2.9	2.6	2.4	7.3	7.0	6.5	8.3	7.8	6.8
Oracle	2.8	3.4	3.3	6.3	6.6	6.6	7.4	7.1	6.7
SAP AG	3.3	4.0	3.7	8.6	10.9	9.9	10.3	11.8	10.8
Software AG	2.5	2.4	2.2	9.5	8.6	7.8	12.1	10.2	9.1
Realdolmen	0.4	0.4	n.a.	5.4	n.a.	n.a.	n.a.	n.a.	n.a.
Assecopol	0.7	0.7	0.7	4.5	4.5	4.4	6.3	6.1	6.1
K3 Business Tech	0.9	0.8	n.a.	6.5	4.9	n.a.	16.1	n.a.	n.a.
Logo Yazilim	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sage	2.8	2.8	2.7	9.7	9.3	8.8	11.1	10.2	9.6
DATALAB	0.9	0.8	0.6	3.3	2.6	1.8	10.2	5.9	3.0
Average	2.0	2.1	2.5	7.2	7.4	7.3	10.2	8.9	8.2

Company name	P/S TTM	P/S 2014F	P/S 2015F	P/E TTM	P/E 2014F	P/E 2015F	P/B TTM	P/B 2014F	P/B 2015F
Microsoft	3.7	3.3	3.1	13.2	12.2	11.2	3.6	2.8	2.5
Oracle	3.1	3.8	3.6	13.2	10.6	9.8	3.5	2.7	2.2
SAP AG	3.2	3.9	3.5	21.3	15.5	13.8	4.6	3.6	3.1
Software AG	2.4	2.3	2.1	16.7	13.0	11.7	2.3	1.9	1.8
Realdolmen	0.4	0.4	n.a.	neg.	6.5	n.a.	n.a.	n.a.	n.a.
Assecopol	0.7	0.7	0.7	11.5	11.5	11.4	0.8	0.7	0.7
K3 Business Tech	0.7	0.6	n.a.	16.6	7.1	n.a.	0.9	n.a.	n.a.
Logo Yazilim	n.a.	n.a.	n.a.	9.9	6.8	n.a.	2.7	n.a.	n.a.
Sage	2.6	2.6	2.5	n.a.	14.2	13.0	3.7	3.6	3.3
DATALAB	0.7	0.5	0.4	6.6	5.2	2.9	1.0	0.8	0.7
Average	2.1	2.2	2.6	14.6	10.8	11.8	2.8	2.5	2.3

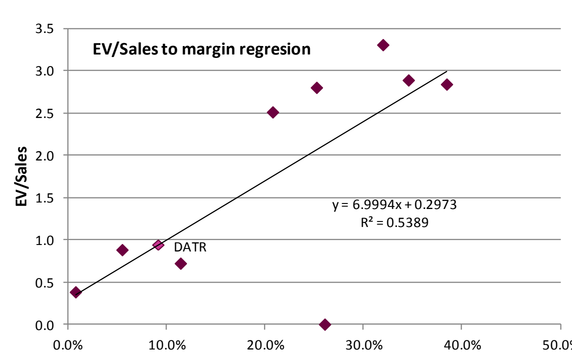
…but as a smaller IT company, also ROE is lagging.

Company name	EBITDA margin TTM	EBIT margin (%)	Profit margin (%)	ROE TTM	ROA TTM	Assets turnover	Div. yield (%)	Assets/ Equity	Net debt to EBITDA
Microsoft	39,6%	34,6%	28,2%	27,6%	15,9%	0,56	2,08	1,74	-2,04
Oracle	45,1%	38,5%	29,9%	26,8%	16,9%	0,57	0,71	1,98	-0,68
SAP AG	38,5%	32,0%	23,1%	21,7%	18,5%	0,80	1,47	1,85	0,24
Software AG	26,3%	20,8%	14,1%	13,7%	6,9%	0,49	1,71	2,05	0,43
Realdolmen	7,1%	0,7%	-6,3%	n.a.	n.a.	n.a.	0,00	n.a.	0,00
Assecopol	15,9%	11,4%	6,3%	7,0%	3,6%	0,57	4,75	1,88	-0,16
K3 Business Tech	13,4%	5,5%	3,8%	5,3%	2,6%	0,69	0,68	2,01	1,39
Logo Yazilim	37,2%	26,1%	24,2%	27,3%	18,6%	0,77	0,00	1,47	-0,31
Sage	28,8%	25,2%	3,2%	3,7%	1,9%	0,59	3,03	2,16	0,53
DATALAB	26,9%	9,2%	10,4%	15,2%	8,3%	0,79	0,00	1,85	1,05
Average	28,0%	21,6%	14,0%	16,6%	10,6%	0,63	1,60	1,89	-0,07

ROE decomposition (company/peer average):

	Company	Peer average
EBITDA margin	26.9%	28.0%
EBIT/EBITDA	34.1%	77.3%
NI/EBIT	113.7%	64.9%
Profit margin	10.4%	14.0%
Sales to assets	0.79	0.63
Assets to Equity	1.85	1.89
ROA	8.3%	10.6%
ROE	**15.2%**	**16.6%**

The company states that their main competitors are big global IT players (Microsofts Dynamic NAV, SAP All-in-one solutions) on one hand and small local IT players on the other. This creates difficulties using peer analysis. Namely, big IT players operate on different IT segments and their stock is very liquid, while small local players are a better peer alternative, but are mainly private companies, so gaining data is difficult and several are not listed. Therefore peer analysis has a limited value and DCF valuation is more appropriate. Nevertheless we included in the peer group a mix between big IT competitors and some smaller European IT software companies.



Peer valuation target: EUR 5.1

The peer data shows that Datalab is trading at a discount, but this is also likely due to lower liquidity and somewhat lower profitability (possibly due to lower bargaining power and economy of scale). EV/Sales regression on operating margins implies a EUR 2.5 target price. This has a 25% weighting. Other multiples used in valuation are EV/EBITDA, EV/EBIT and P/E. Overall peer comparison gives a target price EUR 5.1.

Outlook:

Revenue assumption unchanged despite adverse environment.

- Management believes that in the next few years growth will accelerate as fragmented market will consolidate, but the structure of revenues will change. Organic and non-organic driven growth should together bring growth levels of 30% to 90%. We must note however that management stated the exact timing of growth acceleration is hard to predict, as it depends on market conditions. The lag in realization is therefore possible. For 2013 revenues guidance was slightly surpassed.
- In our opinion the management forecasts are optimistic given current regional environment and political situation. Therefore we are more conservative in our estimates and we have to some extend calculated in a lag in realization of management plan, but we have however calculated an acceleration of growth during 2014. Given our GDP based model and management guidance we see growth of 21.0% growth in 2014 and around 37% growth in next three years.

But margin assumption was lowered due to 2013 miss.

- Margins should increase in the following years as development costs will be applied to more users and revenues. As for competitive pressure on margins, it will be counterbalanced in full by industry consolidation. On the other hand in order to prevent bottlenecks and to retain customers the company will have to increase sales network. Therefore we see high EBIT margin expansion, while EBITDA margin expansion will be less substantial. Again we must note we see a lag in net income growth compared to management guidance and could be adjusted if/when guidance materializes.
- We have lowered our operating margin assumption for 2014-2017 period, as 2013 results were lower than expected due to lower than expected operating margins. In the mentioned period operating margins are now on average 3.6 p.p. lower than in previous forecasts.

CAPEX will remain elevated.

- Therefore for 2014 our forecast is EUR 8.0m for revenues and EUR 0.9m for net profit. For 2015 respective numbers are EUR 11.1m and EUR 1.7m.
- CAPEX is forecasted at EUR 14.8m in 2014-2018 period while effective tax rate could increase only long term as in midterm tax deductions for R&D will remain high.

all data in EUR 000

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Sales	4,462.6	4,996.8	5,148.7	5,940.3	6,635.5	8,031.9	11,070.7	15,340.2	18,134.9	19,903.2
Sales growth		12.0%	15.4%	15.4%	11.7%	21.0%	37.8%	38.6%	18.2%	9.8%
EBITDA	939.9	1,384.3	1,581.3	1,648.1	1,876.0	2,361.5	3,537.3	5,062.5	5,993.9	6,588.3
EBITDA margin	21.1%	27.7%	30.7%	27.7%	28.3%	29.4%	32.0%	33.0%	33.1%	33.1%
EBIT	266.8	525.3	594.7	558.0	609.1	1,049.4	2,043.8	3,400.0	4,142.6	4,681.6
EBIT margin	6.0%	10.5%	11.6%	9.4%	9.2%	13.1%	18.5%	22.2%	22.8%	23.5%
EBT	219.5	483.6	527.5	439.9	517.2	906.9	1,865.0	3,256.8	4,033.0	4,552.7
EBT margin	4.9%	9.7%	10.2%	7.4%	7.8%	11.3%	16.8%	21.2%	22.2%	22.9%
Net income	202.2	447.1	504.4	551.2	651.5	868.8	1,671.1	2,712.9	3,191.5	3,602.8
Net income growth		121.1%	149.4%	9.3%	18.2%	33.3%	92.3%	62.3%	17.6%	12.9%

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Fixed assets	3,396.1	4,050.3	4,740.3	5,430.3	6,372.7	7,470.2	8,862.0	10,634.4	12,546.0	14,727.5
PPE	111.9	60.5	258.8	308.8	307.2	217.9	192.7	202.8	229.4	243.2
Intangible assets	3,212.6	3,913.6	4,369.6	4,911.2	5,681.5	6,679.2	7,869.3	9,393.5	11,020.4	12,930.1
LT-investments	5.5	1.2	1.2	1.2	6.2	6.4	6.6	6.8	7.0	7.2
Other fixed assets	66.1	74.9	110.6	209.0	377.8	566.6	793.3	1,031.3	1,289.1	1,547.0
Current assets	2,077.8	2,172.8	1,692.0	1,772.3	2,010.9	2,285.1	3,264.4	5,074.9	7,095.7	8,682.5
Inventories	8.8	7.3	8.2	44.8	7.2	8.8	12.1	16.7	19.8	21.7
Trade receivables	1,811.4	1,789.6	1,327.9	1,280.6	1,469.5	1,859.0	2,673.0	4,010.7	4,741.4	4,805.7
Cash	85.6	149.4	102.7	163.3	205.4	208.5	232.1	244.9	289.5	317.7
ST-investments	103.4	126.4	139.9	137.1	210.2	31.0	98.2	478.9	1,640.4	3,051.8
Other current assets	68.6	100.1	113.3	146.5	118.6	177.9	249.0	323.7	404.7	485.6
Total Assets	5,473.9	6,223.2	6,432.3	7,202.7	8,383.6	9,755.3	12,126.4	15,709.3	19,641.8	23,410.0
Debt	1,043.2	1,488.3	1,518.8	1,697.0	2,296.2	2,572.2	2,672.2	2,672.2	2,672.2	2,672.2
ST-debt	198.9	1,488.2	580.4	817.7	604.7	677.4	703.7	703.7	703.7	703.7
LT-debt	844.4	0.0	938.4	879.2	1,691.5	1,894.8	1,968.5	1,968.5	1,968.5	1,968.5
Provisions	12.9	12.5	14.6	40.5	47.8	72.7	110.6	168.3	255.9	389.3
Trade payables	1,374.9	915.5	694.8	841.3	856.0	1,036.1	1,428.1	1,978.9	2,339.4	2,567.5
Other liabilities	731.9	959.6	743.6	602.0	528.4	528.4	656.8	850.9	1,063.9	1,268.0
Minority intrest	46.8	70.7	87.4	72.4	113.5	135.2	177.0	244.8	324.6	402.6
Equity	2,264.1	2,776.6	3,373.0	3,949.5	4,541.7	5,410.5	7,081.5	9,794.5	12,986.0	16,110.1

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net profit margin	4.5%	8.9%	9.8%	9.3%	9.8%	10.8%	15.1%	17.7%	17.6%	18.1%
Asset turnover	0.82	0.80	0.80	0.82	0.79	0.82	0.91	0.98	0.92	0.85
ROA	3.7%	7.2%	7.8%	7.7%	7.8%	8.9%	13.8%	17.3%	16.2%	15.4%
Equity multiplier	2.42	2.24	1.91	1.82	1.85	1.80	1.71	1.60	1.51	1.45
ROE	8.9%	16.1%	15.0%	14.0%	14.3%	16.1%	23.6%	27.7%	24.6%	22.4%
CAPEX/Depreciation	218.0%	167.6%	159.1%	147.3%	149.7%	169.2%	178.0%	192.3%	189.3%	200.9%
Financial debt/Equity	0.46	0.54	0.45	0.43	0.51	0.48	0.38	0.27	0.21	0.17
Financial debt/Assets	0.19	0.24	0.24	0.24	0.27	0.26	0.22	0.17	0.14	0.11
Net debt/EBITDA	0.90	0.87	0.81	0.85	1.00	1.10	0.57	0.20	-0.08	-0.32
Working capital/ Sales	11.9%	20.6%	14.5%	10.9%	12.5%	13.0%	13.5%	15.0%	15.0%	13.0%
ROIC	8.0%	11.5%	11.8%	12.0%	11.7%	12.9%	20.6%	26.7%	24.6%	23.2%

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Discounted Cash Flow Valuation:

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	TV
NOPLAT	1,049.4	2,043.8	3,400.0	3,935.5	4,447.5	3,960.3	4,175.7	4,465.5	4,815.2	5,213.4	4,061.9
NOPLAT growth	28.7%	94.8%	66.4%	15.7%	13.0%	-11.0%	5.4%	6.9%	7.8%	8.3%	-22.1%
Depreciation	1,157.7	1,373.0	1,533.2	1,708.9	1,751.5	2,000.5	2,147.2	2,234.4	2,272.0	2,270.7	2,259.6
Depretiation/Sales	14.4%	12.4%	10.0%	9.4%	8.8%	9.3%	9.3%	9.0%	8.5%	7.9%	7.7%
CAPEX	2,220.6	2,658.4	3,196.7	3,504.9	3,830.2	3,464.1	3,134.6	2,838.0	2,571.1	2,330.9	2,395.8
CAPEX/Sales	27.6%	24.0%	20.8%	19.3%	19.2%	16.2%	13.6%	11.5%	9.7%	8.2%	8.2%
Change in net working capital	214.0	448.9	804.4	417.8	-133.7	193.3	207.8	223.4	240.2	258.2	92.5
NWC/Sales	13.0%	13.5%	15.0%	15.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
FCF to firm	**-227.5**	**309.6**	**932.1**	**1,721.7**	**2,502.5**	**2,303.4**	**2,980.6**	**3,638.4**	**4,275.9**	**4,895.0**	**3,833.3**

FCF valuation	
Value in forecasting period	9,392
Continuing value	10,123
Total enterprise value	**19,515**
Net debt	2,193
Equity value	**17,322**
No. of shares (in mio)	2.2
Equity value per share	**7.9**

WACC	2014	TV
Tax rate	0.0%	17.0%
Cost of debt	6.6%	6.6%
Beta	1.2	1.2
Cost of equity	16.6%	16.3%
Debt/Equity	45.4%	46.6%
WACC	**13.8%**	**13.3%**
Perpetuity growth rate		**2.5%**

DCF valuation implies EUR 7.9

Our DCF valuation long term growth is set at 2.5%, WACC at 13.3%. WACC includes a 4.7% country risk premium and a small cap premium of 2.5%. EBITDA margin in the period after 2017 is set at 30.0%, with long term EBITDA lower at 25.0% (due to competitive pressures). Implied long term EV/EBITDA multiple is 4.8. Target price is nevertheless higher from EUR 7.4 to EUR 7.9, mostly due to slightly lower WACC assumption and despite lower NOPLAT estimates.

Key determinants of value are shares issued through ESOP program. We assumed that own shares (20,034 treasury shares or 1.2% off issued shares) will be given to employees and then additional shares will be issued in 2014 till 2017 period (therefore we used significantly higher number of shares). Namely in mentioned period CAPEX should remain high and financing possibility for share buybacks will be limited. After this period share buybacks could be used for ESOP. Also we must note that our estimates are below managements (especially in terms of margins which were additionally lowered in this report) so further upside changes of estimates is very possible if management expectations begin to materialize. On the other hand if acceleration of growth fails, we would revise estimates downward.

Sensitivity analysis:

Sales growth 2019-2023

EBITDA margin 2019-2023	4.5%	5.5%	6.5%	7.5%	8.5%	9.5%	10.5%
27.0%	6.1	6.5	6.9	7.4	7.8	8.3	8.8
28.0%	6.3	6.7	7.1	7.6	8.0	8.5	9.0
29.0%	6.5	6.9	7.3	7.7	8.2	8.7	9.2
30.0%	6.6	7.0	7.5	7.9	8.4	8.9	9.4
31.0%	6.8	7.2	7.7	8.1	8.6	9.1	9.6
32.0%	7.0	7.4	7.8	8.3	8.8	9.2	9.8
33.0%	7.1	7.6	8.0	8.5	8.9	9.4	9.9

Perpetuity Growth

Perpetuity EBITDA margin	1.6%	1.9%	2.2%	2.5%	2.8%	3.1%	3.4%
22.0%	6.7	6.8	6.9	7.0	7.2	7.3	7.4
23.0%	7.0	7.1	7.2	7.3	7.5	7.6	7.7
24.0%	7.3	7.4	7.5	7.6	7.8	7.9	8.0
25.0%	7.5	7.7	7.8	7.9	8.1	8.2	8.4
26.0%	7.8	7.9	8.1	8.2	8.4	8.5	8.7
27.0%	8.1	8.2	8.4	8.5	8.7	8.8	9.0
28.0%	8.3	8.5	8.6	8.8	9.0	9.1	9.3

Perpetuity Growth

WACC	1.6%	1.9%	2.2%	2.5%	2.8%	3.1%	3.4%
11.8%	8.2	8.3	8.5	8.6	8.8	9.0	9.2
12.3%	7.9	8.1	8.2	8.4	8.5	8.7	8.9
12.8%	7.7	7.8	8.0	8.1	8.3	8.4	8.6
13.3%	7.5	7.6	7.8	7.9	8.0	8.2	8.3
13.8%	7.4	7.5	7.6	7.7	7.8	8.0	8.1
14.3%	7.2	7.3	7.4	7.5	7.6	7.8	7.9
14.8%	7.0	7.1	7.2	7.3	7.5	7.6	7.7

Final target price calculation:

Illiquidity discount applied.

Target price maintained at EUR 5.0

Our valuation is based on a 20%:80% mix between peer and DCF valuation, as we believe relative valuation has limitations in terms of peer group comparability. The DCF gave a slightly higher valuation than in our previous report due to lower WACC, but this was contra balanced by lower peer valuation. We applied 30% discount due to illiquidity. Our target price is maintained at EUR 5.0, which implies a target P/E ratio of 12.5 and EV/EBITDA of 5.9. We deem these multiples as appropriate given the current ROE of 15.2%, EBIT margin at 9.2% and its high growth potential. Therefore buy recommendation is also unchanged.

Top5 shareholders:	
Mertelj Andrej	38.7%
Raiffeisen Bank	19.7%
Jagodic Zvone	9.7%
Zajc Lojze	4.7%
Rodman Moreno	1.8%

Brief Company profile

Datalab is a Slovenian software company. Their main product is the PANTHEON business IT system (based on MS SQL for Windows and Linux environment) for monitoring and optimization of business processes thereby increasing productivity and lowering operating costs. Datalab develops, sells and implements the software directly, through its Partner Channel and through accounting firms. It is orientated on small and midsized companies in Slovenia and SouthEast Europe. Its domestic market share is around 9% (2010 data).

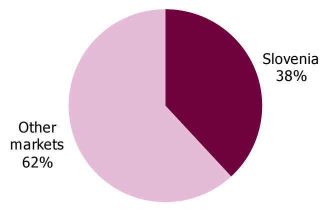
Sources of revenues:

- Licence fees and user fees for Pantheon IT system (declining segment).
- Upgrade contracts for Pantheon (main source of revenues).
- Leasing and subscription user fees (Pantheon Hosting, growing segment).
- Membership fees for support.
- Education and certification fees, advertisements etc.

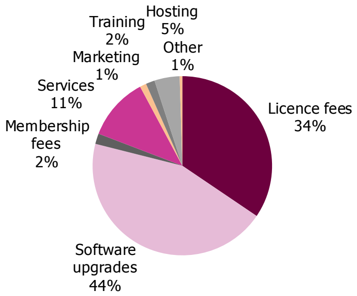
Datalab Group is organized into three levels. The controlling company is in charge of coordination of network, joint services and especially research and development. Second level consists of daughter companies, accountable for localization of PANTHEON, sales and support in respective country. On a third level there are partners or internal ServiceDesks for implementation of PANTHEON, support and activation of users.

Fiscal year for Datalab Group is from 1st July till 30th of June (difference to calendar year).

Group sales by region (2013)



Group sales by segment (2013)



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Hold	9	14%	0%
Sell	20	31%	9%

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Sašo Stanovnik, Head of research. On the day of the public release, the author of the recommendation did not held securities of the relevant issuer.

First release of the recommendation was performed on 10.05.2012.
Quarterly updates are planned for data, valuation, target price and recommendation.

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