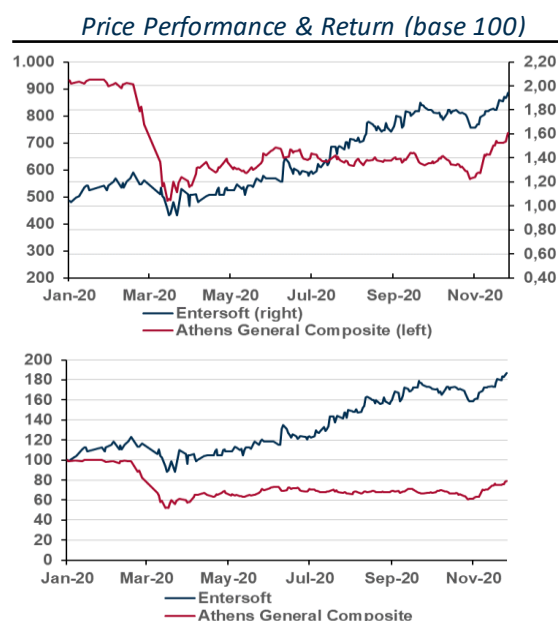


NEUTRAL
Target Price: 1.97€

December 2020

Stock Data & Performance	
Rating	NEUTRAL
Target price year-end	EUR 1.97
Upside potential	1,0%
Current price (as of 30/11/20)	EUR 1.95
52w range	EUR 0.90 - 1.98
One year chg.	61.7%
Market cap.	EUR 58.2m
Bloomberg	ENTER:GA
Absolute ytd	86,50%

Source: Company Reports | Finance Club Research



Source: Bloomberg

in € 000s	2021	2022	2023	2024
UFCF	1,563	1,975	1,290	2,071
WACC	6.6%	6.6%	6.6%	6.5%
PV of UFCF	1,466	1,738	1,066	1,609
Terminal Value				68,287
PV of Terminal Value				53,056
EV (PV of UFCF + PV of Terminal Value)				58,936
-Net debt (2019)				-312
=Equity Value				59,247
/Shares outstanding				30,000
Price				1.97 €

Source: Company Reports | Finance Club Research

We set our **Neutral** rating on Entersoft SA with a TP of EUR 1.97 psh offering a low 1% upside potential, from current levels. Albeit the coronavirus pandemic and its unfavorable aftermath in the global economy and markets, we believe Entersoft shows a resilient profile in terms of top-line growth and we project a visible 13.7% CAGR in revenues over the 5yr period of 2020-2024, bolstered by its strategic position in the emerging Business Software market, extensive client base, as well as its solid fundamentals and strong FCFs. Though, we believe that the market has fully discounted Entersoft's financial development and growth prospects in today's current price. Over the past three months the stock has outperformed the ASE index by more than 95%, showing a 71% ytd surge in the stock price. This is consistent with Entersoft's shift from the Alternative to the Main Market via its EUR 3.8m share capital increase on early March as well as the 6-for-1 stock split which took place in June.

Entersoft has shown a resilient profile in terms of top-line growth, with revenues reaching EUR 15.4m in 2019. We expect the company to maintain a 13.7% CAGR in revenues until 2024, primarily driven by two main factors; the digitalization of the business process, which comes as a global wave and, secondly, the increasing demand for Cloud and SaaS (Software as a Service) Services. Scaling it down, the market's potential growth is well depicted by the high margins of adoption of these technologies in Europe and Greece. As the latter had been recovering from deep recession, the economic environment has given space for digital development of the public and private sector.

Even in sight of the new pandemic, we cannot be but optimistic that Greece will be following EU's footprints in terms of digitalization the years ahead. Having said that, we trust that Entersoft, a deep-seated Greek company with strong presence in the European region and the Middle East, is currently placed in an advantageous position. Its low leverage, high liquidity and large operating cash flows, acted as a shield against the pandemic's impact, thus offering to shareholders not only high returns but also descent dividend payments, while most of the Greek stocks are underperforming.

On early March, as the company entered the ATHEX Regulated Market with the registration of its current 30.000.000 common shares (stock split 1:6), a share capital increase followed, achieving a 2.1 times coverage and a EUR 3.8m capital raise. According to the company's 3yr investment plan, the funds will be invested in a series of acquisitions of up to 5 domestic and/or international companies equipped with the expertise, know-how and complementary set of services that will allow Entersoft extend its product portfolio, strengthen its brand equity and widen its sales channels.

Our DCF-based valuation has derived a year-end target price of EUR 1.97 psh for Entersoft presenting a 1% upside potential on November's 30 closing price of EUR 1.95. We used explicit forecasts for the 5yr period of 2020-2024E and applied a terminal growth rate of 1.85% and a WACC averaging at 6.7%. To reflect changes in the economy and the market, we came up with a Cost of Equity of 7% on average and 4.7% Cost of Debt.

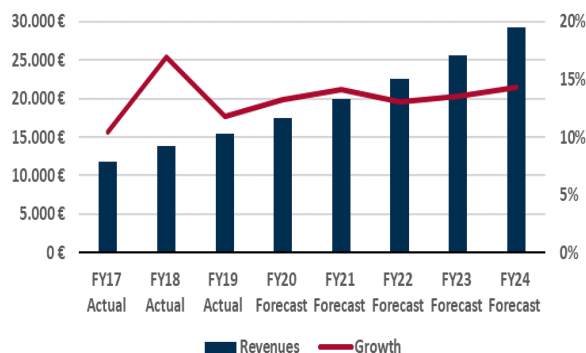
Model Assumptions

Integration rates

as of 2019	EU	GR	difference	weighting
ERP	34.40%	38.30%	-3.90%	-
CRM	19.30%	15.70%	3.60%	20.76%
e-Commerce	15.30%	9.44%	5.86%	33.79%
SCM	17.60%	9.72%	7.88%	45.44%
e-Invoicing	18.37%	6.48%	11.89%	

Source: digital-agenda-data.eu | Finance Club Research

In order to make our revenue projections, we collected data for each of the Group's main sectors of operation: Enterprise Resource Planning (ERP), Customer Relationship Management (CRM), e-commerce and Supply Chain Management (SCM) (data for Warehouse Management System (WMS) were not available) regarding both EU's and Greece's technological shift implementation rates as well as EU's Business Software forecasted revenues and adjusted the latter accordingly. By applying this methodology, we derived an overall growth rate of 7% CAGR for the Greek Business Software and Services industry.



Source: Company Reports | Finance Club Research

A premium on Entersoft's projected revenues was also calculated to reflect the reforms and technical developments in the financing and taxation, scheduled for the end of this year. To explain, we expect the implementation of the new proposed scheme of digital VAT books and e-invoices to be completed by the end of 2020 driving a 3% increase in revenues for the 2020-2021 period and a steady 2% rise until 2024, fuelled by the acquisition of *Retail Link*, a move which has positioned Entersoft strategically in the market. Factoring the aforementioned drivers for Entersoft coupled with the company's resilient trailing top-line growth rate, our model yielded a 13.7% CAGR in revenues over the 5yr estimated period, which is in line with the company's strategy to maintain its double-digit growth in sales.

It must be highlighted that the company's current underleveraged position is expected to remain at equally low levels during the five-year forecasted period with the estimated D/(D+E) ratio averaging at 12.2%. Particularly, in terms of our Balance Sheet assumptions, we project the total EUR 1.48m initial capital of the company's current liabilities to be refinanced, as the loan towards working capital matures in 2021. Meanwhile, as the company has complied with the IFRS 16, other long-term liabilities now stand for the capitalized leases in PP&E, which are all expected to be renewed promptly and are forecasted at an average EUR 1.62m per year. At the same time, the management's three-year development plan foresees full investment of the new funds, targeted to acquisitions of majority proportions in smaller than Entersoft companies after 2023. Because of the deals' pre-alpha stage, we conformed with the guidance's conservative scenario regarding future investment to be injected in the company's R&D and allocated the share capital proportionally for the 5yr period of 2023-2027.

	FY20 Forecast	FY21 Forecast	FY22 Forecast	FY23 Forecast	FY24 Forecast
Debt / (Equity + Debt)	12%	16%	13%	11%	9%
Equity / (Equity + Debt)	88%	84%	87%	89%	91%
Average Unlevered beta	1,11	1,11	1,11	1,11	1,11
D/E ratio	13%	19%	15%	12%	9%
Tax rate	24%	24%	24%	24%	24%
Levered beta	1,22	1,27	1,24	1,21	1,19
Greek Default Spread	2,19%	1,02%	1,02%	1,02%	1,02%
Greek REV	0,66	0,66	0,66	0,66	0,66
CREP	1,44%	0,67%	0,67%	0,67%	0,67%
Mature MRP	5,52%	5,52%	5,52%	5,52%	5,52%
Risk Free rate	-0,44%	-0,44%	-0,44%	-0,44%	-0,44%
Cost of Debt	4,7%	4,7%	4,7%	4,7%	4,7%
Cost of Equity	7,74%	7,22%	7,06%	6,92%	6,79%
WACC	7,3%	6,6%	6,6%	6,6%	6,5%

Source: Aswath Damodaran | Company Reports | Finance Club Research

Regarding our model's assumptions, a terminal growth rate of 1.85% was calculated, as well as a 6.7% WACC on average. To reflect changes in the economy and the market, we applied a different Cost of Equity for each of the following 5yrs and a 4.7% Cost of Debt extracted from the company's financial statements.

The risk-free rate in our model is based on the 1-yr average YTM of Germany's 10Y bond of -0.44%. Since Greece's credit worthiness remains 2 grades below the investment grade area, we also factored a variable country's risk equity premium (CREP) to our CoE assumptions, adjusted for changes in Greece's idiosyncratic risk and the default spread deviation. Finally, our CAPM model yielded a 7.15% Cost of Equity on average, accounting for a 5.52% Germany's mature market risk premium (MRP), as well as a 1.11 unlevered sectorial beta accordingly adjusted, consistent with Prof. A. Damodaran's estimates. The long-term growth was set at 1.85%, in line with ECB's inflation target to be below 2%, assuming an Average ROIC of 14% and the Reinvestment Ratio of the industry to be at 13.5%.

Model Projections

<i>Income Statement (in € 000s)</i>	FY17 Actual	FY18 Actual	FY19 Actual	FY20 Forecast	FY21 Forecast	FY22 Forecast	FY23 Forecast	FY24 Forecast
Revenues	11,792	13,790	15,414	17,463	19,935	22,539	25,581	29,244
Cost of goods sold (excl. D&A)	4,197	4,773	4,464	5,687	6,492	7,340	8,330	9,523
Gross profit	7,594	9,017	10,950	11,776	13,444	15,199	17,251	19,721
Gross margin	64%	65%	71%	67%	67%	67%	67%	67%
R&D	2,058	2,155	2,158	2,551	2,912	3,293	4,506	5,041
Other operating expenses	3,283	3,861	4,429	5,072	5,790	6,546	7,429	8,493
EBITDA	2,253	3,001	4,363	4,153	4,742	5,361	5,316	6,187
EBITDA margin	19%	22%	28%	24%	24%	24%	21%	21%
D&A	679	908	1,302	1,312	1,316	1,320	1,428	1,433
EBIT	1,574	2,093	3,061	2,842	3,426	4,041	3,888	4,753
EBIT margin	13%	15%	20%	16%	17%	18%	15%	16%
Interest expense	206	116	154	154	154	154	154	154
EBT	1,368	1,977	2,907	2,688	3,272	3,887	3,734	4,599
Taxes (Effective)	335	473	667	645	785	933	896	1,104
Tax rate	24%	24%	23%	24%	24%	24%	24%	24%
Net Income	1,034	1,504	2,240	2,043	2,487	2,954	2,838	3,495
Net margin	9%	11%	15%	12%	12%	13%	11%	12%
<i>Balance Sheet (in € 000s)</i>	FY17 Actual	FY18 Actual	FY19 Actual	FY20 Forecast	FY21 Forecast	FY22 Forecast	FY23 Forecast	FY24 Forecast
Accounts receivables	6,208	6,690	7,709	8,680	9,909	11,203	12,715	14,535
Financial assets	470	456	468	641	732	828	940	1,074
Cash and equivalents	2,872	2,986	2,789	6,360	7,656	7,651	7,020	6,840
Other current assets	-	11	4	-	-	-	-	-
Current Assets	9,550	10,142	10,970	15,681	18,297	19,682	20,674	22,449
PP&E	330	575	2,427	2,400	2,400	2,400	2,400	2,400
Intangible assets	1,825	2,718	2,499	2,494	2,509	2,524	2,927	2,949
Goodwill	509	509	138	138	138	138	138	138
DTA	118	253	238	-	-	-	-	-
Other long term assets	78	93	90	111	127	144	163	186
Fixed Assets	2,860	4,148	5,391	5,143	5,174	5,206	5,628	5,673
Total Assets	12,409	14,290	16,361	20,824	23,471	24,888	26,302	28,123
Trade payable	105	861	82	256	292	330	374	428
Tax payable	788	1,150	1,415	1,389	1,586	1,793	2,035	2,327
Financial liabilities	1,625	1,385	853	467	1,561	1,175	789	403
Other current liabilities	475	763	1,136	777	777	777	777	777
Current Liabilities	2,993	4,160	3,485	2,889	4,216	4,075	3,976	3,935
Provisions for retirement benefits	357	404	518	542	619	700	794	908
Other provisions	21	21	-	-	-	-	-	-
Other long term liabilities	-	39	1,624	1,624	1,624	1,624	1,624	1,624
Non-current Liabilities	377	464	2,142	2,166	2,243	2,324	2,418	2,532
Total Liabilities	3,370	4,624	5,627	5,055	6,459	6,399	6,394	6,467
Share Capital	1,337	1,337	1,337	1,337	1,337	1,337	1,337	1,337
Capital surplus	1	1	1	1	1	1	1	1
Reserves	1,631	1,341	1,395	5443.6	5443.6	5443.6	5443.6	5443.6
CTA	(61)	(51)	(25)	(43)	(43)	(43)	(43)	(43)
Retained earnings	6,127	6,793	8,009	9,030	10,274	11,751	13,170	14,917
Minority interest	5	10	18	0	0	0	0	0
Shareholders Equity	9,039	9,666	10,733	15,769	17,012	18,489	19,908	21,656
<i>Cash Flow (in € 000s)</i>	FY17 Actual	FY18 Actual	FY19 Actual	FY20 Forecast	FY21 Forecast	FY22 Forecast	FY23 Forecast	FY24 Forecast
Gross Cash Flow	1,868	2,500	3,661	3,471	3,919	4,391	4,383	5,046
Changes in working capital	(853)	637	(1,534)	(822)	(996)	(1,049)	(1,226)	(1,475)
Changes in other assets/liabilities	(235)	167	1,983	(138)	(16)	(17)	(19)	(23)
Capex	(436)	(2,047)	(2,934)	(1,280)	(1,330)	(1,335)	(1,830)	(1,455)
Other investments	210	15	358	(173)	(91)	(96)	(112)	(135)
Changes in provisions	56	48	93	24	77	81	94	114
Unlevered Free Cash Flow	609	1,319	1,627	1,082	1,563	1,975	1,290	2,071
Interest expenses	(206)	(116)	(154)	(154)	(154)	(154)	(154)	(154)
Delta Taxes vs. Operating taxes	50	28	35	37	37	37	37	37
Delta financial liabilities	1,170	(240)	(532)	(386)	1,094	(386)	(386)	(386)
Delta equity (incl. dividends & capital changes)	(79)	(877)	(1,173)	2,993	(1,243)	(1,477)	(1,419)	(1,748)
Net Cash Flow	1,544	114	(197)	3,571	1,297	(5)	(632)	(180)

Key Financials

	FY17 Actual	FY18 Actual	FY19 Actual	FY20 Forecast	FY21 Forecast	FY22 Forecast	FY23 Forecast	FY24 Forecast
Net Debt (€ 000s)	(1,247)	(1,561)	(312)	(4,269)	(4,471)	(4,853)	(4,607)	(4,813)
Net Debt / EBITDA	-55%	-52%	-7%	-103%	-94%	-91%	-87%	-78%
Working Capital / Sales	56%	43%	49%	73%	71%	69%	65%	63%
Interest Coverage Ratio	8	18	20	18	22	26	25	31
EPS (€)	0.23	0.34	0.45	0.07*	0.08*	0.10*	0.09*	0.12*
DPS (€)	0.13	0.13	0.16	0.03*	0.04*	0.05*	0.05*	0.06*
BVPS (€)	2.03	2.17	2.15	0.53*	0.57*	0.62*	0.66*	0.72*

* in 2020 there was a 1:6 stock split

Activity Ratios

Avg. Days Sales Outstanding	192	177	183	181	181	181	181	181
Avg. Days Payables Outstanding	9	66	7	16	16	16	16	16
Avg. Days Inventory Outstanding	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cash Conversion Cycle (Days)	183	111	176	165	165	165	165	165

Profitability

RoE	11%	16%	21%	13%	15%	16%	14%	16%
RoA	8%	11%	14%	10%	11%	12%	11%	12%
RoIC	17%	21%	24%	16%	18%	19%	17%	20%

Financial Structure

Net Debt / Equity	-0.14	-0.16	-0.03	-0.27	-0.26	-0.26	-0.23	-0.22
Net Debt / EBITDA	-0.55	-0.52	-0.07	-1.03	-0.94	-0.91	-0.87	-0.78
D / E	0.18	0.15	0.23	0.13	0.19	0.15	0.12	0.09

Liquidity Ratios

Quick Ratio	3.19	2.44	3.15	5.21	4.17	4.63	4.96	5.43
Cash Ratio	0.96	0.72	0.80	2.20	1.82	1.88	1.77	1.74

¹ Net Debt to EBITDA indicates how well the company performs in terms of debt obligations. A high ratio means much of the company's income has to go to debt payments thus having less for other payments such as dividends or CapEx. In Entersoft's case this ratio is negative, indicating a highly unleveraged position.

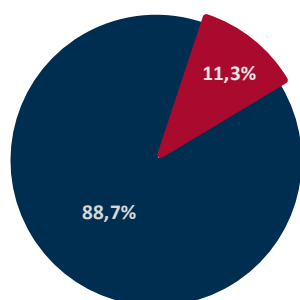
² Working Capital to Sales is a measurement of efficiency. The lower the ratio, the more efficiently the company utilizes its working capital. An average of 61% WC / Sales a really good level, relative to the >100% of the industry.

³ Cash Conversion Cycle shows how many days the firm needs to turn sales on credit into cash. In this case, due to lack of data on the sales on credit, we used total sales. We assume the Cash Conversion Cycle to be lower than stated.

⁴ In the Return on Invested Capital, taking EBIT into the calculation (instead of net income) shows the operating efficiency of the company.

APPENDIX

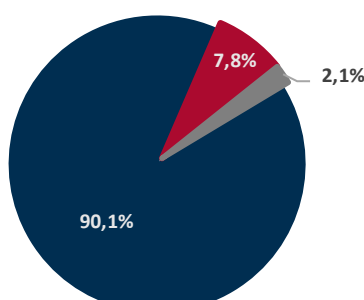
Revenues by product



■ Sales of software and support services
■ Internet services

Source: Bloomberg

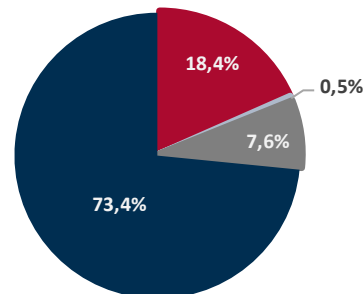
Revenues by area



■ Greece ■ European Union
■ Third Countries

Source: Company Reports

Ownership



■ Investment Public ■ Institutional investors
■ Personnel ■ Major investors

Source: Company Reports

Political Factors

- After the election of Jul 2019, the political stability has been recovered and therefore Greece seems less risky, resulting in lower country risk premium and potentially lower cost of capital for the Greek companies.
- In case of deterioration in Greek-Turkish relationship, uncertainty will drive the country risk premium up, thus having a bad impact on Entersoft's revenue streams due to reduction in foreign investments.

Social Factors

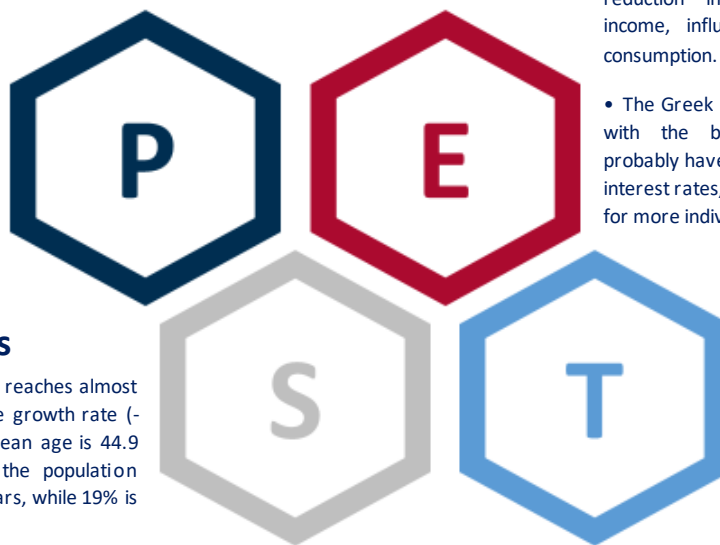
- Population of Greece reaches almost 11million with negative growth rate (-0,07% in 2018). The mean age is 44.9 years with 66.6% of the population between 15 and 64 years, while 19% is over 65.
- Due to the high educational level (31% has tertiary education), residents of Greece can easily adapt to technology changes.

Economic Factors

- Before the pandemic, the economic boost and the steady unemployment reduction increased the disposable income, influencing investments and consumption.
- The Greek economy recovery, along with the banks' reclamation, will probably have a positive impact on loan interest rates, providing access to credit for more individuals and businesses.

Technological Factors

- More and more people are using the internet along with mobile, tablet and computer applications (64,8% in 2016).
- Not only the continuous increase in web usage, but also the software integration to everyday activities, drives societies into automations.
- 5G and optical fibers will provide faster data transfer, making automations even more attractive.



Strengths

- The firm is in stronger financial position compared to its competitors, with low debt, a lot of cash, and profit margins way over the industry average.
- With much cash generated through operating activity, the firm invests in R&D and thus shaping potentiality for new, innovative products and services.
- Very specialized staff, enabling the firm to be extra competitive.

Weaknesses



- The only license provider (vendor) for the software development is Microsoft. There is a major difference in negotiating power and that could be a weakness.
- The main competitor, Epsilon Net, has larger domestic market share.
- Too much market concentration. Other firms offer networking and training services in order to diversify.



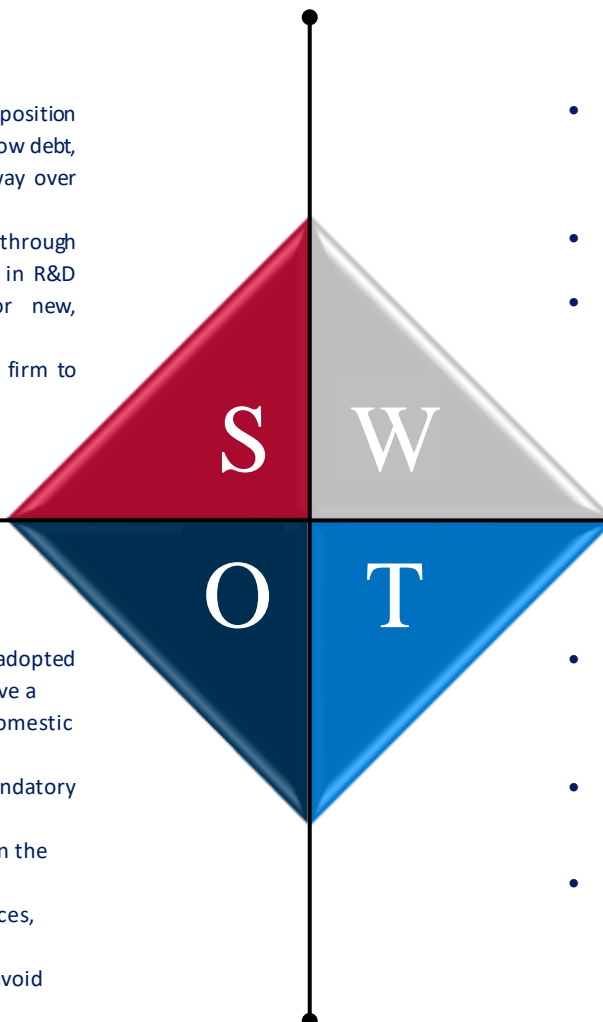
Opportunities

- Big part of Greek SMEs has not still adopted business software solutions. That give a great opportunity to increase the domestic market share.
- E-books and e-invoicing that are mandatory for the majority of the companies in Greece, will provide a major boost in the firm's revenues.
- With the ongoing technology advances, more and more businesses will be searching for upgraded systems to avoid "technology obsolescence".

Threats



- The business software industry is a "fast moving" industry. Firms that are not able to produce new and innovative products will surely end up in a difficult situation.
- The Greek market is not too competitive, so any big newcomer from abroad will have a vital impact on the firm's profitability.
- Much of the firm's success depends on the highly skilled and specialized staff. In case no such skillful people are found in the future, there may be a negative outcome in growth and/or profitability.



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