The opportunity of a BNET – Stock Option Plan for keypersons

This document details the aspects regarding the implementation of a Stock Option Plan within the company, with the resumption of the explanations regarding the necessity and the opportunity of its implementation for the key persons. The company's success largely depends on its ability to continue to attract, retain and motivate qualified personnel. Bittnet's activity is based on highly qualified and well-paid human resources, specialists who are limited in number and who are continuously offered by competing companies.

Therefore, the Company is looking for solutions to optimally manage the needs of the staff, so as to minimize the possible negative effects in terms of financial conditions, operating results or prospects. The company offers attractive compensation packages and dynamic career development pathways to attract, retain and motivate experienced and potential staff. This risk continues to be one of the most important risks considered by our company and, consequently, the management will continue to give special importance to this aspect.

In 2016, 2017, 2018, 2019, 2020 and 2021, the General Assembly approved a plan to incentivize key people based on stocks, in order to better align their interests with the long-term interests of the Company. The management proposes a new incentive plan for the period 2021 - 2023, continuing and following the same principles as the previous ones: key persons (employees, contractors, managers) will be able to buy in 2 years a number of shares representing a total of maximum 5% of the Company's shares, at the price per share registered in April 2021. Thus, if the activity of these key persons has generated an increase in the value of shareholders' holdings, over 2 years a maximum of 1/20 of this increase can be transferred to key persons in the form of shares. purchased from the company at a price equal to the price from April 2021.

Over the years, Bittnet has experienced much smaller staff fluctuations than the companies we do business with, this phenomenon being due to the company's principles of sharing the value created with those who contribute to its generation. Thus, in the case of key people (employees, contractors, managers, etc.), the fact that a significant part of their remuneration package comes from the increase of the company's value, generates two fundamental positive aspects:

i. Aligns the team's objectives with those of the shareholders. Thus, the team members will register special gains only if the shareholders register a significant increase of the company's value. The current plan (as well as the previous ones) proposes the allocation of a maximum part of 1/20 of the increase in the value registered by the shareholders to the key persons. If shareholders expect employees to actively seek value for the company, and there are countless levels of control, verification, bureaucracy, but on the contrary, the whole team has as a common goal to increase the value of the company, then the options are the best. solution.

ii. It provides a sense of fairness to team members so that we can address the most pressing social issue in the global economy in recent years, that of 'inequality', which has been inflamed by the famous bestseller by Mr Thomas Piketty. If through their activity the employees create value for the shareholders, they will expect to receive a part of this value. Or, the fact that they will receive shares, aligns them and brings them closer to the interests of the shareholders and, implicitly, of the Company. On the other hand, it is not fair for employees to receive actions regardless of the results, so the options approach generates dilution only if it has been shown to be worthwhile.

In order to be able to carry out the stock option plans as approved by the shareholders' meeting, it is necessary either for the company to have shares available - and thus we proposed to the shareholders the capital increase according to point 2 of the GMS, or to be able to decide an increase with the lifting of the pre-emptive right (new shares can only be granted to option-holders) - and that is why we proposed point 8 of the call, which represents a renewal of the mandate granted in December 2018.

How do we value Stock Option Plans?

We consider the SOP mechanism an important one, both in terms of business continuity by rewarding / retaining employees and for the financial benefits brought to shareholders in the medium and long term. Therefore, we would like to further provide a detailed explanation of this mechanism.

In 2014, when we looked at whether or not to list Bittnet on the stock market, a big plus was the idea of rewarding our colleagues with a Stock Option Plan, but in a slightly different way than other SOPs they we have seen so far in Romania. The US SOP concept and mechanism aligns the interests of those who “work” (allocate time) for the company with the interests of those who “invest” (allocate capital) in the company. Traditionally, in recent socialist theories, both in Europe and in the United States, "labor" and "capital" are seen as two antagonistic factors of production, in tension and in a zero-sum game. "Capital" is enriched by plundering "labor," producing and perpetuating inequality. In this view, it is necessary for "labor" to be organized into unions and to fight to capture from "capital" the value that "labor" produces.

At Bittnet, perhaps because of our entrepreneurial experience, or the fact that we benefited from an angel investor investment relatively early on, we have always considered that anyone who contributes to the success of the business is a partner in our success story and should be rewarded in return for something it is important to him. Often in the case of "work", the important goal is stability, security and, for this reason, most people are willing to give up wealth. Instead, by definition, for "capital", the goal is its continuous multiplication, and instead, a degree of uncertainty is accepted. We believe that only if all the actors involved in our story have common goals and enjoy together the results of the company (in fact, in our case, of the group of companies), only then can we "run" quietly towards goals, without the need for a complex control structure.

In practice, this can best be understood by the following analogy - there is no rulebook or contract that is good enough and secure if you want to sign with partners you don't trust and, on the other hand, you don't need any rules when you share the same values with your partners, and the end goals are similar. Over the years we have been able to put this concept into practice by applying the "we share what we have" rule, which means that we share our results so that everyone is treated equally and everyone is ready to achieve their goals without put sacrifices on some to the detriment of others. Thus, if everything works well, everyone benefits equally; if it goes wrong, then no one is at a disadvantage, because everyone has equal access to information and can make informed decisions.

This philosophy is applied from the lowest level, starting with the sales team and the way we reward their successes, to the way we collaborate with key resources, managers, advisory board members and our business partners. In this sense, the listing on the stock exchange provided us with an extraordinary mechanism for implementing this philosophy, namely the Stock Option Plan. These plans can, of course, be implemented in unlisted companies, but the lack of liquidity for shares combined with the naturally lower percentages that can be allocated makes it impossible for employees or key people in private companies to feel the real advantage of such a plan. In contrast, in the case of listed companies, the mechanism automatically aligns the interests of the two factors of production. Thus, the key people who deliver the "work" receive the right, but not the obligation, to buy shares of the company at some point in the future, at the current price. In other words, “capital” providers agree to dilute their share of ownership in a much more valuable company in the future, in exchange for the fact that those who “work” are at risk. On the other hand, those who perform "work" accept the risk of failure (if they receive nothing of value) in exchange for the right to enjoy a smaller share of the higher earnings.

The settlement of these incentive plans can be done only in two ways: by repurchasing the company's shares in the capital market to transfer them to the option holders or by increasing the share capital by issuing new shares. The second option obviously dilutes the percentages held by shareholders - those who actually approve of this operation. On the other hand, the redemption solution is the one that actually destroys the relevance of the SOP product by effectively decapitalizing the company, because in order to buy shares on the market, the company pays cash which leads to a cash outflow. In addition, at the same time, this option marks a loss in the profit and loss account, as the company buys "expensive" shares in the market, which are currently at the highest price, and sells them "cheaply" at the lowest price. from the past. Instead, the solution voted by the shareholders at each of the general meetings held in 2016, 2017, 2018, 2019, 2020 and 2021 was the one in which the holders of options, the key people, receive shares directly, as a result of a capital increase. In conclusion, incentivizing employees with options is one of the mechanisms that has allowed us over the years not only to have access to special human resources, paid below market average, but also to share the value created by team members for shareholders. Thus, each incentive plan is built according to similar principles:

- The duration of a plan is 2 years;
- Employees are rewarded with 5% of the value brought to shareholders - we measure 5% of the capitalization difference between the final moment of the plan and the initial moment, 2 years before. Thus, on the one hand, there is enough time for the ideas and facts of management and employees to take effect and the market to evaluate them, and on the other hand there is enough time for management and employees to be evaluated to see dedication, but and results. The construction of option plans generates the situation in which no matter how hard you worked and how good the ideas seem, if the value of the shareholders' investment did not increase, you are not bonused. Thus, we have a total alignment of objectives between employees and shareholders - the well-being of both categories being measured with the same unit of measurement.

Does the payment with shares for acquisitions and team not generate dilution?

We consider that the numerical value of the percentage of shares held by a person is perhaps the least important number related to a public company. The company's founders and management share the plastic idea that a smaller slice of a larger pizza is more valuable than a large portion of a worthless pizza, as long as each dilution moment is carefully constructed for evaluation and judicious use. of capital. As the Americans say, we are looking to make all the "accretive" purchases. Simply put: if we pay with BNET shares valued at 10x EBITDA for the acquisition of a company valued at 5x EBITDA, both the sellers of that company and we, the Bittnet shareholders, "get rich", because the payment currency has a greater multiplier of the value created versus what what we buy. Returning to the recurring question of percentage dilution, we give the example of the ownership of the founders of Bittnet, (cumulatively judged): if in 2011 the ownership of 100% of a company without market value was 0, and in 2012 the ownership of 76% of a company valued at 280,000 euros worth 213,000 euros, at the time of listing, the 68% were worth just over 1 million euros, after successive rounds of "dilution" by attracting funds from the market and paying with shares for both team and procurement, the current percentage of 25% of the company is worth almost 8 million euros. We consider that the economic value is much more relevant than the figure that represents the percentage of voting rights. The same calculation can be made by any shareholder between the time of investment and 2-3-5 years later, with similar results. The following table analyzes the capital increase operations performed for the settlement of previous SOPs or for the payment with shares for the acquired companies (debt-to-equity swap), showing that, on average, the shareholders who did not participate in these operations registered an increase of 20 % of the net asset value as a result of their development:

Data	Nr. initial	Nr. final	Factor Corectie	Actiuni Noi	Eq/Share Initial	Eq /Share Operatie	Eq / Share Rezultat	Accretive ?
23.08.2016	4,504,383	13,513,149	3	9,008,766.0	42.6	0	14.20838	Neutru
10.03.2017	13,513,149	14,514,123	1.074	1,000,974.0	22.9	78.0	26.7	TRUE
05.07.2017	14,514,123	29,028,246	2	14,514,123.0	26.7	0	13.36891	Neutru
04.01.2018	29,028,246	30,444,258	1.049	1,416,012.0	20.5	58.0	22.3	TRUE
02.07.2018	30,444,258	48,710,812	1.6	18,266,554.8	22.3	0	13.92358	Neutru
14.01.2019	48,710,912	51,755,238	1.062	3,044,326.0	28.7	95.0	32.6	TRUE
13.05.2019	51,755,238	55,233,205	1.067	3,477,967.0	32.6	113.1	37.7	TRUE
09.07.2019	55,233,205	110,466,410	2.0	55,233,205.0	37.7	0.0	18.9	Neutru
31.10.2019	110,466,410	116,203,206	1.052	5,736,796.0	18.9	71.1	21.4	TRUE
05.05.2020	116,203,206	127,249,847	1.095	11,046,641.0	10.6	83.0	16.9	TRUE
24.07.2020	127,249,847	216,324,740	1.7	89,074,893.0	16.9	0.0	10.0	Neutru
18.12.2020	216,324,740	229,049,725	1.059	12,724,985.0	10.0	62.2	12.9	TRUE
26.03.2021	229,049,725	247,228,275	1.079	18,178,550.0	12.9	59.0	16.3	TRUE
22.07.2021	247,228,275	395,565,240	1.6	148,336,965.0	16.3	0.0	10.2	Neutru