

## Bittnet Systems

Buy

Initiation of coverage

Price: RON 0.650

Price target: RON 0.973

## Acquire, integrate, educate

We initiate coverage of Bittnet Systems, a fast-growing Romanian technology company, with a BUY rating and a price target (PT) of RON 0.973/share, implying 49.6% upside. Bittnet was founded in 2007 by brothers Mihai and Cristian Logofatu, who are still the largest shareholders. The company was focused originally on providing IT training to companies, through its education division, and has since transitioned towards IT integration services, through its technology division. It is an active acquirer, and its transition towards IT integration and its fast growth have been driven by acquisitions executed over 2017-18. Bittnet listed on AeRO, Bucharest Stock Exchange's alternative trading system, in 2015, when it reported RON 10m in revenues; the company grew its revenues by 10x to RON 100m in 2019, and it was promoted to the main market this year. Going forward, we expect revenues to grow by 22.3% per year over 2020-25E, with net income increasing by 72.5% per year over the same period, albeit from a small base. Bittnet is trading currently at a 2021E EV/sales of 0.9x, a 45% discount vs. its peer group, on our numbers.

**High growth story...** In 2020E, we expect revenues to grow by 31% yoy, after increasing by 39% yoy in 1H20. Going forward, we believe that Bittnet can outgrow the market, due to its low penetration, its position within segments that are benefiting from the current environment, and its track record of growth, +39% yoy in 1H20, compared to the overall IT industry, which grew by 12.4%. We expect revenues to grow by 2.7x over 2020-25E.

**...in a very supportive environment...** Bittnet's verticals focus make the company a proxy for the broader technology development in the country. In our view, IT education benefits from Romania's IT workforce increasing, and becoming more specialised, while IT integration benefits from companies becoming more digitalised, and both these trends are occurring at an accelerated pace in Romania. McKinsey expects the digital economy in Romania to grow by 10.7-18.2% (low vs. high scenarios) per year until 2025E.

**...with significant margin improvement potential.** We expect the net income margin to grow from 1.9% in 2020, to a sustainable level of 10.3% in 2025E. This is driven by further efficiency gains, economies of scale as the company grows, and the contribution of new investments and deleveraging, given its high cost of financing. We expect the net income to grow by 15.3x over 2020-25E.

**Peers comparison.** Bittnet is trading currently at a 2021E EV/sales of 0.9x, a 45% discount vs. its peer group. We believe this is a more relevant metric, given that the company is in a high-growth (a 2019-22E sales CAGR of 28%, 4x higher than its peers), lower-profitability (a 2020-22E EBITDA margin of 9%, 48% lower than its peers) phase.

**Main risks:** i) M&A integration; ii) employee retention; iii) competitive landscape; iv) dilution; v) leverage; and vi) low liquidity.

## Expected events

3Q20 results	13 November
M&A shareholder meeting	26 November

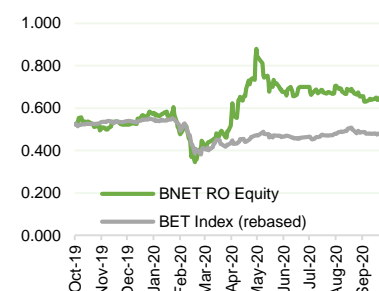
## Key data

Market Cap	USD 34m
Free float	62.3%
Shares outstanding	216.3m
3M ADTV	USD 30k
Major Shareholder	Mihai Logofatu 14.14%
ADTV	USD 30k
Bloomberg Code	BNET RO
BET Index	8750.75

## Price performance

52-w range	RON 0.345-0.879
52-w performance	24.2%
Relative performance	34.7%

## Bittnet 12M share price performance



Year	Sales (RON m)	EBITDA (RON m)	Net profit (RON m)	EPS (RON)	EPS growth	P/E (x)	EV/EBITDA (x)	EV/sales (x)	ROE (%)	DPS (RON)
2018	47.9	6.5	4.4	0.038	156.9%	17.3	14.5	2.0	43.8%	0.000
2019	99.8	2.1	0.1	0.001	-97.4%	n.m.	46.6	1.0	0.9%	0.000
2020E	130.6	10.2	2.4	0.011	1056.7%	58.1	15.7	1.2	13.1%	0.000
2021E	168.6	16.6	9.7	0.045	301.4%	14.5	9.5	0.9	32.8%	0.000
2022E	207.7	22.4	16.1	0.074	65.7%	8.7	6.5	0.7	37.3%	0.000

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## Closing Prices as of 28 October 2020

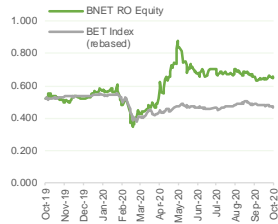
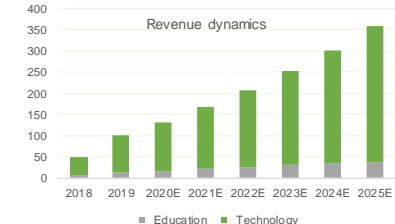
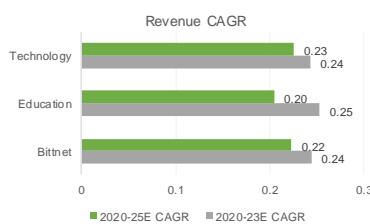
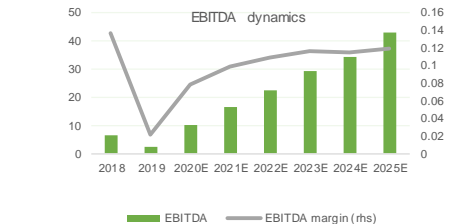
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# Company snapshot – BUY, PT RON 0.973

Komericialna Banka													
BUY		SHARE PRICE PERFORMANCE				COMPANY DESCRIPTION							
Bloomberg ticker	BNET RO					<p>Bitnet is the IT training market leader in Romania, and a leading IT integrator in the local market. Founded in 2007 by brothers Mhai and Cristian Logofatu, who still control 27% of the company, the company listed on the Bucharest Stock Exchange alternative venue (AeRO) in 2015. In 2020, Bitnet was promoted to the main venue, on the local stock exchange. What was largely a training company in its early days has become an IT integrator as a result of acquisitions such as Gecad NET, Crescendo, Elian and Equatorial. A fast-growing company, we expect Bitnet to increase its revenues by 68% per annum over 2017-20E, as a result of both organic and acquisitions-driven growth.</p>							
Closing price (RON)	0.650												
Price Target (RON)	0.973												
Upside to PT	49.6%												
Shares outstanding (m)	216.3												
MCAP (RON m)	141												
Free float	62.3%												
ADTV (USDk)	30												
52 Week Range (RON)	0.345 - 0.879												
RATIOS													
PER SHARE RATIOS		2018	2019	2020E	2021E	2022E	VALUATION RATIOS		2018	2019	2020E	2021E	2022E
EPS		0.038	0.001	0.011	0.045	0.074	P/E		17.3	n.m.	58.1	14.5	8.7
BVPS		0.120	0.097	0.113	0.161	0.238	P/FCF		-4.5	11.3	-9.0	42.0	10.2
DPS		0.000	0.000	0.000	0.000	0.000	P/BV		5.4	6.7	5.7	4.0	2.7
EV/EBITDA		14.5	46.6	15.7	9.5	6.5	EV/Sales		2.0	1.0	1.2	0.9	0.7
EV/EBIT		14.9	-602.3	21.3	11.7	7.6	Cash flow from ops, RON m		3.4	8.5	2.1	8.4	17.9
EV, RON m		94.4	98.8	160.5	157.7	144.7	FCF, RON m		-16.8	7.3	-15.7	3.3	13.7
FCF yield		-22.3%	8.8%	-11.1%	2.4%	9.8%	Dividend yield		n.a.	n.a.	n.a.	n.a.	n.a.
Dividend payout		0%	0%	0%	0%	0%							
FINANCIAL RATIOS		2018	2019	2020E	2021E	2022E							
Capex/depreciation		4135%	39%	195%	165%	126%							
Capex/net fixed asstes		598%	20%	65%	49%	35%							
Op. cash flow/capex		0.46	9.51	0.39	1.66	4.30							
ROE		43.8%	0.9%	13.1%	32.8%	37.3%							
ROA		9.7%	0.2%	2.5%	8.4%	12.1%							
ROIC		13.4%	0.4%	5.6%	19.2%	30.1%							
Net debt/(cash) to equity+minorities		133.4%	127.2%	77.9%	45.3%	3.9%							
Net debt/adj. EBITDA		2.9	7.4	1.9	1.0	0.1							
WC/Sales		23%	0%	3%	5%	5%							
COMPANY FINANCIALS													
INCOME STATEMENT (RONm)		2018	2019	2020E	2021E	2022E	BALANCE SHEET (RONm)		2018	2019	2020E	2021E	2022E
Revenues		47.9	99.8	130.6	168.6	207.7	Fixed Assets		22.6	33.3	44.6	46.6	47.5
Education		7.4	12.8	15.0	21.8	25.7	Inventories		0.6	2.0	2.5	3.2	4.0
Technology		40.5	86.9	115.6	146.8	182.1	Trade and other receivables		22.8	32.3	42.9	57.7	71.1
Gross margin		8.9	17.3	30.9	41.1	51.2	Cash and bank balances		13.0	20.8	17.5	15.8	19.6
Education		4.2	7.2	8.9	13.2	15.7	Current Assets		36.4	55.1	62.9	76.8	94.7
Technology		4.7	10.0	22.0	27.9	35.5	Total Assets		59.1	88.5	107.6	123.4	142.2
Other income		-6.0	-0.7	-0.9	-1.1	-1.4	Equity		14.0	12.4	24.5	34.8	51.5
Selling expenses		2.5	6.4	9.8	12.1	14.5	LT Bonds and Loans		19.5	33.0	33.0	28.0	18.0
Depreciation		0.2	2.3	2.7	3.1	3.3	LT Liabilities		19.7	36.8	36.8	31.8	21.8
G&A expenses		5.8	9.4	11.8	13.5	15.6	Trade and other payables		12.6	34.1	41.2	51.7	63.7
EBITDA		6.5	2.1	10.2	16.6	22.4	ST Bonds and Loans		12.2	3.6	3.6	3.6	3.6
EBIT		6.4	-0.2	7.5	13.5	19.1	ST Liabilities		25.4	39.2	46.3	56.8	68.9
Net financial income		-1.1	-2.8	-4.0	-1.2	0.8	Total Equity and Liabilities		59.1	88.5	107.6	123.4	142.2
Profit before tax		5.3	-3.0	3.5	12.2	19.9	Net debt		18.7	15.7	19.1	15.7	2.0
Profit for equity holders		4.4	0.1	2.4	9.7	16.1	Net working capital		10.8	0.2	4.3	9.2	11.4
Operational ratios		2018	2019	2020E	2021E	2022E	CASH FLOW STATEMENT (RONm)		2018	2019	2020E	2021E	2022E
Growth							Gross profit		5.3	3.0	3.5	12.2	19.9
Revenues		73%	108%	31%	29%	23%	Depreciation		0.2	2.3	2.7	3.1	3.3
Education		0%	73%	17%	45%	18%	Working capital change and others		-3.3	5.8	-4.1	-4.9	-2.1
Technology		0%	115%	33%	27%	24%	Other adjustments		1.3	-2.5	0.0	-2.0	-3.2
EBITDA		123%	-68%	382%	62%	35%	Operating Cash Flow		3.4	8.5	2.1	8.4	17.9
Net income		157%	-97%	1866%	301%	66%	Investment Cash Flow		20.2	1.2	17.7	5.1	4.2
Margins							Free Cash Flow		-16.8	7.3	-15.7	3.3	13.7
Gross margin		19%	17%	24%	24%	25%	Net change in debt		17.3	4.6	0.0	-5.0	-10.0
Education		56%	56%	60%	61%	61%	Other adjustments		1.6	-4.1	12.3	0.0	0.0
Technology		12%	12%	19%	19%	20%	Financing Cash Flow		18.8	0.5	12.3	-5.0	-10.0
EBITDA margin		14%	2%	8%	10%	11%	Change in Cash balance		2.0	7.8	-3.3	-1.7	3.7
EBIT margin		13%	0%	6%	8%	9%							
Net income margin		9%	0%	2%	6%	8%							
CHARTS													
													

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## Investment case

We initiate coverage of Bittnet Systems, a fast-growing Romanian technology company, with a BUY rating and a price target (PT) of RON 0.973/share, implying 49.6% upside. Bittnet was founded in 2007 by brothers Mihai and Cristian Logofatu, who are still the largest shareholders. The company was focused originally on providing IT training to companies, through its education division, and has since transitioned towards IT integration services, through its technology division. It is an active acquirer, and its transition towards IT integration and its fast growth have been driven by acquisitions executed over 2017-18. Bittnet listed on AeRO, Bucharest Stock Exchange's alternative trading system in 2015, when it reported RON 10m in revenues; the company grew its revenues by 10x, to RON 100m, in 2019, and it was promoted to the main market this year.

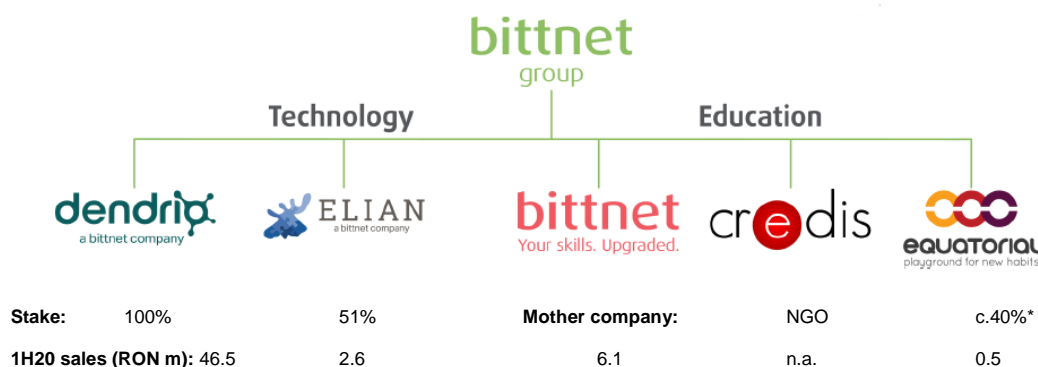
Bittnet's verticals focus make the company a proxy for the broader technology development in the country. In our view, IT education benefits from Romania's IT workforce increasing, and becoming more specialised, while IT integration benefits from companies becoming more digitalised, and both these trends are occurring at an accelerated pace in Romania. McKinsey expects the digital economy in Romania to grow by 10.7-18.2% (low vs. high scenarios) per year until 2025E. Bittnet is not only present in sectors that are COVID-19 proof, but it should be a beneficiary of the shift to a low-touch economy, in our view, as education is moving online, while companies are speeding up their digitisation to accommodate flexible working.

We expect Bittnet to increase its revenues by 2.7x over 2020-25E, at an annualised rate of 22.3%, to reach RON 358m by 2025E, from RON 131m in 2020E. We expect this growth to come with significant margin improvements, with the net income margin growing from 0.1% in 2019 to 10.3% in 2025E. Bittnet is trading currently at a 2021E EV/sales of 0.9x, a 45% discount vs. its peer group. We believe this is a more relevant metric, given that the company is in a high-growth (2019-22E sales CAGR of 28%, 4x higher than its peers), lower-profitability (a 2020-22E EBITDA margin of 9%, 48% lower than its peers) phase.

Bittnet is a good representative, and proxy, for entrepreneurial Romanian technology companies, in our view. The company was founded as an IT training provider in 2007 by brothers Mihai and Cristian Logofatu, aged 23 and 27 at the time, respectively, who remain the largest shareholders, with a combined 27% stake. Today, Bittnet is largely the result of the group pursuing expansion through acquisitions. The first acquisition happened in 2017, when Bittnet acquired GECAD Net, a loss-making business, which it has turned around successfully, marking the beginning of its aggressive expansion into IT integration. 2018 was an even busier year, when Bittnet acquired a majority stake in Elian, and a minority stake in Equatorial, which are still part of the group, with their original branding. However, in 2018, the company did its largest and most ambitious acquisition to date, acquiring Crescendo (later integrated into Dendrio), an IT integrator with 25 years of experience in Romania and abroad. Crescendo reported revenues of RON 79m in 2017 (average c. RON 50m in the five years prior), almost double Bittnet's 2018 revenues.

Bittnet listed in 2015 on AeRO, Bucharest Stock Exchange's alternative trading venue, and was promoted to the main market this year and made part of four different BET indices. To fuel its growth and acquisitions since its listing, it raised RON 13.7m in equity through four issuances, and RON 33.1m in debt in five issuances. In its first year of listing, 2015, the group reported RON 10m in revenues, and four years later, in 2019, that figure stood at RON 100m, a 10x increase, driven by both organic growth and acquisitions.

Bittnet splits its business into two divisions, education and technology. Education is where the company started, focused on IT training. Technology is an area that has become significantly more important in terms of sales and, a result of acquisitions, focused on IT integration, from the planning and assessment, through to the implementation and maintenance.

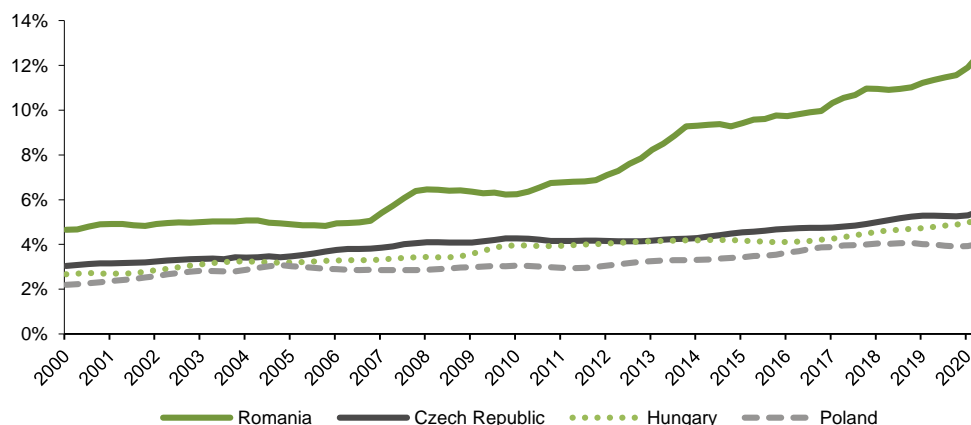


Source: Company data, WOOD Research; \*shareholders will vote on 26 November 2020 to increase the stake in Equatorial to 99%

Bittnet is focused on the Romanian IT market, offering both education and integration services. Its verticals focus also expose Bittnet to the broader development of technology in the country, rather than a particular niche. In our view, IT education benefits from Romania's IT workforce increasing, and becoming more specialised, while IT integration benefits from companies becoming more digitalised, and both these trends are occurring at an accelerated pace in Romania. According to data from the National Institute of Statistics, the Romanian IT sector grew by 12.4% yoy in 1H20, compared to a 3.9% fall in GDP for the overall economy in the same period.

The IT industry has experienced significant growth in the recent decade in CEE, becoming an increasingly important industry. In a 2018 study (*The Rise of Digital Challengers – Perspective on Romania*), McKinsey identified two scenarios for the country, going forward. In a "business as usual" scenario, Romania's digital economy would grow by EUR 18bn over 2016-25E, increasing its weight from 7% to 12%, at a rate of 10.7% per annum, close to its historical rate. However, the gap to digital frontrunners like Sweden remains the same. In an "aspirational" scenario, the digital economy's growth could be a staggering EUR 42bn, increasing its weight to 20%, at a rate of 18.2% per year. We believe this highlights that even in a "do nothing", conservative scenario, the outlook is very positive for the IT industry in Romania, which creates a very supportive trend for Bittnet's story.

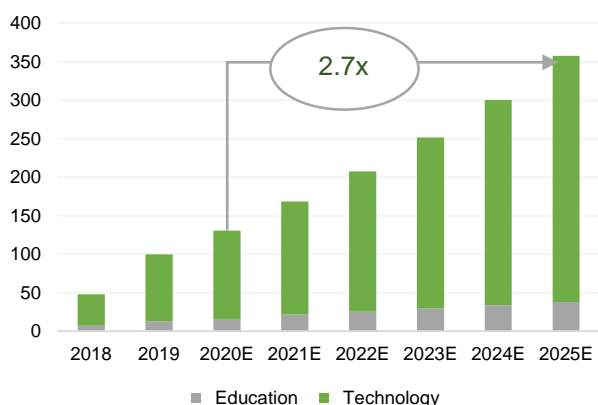
#### Information and communications sectors weights in real GDP, CEE (%)



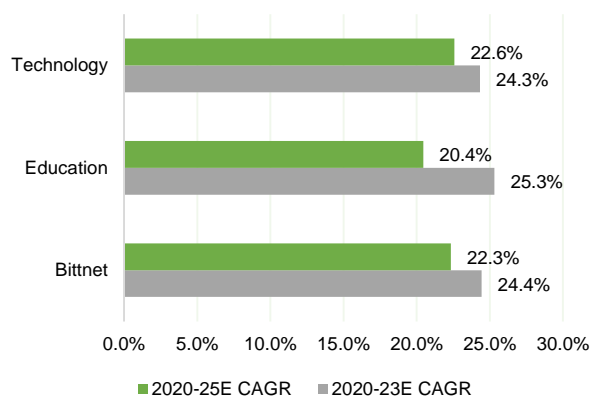
Source: Eurostat, National Institute of Statistics, Czech Statistical Office, Hungarian Central Statistical Office, WOOD Research

**We view Bittnet as a growth story, in a very supportive market environment...** After increasing its revenues more than 10x, to RON 100m, over 2014-19, we expect growth to continue at a rapid pace. In 2020E, we expect revenues to increase by 31% yoy, after they grew by 39% yoy in 1H20. Going forward, we believe that Bittnet can outgrow the market due to its low penetration, its position within segments that are benefiting from the current environment, and its track record of growth, having grown by 39% yoy in 1H20, compared to the overall IT industry, which grew by 12.4%. This implies an almost tripling of revenues, to RON 358m by 2025E, from RON 131m in 2020E. In our forecasts, we only include the full consolidation of Equatorial (proposal to be voted on at the 26 November 2020 shareholder meeting) as inorganic growth, but highlight that, as an active acquirer, there could be upside for our numbers fuelled by further acquisitions.

## Revenue dynamics (RON m)



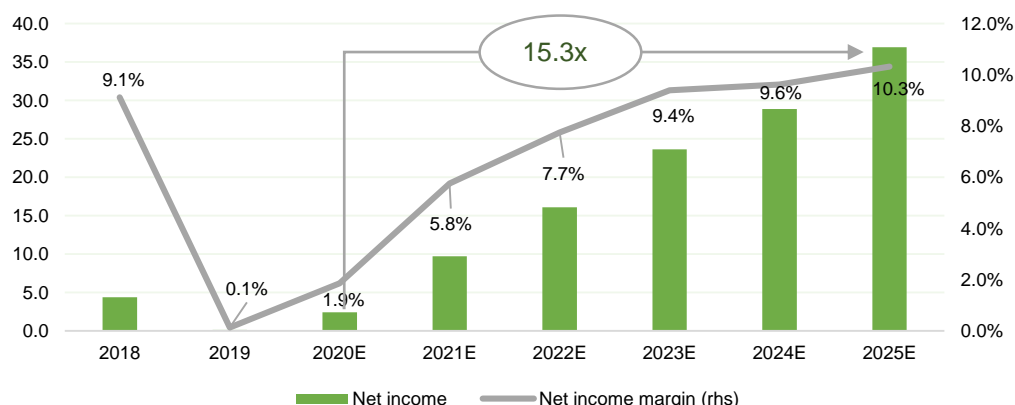
## Revenue CAGRs (%)



Source: Company data, WOOD Research

...and we expect this growth to come with significant margin improvements, with the net income margin growing from 1.9% in 2020E to a sustainable level of 10.3% in 2025E. This is driven by: i) further synergies from the Crescendo acquisition; ii) the education segment becoming more efficient, with more students per class; iii) economies of scale increasing the company's negotiating power with suppliers for its technology business; iv) G&A dilution as the company grows in size; v) deleveraging to reduce its financial expenses significantly, given that its bonds are issued at a 9% fixed interest rate; vi) the consolidation Equatorial; vii) including the contributions from its recently-announced investments, Softbinator and The eLearning Company; and viii) the improvement in Elian's numbers in 1H20, after a minorities loss in 2019. Therefore, we expect net income to increase from RON 2.4m in 2020E to RON 36.9m in 2025E, at an annual pace 72.5%, albeit from a relatively small base.

## Net income dynamics (rhs)



Source: Company data, WOOD Research

# Valuation

Our valuation for Bittnet is based solely on our DCF calculations. As the company is not a traditional dividend payer, and we have not identified any close relevant peers, we believe a DCF is the most relevant method. We arrive at a 12-month valuation of RON 210m, resulting in a PT of RON 0.973/share, implying 49.6% upside. We rate Bittnet a BUY.

## Valuation summary

	Equity value (RON m)	Per share (RON)
DCF 12-month valuation	210	0.973
Current price		0.650
Upside		49.6%

Source: WOOD Research

## DCF

We base our DCF valuation on the following assumptions:

- ✓ A WACC of 12.8% over our forecast period, taking into account the company's 40.1% equity/59.9% debt capital structure. Our WACC inputs are:
  - a) A risk free rate (RFR) of 5%.
  - b) An equity risk premium (ERP) of 5%.
  - c) An unlevered beta of 1.4x based on Damodaran's emerging market beta average for IT and a levered beta of 3.1x.
  - d) A pre-tax cost of debt of 9% based on Bittnet's bonds and a tax rate of 16%.
- ✓ A terminal growth rate of 3.0%.

## DCF valuation

RON	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	7.5	13.5	19.1	25.9	30.7	38.7	42.4	44.4	44.9	44.7	44.8
Corporate Tax Rate [T]	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
EBIT*(1-T)=NOPAT	6.3	11.3	16.1	21.7	25.8	32.5	35.6	37.3	37.7	37.6	37.6
Depreciation & amortisation	2.7	3.1	3.3	3.3	3.6	4.0	4.6	5.9	7.9	9.6	11.2
Cash from working capital	-4.1	-4.9	-2.1	-2.4	-2.7	-3.2	-2.0	-1.5	-1.2	-0.7	-0.7
CAPEX [I]	-5.2	-5.1	-4.2	-5.0	-6.0	-7.2	-11.8	-16.8	-17.7	-18.2	-18.8
Unleveraged free cash flow [FCF]	-0.3	4.4	13.1	17.6	20.7	26.2	26.4	24.8	26.7	28.3	29.3
<b>Present Value of FCFs [PV:FCF]</b>		<b>3.8</b>	<b>10.1</b>	<b>12.0</b>	<b>12.5</b>	<b>14.1</b>	<b>12.6</b>	<b>10.5</b>	<b>10.0</b>	<b>9.4</b>	<b>8.6</b>
<b>Sum of [PV:FCF]</b>		<b>104</b>									
Long term FCF growth rate		3.0%									
Residual value at horizon		309									
<b>PV of residual value</b>		<b>91</b>									
Net debt		20									
<b>Equity value</b>		<b>175</b>									
12M Equity Value		210									
<b>Number of shares</b>		<b>216.3</b>									
12M Price Target		<b>0.973</b>									

Source: WOOD Research

## WACC calculations

WACC	2021-30E
Unlevered beta	1.4
Levered beta	3.1
Risk free rate	5.0%
Market premium	5.0%
<b>Cost of equity</b>	<b>20.6%</b>
Cost of debt pre tax	9.0%
Marg. tax rate	16.0%
<b>Cost of debt after tax</b>	<b>7.6%</b>
Weight k(e)	40.1%
Weight k(d)	59.9%
<b>WACC %</b>	<b>12.8%</b>

Source: WOOD Research

## Peer multiples

We have not identified any close peers for Bittnet in our region, with a mix of IT education and integration services. We use a global peers group for our comparison, and a weighted average median, based on Bittnet's gross margin contribution by division over 20-25E, 71% for IT integration and 29% for education.

Bittnet's average 2020-22E EBITDA margin of 9% trails its peer group significantly, by 48%. We believe that this is largely a factor of Bittnet still being in a high-growth, lower-profitability phase. Looking at growth, the company ranks third in the peer group, with a sales CAGR of 28% over 2019-22E, on our numbers, 4x higher than the peers' median. In our view, this makes the comparison on 2021E P/E, with a 13% discount, and EV/EBITDA, with an 11% premium less relevant. Looking at EV/sales, on the other hand, with a discount of 45% on our 0.9x multiple for 2021E, better reflects Bittnet's standing versus the peer group, in our view.

### Peers comparison

			Country	Mcap	P/E			EV/EBITDA			EV/Sales			EBITDA margin	Sales CAGR
Ticker	Company		(EUR)	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020-22E	2019-22E	
Integration and development focused															
INFY US	INFOSYS LTD-SP ADR	IN	53,490	27.4	25.6	23.7	20.3	17.7	16.6	5.0	4.8	4.4	26%	7%	
CTSH US	COGNIZANT TECH SOLUTIONS-A	US	33,653	20.8	18.5	16.6	12.3	11.2	10.3	2.3	2.2	2.1	19%	3%	
WPRO IN	WIPRO LTD	IN	21,897	19.8	19.0	17.5	13.2	12.2	11.4	2.6	2.6	2.4	21%	4%	
CAP FP	CAPGEMINI SE	FR	17,157	15.7	13.5	11.9	9.8	8.5	7.5	1.5	1.4	1.4	15%	8%	
9613 JT	NTT DATA CORP	JN	14,209	19.3	22.2	17.7	6.9	7.0	6.2	1.0	1.0	1.0	14%	3%	
TECHM IN	TECH MAHINDRA LTD	IN	9,189	17.1	17.3	15.0	12.5	11.3	9.7	2.0	2.0	1.8	17%	6%	
ATO FP	ATOS SE	FR	6,888	8.8	8.3	7.6	4.7	4.2	3.3	0.8	0.8	0.8	14%	0%	
CACI US	CACI INTERNATIONAL INC -CL A	US	4,295	16.3	14.4	13.0	11.3	9.8	8.3	1.2	1.1	1.0	10%	9%	
DAVA US	ENDAVA PLC- SPON ADR	GB	3,139	56.5	52.2	40.9	40.1	31.8	24.4	8.2	6.8	5.5	20%	24%	
CRAYON NO	CRAYON GROUP HOLDING AS	NO	850	68.9	39.2	32.7	22.6	17.0	11.5	0.5	0.4	0.3	2%	27%	
ASE PW	ASSECO SOUTH EASTERN EUROPE	PD	473	19.3	17.4	16.0	9.5	8.5	7.8	2.0	1.8	1.7	21%	10%	
ENEA SS	ENEA AB	SW	355	20.7	17.3	14.0	12.9	10.1	8.5	4.1	3.6	3.3	36%	4%	
CMR PW	COMARCH SA	PD	354	18.0	14.0	13.6	6.3	6.1	5.6	1.0	0.9	0.9	15%	4%	
CTS CN	CONVERGE TECHNOLOGY SOLUTION	CA	199	68.4	10.9	7.5	7.4	5.0	3.5	0.4	0.4	0.3	6%	33%	
TPX LN	PANOPLY HOLDINGS PLC/THE	GB	88	37.9	24.0	21.0	24.6	16.4	14.1	2.6	1.9	1.5	11%	35%	
CMP PW	COMP SA	PD	74	17.8	4.4	15.4	5.7	4.1	5.1	0.8	0.6	0.8	12%	2%	
MSABB SS	MICRO SYSTEMATION AB-B	SW	71	27.1	19.5	15.0	n.a.	n.a.	n.a.	2.0	1.8	1.7	16%	9%	
ULS LN	ULS TECHNOLOGY PLC	GB	38	9.4	35.8	11.0	7.6	23.3	8.0	1.4	1.8	1.4	14%	-2%	
CYB IM	CYBEROO SPA	IT	38	60.3	19.2	8.2	11.8	6.0	2.9	5.6	3.1	1.9	48%	n.a.	
SGN PW	SYGNIITY SA	PD	35	6.3	5.7	5.6	4.2	3.6	3.1	0.8	0.8	0.7	22%	n.a.	
Education focused															
LOPE US	GRAND CANYON EDUCATION INC	US	3,278	15.0	13.4	12.5	12.6	11.4	8.3	4.6	4.2	3.9	38%	9%	
STRA US	STRATEGIC EDUCATION INC	US	1,857	13.3	13.2	13.2	5.3	4.8	n.a.	1.8	1.7	1.7	25%	1%	
YDUQ3 BZ	YDUQS PARTICIPACOES SA	BZ	1,152	16.2	12.4	9.5	7.8	6.4	5.6	2.7	2.5	2.3	34%	9%	
ATGE US	ADTALEM GLOBAL EDUCATION INC	US	1,112	10.7	9.5	8.9	6.6	4.6	3.9	1.3	1.2	1.0	21%	2%	
APEI US	AMERICAN PUBLIC EDUCATION	US	364	26.7	20.8	n.a.	5.4	3.9	n.a.	0.7	0.7	n.a.	n.a.	n.a.	
AVEN SS	AVENSIA AB	SW	53	36.9	18.4	16.4	16.3	10.0	8.3	1.5	1.3	1.1	11%	16%	
Integration peers median (71%)				19.6	18.0	15.0	11.3	9.8	8.0	1.8	1.8	1.5	15%	6%	
Education peers median (29%)				15.6	13.3	12.5	7.2	5.6	7.0	1.7	1.5	1.7	25%	9%	
Weighted average peers median				18.4	16.6	14.3	10.1	8.6	7.7	1.7	1.7	1.6	18%	7%	
BNET RO	Bittnet Systems	RO	29	58.1	14.5	8.7	15.7	9.5	6.5	1.2	0.9	0.7	9%	28%	
Premium/Discount				216%	-13%	-39%	56%	11%	-16%	-29%	-45%	-55%	-48%	296%	

Source: Bloomberg, WOOD Research

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## Company description

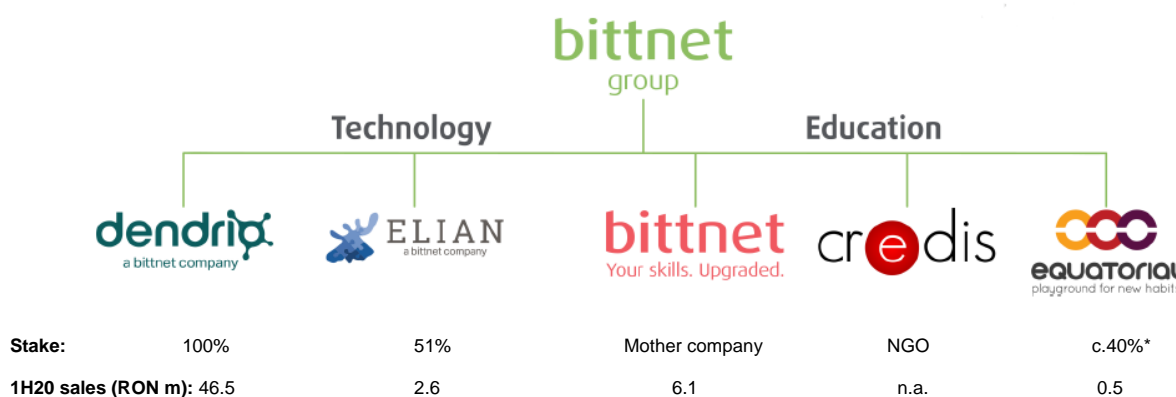
Bittnet is a good representative, and proxy, for entrepreneurial Romanian technology companies, in our view. The company was founded as an IT training provider in 2007 by brothers Mihai and Cristian Logofatu, aged 23 and 27 at the time, respectively, who remain the largest shareholders, with a combined 27% stake. Since its beginnings, it has changed significantly, mainly through acquisitions. Its education division represented only 13% of sales in 2019, while the rest is represented by its IT integration business. The latter is the result of acquisitions, starting with GECAD Net in 2017, and peaking with Crescendo in 2018, a much larger business. Bittnet listed in 2015 on AeRO, Bucharest Stock Exchange's alternative trading venue, and was promoted to the main market this year, and made part of four different BET indices. To fuel its growth and acquisitions since its listing, it raised RON 13.7m in equity through four issuances, and RON 33.1m in debt in five issuances. In its first year of listing, 2015, the group reported RON 10m in revenues; and, four years later, in 2019, that figure stood at RON 100m, a 10x increase, driven by both organic growth and acquisitions.

### History

- ✓ 2007 – Bittnet is founded by brothers Mihai and Cristian Logofatu, aged 23 and 27 at the time, respectively.
- ✓ 2008 – large clients like IBM Romania, Metro Systems Romania, TNT Express or Porsche Romania added to the portfolio. Ends the year with EUR 170k in revenues.
- ✓ 2010 – the company starts attracting large clients outside Bucharest for its training services. Ends the year with EUR 450k in revenues.
- ✓ 2012 – Mr. Razvan Capatina become an investor in the company, following a 'Venture Connect' event. The company also establishes a three-member Advisory Board. Revenues of EUR 855k for the year.
- ✓ 2013 – becomes a Cisco Silver Certified Partner, and obtains Microsoft Silver certifications. The co-founders are nominated for the IT Entrepreneurs of the Year prize, organised by Wall-street.ro. The company ends the year with EUR 1.5m in revenues.
- ✓ 2014 – Bittnet is named part of Deloitte's Technology Fast Top 500 for EMEA. The company adds two new vendors in its training portfolio, Amazon Web Services and Oracle.
- ✓ 2015 – Bittnet lists on Bucharest Stock Exchange's alternative trading venue (AeRO).
- ✓ 2016 – the company becomes a Cisco Gold Partner, while issuing corporate bonds for EUR 1m on Bucharest Stock Exchange. It opens offices outside Bucharest in Sibiu and Brasov.
- ✓ 2017 – acquires GECAD Net, which later becomes Dendrio. Revenues of RON 27.7m for the year.
- ✓ 2018 – acquires the majority stake in Elian, and a significant minority stake in Equatorial, issuing corporate bonds to finance the transactions. Acquires the larger Crescendo, with revenues of RON 79m in 2017 (average c. RON 50m in the five years prior), in a transaction valued at RON 10.9m, financed by another corporate bond issuance.
- ✓ 2020 – Bittnet is promoted to the main segment of the Bucharest Stock Exchange, and becomes part of a number of BET indices. The company proposes new investments, acquiring minority stakes in Softbinator and The e-Learning Company, while consolidating its stake in Equatorial.

## Group structure

### Bittnet: group structure

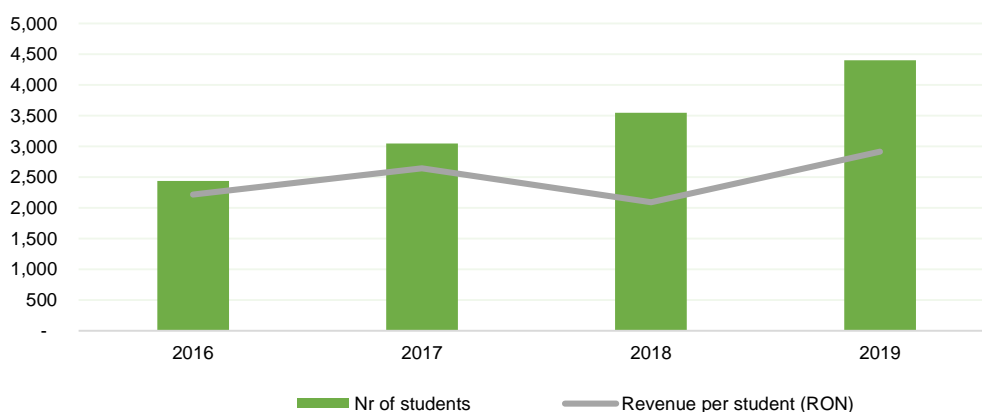


Source: Company data, WOOD Research; \*shareholders will vote on 26 November 2020 on increasing the stake in Equatorial to 99%

Bittnet splits its business into two divisions, education and technology. Education is where the company started, focused on IT training. Technology is an area that has become significantly more important in terms of sales, and a result of acquisitions, focused on IT integration, from the planning and assessment, through to the implementation and maintenance.

**Bittnet training (education, 11% of sales and 63% of EBIT 1H20).** Bittnet Training is the IT training market leader in Romania, with approximately 20 years of experience and the largest team of trainers in Romania. Over the years, the company has delivered more than 50,000 hours of IT training and, currently, has one of the most comprehensive and updated curricula in the CEE region. Bittnet has a portfolio of more than 1,000 official courses, the largest training portfolio on the Romanian market, licensed by some of the world's largest technology players: Cisco, Microsoft, Amazon Web Services, Oracle, Citrix, etc. From 2.4k students in 2016, the company increased its numbers of students by 80% to 4.4k in 2019; and, as an indication of increasing efficiency, the revenue per student increased by 32% over the same period, to RON 2.9k. At the same time, in 1H20, Bittnet training had 12.1 students per class on average, from 11 at 1H19, a further sign of operational improvements, combined with the benefits of increasing virtual education.

#### Bittnet training: number of students



Source: Company data, WOOD Research

**Equatorial gaming (education, 1% of sales and -44% of the EBIT in 1H20).** Bittnet acquired a significant minority stake in Equatorial in 2018, and is planning to consolidate up to a 99% stake in 2020E. Equatorial, a game-based learning company, specialises in providing transformative training and consulting programmes at individual, team and organisational levels in Romania and abroad.

**Dendrio (technology, 83% of sales and 63% of the EBIT in 1H20).** Dendrio is the largest contributor to the company's sales. It is the result of rebranding the GECAD Net acquisition in 2017, and was consolidated further following the Crescendo acquisition in 2018. It acts as the main umbrella for the company's technology efforts. The IT solutions provided by Dendrio include general consultancy services, IT assessment services, implementation and migration services, maintenance and support services, infrastructure optimisation services and IT training services. The company is the only "multi-cloud" integrator in Romania, consolidating its position as a highly certified company by the world's

leading IT vendors, focusing on cloud and cybersecurity. 2019 was the year of integrating and consolidating the Crescendo acquisition, and the results are becoming visible from 2020, with the group's EBIT at RON 1.3m over 1H20, compared to the RON 4.2m operating loss in 1H19.

**Eliau (technology, 83% of sales and 63% of the EBIT in 1H20).** Bittnet acquired a majority stake in Eliau in 2018, as part of its efforts to expand further into the IT integration market. Eliau Solutions is specialised in providing implementation services for the Enterprise Resource Planning (ERP) solution, Microsoft Dynamics NAV. Eliau is the only Gold Certificate partner for this solution of Microsoft in Romania. The solution implemented by Eliau allows companies to know the status of their inventory, assets and liabilities, and it helps to predict, *inter alia*, the cash flow and to trace the production processes.

## “Corporate” DNA

**Bittnet today is largely the result of the group pursuing expansion through acquisitions.** What was once a small IT education focused player, with RON 8.2m in revenues in 2014, is now a noticeable player in both the IT education and IT integration markets in Romania, with revenues of RON 100m in 2019. The first acquisition happened in 2017, when Bittnet acquired GECAD Net, a loss-making business, which it turned around successfully, marking the beginning of its aggressive expansion into IT integration. 2018 was an even busier year, when Bittnet acquired a majority stake in Eliau and a minority stake in Equatorial, which are still part of the group, with their original branding. However, in 2018, the company did its largest and most ambitious acquisition to date, acquiring Crescendo (later integrated into Dendrio), an IT integrator with 25 years of experience in Romania and abroad. Crescendo reported revenues of RON 79m in 2017 (c. RON 50m average for the previous five years), the year before the acquisition, almost triple Bittnet's revenues at the time.

**To finance such acquisitions, Bittnet has been an active issuer on the capital markets.** Since listing as a small company in 2015 on the alternative venue of the Bucharest Stock Exchange, AeRO, Bittnet has raised both equity and debt. Excluding its listing, it raised RON 13.7m in equity through four issuances, and RON 33.1m in debt in five issuances. Four of its debt issuances have been used to finance its M&A activity, particularly large deals such as Crescendo. Five years since its listing, Bittnet has been promoted to the main market on the Bucharest Stock Exchange, and became part of four of the main market indices (BET-XT, BET-XT-TR, BET-BK and BET-Plus).

**Ambitious plans continuing, and the company has announced a series of new investments.** Bittnet is constantly looking to invest in, and acquire, businesses that can generate synergies with its current business model, either vertically or horizontally. On 26 November, the shareholders will vote on the following:

- ✓ **Softbinator** – to acquire a 25% stake for USD 2m, with a mix of cash and stock. Softbinator is a product design, development and launch for the fintech, medtech/healthtech and edtech industries in Europe, the US and Asia. The company has over 80 employees; and, in 2020E, it expects to generate revenues of RON 12m and RON 3.2m in profit. Synergies – Bittnet delivers infrastructure and integration, while Softbinator can complement with tailored software development solutions.
- ✓ **The eLearning Company** – to acquire a 23% stake for RON 1.75m, with a mix of cash and stock. The company delivers non-IT focused education; and, in 2020E, it expects to generate revenues of RON 1.6m, 60% higher yoy, and net income of RON 700k. Due to its e-learning capability, it is well-positioned to benefit from the wave of education digitalisation triggered by COVID-19. Synergies – it has a complementary education product portfolio for Bittnet, given that the latter is focused on IT training.
- ✓ **Safetech** – acquired a 2.3% stake for RON 292k at IPO. Safetech is a cybersecurity firm, that listed on AeRO, the Bucharest Stock Exchange's alternative trading venue. Bittnet invested at the IPO. Synergies – cybersecurity is a strategic area for Bittnet.
- ✓ **IT prepared** – exploring an investment. IT prepared offers support for Romanian and foreign companies, and is preparing to launch a marketplace type platform for IT support currently. Discussions are still ongoing and Bittnet is exploring different ways to invest. Synergies – IT prepared uses similar technologies as Dendrio, while its platform due to be launched can be used for Dendrio's engineers.
- ✓ **Equatorial gaming** – consolidating its stake to 99%. Equatorial gaming is already part of the group, and Bittnet is looking to increase its stake to 99% from c.40% currently, in a RON 2.55m transaction.

## Management and board

The company has a three-member board, with one independent non-executive director, and only the CEO as both a board member and part of its management team.

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**Mr. Mihai Logofatu, Chairman of the Board.** Mr. Logofatu is one of the co-founders of the company. is currently the CEO, and has a 14.1% stake remaining, after several rounds of dilution. He started his career as an IT trainer, and set up Bittnet.

**Mr. Lucian Anghel, Independent Non-executive Director, Vice-Chairman of the Board.** Mr. Anghel is the independent member of the board, having been the Chairman of the Bucharest Stock Exchange, and the CEO of Banca Romaneasca currently.

**Mr. Cristian Logofatu, Member of the Board.** Mr Logofatu co-founded the company in 2007, and owns a 12.9% stake currently. He was previously acting CFO with the company.

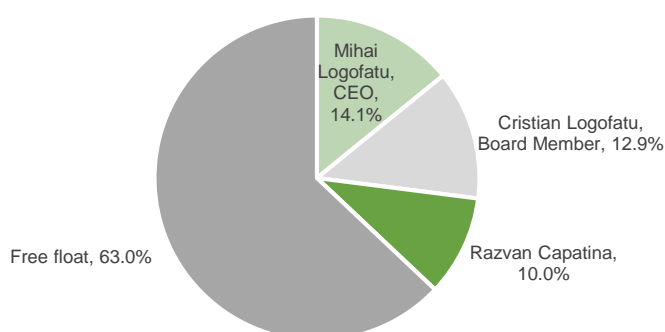
The company also has an advisory committee formed of leading local entrepreneurs, such as Mr. Sergiu Negut (Co-founder of FintechOS – a fintech solutions company that raised USD 14m recently), Mr. Andrei Pitis (Founder of Vector – a wearables company acquired by Fitbit), Mr. Dan Stefan (Founder of Autonom Rent a Car – the largest car rental company in Romania, with a fleet of over 1,500 cars), and Mr. Dan Berteanu (Founder of Equatorial – acquired by Bittnet).

## Shareholder structure

**Shareholders.** Mr. Mihai Logofatu and Mr. Cristian Logofatu, the two founders of the company, and current CEO and Board Member, respectively, own 14.14% and 12.87% of the company. Mr. Razvan Capatina has been a shareholder since 2012. The free float stands at 63%.

### Bittnet: shareholder structure

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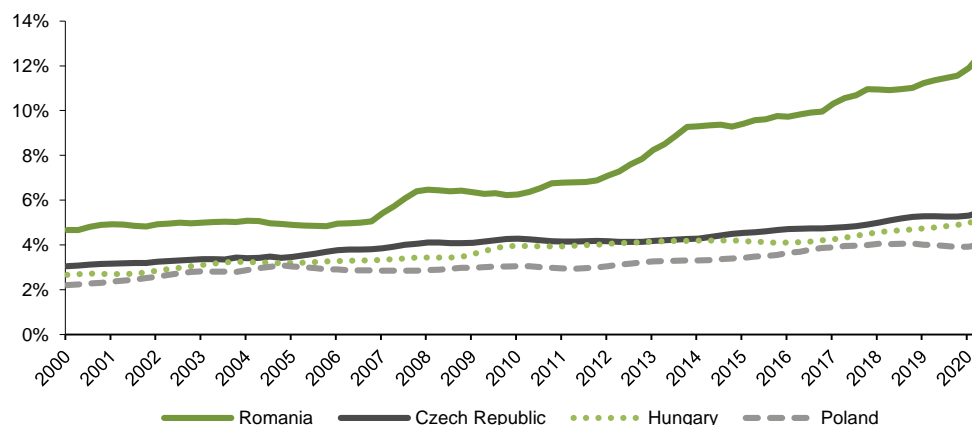
Source: Bucharest Stock Exchange, WOOD Research

## The market

Bittnet is focused on the Romanian IT market, offering both education and integration services. While its vision is to consolidate a fragmented CEE region, we focus on Romania for the scope of this report, as we believe it is still where most of the company's efforts will focus, in the near term. Its verticals focus also expose Bittnet to the broader development of technology in the country, rather than a particular niche. In our view, IT education benefits from Romania's IT workforce increasing, and becoming more specialised, while IT integration benefits from companies becoming more digitalised, and both these trends are occurring at an accelerated pace in Romania. According to the data from the National Institute of Statistics, the Romanian IT sector grew by 12.4% yoy in 1H20, compared to a 3.9% fall in GDP for the overall economy in the same period.

The IT industry has experienced significant growth in the recent decade in CEE, becoming an increasingly important industry. Using the gross value add of information and communication, as a weight of real GDP, Romania has experienced the fastest growth in the region, with the weight doubling in the past 10 years, as opposed to the 30-40% increase for its peers, the Czech Republic, Hungary, and Poland. What was largely an outsourcing industry 10-20 years ago, it has shifted towards creating technology successes locally. In Poland, the two largest listed companies are Allegro (e-commerce) and CD Projekt (gaming); while, in Romania, UiPath (robotics process automation) became the largest company, after receiving a USD 225m funding round, being valued at just above USD 10bn. In a 2018 study (*The Rise of Digital Challengers – Perspective on Romania*), McKinsey identified two scenarios for the country, going forward. In a "business as usual" scenario, Romania's digital economy would grow by EUR 18bn over 2016-25E, increasing its weight from 7% to 12%, at a rate of 10.7% per annum, close to its historical rate. However, the gap to digital frontrunners like Sweden remains the same. In an "aspirational" scenario, the digital economy's growth could be a staggering EUR 42bn, increasing its weight to 20%, at a rate of 18.2% per year. We believe this highlights that even in a "do nothing", conservative scenario, the outlook is very positive for the IT industry in Romania, which creates a very supportive trend for Bittnet's story.

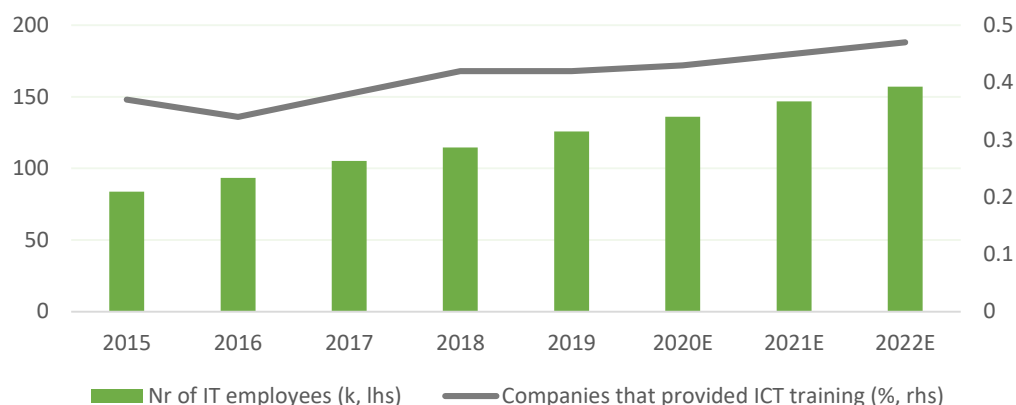
### Information and communications sectors weight in real GDP, CEE (%)



Source: Eurostat, National Institute of Statistics, Czech Statistical Office, Hungarian Central Statistical Office, WOOD Research

In a 2018 study, ANIS, the National Association for the Software Industry, estimated that Romania had 110k IT employees. The report expected that this number would increase to 400k by 2030E, an increase of almost 4x. The Ministry of Communications stated in a document published last year that Romania needs to produce 15k IT workers every year, to be able to sustain the current growth rates for the sector. In the McKinsey report mentioned above, the consultancy firm estimates that Romania had a 1.9% share of IT specialists in employment out of the employed population in 2016, compared to 4.8% for countries like Sweden, which are among the leaders in the level of economy digitisation. Beyond the growth in the number of IT employees, subsequently driving demand for IT training, the frequency of training is also an aspect worth noting. Given the pace of change in the technology industry, with new software and providers replacing established ones, combined with employees changing roles and requiring new training, the business of IT training has a recurring element to it. For a sense of scale, Bittnet, who is the IT training leader in the country, according to the company, had 4.4k students in its IT classes last year.

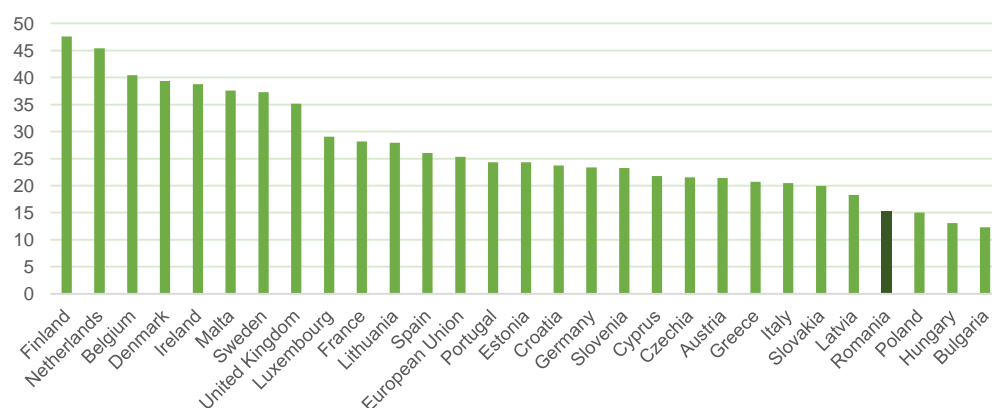
## Number of IT employees



Source: ANIS

**The European Commission, in its 2019 DESI report, placed Romania towards the bottom of the pack in terms of business digitisation.** We believe that the level of business digitisation is the best proxy for the IT integration market. This highlights the gap that Romania has to close with more developed, and even emerging, but digitised markets. The same index places Romania last in the EU in terms of government digitisation, while the government announced last year that it is planning to spend more than EUR 200m per year for the next 10 years to transition to e-government, a pace that will most likely accelerate due to COVID-19 and further support from the EU.

## Business digitisation across EU countries (DESI Index, 2019)

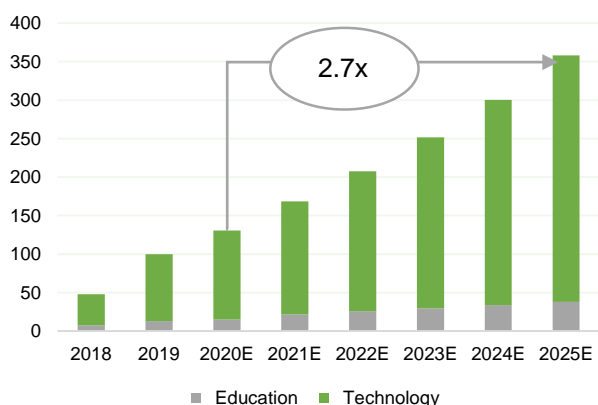


Source: European Commission, WOOD Research

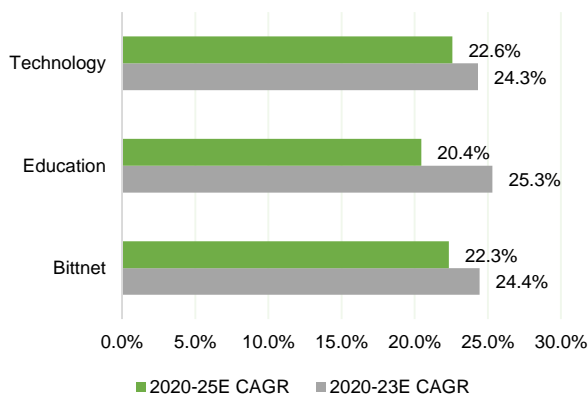
## Financial forecasts

We view Bittnet as a growth story, in a very supportive market environment. After it increased its revenues more than 10x, to RON 100m, over 2014-19, we expect its growth to continue at a rapid pace. In 2020E, we expect revenues to grow by 31% yoy, after they increased by 39% yoy in 1H20. Going forward, we expect revenues to grow by 22.3% per year over 2020-25E. This implies an almost tripling of revenues to RON 358m by 2025E, from RON 131m in 2020E. In our forecasts, we only include the full consolidation of Equatorial (proposal to be voted on, on 26 November 2020) as inorganic growth, but highlight that, as an active acquirer, there could be upside for our numbers, fuelled by acquisitions. In the McKinsey report mentioned above, the digital economy in Romania should grow by 10.7-18.2% (low vs. high scenarios) per year. until 2025E. We believe that the company can outgrow the market due to: i) its positioning in verticals, which are better positioned for the transition to a low-touch economy; ii) the continued integration of past acquisitions, which helps to broaden the product portfolio and customer base; iii) the company's relatively low penetration in IT education and IT integration; and iv) its track record of growth, having increased by 39% yoy in 1H20, compared to the overall IT industry, which grew by 12.4%.

Revenue dynamics (RON m)



Revenue CAGRs (%)

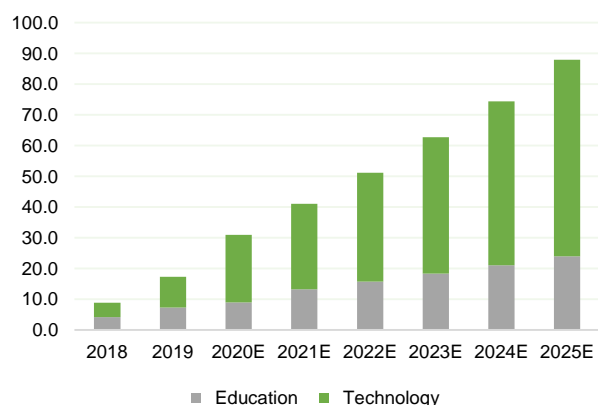


Source: Company data, WOOD Research

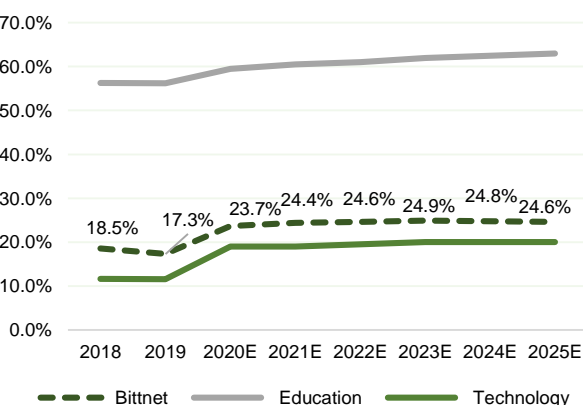
**We expect the high growth to bring some gross margin gains, with the biggest impact in 2020E.**

Bittnet acquired Crescendo in 2018, and started consolidating it from January 2019-onwards. Crescendo, at the time, was a business almost double Bittnet's size. The company's 2019 results are marked by this effort of integration, in our view. In 1H20, the benefits are becoming visible, with the group's overall gross margin increasing to 19.8%, compared to 9.7% in 1H19. We also highlight that the second half of the year is generally stronger for Bittnet's business, when 55-60% of revenues are recorded, while the fixed costs are largely similar to the first half. Therefore, we expect the 2020E gross margin at 23.7%, up from 17.3% in 2019. Broken down by segments, we expect 59.5% for its education division, and 19% for its technology division. In the medium term, we expect some more gains, up to a sustainable level of 24.6%, driven by: i) reaping further synergies from the Crescendo acquisition; ii) the education business becoming more efficient, particularly as a significant number of classes turn virtual; and iii) the economies of scale impact of becoming a larger player in the IT integration business, which allows for better negotiation terms with suppliers.

Gross margin (RON m)



Gross margins (%)

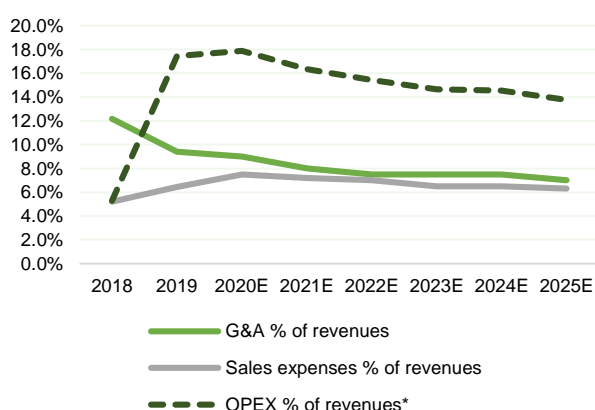


Source: Company data, WOOD Research

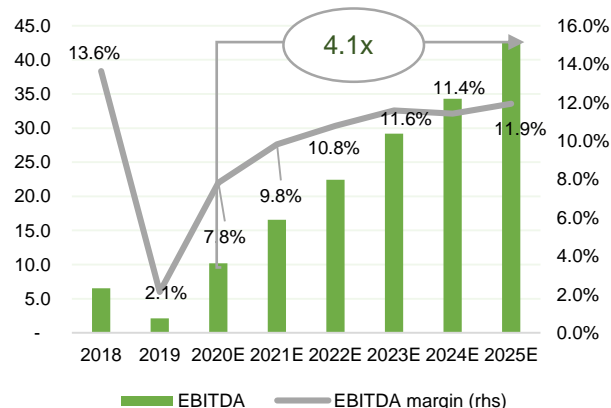
**We pencil in further margin gains driven by opex dilution.** At its current scale, Bittnet still has some central costs inefficiency, in our view. We expect G&A dilution as the business grows, with G&A as a percentage of sales declining from 9.4% in 2019 to 7% in the medium term. We take a conservative view of its sales expenses, as we believe there is increasing competition for talent in the sector, and operational efficiency might be mitigated by wage pressure. However, we do note that the company is moving away from a heavy people-dependant sales function, towards a more marketing, particularly digital marketing, approach, which could surprise our estimates to the upside, if executed well. Generally, low fixed-costs platform type businesses like Bittnet are the big winners from scale.

**This drives our expectation for an increase of 4.1x in EBITDA over 2020-25E.** Following a weak year, marked by Crescendo's integration, we expect the EBITDA growth to start accelerating, driven by gains at both the gross margin and opex levels, as explained above. Over 2020-25E, we expect the EBITDA to grow by 33.1% per annum, climbing to RON 42.7m, from RON 10.2m in 2020E. This is based on our forecast of an EBITDA margin improvement from 2.1% in 2019 to 7.8% in 2020E, and 11.9% in the medium term.

**OPEX dynamics (% of revenues)**



**EBITDA dynamics (RON m)**

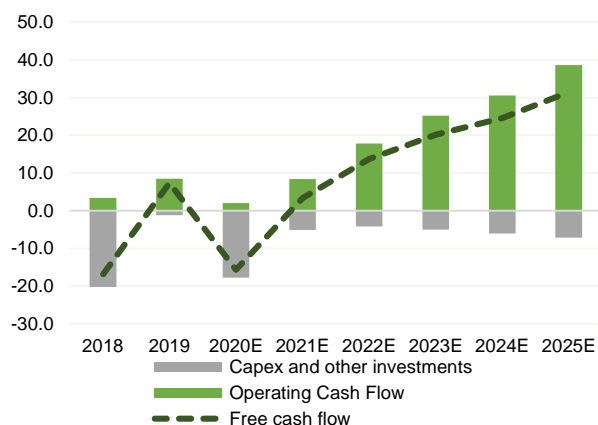


Source: Company data, WOOD Research; \*including depreciation and other income

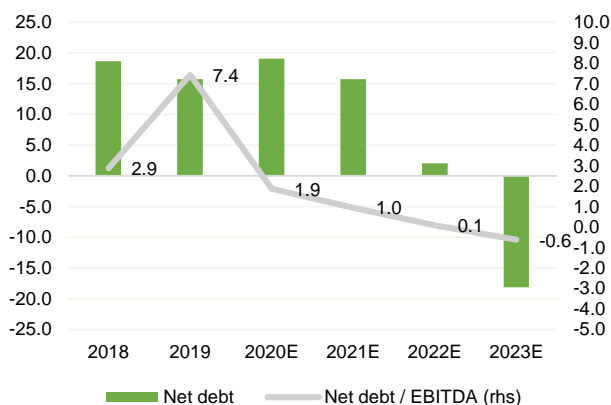
**... and a W-shaped free cash flow recovery...** In our numbers for 2020E, we include the company's recently-announced investments, which are due to be voted on at the shareholder meeting on 26 November. We include minority investments of RON 8.25m for Softbinator, RON 1.75m for The eLearning Company, and the consolidation of the Equatorial stake for RON 2.5m. In the short- to medium-term, we pencil in a capex/sales ratio of 2%, given that IT firms without a focus on proprietary R&D generally have higher employee costs and low capex needs. However, in the long term, we believe that Bittnet will, naturally, gravitate towards including more proprietary products, with higher capitalised R&D expenditure. Steps in this direction are already being made by developing its own training courses, or investing in Softbinator, a software development firm. In the long term, we expect a capex/sales ratio of 4%. In terms of working capital, we expect an increase from 0% working capital/sales in 2019, to 5% in the medium term. Overall, we expect free cash flow to turn positive in 2021E, at RON 3.3m, after a year of high investments, and climb towards RON 20-30m in 2023-25E. We also highlight that Bittnet has traditionally acquired companies using a mix of cash and stock, and it is planning to do so with its recently-announced investments. In our free cash flow estimates, we pencil in the investments as cash, given the uncertainty in terms of the mix of cash and stock, as well as the stock price levels at the acquisition date.

**Driving leverage down.** Bittnet reached a high leverage level of 7.4x net debt/EBITDA at the end of 2019, following the acquisition of Crescendo. We expect the ratio to fall to 1.9x in 2020E, and the company to turn cash positive in 2023E. However, we note that, in our numbers, we do not pencil in further large investments or acquisitions following what has been announced already for the end of 2020E.

## Free cash flow (RON m)



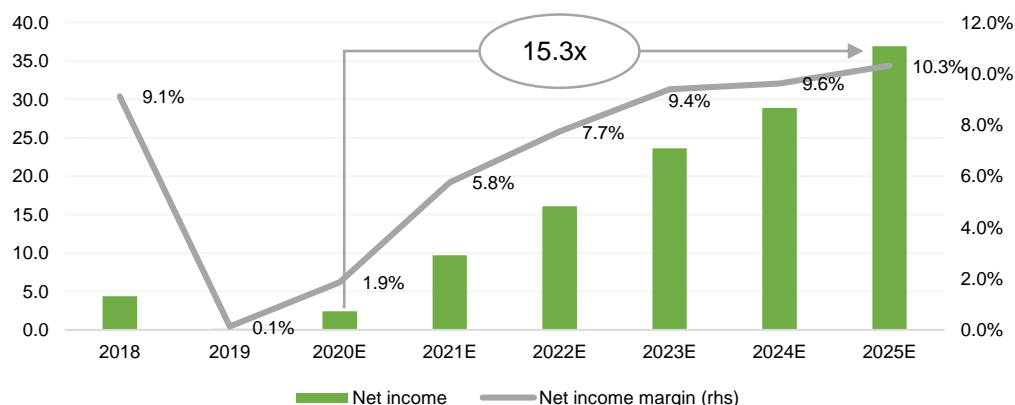
## Net debt (RON m)



Source: Company data, WOOD Research

**And these effects compound to an increase of 15.3x in net income over 2020-25E.** Beyond the gains at the EBITDA level, we expect further gains on the bottom line, driven by three aspects: i) deleveraging, which should reduce the company's finance costs, with a particularly large impact, given that the company's bonds are issued at a 9% fixed interest rate, and the company recorded RON 3.2m in financial expenses in 2019; ii) the consolidation of Equatorial; iii) the improvement in Elian's numbers in 1H20, after a minorities loss in 2019; and iv) the new investments in Softbinator and The eLearning Company to contribute roughly RON 1.6m in 2021E, based on the company's projections. Therefore, we expect the net income to increase from RON 2.4m in 2020E, to RON 36.9m in 2025E, at an annual pace 72.5%, albeit from a relatively low base. We expect the margin to reach a sustainable level of c.10% in the medium term, from 1.9% in 2020E.

## Net income dynamics (RON m)



Source: Company data, WOOD Research

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## Risks

**M&A integration.** Bittnet is an active acquirer and, using its 2018 acquisition of Crescendo as an example, sometimes its targets are larger than the company itself. In the past, the group has proven successful at turning around loss-making acquisitions (GECAD Net) and integrating large acquisitions (Crescendo). In the future, as the company grows bigger and more diverse, with management's focus more dispersed, integration could prove more challenging and expected synergies might not be achieved.

**Employee retention.** One of the core differentiators for technology companies in general and Bittnet in particular are its people, the ability to attract and retain top talent. Bittnet, as one of the few listed IT companies in Romania, has an extensive stock options programme for its employees, aligning interests and providing access to upside. However, the IT sector in Romania is becoming more and more competitive, putting pressure on salaries, and making it more difficult to recruit and keep staff.

**Competition and distinguishable competitive advantages.** In the verticals, where Bittnet is most active, IT education and integration, we believe that employees are the key competitive advantage, while the focus is not proprietary products. As detailed above, the increasing competition for IT talent could result in Bittnet's competitive advantages being reduced, weakening the company's pricing power and ability to consolidate the market further. This is amplified further by the company operating in industries with low barriers to entry, high fragmentation and high competition.

**Dilution.** Bittnet has an aggressive growth agenda and this is funded partly by capital raises. Since listing in 2015, Bittnet has raised c. RON 13.7m in fresh equity, through four issuances. As detailed above, the company's option plan is a critical component of attracting and retaining its employees and key personnel. With M&A at its core, we believe that new investors are faced with dilution down the line: annually, through its option plans; and, opportunistically, due to the company's pursuit of acquisitions and deleveraging.

**Leverage.** At the end of 2019, the company had a net debt/EBITDA ratio of 7.4x. While it broke no covenants, given that most of its debt is in BVB-issued corporate bonds with tailored covenants, Bittnet is at the more aggressive end of the leverage spectrum, particularly in the Romanian context. Net debt to EBITDA dropped to 1.3x in 1H20 and, without large acquisitions in sight, we expect it to decline further. However, we do not rule out reaching higher than sustainable levels again, particularly in pursuit of acquisitions.

**Low market liquidity.** Its average traded volumes over the past 12 months have been as low as USD 31k/day, which creates the risk of higher price fluctuations.

# Financials

## Income statement

RON m	2018	2019	2020E	2021E	2022E	2023E
<b>Revenues</b>	<b>47.891</b>	<b>99.750</b>	<b>130.615</b>	<b>168.583</b>	<b>207.736</b>	<b>251.640</b>
Education	7.408	12.831	15.012	21.768	25.686	29.539
Technology	40.483	86.919	115.602	146.815	182.050	222.102
<b>COGS</b>	<b>39.013</b>	<b>82.495</b>	<b>99.718</b>	<b>127.518</b>	<b>156.568</b>	<b>188.906</b>
Education	3.239	5.619	6.080	8.598	10.018	11.225
Technology	35.774	76.876	93.638	118.920	146.551	177.681
<b>Gross margin</b>	<b>8.878</b>	<b>17.255</b>	<b>30.897</b>	<b>41.064</b>	<b>51.168</b>	<b>62.734</b>
Education	4.169	7.212	8.932	13.170	15.668	18.314
Technology	4.709	10.043	21.964	27.895	35.500	44.420
Other income	-5.968	-0.658	-0.862	-1.112	-1.370	-1.660
Selling expenses	2.486	6.418	9.796	12.138	14.542	16.357
Depreciation	0.179	2.283	2.684	3.065	3.290	3.272
G&A expenses	5.828	9.376	11.755	13.487	15.580	18.873
Opex	2.525	17.419	23.374	27.577	32.041	36.842
<b>EBITDA</b>	<b>6.532</b>	<b>2.119</b>	<b>10.207</b>	<b>16.552</b>	<b>22.417</b>	<b>29.165</b>
<b>EBIT</b>	<b>6.353</b>	<b>-0.164</b>	<b>7.523</b>	<b>13.487</b>	<b>19.127</b>	<b>25.892</b>
Investment gains	0.180	0.006	0.000	1.613	2.362	3.141
Net interest expense	-1.244	-2.805	-4.048	-2.861	-1.573	-0.060
Net financial income	-1.064	-2.799	-4.048	-1.248	0.789	3.081
Gross profit	5.289	-2.963	3.475	12.239	19.916	28.973
Income tax	0.882	-0.332	0.556	1.958	3.187	4.636
Net profit	4.407	-2.631	2.919	10.281	16.729	24.338
Minorities	0.037	-2.754	0.500	0.573	0.639	0.707
<b>Net profit for shareholders</b>	<b>4.370</b>	<b>0.123</b>	<b>2.419</b>	<b>9.708</b>	<b>16.090</b>	<b>23.631</b>

Source: Company data, WOOD Research

## Operational data

RON m	2018	2019	2020E	2021E	2022E	2023E
Growth						
<b>Revenues</b>	<b>73.0%</b>	<b>108.3%</b>	<b>30.9%</b>	<b>29.1%</b>	<b>23.2%</b>	<b>21.1%</b>
Education	0.0%	73.2%	17.0%	45.0%	18.0%	15.0%
Technology	0.0%	114.7%	33.0%	27.0%	24.0%	22.0%
<b>EBITDA</b>	<b>122.5%</b>	<b>-67.6%</b>	<b>381.6%</b>	<b>62.2%</b>	<b>35.4%</b>	<b>30.1%</b>
<b>Net income</b>	<b>156.9%</b>	<b>-97.2%</b>	<b>1866.4%</b>	<b>301.4%</b>	<b>65.7%</b>	<b>46.9%</b>
<b>Margins</b>						
<b>Gross margin</b>	<b>18.5%</b>	<b>17.3%</b>	<b>23.7%</b>	<b>24.4%</b>	<b>24.6%</b>	<b>24.9%</b>
Education	56.3%	56.2%	59.5%	60.5%	61.0%	62.0%
Technology	11.6%	11.6%	19.0%	19.0%	19.5%	20.0%
<b>EBITDA margin</b>	<b>13.6%</b>	<b>2.1%</b>	<b>7.8%</b>	<b>9.8%</b>	<b>10.8%</b>	<b>11.6%</b>
EBIT margin	13.3%	-0.2%	5.8%	8.0%	9.2%	10.3%
<b>Net income margin</b>	<b>9.1%</b>	<b>0.1%</b>	<b>1.9%</b>	<b>5.8%</b>	<b>7.7%</b>	<b>9.4%</b>
<b>Net debt / EBITDA (x)</b>	<b>2.9</b>	<b>7.4</b>	<b>1.9</b>	<b>1.0</b>	<b>0.1</b>	<b>-0.6</b>
WC / Sales	22.6%	0.2%	3.3%	5.5%	5.5%	5.5%

Source: Company data, WOOD Research

## Balance sheet

RON m	2018	2019	2020E	2021E	2022E	2023E
Goodwill	12.241	17.702	17.702	17.702	17.702	17.702
Other intangibles	6.099	6.040	6.040	6.040	6.040	6.040
Tangibles	2.004	6.743	9.283	11.276	12.140	13.901
Investments	1.230	1.237	10.000	10.000	10.000	10.000
Other fixed assets	1.057	1.619	1.619	1.619	1.619	1.619
<b>Total Fixed Assets</b>	<b>22.631</b>	<b>33.340</b>	<b>44.643</b>	<b>46.636</b>	<b>47.501</b>	<b>49.261</b>
Inventory	0.618	1.997	2.505	3.233	3.984	4.826
Receivables	22.772	32.300	42.942	57.734	71.143	86.178
Cash and equivalents	13.048	20.824	17.491	15.836	19.555	26.531
<b>Total Current Assets</b>	<b>36.437</b>	<b>55.122</b>	<b>62.938</b>	<b>76.803</b>	<b>94.682</b>	<b>117.535</b>
<b>Total Assets</b>	<b>59.069</b>	<b>88.462</b>	<b>107.581</b>	<b>123.439</b>	<b>142.183</b>	<b>166.796</b>
Subscribed capital	5.176	11.620	22.905	22.905	22.905	22.905
Retained Earnings	4.723	-1.045	-0.731	8.977	25.067	48.698
Other equity	3.900	1.471	1.471	1.471	1.471	1.471
Non-controlling interests	0.202	0.325	0.825	1.397	2.037	2.743
<b>Total shareholder equity</b>	<b>14.001</b>	<b>12.372</b>	<b>24.470</b>	<b>34.750</b>	<b>51.480</b>	<b>75.817</b>
Bonds	18.380	28.196	28.196	23.196	13.196	0.000
Bank loans	1.164	4.808	4.808	4.808	4.808	4.808
Other long-term debt	0.122	3.843	3.843	3.843	3.843	3.843
<b>Total Long-term debt</b>	<b>19.666</b>	<b>36.846</b>	<b>36.846</b>	<b>31.846</b>	<b>21.846</b>	<b>8.650</b>
Bonds	4.165	0.000	0.000	0.000	0.000	0.000
Bank loans	8.018	3.560	3.560	3.560	3.560	3.560
Payables	12.570	34.131	41.153	51.729	63.744	77.216
Other short-term debt	0.649	1.553	1.553	1.553	1.553	1.553
<b>Total Short-term liabilities</b>	<b>25.402</b>	<b>39.244</b>	<b>46.265</b>	<b>56.842</b>	<b>68.857</b>	<b>82.329</b>
<b>Total Liabilities</b>	<b>45.068</b>	<b>76.090</b>	<b>83.112</b>	<b>88.689</b>	<b>90.703</b>	<b>90.979</b>
<b>Total Equity and Liabilities</b>	<b>59.069</b>	<b>88.462</b>	<b>107.581</b>	<b>123.439</b>	<b>142.183</b>	<b>166.796</b>

Source: Company data, WOOD Research

## Cash flow

RON m	2018	2019	2020E	2021E	2022E	2023E
Gross Profit	5.290	2.962	3.475	12.239	19.916	28.973
Amortisation	0.179	2.283	2.684	3.065	3.290	3.272
Other adjustments	1.772	-1.924	0.581	0.000	0.000	0.000
<b>Operational Profit before WC</b>	<b>7.241</b>	<b>3.322</b>	<b>6.740</b>	<b>15.303</b>	<b>23.206</b>	<b>32.246</b>
Receivables change	-6.124	-9.647	-10.642	-14.792	-13.409	-15.036
Inventory change	-0.219	-1.379	-0.508	-0.728	-0.751	-0.842
Payables change	3.014	16.811	7.022	10.577	12.014	13.472
Operational cash flow	3.912	9.106	2.612	10.360	21.060	29.840
Paid income tax	0.515	0.604	0.556	1.958	3.187	4.636
<b>Net Operational cash flow</b>	<b>3.397</b>	<b>8.502</b>	<b>2.057</b>	<b>8.402</b>	<b>17.874</b>	<b>25.204</b>
Investments (non-capex)	0.000	0.000	10.000	0.000	0.000	0.000
Payments for acquiring subsidiaries	1.392	0.710	2.500	0.000	0.000	0.000
Payments for no-controlling interests	1.050	0.000	0.000	0.000	0.000	0.000
Capex	7.414	0.894	5.225	5.057	4.155	5.033
Others	10.378	-0.405	0.000	0.000	0.000	0.000
<b>Net cash flow from investments</b>	<b>20.233</b>	<b>1.198</b>	<b>17.725</b>	<b>5.057</b>	<b>4.155</b>	<b>5.033</b>
<b>Free cash flow</b>	<b>-16.836</b>	<b>7.304</b>	<b>-15.668</b>	<b>3.345</b>	<b>13.719</b>	<b>20.172</b>
<b>Organic free cash flow*</b>	<b>-4.016</b>	<b>7.608</b>	<b>-3.168</b>	<b>3.345</b>	<b>13.719</b>	<b>20.172</b>
Equity raising	2.899	0.000	9.175	0.000	0.000	0.000
Net change in bank loans	3.182	-0.814	0.000	0.000	0.000	0.000
Net change in bonds	14.072	5.414	0.000	-5.000	-10.000	-13.196
Dividends paid	0.000	0.000	0.000	0.000	0.000	0.000
Other financing adjustments	-1.330	-4.128	3.160	0.000	0.000	0.000
<b>Net cash flow from financing</b>	<b>18.824</b>	<b>0.472</b>	<b>12.335</b>	<b>-5.000</b>	<b>-10.000</b>	<b>-13.196</b>
Cash at the beginning of the year	11.060	13.048	20.824	17.491	15.835	19.554
<b>Cash increase</b>	<b>1.988</b>	<b>7.776</b>	<b>-3.333</b>	<b>-1.655</b>	<b>3.719</b>	<b>6.976</b>
Cash at the end of the year	13.048	20.824	17.491	15.835	19.554	26.530

Source: Company data, WOOD Research; \*excluding non-capex investments

## Ratios

	2018	2019	2020E	2021E	2022E	2023E
Number of shares (m, eop)	116.2	127.2	216.3	216.3	216.3	216.3
Price	0.650	0.650	0.650	0.650	0.650	0.650
Net debt	18.679	15.740	19.072	15.728	2.009	-18.163
Net debt / EBITDA (x)	2.9	7.4	1.9	1.0	0.1	-0.6
<b>EPS (RON)</b>	<b>0.038</b>	<b>0.001</b>	<b>0.011</b>	<b>0.045</b>	<b>0.074</b>	<b>0.109</b>
<b>- EPS growth</b>	<b>156.9%</b>	<b>-97.4%</b>	<b>1056.7%</b>	<b>301.4%</b>	<b>65.7%</b>	<b>46.9%</b>
Dividend (RON m)	0.000	0.000	0.000	0.000	0.000	0.000
DPS (RON)	0.000	0.000	0.000	0.000	0.000	0.000
- Payout Ratio	0%	0%	0%	0%	0%	0%
Dividend yield	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
FCF per share	-0.145	0.057	-0.072	0.015	0.063	0.093
FCF yield	-22.3%	8.8%	-11.1%	2.4%	9.8%	14.3%
BVPS (RON)	0.120	0.097	0.113	0.161	0.238	0.350
ROA	9.7%	0.2%	2.5%	8.4%	12.1%	15.3%
ROE	43.8%	0.9%	13.1%	32.8%	37.3%	37.1%
ROIC	13.4%	0.4%	5.6%	19.2%	30.1%	41.0%
<b>EV/Sales (x)</b>	<b>2.0</b>	<b>1.0</b>	<b>1.2</b>	<b>0.9</b>	<b>0.7</b>	<b>0.5</b>
<b>PE (x)</b>	<b>17.3</b>	<b>672.5</b>	<b>58.1</b>	<b>14.5</b>	<b>8.7</b>	<b>6.0</b>
<b>EV/EBITDA (x)</b>	<b>14.5</b>	<b>46.6</b>	<b>15.7</b>	<b>9.5</b>	<b>6.5</b>	<b>4.3</b>

Source: Company data, WOOD Research

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**WOOD&Co's rating and price target history for Bittnet Systems in the preceding 12-month period:**

Date	Rating	Date	PT
30/10/2020	BUY – initiation of coverage	30/10/2020	RON 0.973

A history of all WOOD&Co's investment research disseminated during the preceding 12-month period can be accessed via our website at <https://research.wood.com>.

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	BUY	HOLD	SELL	Restricted	NOT RATED	Coverage in transition
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Company	Disclosures
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AmRest	5
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