ALTA Invest

DATALAB D.D.

7th May 2012

www.datalab.si

Technology

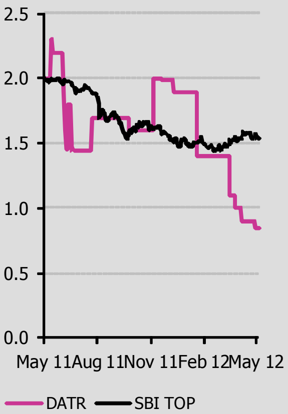
LJSE ticker: DATR
Bloomberg: DATR SV

Target price:
4.7 EUR

Previous target price:
Initiation of coverage.

Recommendation:
BUY

12 months stock performance in EUR



Stock data as of 7th May 2012

Market price (EUR)	0.85	Market Cap (EUR)	1.4m
52 week range (EUR)	0.85 - 2.30	No. of Shares	1.7m
Avg. daily trade vol., EUR(k)	4.96	Free float	58.4%
Average daily % of stock traded	0.186%	Dividend yield	0.0%

Price performance	3 months	12 months	Multiples:	TTM	2013F
			P/E	2.9	2.6
price change in %	-39.3%	-52.8%	EV/Sales	0.4	0.3
SBI TOP index change in %	4.3%	-21.1%	EV/EBITDA	1.6	1.2
relative to SBI TOP in %	-41.8%	-40.1%	EV/EBIT	4.5	3.0

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

Income statement:					**Balance sheet:**			
thousand €	**2010**	**2011**	**2012F**	**2013F**	*thousand €*	**2010**	**2011**	**TTM**
Sales	4,996.8	5,148.7	5,937.9	7,780.3	Investments	126.4	139.9	139.9
Growth yoy	*12.0%*	*3.0%*	*15.3%*	*31.0%*	Cash	149.4	102.7	102.7
EBITDA	1,384.3	1,544.7	1,514.2	1,906.2	Debt	1,488.3	1,518.8	1,518.8
Margin	*27.7%*	*30.0%*	*25.5%*	*24.5%*	Net debt	1,212.5	1,276.1	1,276.1
EBIT	525.3	558.1	461.3	735.1	Equity	2,776.6	3,373.0	3,373.0
Margin	*10.5%*	*10.8%*	*7.8%*	*9.4%*	Assets	6,223.2	6,432.3	6,432.3
Net income	447.1	504.4	404.9	553.7	Fin. D/E	53.6%	45.0%	45.0%
Growth	*121.1%*	*12.8%*	*-19.7%*	*36.7%*	Fin. D/A	23.9%	23.6%	23.6%
EPS	**0.17**	**0.19**	**0.15**	**0.20**	Debt/EBITDA	1.1	1.0	1.0

* 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:

Growth company.

Regional exposure.

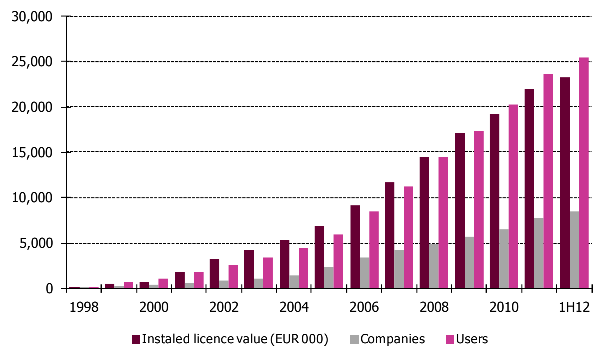
Attractive valuation.

ESOP programme.

Seeking strategic partner.

- **High growth:** Datalab has a high growth rate of users, customers and value of installed base. Namely it had an average yearly growth of 51.5% in 1998 to 2011 period for installed value in EUR, a 44.3% CAGR for costumers (companies) and 47.9% CAGR for number of users. Respective average annual growth rates in 2007 to 2011 period are 17.1%, 16.9% and 20.3%. Slowdown of growth is expected as the company was started in 1998 and that in the first years the growth rates were exceptionally high. Nevertheless growth rates still show that Datalab remains a growth company. 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).

  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). Sales partners are promoted to sell Pantheon with discounts up to 40%, while for upgrade contracts up to 35%.



  In 1H12 (calendar 2H11) we continue to see a nice 7.5% growth of users compared to 2011 (with 9.7% growth in companies), while management expects an additional acceleration in 2H12. In Slovenia installed licences increased by 4% in 1H12 and number of companies by 6% to 3,580. In Croatia installed licenses increased by 10% and number of companies by 4% to 1,212 companies. In BiH installed licenses increased by 11% while number of companies by 23% to 1,742. In Serbia installed licenses increased by 7% while companies by 9% to 1,190. A decline in number of consultants was caused by the termination of partnership with Blue Soft. In Montenegro respective growths of installed licenses and companies are +11% and +11% (262) in Kosovo +3% and +8% (39), while in Macedonia +18% and +16% (262).

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The reason for management optimism for the future, as they expect more than 30% yearly growth (30% to 90%), 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. Smaller competitors will not be able to provide sufficient IT support so their customers will likely switch to bigger companies (opportunity for Datalab). 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 0.1); however management will have to deliver this growth.

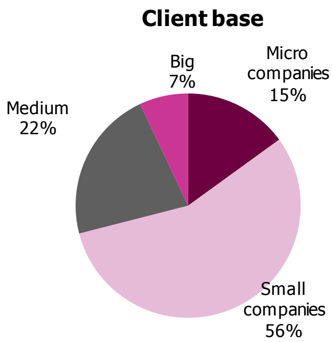
- **Regional Exposure:** The company is present in the whole Balkan region, with a nice diversification of sales. Namely in 1H12, Datalab achieved 41.1% of sales on the domestic market, 16.6% in Croatia, 13.1% in Bosnia and Herzegovina, 15.9% in Serbia, 4.1% in Montenegro, 8.6% in Macedonia and 0.6% in Bulgaria. On the domestic market the company has around 9% market share (small and mid-size companies; ranked third place), while their long term plan is to have around 7% market share in all target markets. This target and their estimates imply the ecosystem revenue would amount to EUR 70m, while Datalabs EUR 23m, again supporting view that this can continue to be a growth company.
Regional segmentation on growth dynamics is seen in following table:

Licence sold by country	2005	2006	2007	2008	2009	2010	2011	1H12
Slovenia	699	910	1,047	994	755	558	718	426
Croatia	129	266	399	547	382	481	729	312
BiH	118	714	665	557	724	507	868	461
Serbia	436	524	640	762	624	682	722	330
Montenegro	31	23	38	163	138	89	196	80
Macedonia	10	72	41	51	251	292	252	170
Kosovo	61	0	5	0	16	49	48	6
Bulgaria	0	0	0	15	18	71	35	5
Total	1,484	2,509	2,835	3,089	2,908	2,729	3,568	1,790

Licence value in EUR	2005	2006	2007	2008	2009	2010	2011	1H12
Slovenia	871,308	1,215,910	1,215,640	1,213,770	1,105,200	561,193	867,001	462,021
Croatia	102,319	223,426	351,746	551,238	358,679	386,468	790,679	304,470
BiH	83,560	442,139	448,687	368,167	458,754	314,843	365,471	150,192
Serbia	307,302	363,695	477,522	522,489	446,551	441,427	452,842	236,866
Montenegro	22,032	15,389	24,837	100,201	90,922	55,414	113,675	48,202
Macedonia	9,065	47,468	25,359	26,325	172,855	189,930	147,078	101,897
Kosovo	35,980	0	5,720	0	11,114	29,405	41,928	3,619
Bulgaria	0	0	0	14,365	10,742	42,765	19,236	3,295

New clients	2005	2006	2007	2008	2009	2010	2011	1H12
Slovenia	269	247	299	245	238	257	373	216
Croatia	47	114	109	138	116	141	116	47
BiH	46	219	200	144	194	165	438	331
Serbia	139	88	134	132	146	138	237	96
Montenegro	11	5	10	56	44	55	42	25
Macedonia	2	29	20	14	43	64	54	36
Kosovo	13	0	1	0	6	9	5	3
Bulgaria	0	0	0	1	9	17	12	3
Total	527	702	773	730	796	846	1,277	757

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.



- **High customer satisfaction rating:** They are implementing around 150 improvements per month and one major version of product every quarter. 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.

Datalab conducted a survey between their customers in the region. The survey showed 49% are satisfied and 28% very satisfied with the Pantheon solution. 5% of user rated as unsatisfied. Also 83% of user claimed that Pantheon is performing according to their expectations and 88% of users would recommend Pantheon. Also the share of satisfied customers is growing.

- **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). Above we already shown that Datalabs customer satisfaction is high so we are assured that there will be a very high level of customer retention.

  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). Also their distribution also comes through accountants, as they are motivated to push for the same platform in all of their companies. Again we see this as a prudent strategy to generate new customers and then retain 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).

  Also in the future mature phases a bigger share of revenues will come from maintenance and training, so this will also stabilize revenues and profit margins (already bigger share of fees is coming from upgrade fees than new user fees), not to mention enable dividend payments.

- **Attractive valuation:** With current TTM P/E multiple of 2.9 and EV/EBITDA multiple of 1.6 we can hardly say this company is expensive, especially for IT company that plans high growth.

- **Seeking strategic investor:** In past years the company searched for a strategic investor to invest additional capital into the company. The talks were unsuccessful with SIP and then with Enterprise Investors. The management stated that they will continue with the search. On one hand a new investor would inject capital into the company improving balance sheet and enable a higher CAPEX through cash flow and with it future growth. This would open Datalab possibilities to consolidate the industry in region at a higher pace and possibly enter new surrounding countries. On the other hand it could dilute somewhat current owners with additional share issue. Overall effect depends upon a price negotiated for a capital increase and future realization of plans. Here we must note that strategic investor could also buy into the company so this is one possible exit for current shareholders.

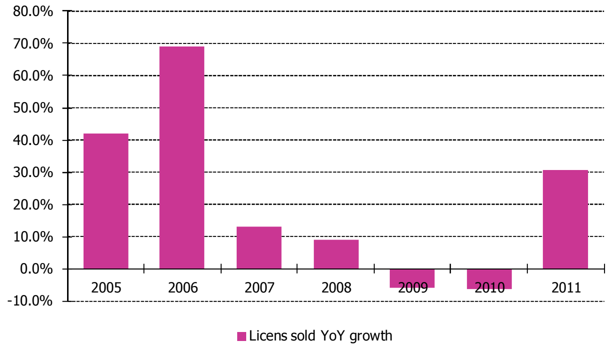
- **ESOP program:** The company has a program to pay employees a variable in a form of companies stock options (through transferal of its own shares or issuing new shares). This stock option plan is trying to tie employee's motivation with shareholding interests, providing better incentive (motivation) 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. Also it seems that current Slovenian government is more inclined to R&D tax benefits and corporate tax cuts (proposed to slowly lower to 15%). On the other hand part of their revenues (2% in 1H12) 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 increase in revenue growth 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 2012-2013 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 forecast could miss severely (in level and timing). Namely in scenario where current dynamic remains in place and without acquisition growth we can see only around 7% growth of revenues in future years. Although this is still a nice growth rate it loweres our valuation and it erodes growth story.

- **License sales grow 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 -6.2% 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.



- **Regional environment remains difficult:** 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. Economic recovery continues to be relatively low and economic environment remains difficult. This is translating into lower consumer and business sentiment as well as in deteriorating payment discipline. Providing profitable growth in the region is difficult and evades many other Slovenian companies that expanded into the region. Also M&A activity can be difficult as balance sheet health is often under question.

  Datalab has EUR 346,745 receivable overdue on 30.6.2011 (of which 196,504 more than 30 days; nominal value of receivables EUR 438,961) or 33% of all receivables. All receivables to sales ratio stands at 26%. This creates some risk of receivables write-off that would affect net income (but not cash flow), but management is managing this risk successfully through regular activation codes and pushing for payment discipline. Nevertheless we see here more difficulties if region goes back into recession.

- **Intangibles risk:** There are EUR 4.6m of intangibles in the company's balance sheet or 126% of equity. Although this is somewhat normal for an IT company having intellectual property etc. (Pantheon development has cost EUR 7m), this poses some risk for balance sheet deterioration and a risk to equity capital value. Also acquisitions create goodwill that can be easily impaired if plans do not realize. 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. Significantly lower R&D expenses would probably lead to a loss of users and companies with a couple of year lag. Nevertheless management believes net CAPEX should lighten in 3 to 5 years period.

- **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.

- **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.

- **Dilution effect of ESOP:** While ESOP program is a good emloyee scheme it does 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 wont 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.

9M12 Results and Recent news

Solid 9M12 results and great 3Q12

thousand €	9M11	9M12	YoY	3Q11	3Q12	YoY
Sales	3,718.5	4,132.1	**11.1%**	1,252.8	1,486.5	**18.7%**
EBITDA	1,043.3	1,058.6	**1.5%**	384.2	395.6	**3.0%**
Margin	28.1%	25.6%		30.7%	26.6%	
EBIT	332.4	295.9	**-11.0%**	138.7	129.9	**-6.3%**
Margin	8.9%	7.2%		11.1%	8.7%	
Net income	315.4	309.2	**-2.0%**	128.3	152.7	**19.1%**
Margin	8.5%	7.5%		10.2%	10.3%	

Double digit net sales growth.

- Revenue dynamic in 9M12 shows 14.0% YoY growth of net sales revenues with 20.9% YoY growth in the domestic market (46.6% of net sales), 13.6% YoY growth in EU markets (small share in overall revenues) and 8.6% growth in Balkan Region (53.3% of net sales).
- Additionally they recorded EUR 1m of own capitalized revenues, EUR 79.8 thousand of compensations and subventions (+12.2% YoY) and EUR 16.9 thousand of other revenues. Gross revenues therefore increased by 11.1% YoY and amounted 4,132 thousand EUR.
- 3Q12 results show growth acceleration as sales revenues increased by 18.7% YoY.
- Installed base's license value increased to EUR 1.3m to EUR 23.3m in 1H12 compared to 1H11, while users increased by 7.5% YoY to 25,405.

But margins contracted.

- Operating costs increased by 13.3% YoY or more than revenues in 9M12. The main contributor to expanding expenses were COGS that increased by 21.6% and present 37.9% of all operating expenses. The main contributors here to a rise were energy expenses, transportation costs and other services costs. The first two are related to the increase of energy prices. Cost of labor increased by 11.0% YoY and amounted EUR 1.6m. These costs are the main operating costs as they represent 42.0% of all operating expenses. EBITDA margin is at 25.6% or by 2.5 pp lower YoY. Also 3Q12 results showed a decrease of EBITDA margin.
- D&A costs increased by 7.3% YoY and amounted to EUR 0.7m. 9m12 EBIT margin is at 7.2%.
- Net financial result deteriorated as financial income decreased by 15.5%, while the financial expenses increased by 14.2% YoY. The main contributor here are increasing interest costs that increased by 20 thousand EUR to 80 thousand EUR.
- Effective tax rate remained low at 1%. Additionally some other extraordinary revenues were gained and partly compensated lower net financial result. Net income margin dropped. Namely net income amounted EUR 309,225 or 2% less YoY.

Segmental 1H12 data positive in terms of growth.

- The biggest assets are Intangibles with EUR 4.7m (68% of balance sheet, 126% of equity capital). Most of its value consists of purchased components and copyright pertaining to Pantheon (capitalization of software). Inventory of materials somewhat increased but they have lowered accounts receivables (slightly short term and by 30% long term). There was a significant increase also in cash and investments (again short term and long term), although long term investments increase are likely due to steady M&A activity.
- Equity is at EUR 3.7m, while financial debt amounts EUR 1.7m an increase of 13.3% from 30.6.2011. The structure of the debt improved as there is 70%:30% mix between long term and short term debt. Financial debt to EBITDA ratio remains low at 1.0, net debt to EBITDA 0.8.

in EUR	Slovenia		Coratia		BiH		Serbia		Montenegro		Macedonia		Bulgaria		Total		
	1H12	1H11	1H12	1H11	1H12	1H11	1H12	1H11	1H12	1H11	1H12	1H11	1H12	1H11	1H12	1H11	YoY
Net sales	**791,184**	**543,054**	**319,614**	**262,432**	**251,539**	**258,487**	**304,877**	**272,235**	**78,417**	**69,677**	**165,701**	**119,498**	**12,066**	**19,268**	**1,923,164**	**1,544,651**	**24.5%**
Domestic market	**767,388**	**537,072**	**271,914**	**243,507**	**250,941**	**258,065**	**289,305**	**261,756**	**78,417**	**69,677**	**121,818**	**50,840**	**12,066**	**19,268**	**1,791,615**	**1,440,185**	**24.4%**
Licence fees	212,230	206,702	121,871	146,338	110,246	153,368	199,657	183,367	40,369	46,402	74,379	28,484	2,446	8,050	761,198	772,711	-1.5%
Software upgrades	358,846	262,359	122,113	81,277	90,425	60,809	68,549	53,492	23,861	3,943	19,677	5,635	2,771	3,315	686,242	470,830	45.8%
Membership fees	22,500	21,973	8,699	10,286	8,937	6,462	10,260	13,100	90	180	1,619	859	697	570	52,802	53,430	-1.2%
Services	81,780	15,234	12,424	135	27,611	26,218	8,104	3,571	13,807	18,689	25,909	15,862	5,318	6,590	174,953	86,299	102.7%
Marketing	6,106	300	5,262	5,233	3,819	5,555	448	5,154	0	0	0	0	0	0	15,635	16,242	-3.7%
Training	31,723	0	1,545	238	7,133	4,692	2,287	3,072	290	463	0	0	600	743	43,578	9,208	373.3%
Hosting	54,203	24,239	0	0	0	0	0	0	0	0	234	0	234	0	54437	24239	124.6%
Other	0	6,265	0	0	2,770	961	0	0	0	0	0	0	0	0	2770	7226	-61.7%
Rent	0	165	0	0	0	0	0	0	0	0	0	0	0	0	0	165	-100.0%
Foreign market	**23,796**	**5,817**	**47,700**	**18,925**	**598**	**422**	**15,572**	**10,479**	**0**	**0**	**43,883**	**68,658**	**0**	**0**	**130,951**	**103,879**	**26.1%**
Licence fees	13,401	4,384	0	0			1,450	562	0	0	6,406	40,880	0	0	21,257	45,826	-53.6%
Software upgrades	3,013	1,405	0	0			2,034	437	0	0	472	0	0	0	5,519	1,842	199.6%
Membership fees	0	0	0	0			0	0	0	0	405	2,091	0	0	405	2,091	-80.6%
Services	0	28	0	0			0	0	0	0	11,818	0	0	0	11,818	28	
Marketing	0	0	0	0			0	0	0	0	0	0	0	0	0	0	
Training	7,382	0	0	0			0	0	0	0	0	0	0	0	7,382	0	
Cooperation work	0	0	47,700	18,434			11,685	9,480	0	0	24782	25687	0	0	84167	53510	57.3%
Other	0	0	0	0			403	0	0	0	0	0	0	0	403	0	
Expenses	827,783	540,953	304,671	259,526	244,445	291,546	339,824	295,806	72,221	60,272	158,571	127,665	31,725	31,995	1,979,240	1,607,763	23.1%
COGS	501,306	401,803	198,124	170,647	106,393	93,735	235,853	216,608	35,381	25,346	85,437	58,451	9,710	7,708	1,172,204	974,298	20.3%
Licence fees	355,177	281,789	118,314	81,824	34,653	38,115	111,293	109,849	23,477	13,229	37,741	19,907	2,201	4,336	682,856	549,049	24.4%
Rent	18,469	16,044	7,354	7,360	10,438	7,973	9,668	8,338	3,600	3,600	5,725	3,840	1,348	0	56,602	47,155	20.0%
Cost of services	123,199	102,018	1,779	869	51,427	101,965	112,559	96,769	8,040	8,248	39,369	32,867	2,742	2,787	339,115	345,523	-1.9%
of that sales	33,687	54,538	70,677	80,594	16,873	30,428	1,374	2,790	0	0	15,020	22,800	0	0	137,631	191,150	-28.0%
Labour costs	316,126	139,150	100,906	85,185	64,722	67,398	89,939	75,508	36,840	34,926	68,802	62,260	21,207	23,117	698,542	487,544	43.3%
Financial Revenues	547	5	1,045	26	2,490	11	2,401	143	0	0	848	9	191	2	6,980	66	
Financial Expenses	435	21	1,417	181	3,882	5	16	88	2,700	10	1,004	83	6				
Net Profit	-35,346	2,087	12,717	2,534	8,430	-30,814	-12	-35	5,938	6,705	6,624	-6,966	-20,277	-12,542	-21,926	-39,031	-43.8%

Relative valuation:

Trades at significant discount…

	EV/S			EV/EBITDA			EV/EBIT		
Company name	**TTM**	**2012F**	**2013F**	**TTM**	**2012F**	**2013F**	**TTM**	**2012F**	**2013F**
Microsoft	3.0	2.5	2.3	7.3	5.9	5.7	8.0	6.3	6.0
Oracle	3.4	2.9	2.7	7.4	5.8	5.4	8.9	6.1	4.4
SAP AG	4.1	3.3	3.0	11.8	9.3	8.2	13.8	10.2	9.0
Software AG	2.0	2.0	1.9	7.3	6.8	6.2	8.6	7.8	7.2
Realdolmen	0.3	0.3	n.a.	4.7	4.1	n.a.	5.8	4.8	n.a.
Assecopol	0.7	0.7	0.6	4.1	3.9	3.7	5.4	5.0	4.8
K3 Business Tech	1.1	0.9	n.a.	6.1	4.6	n.a.	10.5	n.a.	n.a.
Logo Yazilim	1.7	n.a.	n.a.	4.5	n.a.	n.a.	7.9	n.a.	n.a.
Sage	2.7	2.6	2.4	9.3	8.7	8.2	10.6	9.5	9.0
DATALAB	0.4	0.4	0.3	1.6	1.5	1.2	4.5	4.8	3.0
Average	2.1	1.9	2.2	6.9	6.1	6.2	8.8	7.1	6.7

	P/S			P/E			P/B		
Company name	**TTM**	**2012F**	**2013F**	**TTM**	**2012F**	**2013F**	**TTM**	**2012F**	**2013F**
Microsoft	3.6	3.0	2.8	11.0	9.1	8.2	4.0	2.5	2.0
Oracle	3.8	3.3	3.0	14.5	9.7	10.5	3.2	2.2	n.a.
SAP AG	4.2	3.4	3.0	16.7	13.9	12.0	4.5	3.3	2.7
Software AG	2.0	1.9	1.8	12.1	10.6	9.8	2.3	1.7	1.5
Realdolmen	0.3	0.3	n.a.	9.3	5.8	n.a.	n.a.	0.5	n.a.
Assecopol	0.7	0.7	0.7	9.4	10.2	9.6	0.8	0.7	0.6
K3 Business Tech	0.8	0.7	n.a.	10.8	5.2	n.a.	1.2	n.a.	n.a.
Logo Yazilim	1.7	n.a.	n.a.	19.2	n.a.	n.a.	1.6	n.a.	n.a.
Sage	2.7	2.6	2.4	19.8	12.7	11.7	2.2	2.1	2.0
DATALAB	0.3	0.2	0.2	2.9	3.5	2.6	0.4	0.6	0.5
Average	2.2	2.0	2.3	13.6	9.6	10.3	2.5	1.9	1.8

…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	41.5%	37.6%	32.6%	36.5%	20.9%	0.64	1.70	1.75	-1.33
Oracle	45.2%	37.5%	26.3%	22.3%	13.1%	0.50	0.64	1.73	-0.90
SAP AG	34.4%	29.3%	24.2%	27.0%	14.8%	0.61	1.24	1.83	-0.31
Software AG	27.7%	23.5%	16.1%	18.7%	10.5%	0.65	13.81	1.77	0.20
Realdolmen	7.4%	5.9%	3.7%	n.a.	n.a.	n.a.	0.00	n.a.	0.00
Assecopol	16.9%	13.0%	8.0%	8.2%	4.2%	0.52	3.75	1.95	-0.29
K3 Business Tech	17.6%	10.2%	7.6%	10.8%	4.8%	0.63	0.41	2.19	1.23
Logo Yazilim	38.1%	21.4%	10.1%	8.2%	6.3%	0.62	0.00	1.45	-0.07
Sage	29.6%	25.9%	14.2%	11.1%	6.9%	0.49	2.78	1.61	0.03
DATALAB	26.6%	9.2%	9.2%	13.9%	7.2%	0.78	0.00	1.92	0.57
Average	28.7%	22.7%	15.9%	17.8%	10.2%	0.58	2.70	1.78	n.a.

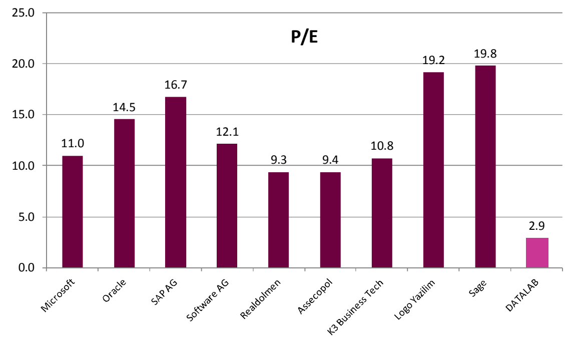
ROE decomposition (company/peer average):

	Company	Peer average
EBITDA margin	26.6%	28.7%
EBIT/EBITDA	34.7%	79.1%
NI/EBIT	100.0%	69.9%
Profit margin	9.2%	15.9%
Sales to assets	0.78	0.58
Assets to Equity	1.92	1.78
ROA	7.2%	10.2%
ROE	**13.9%**	**17.8%**

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 competitors and IT companies (with limited value for valuation) and some smaller European IT software companies, although the exact solutions (segments) can differ.

Peer valuation target: EUR 3.8

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 multiple is excluded due to a difference in sales segments and margins (implies EUR 6.5). Namely, in the tables above we can clearly see a substantial difference of valuation multiples and margins between big and small players in the sector. Peer valuation implies a value of EUR 3.8 per share using an EV/EBITDA, EV/EBIT and P/E multiples with an equal weight mix. We must note however that peer analysis lacks the future envisaged growth potential.



Outlook:

Growth acceleration expected.

- Management of Datalab believes that in the next few years growth will accelerate as fragmented market will consolidate. Organic and non-organic driven growth should together bring growth levels of 30% to 90%. Management believes that growth rate of new license fees will continue to decrease in comparison to upgrade fees. We must note however that management stated the exact timing of growth acceleration is hard to predict, as it depends on market conditions (so somewhere in 2012-2015 period) and the lag in realization is therefore possible. Their target net margin for daughter companies is 15% and for Datalab d.d. 25%.
- In our opinion the management forecasts are optimistic given current regional environment and political situation. Therefore we are more conservative in our estimates. Also we believe possible delay in growth acceleration (that would have negative effect on valuation) is counterbalanced with less ambitious growth rates (we set growth at lower range of management guidance).

Revenue mix change expected in the future.

- Given our GDP based model and management guidance we see growth of 15.3% in 2012 (11.1% seen in 9M12) and around 30% growth in future years. Together with this growth there will be a switch from new license growth to maintenance and training revenues, but we see this as positive in terms of revenue growth stabilization. Net margin we see long term at 15%.

EBIT margin expansion seen.

- Margins should increase in the following years as development costs will be applied to more users and revenues. On the other hand in order to prevent bottlenecks and to retain customers the company will have to increase sales network. Labor cost to sales ratio is therefore estimated to increase from 39% to 41%. We also forecasted a slight deterioration of gross margin due to competitive pressures. Therefore we see high EBIT margin expansion, but lower EBITDA margin.
- CAPEX is forecasted at EUR 12.2m in 2012-2017 period (with some, but only smaller acquisitions calculated in our model till 2018) while effective tax rate could increase only long term as in mid term tax deductions for R&D will remain high. We see significantly lower net CAPEX only after 2018.

all data in EUR 000

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales	2,550.4	3,948.0	4,462.6	4,996.8	5,148.7	5,937.9	7,780.3	10,507.6	13,811.9	17,034.7
Sales growth		54.8%	75.0%	12.0%	3.0%	15.3%	31.0%	35.1%	31.4%	23.3%
EBITDA	120.2	638.4	939.9	1,384.3	1,544.7	1,514.2	1,906.2	2,469.3	3,107.7	3,918.0
EBITDA margin	4.7%	16.2%	21.1%	27.7%	30.0%	25.5%	24.5%	23.5%	22.5%	23.0%
EBIT	22.5	-436.4	266.8	525.3	558.1	461.3	735.1	1,146.8	1,674.8	2,431.5
EBIT margin	0.9%	-11.1%	6.0%	10.5%	10.8%	7.8%	9.4%	10.9%	12.1%	14.3%
EBT	54.8	-350.5	219.5	483.6	527.5	419.1	573.0	973.1	1,478.6	2,269.5
EBT margin	2.1%	-8.9%	4.9%	9.7%	10.2%	7.1%	7.4%	9.3%	10.7%	13.3%
Net income	95.5	-365.3	202.2	447.1	504.4	404.9	553.7	940.3	1,428.7	2,083.4
Net income growth		-482.6%	111.8%	121.1%	12.8%	-19.7%	36.7%	69.8%	51.9%	45.8%

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Fixed assets	267.7	2,611.7	3,396.1	4,050.3	4,740.3	5,442.5	6,432.7	7,521.4	8,738.3	10,481.9
PPE	138.3	218.6	111.9	60.5	258.8	267.6	269.1	252.5	258.4	262.6
Intangible assets	83.1	2,359.6	3,212.6	3,913.6	4,369.6	5,059.2	6,047.3	7,159.6	8,368.1	10,105.7
LT-investments	0.8	0.3	5.5	1.2	1.2	1.3	1.3	1.4	1.4	1.4
Other fixed assets	45.5	33.2	66.1	74.9	110.6	114.4	115.0	107.9	110.4	112.2
Current assets	2,345.2	2,145.6	2,077.8	2,172.8	1,692.0	2,115.0	2,843.0	3,943.1	5,369.8	6,205.4
Inventories	2.6	14.0	8.8	7.3	8.2	9.4	12.3	16.6	21.9	27.0
Trade receivables	1,907.9	1,894.2	1,811.4	1,789.6	1,327.9	1,725.9	2,417.0	3,474.4	4,843.3	5,632.7
Cash	24.9	83.9	85.6	149.4	102.7	118.5	147.4	188.6	234.1	271.7
ST-investments	374.6	89.3	103.4	126.4	139.9	144.1	148.4	152.9	157.5	159.1
Other current assets	35.2	64.1	68.6	100.1	113.3	117.1	117.8	110.5	113.1	114.9
Total Assets	2,612.8	4,757.3	5,473.9	6,223.2	6,432.3	7,557.5	9,275.8	11,464.5	14,108.2	16,687.3
Debt	671.0	943.6	1,043.2	1,488.3	1,518.8	1,961.8	2,575.8	3,082.8	3,372.8	2,829.8
ST-debt	439.1	130.9	198.9	1,488.2	580.4	749.6	984.3	1,178.0	1,288.8	1,081.3
LT-debt	231.9	812.8	844.4	0.0	938.4	1,212.2	1,591.5	1,904.8	2,084.0	1,748.5
Provisions	10.6	12.5	12.9	12.5	14.6	15.9	17.3	18.9	20.5	22.4
Trade payables	582.9	851.2	1,374.9	915.5	694.8	831.0	1,166.6	1,628.1	2,209.1	2,894.9
Other liabilities	387.6	864.6	731.9	959.6	743.6	873.7	1,072.3	1,325.4	1,631.0	1,929.2
Minority intrest	17.0	0.8	46.8	70.7	87.4	97.9	112.3	136.7	173.7	227.7
Equity	943.9	2,084.6	2,264.1	2,776.6	3,373.0	3,778.0	4,331.6	5,272.0	6,700.7	8,784.0

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net profit margin	3.7%	-9.3%	4.5%	8.9%	9.8%	6.8%	7.1%	8.9%	10.3%	12.2%
Asset turnover	0.98	0.83	0.82	0.80	0.80	0.79	0.84	0.92	0.98	1.02
ROA	3.7%	-7.7%	3.7%	7.2%	7.8%	5.4%	6.0%	8.2%	10.1%	12.5%
Equity multiplier	2.77	2.28	2.42	2.24	1.91	2.00	2.14	2.17	2.11	1.90
ROE	10.1%	-17.5%	8.9%	16.1%	15.0%	10.7%	12.8%	17.8%	21.3%	23.7%
CAPEX/Depreciation	124.2%	42.8%	218.0%	167.6%	159.1%	166.3%	184.5%	182.9%	184.7%	217.2%
Financial debt/Equity	0.71	0.45	0.46	0.54	0.45	0.52	0.59	0.58	0.50	0.32
Financial debt/Assets	0.26	0.20	0.19	0.24	0.24	0.26	0.28	0.27	0.24	0.17
Net debt/EBITDA	2.25	1.21	0.90	0.87	0.83	1.41	1.52	1.31	1.05	0.47
Working capital/ Sales	53.0%	28.9%	11.9%	20.6%	14.5%	17.2%	18.1%	19.5%	20.9%	17.8%
ROIC	1.4%	-14.4%	8.3%	11.5%	11.1%	7.9%	10.5%	13.5%	16.3%	19.5%

Discounted Cash Flow Valuation:

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	TV
NOPLAT	461.3	735.1	1,146.8	1,674.8	2,309.9	2,986.9	3,499.7	4,145.8	4,915.7	5,809.8	4,997.8
NOPLAT growth	-16.5%	59.4%	56.0%	46.0%	37.9%	29.3%	17.2%	18.5%	18.6%	18.2%	-14.0%
Depreciation	851.4	983.4	1,135.5	1,251.5	1,296.3	1,504.6	1,613.3	1,663.7	1,668.5	1,639.7	1,620.9
Depretiation/Sales	14.3%	12.6%	10.8%	9.1%	7.6%	7.7%	7.2%	6.4%	5.6%	4.8%	4.6%
CAPEX	1,751.3	2,160.7	2,418.2	2,647.3	3,228.3	2,780.5	2,401.2	2,080.3	1,808.9	1,579.8	1,863.2
CAPEX/Sales	29.5%	27.8%	23.0%	19.2%	19.0%	14.2%	10.7%	8.0%	6.1%	4.6%	5.3%
Change in net working capital	278.8	387.4	641.4	838.5	146.3	455.5	523.8	602.3	692.7	796.6	152.7
NWC/Sales	17.2%	18.1%	19.5%	20.9%	17.8%	17.8%	17.8%	17.8%	17.8%	17.8%	17.8%
FCF to firm	**-717.4**	**-829.6**	**-777.3**	**-559.5**	**231.7**	**1,255.5**	**2,188.0**	**3,126.9**	**4,082.6**	**5,073.1**	**4,602.8**

FCF valuation	
Value in forecasting period	4,086
Continuing value	16,745
Total enterprise value	**20,831**
Net debt	1,529
Equity value	**19,302**
No. of shares (in mio)	3
Equity value per share	**7.4**

WACC	2012	TV
Tax rate	0.0%	15.0%
Cost of debt	6.9%	6.9%
Beta	1.4	1.2
Cost of equity	15.7%	15.7%
Debt/Equity	79.1%	66.3%
WACC	**12.5%**	**11.6%**
Perpetuity growth rate		**2.5%**

DCF valuation implies EUR 7.4

Our DCF valuation long term growth is set at 2.5%, WACC at 11.6%. WACC includes a 4.0% country risk premium based on current regional exposure and a small cap premium of 2.5%. EBITDA margin in the period after 2017 is set at 25.0%, with long term EBITDA lower at 22.0% (due to competitive pressures). Implied long term EV/EBITDA multiple is 6.6 and target price of 7.4.

A key issue to consider is shares issued through ESOP program. Namely this will somewhat dilute EPS and valuation in the short term, but softening labor cost growth and bring long term growth benefits. For now we assumed that own shares (27.101 or 1.62% off all issued shares) will be given to employees and then additional shares issued in the following years in period from 2012 till 2016 (therefore we used higher number of shares). Namely in 2012 till 2016 period CAPEX remains high and financing possibility for share buybacks will be lower. After that share buyback could be used for ESOP. Also we must note that our estimates are below managements so further upside change of estimates is possible if management expectation are beginning to realize. On the other hand if acceleration of growth fails, we would revise downward accordingly.

Sensitivity analysis:

EBITDA margin 2017-2021 \ Sales growth 2017-2021	12.0%	13.0%	14.0%	15.0%	16.0%	17.0%	18.0%
22.0%	5.6	6.0	6.4	6.8	7.3	7.8	8.2
23.0%	5.7	6.2	6.6	7.0	7.5	8.0	8.4
24.0%	5.9	6.3	6.8	7.2	7.7	8.1	8.6
25.0%	6.1	6.5	6.9	7.4	7.9	8.3	8.8
26.0%	6.3	6.7	7.1	7.6	8.1	8.5	9.0
27.0%	6.4	6.9	7.3	7.8	8.2	8.7	9.2
28.0%	6.6	7.0	7.5	7.9	8.4	8.9	9.4

Perpetuity EBITDA margin \ Perpetuity Growth	1.6%	1.9%	2.2%	2.5%	2.8%	3.1%	3.4%
19.0%	5.7	5.8	6.0	6.1	6.3	6.5	6.7
20.0%	6.1	6.2	6.4	6.6	6.8	7.0	7.2
21.0%	6.4	6.6	6.8	7.0	7.2	7.4	7.6
22.0%	6.8	7.0	7.2	7.4	7.6	7.8	8.1
23.0%	7.2	7.4	7.6	7.8	8.0	8.3	8.6
24.0%	7.6	7.8	8.0	8.2	8.5	8.7	9.0
25.0%	7.9	8.2	8.4	8.6	8.9	9.2	9.5

WACC \ Perpetuity Growth	1.6%	1.9%	2.2%	2.5%	2.8%	3.1%	3.4%
10.1%	7.8	8.1	8.4	8.7	9.0	9.3	9.7
10.6%	7.5	7.7	7.9	8.2	8.5	8.8	9.1
11.1%	7.1	7.3	7.5	7.8	8.0	8.3	8.6
11.6%	6.8	7.0	7.2	7.4	7.6	7.8	8.1
12.1%	6.5	6.7	6.9	7.1	7.3	7.5	7.7
12.6%	6.3	6.4	6.6	6.8	6.9	7.1	7.3
13.1%	6.1	6.2	6.3	6.5	6.7	6.8	7.0

Final target price calculation:

Illiquidity discount applied.

Target price set at EUR 4.7

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. We applied 30% discount due to illiquidity. Our target price is set at EUR 4.7 that implies a target P/E ratio of 15.2 and EV/EBITDA of 6.5. We deem these multiples as appropriate given the current ROE of 14.0%, EBIT margin at around 13% and its high growth potential. It also gives a significant upside given the current market price so the buy recommendation is justified.

Here we must again note that possible strategic investor and additional shares issued because of strategic investor can significantly impact our assumptions and valuations. In the short term dilution is unavoidable, but if the new capital is implemented profitably long term valuation could be even higher. Any change in this respect would mean a new calculation of value is in order.

Top5 shareholders:

Mertelj Andrej	41.6%
Raiffeisen Bank	20.5%
Jagodic Zvone	5.9%
Zajc Lojze	4.0%
Rodman Moreno	1.9%

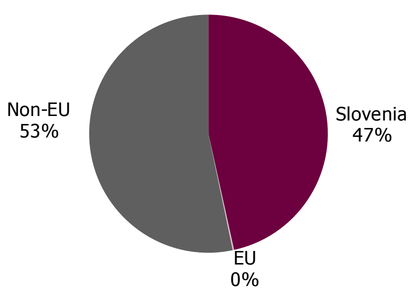
Brief Company profile

Datalab is a Slovenian software company. Their main product in 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. It domestic market share is around 9% (2010 data).
Sources of revenues:

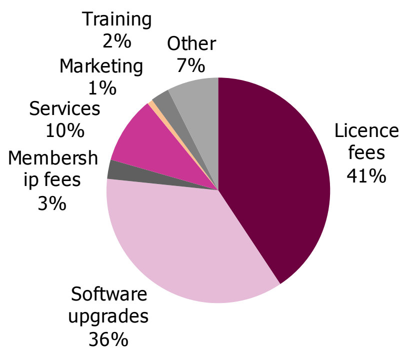
- Licence fees and user fees for Pantheon IT system.
- Upgrade contracts for Pantheon (main source of revenues).
- Leasing and subscription user fees (Pantheon Hosting).
- Membership fees for support.

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

Group sales by region (9M12)



Group sales by segment (1H12)



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Sašo Stanovnik, Head of research
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First release of the recommendation was performed on 10.05.2012.
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