

TenderHut S.A.



Price target: PLN 86.60

Initiating Coverage

Rating: BUY

TenderHut S.A. (THG) is a successful owner-managed Polish technology company, which is using the cash from its rapidly growing IT business to spin-off and accelerate various product-based Tech companies e.g. the provider of mixed reality solutions for surgeons Holo4Med, which in the current round is valued at PLN 23m and in 2022E will likely be listed in the NewConnect segment of the Warsaw Stock Exchange. TenderHut, which in 2020 generated 67.3% of its revenues outside Poland, has increased its sales and EBIT at a CAGR of 39.1% and 46.7% respectively in 2018-2020. In the coming years, it should continue to benefit from a buoyant IT sector, whose growth was additionally boosted by the coronavirus pandemic. We have valued TenderHut S.A. by using a discounted Sum-of-the-Parts of its historical segments (Software design & development, LabSystems, LegalHut), for which we have used a DCF model, and the start-up business, whose value we have determined by using valuations of latest financing rounds. Our 12-months PT for the company's shares is PLN 86.60, which implies an upside of 42%. On our 2021E estimates, THG's P/E is 54.8% below the peer group median.

In H1/21, THG continued to benefit from a strong demand for IT solutions worldwide. In Jan-Jun 2021, revenues improved by 29.3% y-o-y to PLN 28.3m, EBIT by 3.7% to PLN 3.1m and net income by 2.4% to PLN 2.4m. In H1/21, THG hired many new consultants, which negatively impacted margins. Due to higher working capital operating and free cash flow declined from PLN 5.8m to PLN 1.1m and PLN 3.6m to PLN -0.4m respectively. As of 30/06/2021, net cash likely equalled c. PLN 5m. In 2020, ROCE was 26.1%.

In 2021E, we believe that THG will generate revenues of PLN 59.1m (+28.3% y-o-y), EBIT of PLN 7m (-8.1%; 11.9% margin) and net income of PLN 5.8m (-1%). In the long run, we forecast that its revenues will grow at a CAGR of 19.4% and its EBIT margin will reach the 3y hist. avg. of c. 14%. Besides its existing outsourcing business, we see additional upside for THG from its promising start-ups such as Holo4Med (AR/VR solution based on Microsoft HoloLens 2 that is currently in a proof-of-concept phase at Polish hospitals, but already generated PLN >6m of revenues in H1/21) and Zonifero (an app for managing the use of space and equipment in offices), which will likely be listed in the coming years themselves at a potentially much higher valuation than they have today.

in PLNm	2019	2020	2021E	2022E	2023E	2024E
Net sales	37.56	46.03	59.07	72.41	88.70	108.63
EBITDA	4.56	8.76	8.70	11.55	14.83	18.51
EBIT	3.87	7.64	7.02	9.37	12.43	15.87
Net income	2.75	5.89	5.83	7.64	10.02	12.70
EPS	1.57	3.35	3.23	4.24	5.56	7.05
DPS	0.80	0.00	0.00	0.00	0.00	0.00
Dividend yield	1.40%	0.00%	0.00%	0.00%	0.00%	0.00%
RoE	23.62%	34.15%	24.81%	25.73%	26.02%	25.46%
Net gearing	21.50%	-20.88%	-26.87%	-27.78%	-33.08%	-37.17%
EV/Sales	2.56x	2.09x	1.63x	1.33x	1.08x	0.88x
EV/EBITDA	21.09x	10.97x	11.05x	8.32x	6.48x	5.19x
P/E	36.43x	17.07x	17.69x	13.49x	10.28x	8.12x

Company profile

TenderHut is a successful Polish software development company with an own venture building segment.

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Sector	Software & Tech
Country	Poland
ISIN	PLTNDRH00012
Reuters	THG.WA
Bloomberg	THG.PW

Share information

Last price	57.20
Number of shares (m)	1.80
Market cap. (PLNm)	103.06
Market cap. (EURm)	22.65
52-weeks range	PLN 75 / PLN 48.50
Average volume	429

Performance

4-weeks	-1.38%
13-weeks	-9.21%
26-weeks	n.a
52-weeks	n.a
YTD	14.40%

Shareholder structure

Thomas and Martin Birk	41.40%
Robert Strzelecki (CEO)	40.96%
Mariusz Andrzejewski	6.07%
Free float	11.57%

Financial calendar

Q3/21 report	November 10, 2021
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Investment Case

- In our view, TenderHut's (THG) business model is comparable to the US Tech giant Alphabet, in the sense that it uses the cash, which it generates with its existing business to spin off and accelerate Tech start-ups. The company, which generates c. 67% of its yearly revenues abroad, has grown its sales and EBIT at a CAGR of 39.1% and 46.7% respectively in 2018-2020. Its start-ups such as Holo4Med, a mixed-reality solution for surgeons; and Zonifero, a PropTech solution, are supposed to be listed in the NewConnect segment of the Warsaw Stock Exchange in the coming years.
- Currently, TenderHut has the following business segments: (1) Software design & development – the largest and most profitable segment with an EBIT margin in 2020 of 22.1% (2) LabSystems – Process optimization in laboratories and (3) Others – sums up the results of THG's product-based start-ups and its law firm LegalHut. We expect that as THG accelerates more and more start-ups especially the Others segment will drive growth in the coming years.
- The global IT market is estimated at USD 3.9tr and is supposed to grow at a CAGR of 6.6% by 2022E. The value of the IT outsourcing segment is c. USD 340bn and its CAGR is estimated at 4.5%. The global markets for Digital Health (USD 8.4bn) and VR/AR solutions in medicine (USD 1.4bn) are expected to grow at a CAGR of 24% and 27.2% respectively.
- In H1/21, TenderHut generated revenues of PLN 28.3m, which corresponds to a 29.3% increase y-o-y. EBIT equalled PLN 3.1m (+3.7%, 10.9% margin) and net income PLN 2.4m (+2.4%, 8.4% margin). In the coming years, we believe that the main growth drivers for the company will be (1) high demand for IT and digitization solutions, and (2) acceleration and scaling up of existing and new product-based start-ups on international markets. For 2021E, we conservatively expect sales of PLN 59.1m (+28.3% y-o-y), an EBIT of PLN 7m (-8.1%, 11.9% margin) and net income of PLN 5.8m (-1%, 9.9% margin). By 2029E, we believe that THG's sales will increase at a CAGR of 19.4% and its EBIT margin will equal c. 14%, in-line with the 3y hist. average.
- We initiate coverage of TenderHut with a 30%-discounted 12-months SOTP-based PT of PLN 86.60, which implies an upside of 42% and a BUY rating. We like the proven track record of THG's management and the company's strategy, which could turn out to be very profitable for TenderHut's shareholders if the company manages to scale up its start-ups. On our estimates, TenderHut's current P/E 2021E and 2022E is 17.7x and 13.5x, which is 54.8% and 60.2% respectively below the median of our IT outsourcing peer group.

SWOT Analysis

Strengths

- Leading Tech group in Poland with rapidly-growing and highly-profitable software development and consulting business for corporate clients and laboratories
- 2/3 of annual revenues stem from international markets, especially UK (26.9% share) and Sweden (16.6%)
- Only 3 clients had a share of 5-10% in total revenues in 2020. 75% of yearly revenues are generated by clients with a share of <5% in yearly sales
- Close partnerships with Microsoft and ThermoFisher Scientific
- Like Alphabet, TenderHut uses the profits from its existing business to accelerate product-based highly scalable startups
- TenderHut is managed by its founders and owners

Opportunities

- Likely listing of startups such as Holo4Med (mixed-reality solutions) and Zonifero (PropTech), which should show their fair value. Significant upside if the startups manage to scale their businesses on international markets
- Cross-selling of the Group's various products and cost optimisations relating to third-party services should boost profitability
- Introduction of additional proprietary products for e.g. digitization of education and support of logistics processes in E-Commerce
- Further acquisitions in IT, especially in areas such as IoT, Machine Learning, Mobile Apps, Cloud Computing and AR/VR
- The global markets for IT outsourcing services (c. USD 340bn) and AR/VR solutions (USD 1.4bn) are expected to grow at a CAGR of 4.5% and 27.2% respectively in the coming years
- A change to the Main Market of the WSE would make THG interesting for more groups of investors

Weaknesses

- Very low free float of 11.6%
- TenderHut is still listed in the NewConnect segment of the Warsaw Stock Exchange, where Polish Accounting Standards are obligatory, not IFRS
- The Supervisory Board comprises two persons, who are relatives of CEO Robert Strzelecki

Threats

- Loss of key employees and intense competition for qualified staff
- Inability to develop startups
- Risks relating to intellectual property rights
- FX risks as c. 67% of yearly sales stem from abroad. THG does not use hedging instruments

Valuation

We have valued TenderHut by using a Sum-of-the-Parts valuation of the company's historical businesses Software design & development, LabSystems and LegalHut as well as its Venture Building segment. Our model derives a 12-months PT of PLN 86.60, which we have additionally discounted by 30% due to uncertainty. As the implied upside is 42%, we rate the stock a BUY.

Historical business segments (DCF model)

Below are the key assumptions of our DCF valuation of the Software Design & Development, LabSystem segments as well as LegalHut:

- (1) *Risk-free rate*: Current yield of Polish long-term government bonds with maturity in 2047E is 2.22% (Source: www.boerse-stuttgart.de)
- (2) *Beta*: Average unlevered beta in 2018-2020 for companies from the Software (System & Application) sector, which are based in Emerging Markets, is 1.5x (Source: www.damodaran.com)
- (3) *Equity risk premium (Poland)*: 5.54% (Source: www.damodaran.com)
- (4) *Target equity ratio*: 100%
- (5) *WACC = Equity cost*: 10.5%
- (6) *Sales growth in the terminal period*: 2%
- (7) Free cash flows are discounted to 15 September 2020

in PLNm	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Net sales	46.23	55.59	66.69	79.85	90.93	103.49	117.73	131.78	147.48
(y-o-y change)	n.a	20.2%	20.0%	19.7%	13.9%	13.8%	13.8%	11.9%	11.9%
Operating profit	11.14	12.96	14.79	16.85	18.34	19.91	21.28	22.36	23.24
(operating margin)	24.1%	23.3%	22.2%	21.1%	20.2%	19.2%	18.1%	17.0%	15.8%
NOPLAT	9.02	10.49	11.98	13.65	14.85	16.13	17.24	18.11	18.83
+ Depreciation & amortisation	1.68	2.18	2.40	2.64	2.77	2.91	3.05	3.20	3.36
= Net operating cash flow	10.70	12.67	14.38	16.28	17.62	19.03	20.29	21.31	22.19
- Total investments (Capex and WC)	-3.07	-7.27	-7.25	-8.88	-8.44	-9.74	-11.74	-11.63	-13.06
Capital expenditures	-3.98	-4.58	-5.32	-6.20	-6.06	-6.79	-7.63	-7.60	-8.40
Working capital	0.91	-2.69	-1.93	-2.68	-2.38	-2.96	-4.11	-4.03	-4.66
= Free cash flow (FCF)	7.63	5.40	7.13	7.40	9.18	9.29	8.55	9.69	9.13
PV of FCFs	7.41	4.74	5.66	5.32	5.97	5.47	4.55	4.67	3.98
PV of FCFs in explicit period	47.78								
PV of FCFs in terminal period	89.94								
Enterprise value (EV)	137.72								
+ Net cash / - net debt (30 June 2021)	6.95								
+ Investments / - minorities	0.00								
Shareholder value	144.67								
WACC	10.5%								
Cost of equity	10.5%								
Pre-tax cost of debt	4.0%								
Normal tax rate	19.0%								
After-tax cost of debt	3.2%								
Share of equity	100.0%								
Share of debt	0.0%								

Source: East Value Research GmbH

Peer Group

We have compared TenderHut to five similar companies, which are listed in Europe and the US, and have also looked at some privately-owned peers with offices in Poland. In our opinion, benchmarking against outsourcing giants Infosys Ltd., Tata Consultancy Services Ltd or Accenture PLC is not the right approach as they are too large and diversified. However, we have not used peer group multiples in our price target calculation as in contrast to TenderHut the below-mentioned companies do not offer services for laboratories and do not accelerate product-based start-ups.

Listed peers:

- (1) *PGS Software S.A.*: PGS Software, which is Wroclaw-based, is an IT outsourcing company with offices in Wroclaw, Gdansk, Rzeszow, Frankfurt, Zürich, Chicago and London. In 2020, it generated revenues of PLN 142.6m and a ROCE of 35.2%. On August 5, an entity associated with Dutch Waterland Private Equity announced its intention to tender all shares of the company at PLN 15.75 per share, which corresponds to a P/E 2021E of 10.5x based on latest sell-side estimates. Both founders, who control 75% of the company's votes, have already sold all their shares at PLN 14.30.
- (2) *EPAM Systems Inc.*: EPAM Systems, which is based in Newtown/US, is a leading global product development and platform engineering services company. It provides software engineering, combined with innovative strategy, consulting and design capabilities. EPAM's main competitive advantage are its low-cost programmers, whom it employs in Belarus and Russia. With >20 years of experience in the IT industry, EPAM's >47,000 people serve customers in >35 countries across North America, Europe, Asia and Australia. In Poland, it has offices in Gdansk, Katowice, Krakow, Warsaw and Wroclaw. In 2020, it generated total sales of USD 2.7bn and a ROCE of 13.3%.
- (3) *Endava Ltd.*: Endava is an IT services company with over 15 years of experience. The company has >8,000 employees, who are located in North America and Western Europe as well as delivery centers in Romania, Bulgaria, Slovenia, Serbia, Moldova, Bulgaria, North Macedonia, Croatia, Bosnia & Hercegovina, Argentina, Uruguay, Venezuela and Colombia. It has clients from the following sectors: Finance, Insurance, Healthcare, Telco, Media, Technology, Retail and Mobility. In fiscal-year 2019/20, Endava had sales of USD 498.6m and a ROCE of 6.5%.
- (4) *TietoEVERY Oyj*: TietoEVERY, which is based in Helsinki/Finland, provides services relating to application development, business application platforms and processes, consulting, infrastructure management and outsourcing. The company employs c. 24,000 people in 90 countries. In Poland, it has offices in Szczecin, Krakow, Wroclaw and Gliwice. In 2020, TietoEVERY had total revenues of EUR 2.8bn and a ROCE of 5.1%.

On 18 June 2019, Tieto Oyi announced the acquisition of 100% of Norwegian company EVRY ASA for USD 2.3bn. EVRY provides IT solutions and consulting services to public and private sector clients in Norway, Sweden, and other countries. One area of expertise is banking solutions. Based on EVRY's 2018 net profit, the deal implied a P/E multiple of 22.5x.

- (5) *Spyrosoft S.A.*: Spyrosoft, which is based in Wroclaw/Poland, was founded in 2016 and is a software engineering company. It offers a full range of software development services – from embedded to cloud solutions that are customized and designed in close collaboration with the client. Apart from three offices in Poland, Spyrosoft is also present in UK, Germany, India, Croatia and the US. In 2020, the company, which has been listed in the NewConnect segment of the Warsaw Stock Exchange since 28 February 2020, generated revenues of PLN 113m and a ROCE of 59.3%.

Privately-owned competitors:

- (6) *Luxoft Holding Inc.*: Luxoft, which is based in Zug/Switzerland, is a provider of software development services and IT solutions to multinational corporations. Its services include application development and maintenance, quality assurance, product engineering relating to both hardware and software as well as process consulting. The company is focused on six industries, including Financial Services; Automotive and Transport; Telecommunications; Travel and Aviation; Technology and Energy. It operates in Australia, Bulgaria, Canada, China, Germany, India, Malaysia, Mexico, Poland (offices in Krakow, Wroclaw, Gdansk and Warsaw), Romania, Russia, Singapore, Sweden, Switzerland, Ukraine, Vietnam, the UK and US. In 2017/18, Luxoft generated total revenues of USD 906.8m.

On 7 January 2019, DXC Technology, an IT and consulting services provider, announced that it would acquire 100% in Luxoft for c. USD 2bn in order to expand its digital offerings to the financial and automotive sectors. The transaction price of USD 59 per share represented a premium of c. 86% over the last day's closing price. According to CapitalIQ data, the transaction price implied an EV/Sales and P/E 17/18 of 2.1x and 35.5x respectively.

- (7) *Ericpol Sp. z.o.o.*: Ericpol, which is based in Lodz/Poland, is an engineering company that has been operating since 1991. The company provides outsourcing, consulting and integration services as well as dedicated solutions in the areas of Telecommunications, M2M (machine to machine), Automotive, IoT (Internet of Things), Healthcare, Finance & Banking and Business Solutions. Ericpol has four offices in Poland (Lodz, Krakow, Warsaw, Gniezno) and one in the Ukraine (Lviv), employing >2,200 people. Its engineers have so far executed >800 comprehensive long-term projects in 75 countries. Since 2016, Ericpol has been part of Ericsson.

- (8) *Future Processing Sp. z.o.o.*: Future Processing, which is based in Gliwice/Poland, is an experienced Polish offshore software development service provider, mostly for European companies located in the UK and Scandinavia. Apart from outsourcing, its service portfolio includes e.g. database analysis, Cyber Security & Virtual Reality consulting, software analysis, audit & planning as well as support & maintenance. The company employs c. 800 people.
- (9) *Sii Sp. z.o.o.*: Sii, which is based in Warsaw/Poland, is an onshore/offshore software development company with >6,000 employees, >200 clients from 18 countries and c. PLN 1bn of revenues in 2020. Its offering comprises among others development and maintenance of applications, IT infrastructure, product engineering and testing.
- (10) *SoftwareMind Sp. z.o.o.*: SoftwareMind, which is part of listed Ailleron S.A. and since Q1/21 also partially owned by Polish PE fund Enterprise Investors, is a software outsourcing company with offices in Krakow, Warszawa, Rzeszow, Bielsko-Biala and Dallas. Based on Ailleron's annual report, we believe SoftwareMind's revenues in 2020 equalled PLN 101.7m and its number of employees >650.
- (11) *Merixstudio*: Merixstudio, which is based in Poznan/Poland, is a software house and design studio. The team consists of >200 specialists e.g. front-end developers, UI/UX designers, Python/PHP/JavaScript/Django & mobile app developers, testers and project managers. According to its website, the company has >200 clients from different countries. International offices are situated in London, Berlin and New York.

Company	EV/Sales			P/E			P/BVPS	EBITDA margin	Net gearing
	2020	2021E	2022E	2020	2021E	2022E	Latest	Last FY	Latest
PGS Software S.A. (PLN)	2.90x	2.29x	2.00x	32.39x	10.71x	9.90x	8.11x	16.56%	-76.43%
Spyrosoft S.A. (PLN)	1.68x	n.a	n.a	14.63x	n.a	n.a	7.38x	18.68%	-40.71%
EPAM Systems Inc. (USD)	12.86x	9.33x	7.39x	111.20x	73.87x	58.86x	15.93x	16.59%	-47.61%
Endava PLC (USD)	11.98x	9.36x	7.69x	79.58x	66.06x	54.43x	23.18x	24.79%	-10.05%
TietoEVRY Corporation (EUR)	1.46x	1.44x	1.41x	34.63x	12.15x	13.38x	1.97x	9.56%	47.29%
Median	2.90x	5.81x	4.70x	34.63x	39.10x	33.91x	8.11x	16.59%	-40.71%
TenderHut S.A. (PLN)	2.05x	1.60x	1.30x	17.07x	17.69x	13.49x	4.25x	19.03%	-29.17%
Premium/Discount	-29.2%	-72.5%	-72.2%	-50.7%	-54.8%	-60.2%			

Source: CapitalIQ, East Value Research GmbH

Venture Building segment (valuation based on latest financing rounds)

While some of THG's start-ups have peers on the Warsaw Stock Exchange – e.g. Holo4Med's peer MedApp S.A. is currently valued at a market capitalisation of PLN 245m – we have decided to be conservative and only use valuations of the latest/ongoing financing rounds. Below is a summary:

Start-up	THG's stake	Last funding round	Amount raised (PLNm)	Implied post-money valuation of 100% (in PLNm)	Value of THG's stake (in PLNm)
Holo4Labs Sp. z.o.o	89.3%	Q2 2020	1.20	11.20	10.00
Grow Uperion Sp. z.o.o	90.9%	Q3 2020	1.00	11.00	10.00
Holo4Med Sp. z.o.o	82.0%	Q3 2021	2.50	23.00	18.86
Sum					38.86

Source: Company information, East Value Research GmbH

We would like to emphasize that the above list does not include the PropTech start-up Zonifero, which will likely conduct the first financing round for external investors in Q4/21E.

Sum-of-the-Parts valuation

Sum-of-the-Parts	
Software design & development, LabSystems, LegalHut	144.67
Holo4Labs, Grow Uperion, Holo4Med	38.86
Sum of Equity Values (PLNm)	183.53
Sum of Equity Values (with 30% discount)	141.18
Number of shares outstanding (m)	1.80
Implied Equity Value per share (PLN)	78.35
Implied Equity Value per share (in 12 months)	86.60

Source: East Value Research GmbH

H1/21 results

Revenues and Profitability

In H1/21, TenderHut generated total revenues of PLN 28.3m, which corresponds to an 29.3% increase y-o-y. Both existing and new clients of the "Software design & development" segment contributed to the growth. Together with its clients' (Petrochemical & chemical industry, Pharma, Mining etc.) investments in labs, the segment LabSystems started to recover after a difficult year 2020.

in PLNm	H1/21	H1/20	change (%)
Net sales	28.32	21.90	29.3%
EBITDA	3.87	3.52	9.7%
<i>EBITDA margin</i>	<i>13.6%</i>	<i>16.1%</i>	
EBIT	3.10	2.99	3.7%
<i>EBIT margin</i>	<i>10.9%</i>	<i>13.6%</i>	
Net income	2.39	2.33	2.4%
<i>Net margin</i>	<i>8.4%</i>	<i>10.7%</i>	

Source: Company information, East Value Research GmbH

In H1/21, TenderHut's EBIT only slightly improved by 3.7% y-o-y to PLN 3.1m due to the hiring of new IT consultants, which negatively affected especially the share of CoGS in total sales. Net income grew even less (+2.3% y-o-y to PLN 2.4m). Unfortunately, TenderHut does not provide a detailed P&L, balance sheet and cash flow statement in its H1/21 report.

Balance sheet and Cash flow

At the end of June 2021, TenderHut had equity of PLN 23.8m, which corresponds to an equity ratio of 68.9%. Although the company did not provide the exact figures, we believe that the largest balance sheet positions, besides equity, were intangible assets, cash, and trade receivables.

Between January and June 2021, TenderHut generated an operating cash flow of PLN 1.1m, which was lower than last year (PLN 5.8m). The likely reason were high investments in working capital. Cash flow from investing equaled PLN -1.5m (H1/20: PLN -2.2m), while cash flow from financing amounted to PLN 2m (PLN -1.7m) as the company raised new debt. Between January and June 2021, THG's cash position improved by PLN 1.7m.

Financial forecasts

Revenues and Profitability

We expect that in the coming years TenderHut will continue to benefit from very strong demand for IT services worldwide and will additionally boost growth through acquisitions in Poland and Scandinavia. Polish software developers have a very good reputation worldwide – they were ranked 3rd worldwide in the latest HackerRank ranking – and in contrast to for example Indians or Chinese are close to Western clients, not just geographically, but also culturally. In the LabSystems segment, we expect that TenderHut will additionally benefit from its strong partnership with the global leader for laboratory equipment ThermoFisher Scientific.

Given the above, we forecast that revenues in the Software design & development segment will grow at a CAGR 2020-2029E of 14.2% with a target EBIT margin of c. 14% (= hist. 3y average operating margin). For the LabSystems segment, we expect a sales CAGR 2020-2029E of 10.8% and a target EBIT margin of 18%-18.5% (3y hist. average was 22.8%).

While the established business relating to software & consulting services for corporate clients and laboratories develops very well and generates solid cash flows, we believe that THG's shareholder value could additionally be boosted by its existing and future product-based start-ups, which it spin-offs from the Software design & development segment and accelerates. Their products are targeted at international clients and are highly scalable. For the Start-ups & LegalHut segment, which also includes the results of THG's legal office that mainly provides its services to the company's own and external start-ups, we forecast the highest sales CAGR of 32.4% and a target EBIT margin of 10%-11%.

in PLNm	2021E	2022E	2023E	2024E
Software design & development	46.57	55.16	65.34	77.40
(% of sales)	78.8%	76.2%	73.7%	71.2%
EBIT margin	22.0%	21.0%	20.0%	19.0%
LabSystems	9.20	10.40	11.75	13.27
(% of sales)	15.6%	14.4%	13.2%	12.2%
EBIT margin	9.0%	12.5%	14.0%	15.5%
Others (Start-ups & LegalHut)	13.50	17.55	22.82	29.66
(% of sales)	22.9%	24.2%	25.7%	27.3%
EBIT margin	-30.0%	-20.0%	-10.0%	-3.0%
Thereof: LegalHut (PLNk)	660	726	799	878
Thereof: LegalHut (EBIT margin)	10.0%	9.9%	9.8%	9.7%
Corrections	-10.20	-10.70	-11.20	-11.70
Total net sales	59.07	72.41	88.70	108.63
(change y-o-y)	28.3%	22.6%	22.5%	22.5%

Source: East Value Research GmbH

in PLNm	2021E	2022E	2023E	2024E
Net sales	59.07	72.41	88.70	108.63
EBITDA	8.70	11.55	14.83	18.51
EBITDA margin	14.7%	16.0%	16.7%	17.0%
EBIT	7.02	9.37	12.43	15.87
EBIT margin	11.9%	12.9%	14.0%	14.6%
Net income	5.83	7.64	10.02	12.70
Net margin	9.9%	10.5%	11.3%	11.7%

Source: East Value Research GmbH

in PLNm	Q1/21	Q2/21
Net sales	14.40	13.93
y-o-y change	34.3%	24.6%
EBITDA	2.45	1.42
EBITDA margin	17.0%	10.2%
EBIT	2.06	1.04
EBIT margin	14.3%	7.5%
Net income	1.64	0.75
Net margin	11.4%	5.4%

Source: Company information, East Value Research GmbH

CAPEX and Working capital

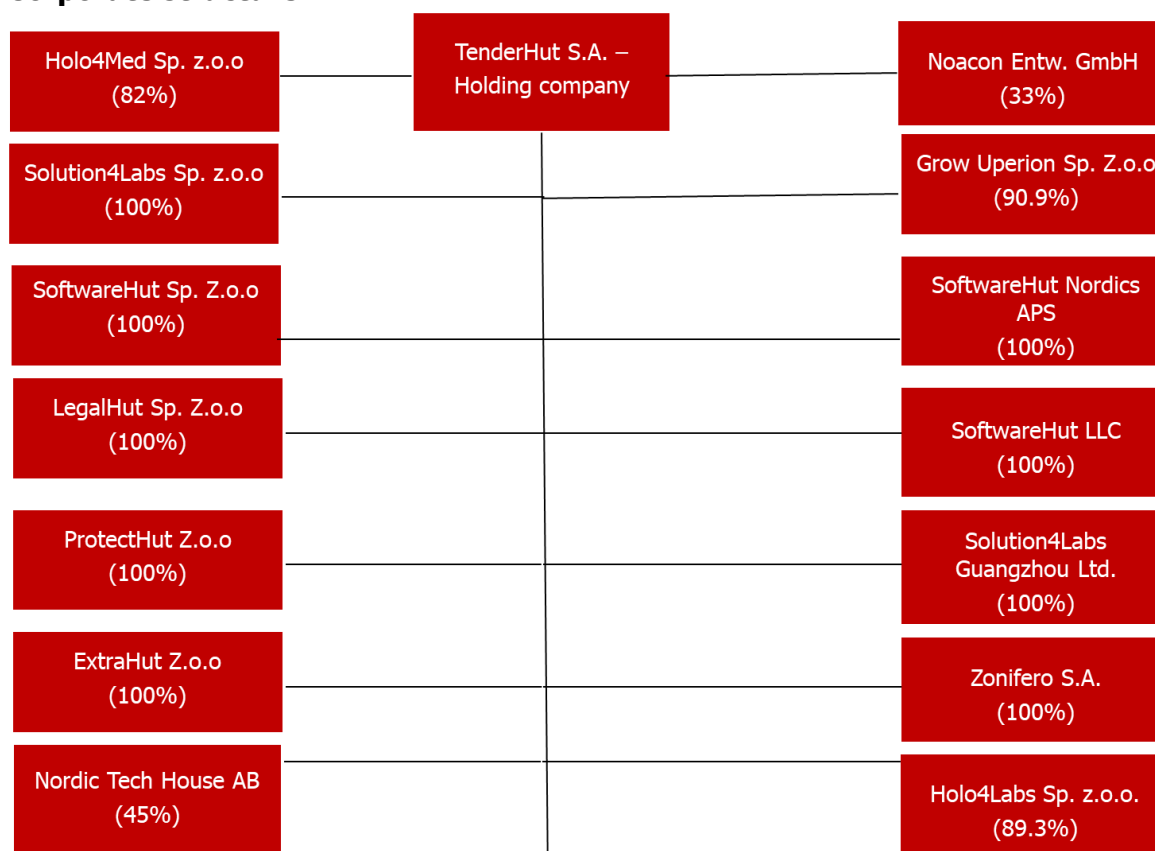
In our view, THG will spend on gross CAPEX (own software) PLN 4m in 2021E and PLN 16.1m in 2022E-2024E. In the long run, we expect that gross CAPEX will amount to c. 4% of yearly sales.

Regarding working capital, we forecast that its share in annual revenues will reach >12% in the long run after 11.5% in 2020. The cash conversion cycle should go down to 60 days after 115 days in 2020.

Business description

TenderHut S.A., which is based in Bialystok in North-Eastern Poland, is a provider of software outsourcing services, consulting relating to optimisation of laboratories and legal services. In addition, based on its software development know-how the Group accelerates product-based and highly scalable start-ups. In addition to 9 offices in Poland, TenderHut has a presence in China, Denmark, Finland, France, Ireland, Germany, Norway, Switzerland, Sweden, USA and UK. The company employs 53 FTE (Full-Time Equivalents) and >200 external consultants, of which 260 in software delivery, 14 in sales (thereof: 5 in FR, SE, D, UK and the US) and 4 in HR. It has been listed in the NewConnect segment of the Warsaw Stock Exchange since Q1/21.

Corporate structure



* accounts for the latest financing rounds of Grow Uperion, Holo4Labs and Holo4Med

Source: Company information, East Value Research GmbH

Company history

2010: Foundation of the company under the name CodeArch. At the beginning, the company develops web portals, business applications and provides professional hosting.

2012: CodeArch becomes part of listed SMT Software S.A.

2015: Robert Strzelecki, Waldemar Birk and Anna Serpina-Forkasiewicz buy back CodeArch from SMT Software.

Foundation of Solution4Labs, SoftwareLabs and LegalHut and change of the company's name to TenderHut.

2016: Acquisition of software companies LemonTea and QBurst Poland.

Opening of offices in Kopenhagen and Stockholm.

2017: Acquisition of software company LIT.

Opening of offices in Zurich, London, Berlin, Dublin and New York as well as a new development center in Olsztyn.

QBurst changes its name to ProtectHut.

2018: Opening of a new development center in Szczecin and Wroclaw.

Opening of an office in Paris.

Acquisition of Pibo (now ExtraHut).

Acquisition of Order of Code in Przemysl and Javeo Software in Warsaw.

2019: Acquisition of Warsaw-based Olsoft.

Merger of SoftwareHut with Order of Code.

Foundation of SoftwareHut LLC in the US, SoftwareHut Nordic APS and Solution4Labs Guangzhou in China. Opening of an office in Finland.

2020: Takeover of 33% in NOACON Entwicklungsgesellschaft GmbH in Germany, which is supposed to develop a mixed-reality solution for disaster recovery teams.

Registration of subsidiary Holo4Labs Sp. z.o.o, which was spun off from SoftwareHut Sp. Z.o.o. The subsidiary raises PLN 1.2m through crowdfunding, implying a valuation of 100% of PLN 11.2m.

Registration of subsidiaries Zonifero S.A., which was spun off from SoftwareHut Sp. z.o.o., and Holo4Traige Sp. z.o.o (now: Holo4Med Sp. z.o.o).

Subsidiary Grow Uperon S.A. sells a stake of 9.1% for PLN 1m, implying a valuation of 100% of PLN 11m.

Acquisition of a 45% stake in the Swedish start-up accelerator Nordic Tech Hub AB.

2021: Listing in the NewConnect segment of the Warsaw Stock Exchange, which was not accompanied by a capital increase.

Acquisition of 36% in the Polish crowdfunding platform StockAmbit for an undisclosed amount.

Acquisition of a 100% stake in the Polish IT outsourcing and consulting company Evertop with c. 50 employees and headquarter in Chorzow in southern Poland. For their stake, Evertop's owners received 60,000 shares of THG. Evertop's total sales in 2020 equalled >10% of THG's annual revenues. Among others, the company has so far realised many important public projects such as a certification system for the Institute of Educational Research and a portal on air quality in Poland for the Central Environmental Inspectorate.

TenderHut's operations are divided into the following segments:

Software design & development

The segment covers the holding TenderHut as well as the subsidiaries SoftwareHut (IT technological and process outsourcing for corporate customers from such sectors as Tech, Finance/Insurance, Education, Healthcare; sales of own products), ExtraHut (Services relating to user experience as well as development of mobile & web apps) and ProtectHut (Cybersecurity solutions). In 2019-2020, TenderHut completed in total 96 projects for 34 clients. In 2020, its largest clients had a share of c. 10% in total revenues and only 3 customers had a share of >5%. All its contracts usually have a notice period of 3-6 months.

In 2020, "Software design & development" generated revenues of PLN 42.7m and was thus the largest segment. In the last three years, its EBIT margin equalled 14% on average. Until 2019, this segment also comprised the results of the PropTech start-up Zonifero Sp. z.o.o.

LabSystems (LIMS, LES and LIS systems)

The LabSystems segment comprises the results of the subsidiaries Solution4Labs and Solution4Labs Guangzhou. It offers a wide range of services for laboratories: (1) delivery, installation, and personalisation of Laboratory Information Management Systems LIMS (2) software outsourcing and own products (3) sale of lab devices of ThermoFisher Scientific, whose certified partner is Solution4Labs, and (4) consulting relating to process optimisation.

In 2020, this segment generated revenues of PLN 7.8m. In the last three years, its EBIT margin equalled 22.8% on average.

Others (Start-ups & LegalHut)

In the Others segment, TenderHut sums up the results of its subsidiary LegalHut (legal support for software houses and Tech companies, audits and trainings) and its various product-based start-ups. Below is an overview:

Subsidiary	Description	THG's stake	Sales in 2020 (in PLNk)	Sales in 2019 (in PLNk)
LegalHut Sp. z.o.o	Legal services for software and Tech companies, audits and trainings	100.0%	607	590
Zonifero S.A.	PropTech app for management of office space, conference rooms, desk etc. Clients include the largest Polish developers e.g. Cavatina and well-known companies e.g. Zabka	100.0%	887	n.a
Holo4Labs Sp. z.o.o	Mixed-reality solution for Laboratory Information Management Systems based on Microsoft HoloLens 2; is integrated with market-leading SampleManager LIMS of ThermoFisher Scientific; improves thesecurity and efficiency of labs	89.3%	634	n.a
Holo4Med Sp. z.o.o	Mixed-reality for hospitals based on Microsoft HoloLens 2; improves the efficiency of medical facilities and increases patient' safety	100.0%	4198	n.a
Grow Uperion Sp. z.o.o	SaaS-based amification platform for building staff engagement and motivation that is targeted especially at startups	90.9%	254	1
NOACON Entwicklungsg. GmbH	Mixed-reality for crisis management centers based on Microsoft HoloLens 2	33.0%	n.a	n.a

Source: Information Memorandum of TenderHut, East Value Research GmbH

In 2020, this segment contributed sales of PLN 6.5m and in 2018-2020 generated an average EBIT margin of -8.5%. Especially, the revenues of Holo4Med Sp. z.o.o strongly increased last year as the start-up received a contract from a Polish public institution for an IT system relating to the fight against COVID-19.

Sales & Distribution

TenderHut has a dedicated sales & marketing department, which in our opinion currently employs 6 people. Other sales channels include international partners (especially Microsoft and ThermoFisher Scientific), trade fairs and specialised vendors.

In its software outsourcing and consulting business, the company usually signs general agreements with its customers, which define what they exactly need. It receives a payment every month based on its working hours.

Management

Robert Strzelecki (Founder and CEO): Mr Robert Strzelecki is founder of TenderHut, its CEO and major shareholder. He has been working in the IT sector for 25 years e.g. as Database & Systems Administrator, ERP Systems Developer and Deputy IT Director. In 2010, he founded CodeArch, the predecessor of TenderHut. At the travel software company iAlbatros, which was sold to Belgian Sodexo in 2016, he was COO. Mr Strzelecki graduated with a Master's degree in Software Engineering from the Polish-Japanese School of Computer Science in Warsaw.

Thomas Birk (Vice President of the Board): Mr Thomas Birk is Vice President of the Board at TenderHut and together with his brother its largest shareholder. He is a Danish national and has been working in IT project and systems development for >20 years. Mr Birk graduated with a Bachelor's degree in International Business from the Copenhagen Business School.

Market environment

The global and Polish IT market

According to the latest report by Gartner, in 2021 global IT spending is projected to increase by 8.6% y-o-y to USD 4.2 trillion. Next year, the consultancy expects a y-o-y growth of 5.3% to USD 4.4tr (CAGR 2020-2022E of 6.6%). The fastest-growing areas are expected to be Enterprise Software (CAGR of 12.5%) and IT Services (9.2%). According to Gartner, enterprises will continue to invest in tools that support innovation, remote operations and employee productivity.

in USDbn	2021	y-o-y growth	2022	y-o-y growth	CAGR 2020-2022E
Data Center Systems	191,648	2.5%	201,659	5.2%	6.3%
Enterprise Software	598,957	9.1%	669,114	11.7%	12.5%
Devices	793,973	-1.5%	800,172	0.8%	7.1%
IT Services	1,176,676	1.7%	1,277,228	8.5%	9.2%
Communications Services	1,444,980	-1.4%	1,481,878	2.6%	3.0%

Source: Gartner, East Value Research GmbH

According to IDC, the ITC (Information, Technology, Communication) market in Poland was worth USD 19.3bn in 2020 (thereof: USD 12.2bn IT), which corresponds to a 4% growth y-o-y. At 27%, the fastest-growing segment was Software-as-a-Service. In 2021, The ICT market is expected to advance by 5% as most clients plan to increase their IT spending. Due to the pandemic managers at companies changed their priorities towards innovation and higher cost efficiency and productivity.

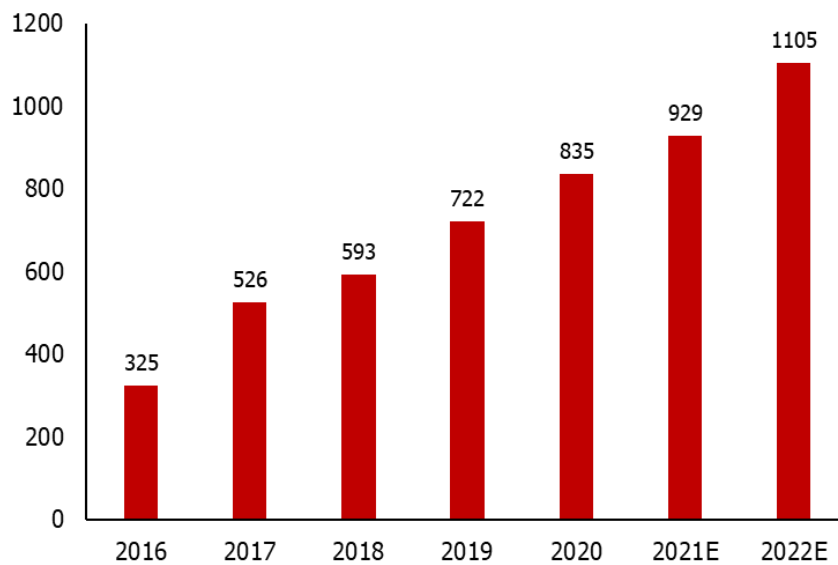
The global market for IT outsourcing

In its latest report on the global IT outsourcing market from August 2020, Research and Markets estimates its value in 2019 at USD 333.7bn and forecasts that it will grow to USD 397.6bn by 2025E (CAGR of 4.5%). The main factors supporting the segment's growth are cost reductions, improvements of customer experience and competitive disruption.

The consultancy mentions Indian companies as the dominant players in this segment. They have access to a vast pool of skilled and relatively cheap software developers and are expanding their operations globally.

The global market for Medical Wearables

According to Research and Markets, the value of the global medical wearables market equalled USD 8.4bn in 2020 and is expected to grow at a CAGR of 24% to USD 24.4bn by 2025E. Medical wearables are meant to monitor and collect data on user's health and fitness. We believe that especially since 2020 their adoption has significantly grown as the outbreak of the COVID-19 pandemic brought a sharp focus on the need to prioritise health.

Number of connected wearable devices worldwide (in millions)

Source: Statista.de, East Value Research GmbH

The global market for Augmented & Virtual Reality in medicine

According to the latest report by Grand View Research, the global market for Augmented Reality & Virtual Reality in medicine is expected to grow at a CAGR of 27.2% to USD 9.5bn by 2028E. The main factors, which drive market growth, are (1) a rising need for efficient and innovative solutions to enhance increasingly complex treatments and surgeries, and (2) technological advancements in the healthcare sector. Apart from surgical procedures, the AR & VR technology is already used e.g. in fitness management, education and training, patient care management and medical imaging.

Profit and loss statement

in PLNm	2019	2020	2021E	2022E	2023E	2024E
Revenues	37.56	46.03	59.07	72.41	88.70	108.63
Cost of goods sold	-27.31	-31.60	-39.58	-48.15	-58.54	-71.15
Gross profit	10.25	14.43	19.49	24.26	30.16	37.48
Other operating income	0.20	0.86	0.88	0.89	0.91	0.93
Personnel costs	-5.58	-6.12	-7.86	-9.85	-12.33	-15.43
Other operating expenses	-0.31	-0.41	-3.81	-3.75	-3.91	-4.47
EBITDA	4.56	8.76	8.70	11.55	14.83	18.51
Depreciation	-0.69	-1.12	-1.68	-2.18	-2.40	-2.64
Operating income	3.87	7.64	7.02	9.37	12.43	15.87
Net financial result	-0.31	-0.17	-0.20	-0.19	-0.18	-0.17
EBT	3.56	7.47	6.82	9.18	12.25	15.70
Income taxes	-0.81	-1.58	-1.30	-1.74	-2.33	-2.98
Net income / loss	2.75	5.89	5.83	7.64	10.02	12.70
EPS	1.57	3.35	3.23	4.24	5.56	7.05
DPS	0.80	0.00	0.00	0.00	0.00	0.00
Share in total sales						
Revenues	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Cost of goods sold	-72.71 %	-68.65 %	-67.00 %	-66.50 %	-66.00 %	-65.50 %
Gross profit	27.29 %	31.35 %	33.00 %	33.50 %	34.00 %	34.50 %
Other operating income	0.54 %	1.87 %	1.48 %	1.23 %	1.03 %	0.86 %
Personnel costs	-14.86 %	-13.29 %	-13.30 %	-13.60 %	-13.90 %	-14.20 %
Other operating expenses	-0.83 %	-0.90 %	-6.46 %	-5.18 %	-4.41 %	-4.12 %
EBITDA	12.14 %	19.03 %	14.73 %	15.95 %	16.72 %	17.04 %
Depreciation	-1.83 %	-2.43 %	-2.84 %	-3.01 %	-2.70 %	-2.43 %
Operating income	10.30 %	16.61 %	11.89 %	12.95 %	14.01 %	14.61 %
Net financial result	-0.82 %	-0.37 %	-0.34 %	-0.26 %	-0.20 %	-0.16 %
EBT	9.48 %	16.24 %	11.55 %	12.68 %	13.81 %	14.46 %
Income taxes	-2.15 %	-3.43 %	-2.19 %	-2.41 %	-2.62 %	-2.75 %
Net income / loss	7.33 %	12.79 %	9.86 %	10.55 %	11.30 %	11.69 %

Balance Sheet

in PLNm	2019	2020	2021E	2022E	2023E	2024E
Cash and equivalents	0.91	6.88	7.68	9.94	14.93	21.33
Short-term financial assets	0.03	0.42	0.43	0.44	0.45	0.46
Inventories	0.09	0.05	0.02	0.02	0.02	0.03
Trade accounts and notes receivables	9.24	9.90	10.06	12.28	14.98	18.27
Other current assets	2.60	2.37	2.27	3.72	4.56	5.58
Current assets, total	12.86	19.62	20.46	26.41	34.95	45.67
Property, plant and equipment	1.57	1.30	1.30	1.35	1.40	1.45
Other intangible assets	5.88	8.11	10.41	12.76	15.63	19.15
Goodwill	2.44	2.49	2.49	2.49	2.49	2.49
Other long-term assets	0.10	0.09	0.00	0.00	0.00	0.00
Deferred tax assets	0.09	0.28	0.00	0.00	0.00	0.00
Non-current assets, total	10.08	12.27	14.20	16.60	19.52	23.08
Total assets	22.94	31.89	34.66	43.01	54.47	68.76
Trade payables	3.79	5.02	5.39	5.78	6.67	7.42
Other short-term liabilities	0.94	2.03	2.60	3.19	3.91	4.79
Short-term financial debt	2.76	1.64	0.00	0.00	0.00	0.00
Provisions	0.09	0.09	0.11	0.13	0.16	0.20
Current liabilities, total	7.58	8.77	8.10	9.10	10.74	12.41
Long-term financial debt	1.03	0.83	0.73	0.63	0.53	0.43
Pension provision	0.00	0.00	0.00	0.00	0.00	0.00
Other long-term liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Deferred tax liabilities	0.94	0.92	0.00	0.00	0.00	0.00
Long-term liabilities, total	1.97	1.75	0.73	0.63	0.53	0.43
Total liabilities	9.55	10.52	8.83	9.74	11.27	12.84
Shareholders equity, total	13.38	21.10	25.87	33.51	43.53	56.23
Minority interests	0.00	0.26	-0.04	-0.24	-0.34	-0.32
Total equity and debt	22.94	31.89	34.66	43.01	54.47	68.76

Cash Flow Statement

in PLNm	2019	2020	2021E	2022E	2023E	2024E
Net income / loss	2.75	5.89	5.83	7.64	10.02	12.70
Depreciation	0.69	1.12	1.68	2.18	2.40	2.64
Change of working capital	1.78	-1.51	0.91	-2.69	-1.93	-2.68
Others	-2.87	3.13	0.61	-0.02	-0.03	-0.04
Net operating cash flow	2.35	8.62	9.02	7.10	10.46	12.61
Cash flow from investing	-4.88	-3.60	-3.98	-4.58	-5.32	-6.20
Free cash flow	-2.53	5.02	5.05	2.52	5.14	6.42
Cash flow from financing	2.39	0.95	-4.24	-0.26	-0.15	-0.02
Change of cash	-0.14	5.98	0.80	2.26	4.99	6.40
Cash at the beginning of the period	1.05	0.91	6.88	7.68	9.94	14.93
Cash at the end of the period	0.91	6.88	7.68	9.94	14.93	21.33

Financial ratios

	2019	2020	2021E	2022E	2023E	2024E
Profitability and balance sheet quality						
Gross margin	27.29%	31.35%	33.00%	33.50%	34.00%	34.50%
EBITDA margin	12.14%	19.03%	14.73%	15.95%	16.72%	17.04%
EBIT margin	10.30%	16.61%	11.89%	12.95%	14.01%	14.61%
Net margin	7.33%	12.79%	9.86%	10.55%	11.30%	11.69%
Return on equity (ROE)	23.62%	34.15%	24.81%	25.73%	26.02%	25.46%
Return on assets (ROA)	13.35%	18.99%	17.39%	18.20%	18.73%	18.72%
Return on capital employed (ROCE)	19.49%	26.09%	21.41%	22.39%	23.03%	22.82%
Economic Value Added (in PLNm)	1.38	3.60	2.89	4.02	5.46	6.92
Net debt (in PLNm)	2.88	-4.41	-6.95	-9.31	-14.40	-20.90
Net gearing	21.50%	-20.88%	-26.87%	-27.78%	-33.08%	-37.17%
Equity ratio	58.35%	66.17%	74.63%	77.91%	79.92%	81.78%
Current ratio	1.70	2.24	2.53	2.90	3.25	3.68
Quick ratio	1.34	1.96	2.24	2.49	2.83	3.23
Net interest cover	-12.52	-45.22	-35.12	-49.34	-69.06	-93.37
Net debt/EBITDA	0.63	-0.50	-0.80	-0.81	-0.97	-1.13
Tangible BVPS	6.24	10.59	12.98	17.22	22.78	29.83
Capex/Sales	14.58%	6.80%	6.73%	6.32%	5.99%	5.71%
Working capital/Sales	19.14%	11.45%	7.39%	9.75%	10.13%	10.75%
Cash Conversion Cycle (in days)	40	21	-10	-5	0	5
Trading multiples						
EV/Sales	2.56	2.09	1.63	1.33	1.08	0.88
EV/EBITDA	21.09	10.97	11.05	8.32	6.48	5.19
EV/EBIT	24.84	12.58	13.68	10.25	7.73	6.06
P/Tangible BVPS	9.16	5.40	4.41	3.32	2.51	1.92
P/E	36.43	17.07	17.69	13.49	10.28	8.12
P/FCF	-40.70	20.52	20.42	40.91	20.06	16.06

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The respective supervisory authority is:

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