

# Bittnet Systems

## For those who get IT

We initiate coverage on Bittnet Systems with a RON 0.88 target price, representing a potential upside of 25% and a BUY recommendation. Bittnet, a Romanian technology company, is focused on providing IT training to companies through its education division and IT integration services through its technology division. The company stands to benefit from the expected exponential increase of the information and communications technology (ICT) sector by 2025. This would result in an increase in demand for its IT integration services. Also, the number of IT professionals in Romania is expected to double, which would result in increased demand for its training services. On March 22, Bittnet was included in the FTSE Global Micro Cap and FTSE Total-Cap, which should result in increased exposure and potential demand for the company's shares.

**Romania's ICT sector may double or even quadruple in size by 2025...** The consultants from McKinsey provide two scenarios for the trajectory of Digital Romania: A base case with growth of EUR 16bn by the year 2025 (representing a CAGR of 16.5%) and an upside case (or aspirational scenario) with growth of EUR 40bn by 2025 (or a CAGR of 31%). Representatives of the Romanian software industry association (ANIS) stated in December 2020 that the local IT industry's objectives for Digital Romania in 2025 are for the information and communications technology (ICT) sector to reach 10% of GDP, from approximately 6% currently. In its 2019 DESI report, the European Commission placed Romania among the lowest-ranked countries in terms of business digitization. This highlights the gap that Romania has to close with the more developed, and even emerging, but digitized markets.

**...and the IT professionals in Romania are expected to double, therefore...** Of the active civilian population, a figure of 1.9% represents approximately 170,000 ICT specialists. With a talent pool in the business service sector of over 64,000 university graduates and a long-term potential of over 300,000 IT-employees, Romania stands as one of the leading destinations in CEE for Business process outsourcing (BPO), Information Technology Outsourcing (ITO), or Research and development (R&D). Bittnet stands to benefit from this growth through its educational programs targeted at IT professionals.

**...we incorporate an overall CAGR of 21.8% for Bittnet over the next five years** based on input from Bittnet management (ex. [the indicative budget for 2021](#)), our assessment, and other industry experts. We expect the net income to grow by 9.3x from 2021 to 2025, to a sustainable level of 9.7% in 2025E.

Figure 1. Bittnet key financial summary

	2018	2019	2020	2021E	2022E	2023E
Revenues (RON '000)	47,891	99,750	108,617	157,200	220,080	295,729
EBITDA (RON '000)	6,532	2,119	4,751	11,698	17,698	24,504
EBIT (RON '000)	6,353	-164	2,757	9,637	15,470	22,010
Net profit (RON '000)	4,408	-2,631	53	4,886	9,780	15,195
Dividends (RON)	0	0	0	0	0	0
EPS (RON)	0.02	-35.89	0.72	66.66	133.42	207.29
DPS (RON)	0.00	0.00	0.00	0.00	0.00	0.00
EV/EBITDA (x)	35.6	109.8	49.0	19.9	13.1	9.5
P/E (x)	49.2	(82.5)	4,125.3	44.4	22.2	14.3
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, IPOPEMA Research

IT, Romania

## Bittnet Systems

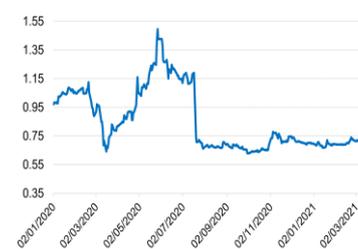
### BUY

Coverage initiation

FV RON 0.88

25% upside

Price as of 20 March 2021 RON0.698



#### Share data

Number of shares (m)	247.2
Market cap (EUR m)	45.2
12M avg daily volume (k)	575
12M avg daily turnover (EUR)	34,000
12M high/low (RON)	0.90/0.41
Bloomberg	BNET RO

#### Total performance

1M	0.10%
3M	0.29%
12M	-5.68%

#### Shareholders

Mihai Logofatu	13%
Cristian Logofatu	12%
Razvan Capatana	10%

#### Important disclosure

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## Bittnet Systems

FV 0.88 RON

Mkt Cap EUR 45 m

Upside/downside +25%

Valuation multiples	2019	2020	2021E	2022E	2023E
P/E (x)	-10.3	514.8	5.5	2.8	1.8
EV/EBITDA adj (x)	18.8	21.4	12.3	10.5	7.7
EV/Sales (x)	0.4	0.4	0.2	0.1	0.0
P/BV (x)	2.2	0.9	0.7	0.5	0.4
FCF yield (%)	-3.5%	-17.0%	14.6%	27.0%	35.1%
DY (%)	0%	0%	0%	0%	0%
Payout ratio	0%	0%	0%	0%	0%

Per share	2019	2020	2021E	2022E	2023E
No. of shares (m units)	38.8	38.8	38.8	38.8	38.8
EPS (RON)	-0.1	0.0	0.1	0.3	0.4
BVPS (RON)	0.3	0.7	1.0	1.4	1.7
FCFPS (RON)	0.0	-0.1	0.1	0.2	0.2
DPS (RON)	0.0	0.0	0.0	0.0	0.0

Change yoy (%)	2019	2020	2021E	2022E	2023E
Revenues	108%	9%	45%	40%	34%
EBITDA	-68%	126%	146%	51%	38%
EBIT	-103%	-1632%	250%	61%	42%
Net profit	-160%	-102%	9189%	100%	55%
Tax rate	-11%	84%	16%	16%	16%

Leverage and return	2019	2020	2021E	2022E	2023E
Gross margin (%)	17%	19%	22%	23%	23%
EBITDA margin	2%	4%	7%	8%	8%
EBIT margin	0%	3%	6%	7%	7%
Net debt/EBITDA (x)	7.5	3.3	0.5	(0.4)	(0.7)
Net debt/Equity	1.3	0.5	0.1	(0.1)	(0.3)
Net debt/Assets	0.2	0.2	0.0	(0.0)	(0.1)
ROE	-20%	0%	14%	21%	26%
ROA	-4%	0%	4%	7%	9%
ROIC	-9%	0%	11%	20%	29%

Assumptions	2019	2020	2021E	2022E	2023E
<b>Revenues</b>					
Education division	13	14	20	28	36
Technology division	87	95	138	193	260
Total revenues	100	109	157	220	296
<b>Margins (% of revenues)</b>					
COGS (w/o depreciation)	82.7%	78.8%	76.3%	76.3%	76.6%
Selling expenses	6.4%	7.3%	7.0%	6.7%	6.4%
G&A expenses	11.7%	9.5%	9.3%	9.0%	8.7%
<b>WC assumptions</b>					
A/R (days sales)		101.3	100.0	95.0	95.0
Inventory (days at COGS)		2.0	2.0	2.0	2.0
A/P (days at COGS)		116.4	115.0	115.0	115.0
Wages and other tax		1.3%	1.3%	1.3%	1.3%

P&L (RON m)	2018	2019	2020	2021E	2022E	2023E
<b>Revenues</b>	<b>47.9</b>	<b>99.7</b>	<b>108.6</b>	<b>157.2</b>	<b>220.1</b>	<b>295.7</b>
Revenues from education division	7.4	12.8	14.0	19.7	27.6	35.9
Revenues from the technology div	40.5	86.9	94.6	137.5	192.5	259.9
G&A	6.0	11.7	10.3	14.6	19.8	25.7
<b>EBITDA</b>	<b>6.5</b>	<b>2.1</b>	<b>4.8</b>	<b>11.7</b>	<b>17.7</b>	<b>24.5</b>
Depreciation	0.2	2.3	2.0	2.1	2.2	2.5
<b>EBIT</b>	<b>6.3</b>	<b>-0.2</b>	<b>2.8</b>	<b>9.6</b>	<b>15.5</b>	<b>22.0</b>
Interest expense	-0.9	-1.3	4.0	3.9	4.0	4.1
Pre-tax profit	5.3	-3.0	0.3	5.8	11.6	18.1
Income tax	0.9	0.3	0.3	0.9	1.9	2.9
Minorities	0.0	0.0	0.5	0.6	0.6	0.7
<b>Net profit</b>	<b>4.4</b>	<b>-2.6</b>	<b>0.1</b>	<b>4.9</b>	<b>9.8</b>	<b>15.2</b>
<b>Dividend</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

BALANCE SHEET (RON m)	2018	2019	2020	2021E	2022E	2023E
<b>Non-current assets</b>	<b>22.6</b>	<b>33.3</b>	<b>49.6</b>	<b>49.5</b>	<b>51.0</b>	<b>56.0</b>
PPE	2.0	6.7	5.4	5.4	6.2	8.7
Deferred tax	0.0	0.6	0.6	0.6	0.6	0.6
Intangibles and goodwill	18.3	23.7	29.5	38.1	38.1	38.1
Others	0.0	0.0	0.0	0.0	0.0	0.0
<b>Current assets</b>	<b>36.4</b>	<b>55.1</b>	<b>57.0</b>	<b>79.6</b>	<b>107.9</b>	<b>140.4</b>
Cash and equivalents	13.0	20.8	24.9	34.5	48.2	60.8
Accounts receivables	22.8	32.3	30.2	43.1	57.3	77.0
Inventories	0.6	2.0	0.5	0.7	0.9	1.2
Others	3.0	3.7	5.3	5.3	5.3	5.3
<b>Total assets</b>	<b>59.1</b>	<b>88.5</b>	<b>101.1</b>	<b>123.7</b>	<b>152.8</b>	<b>187.8</b>
<b>Equity</b>	<b>14.0</b>	<b>12.4</b>	<b>28.6</b>	<b>40.1</b>	<b>52.5</b>	<b>65.7</b>
Minorities	0.2	0.3	0.3	0.3	0.3	0.3
<b>Non-current liabilities</b>	<b>39.3</b>	<b>73.7</b>	<b>36.1</b>	<b>34.0</b>	<b>33.0</b>	<b>31.5</b>
Bank debt	19.5	33.0	32.9	30.8	29.8	28.4
Leasing	0.1	3.8	3.0	3.0	3.0	3.0
Others	0.0	0.0	0.0	0.0	0.0	0.0
<b>Current liabilities</b>	<b>25.4</b>	<b>39.2</b>	<b>36.4</b>	<b>49.4</b>	<b>67.0</b>	<b>90.3</b>
Bank debt	12.2	3.6	7.6	9.4	11.0	14.8
Accounts payable	12.6	34.1	27.3	37.8	52.9	71.4
Leasing	0.1	3.8	3.0	3.0	3.0	3.0
Others	0.0	0.0	0.0	0.0	0.0	0.0
<b>Equity and liabilities</b>	<b>59.1</b>	<b>88.5</b>	<b>101.1</b>	<b>123.7</b>	<b>152.8</b>	<b>187.8</b>
WK as % of sales			19%	19%	19%	17%
<b>Gross debt</b>	<b>32</b>	<b>37</b>	<b>41</b>	<b>40</b>	<b>41</b>	<b>43</b>
<b>Net debt</b>	<b>19</b>	<b>16</b>	<b>16</b>	<b>6</b>	<b>-7</b>	<b>-18</b>

CASH FLOW (RONm)	2018	2019	2020	2021E	2022E	2023E
<b>Cash flow from operations</b>	<b>2.5</b>	<b>-0.2</b>	<b>-2.6</b>	<b>0.9</b>	<b>5.3</b>	<b>11.5</b>
Net profit	4.4	-2.6	0.1	4.9	9.8	15.2
Depreciation and amortisation	0.2	2.3	2.0	2.1	2.2	2.5
Changes in WC	0.0	-4.8	-4.7	-9.7	-10.7	-9.2
Other, net	-2.1	5.0	0.0	3.7	4.0	3.0
<b>Cash flow from investment</b>	<b>-12.8</b>	<b>-0.7</b>	<b>-2.0</b>	<b>3.0</b>	<b>2.0</b>	<b>-2.0</b>
Additions to PPE	-1.5	-4.7	1.3	-2.0	-3.0	-5.0
Additions to intangibles	0.0	0.0	0.0	0.0	0.0	0.0
Change in long-term investments	-1.2	0.0	-7.3	0.0	0.0	0.0
Other, net	-10.0	4.0	4.0	5.0	5.0	3.0
<b>Cash flow from financing</b>	<b>12.3</b>	<b>8.7</b>	<b>8.6</b>	<b>5.7</b>	<b>6.4</b>	<b>3.0</b>
Change in long-term borrowing	11.1	13.5	-0.1	-2.1	-1.0	-1.5
Change in short-term borrowing	6.2	-8.6	4.0	1.8	1.6	3.8
Leasing payments	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Other, net	-5.0	3.9	4.7	6.0	5.8	0.7
<b>Net change in cash and equivalent</b>	<b>2.0</b>	<b>7.8</b>	<b>4.0</b>	<b>9.6</b>	<b>13.7</b>	<b>12.5</b>
<b>Beginning cash and equivalent:</b>	<b>11.1</b>	<b>13.0</b>	<b>20.8</b>	<b>24.9</b>	<b>34.5</b>	<b>48.2</b>
<b>Ending cash and equivalents</b>	<b>13.0</b>	<b>20.8</b>	<b>24.9</b>	<b>34.5</b>	<b>48.2</b>	<b>60.8</b>

Source: Company data, IPOPEMA Research

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## Valuation

**Discounted cash flow to equity (DCF) as primary valuation method.** The company is currently operating in an industry that is expected to either double in size (the base case) or quadruple (the “aspirational” case) by year 2025. To best capture this expansion, we used the Discounted Cash Flow to Equity “DCF” method for the valuation of Bittnet. As the company is not a traditional dividend payer, and we have not identified any close relevant peers, we believe the DCF is the most relevant method. We estimated 10 years into the future, i.e. the time period in which we assume the company will enter into “normality”. By discounting Bittnet’s free cash flow to equity, with a cost of equity “CAPM” of 17% (3.2% “risk-free rate” which is the equivalent of a Romanian 10-year bond yield, 6.85% market risk premium, 1.0x Beta and a small-size premium) and applying 1% terminal growth, **we derive an intrinsic value per share of RON 0.88 for the company, which is 25% higher than the current share price. We base our BUY rating mainly upon this analysis.**

**Corroborative evidence.** We also analysed Bittnet through a peer comparison with other IT companies that are education- and integration-focused. We could not find a company to match the growth and margins of Bittnet.

The DCF valuation is based on our forecasts of the firm’s future free cash flow generation discounted at present value. We assume the continuation of the company’s operating activity beyond the forecast horizon.

Figure 2. DCF valuation

RON '000	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	
Net profit	4,886	9,780	15,195	30,237	45,816	55,554	67,396	74,449	77,175	78,798	78,798
+ depreciation	2,061	2,227	2,494	2,827	3,161	3,527	3,927	4,361	4,827	5,237	
+ increase/-decrease of long term debt	-2,146	-975	-1,450	-4,925	-4,750	-4,750	-4,750	-4,750	-4,678	246	
- increase/+decrease in working capital	-9,704	-10,697	-9,192	-20,475	-16,399	-13,014	-16,636	-136	-4,154	-2,057	-1,230
+ Capex	-2,000	-3,000	-5,000	-5,000	-5,000	-6,000	-6,000	-7,000	-7,000	-5,300	
<b>Equity - Free cash flow</b>	<b>-6,903</b>	<b>-2,665</b>	<b>2,047</b>	<b>2,664</b>	<b>22,828</b>	<b>35,317</b>	<b>43,937</b>	<b>66,924</b>	<b>66,170</b>	<b>76,925</b>	<b>77,568</b>
Discount rate (CAPM)	17.0%										
Discount factor	1.00	0.85	0.73	0.62	0.53	0.46	0.39	0.33	0.28	0.24	0.24
Present value of cash flows	-6,903	-2,277	1,495	1,663	12,182	16,109	17,128	22,299	18,844	18,724	
Sum of present values of cash flows	99,264										
Residual growth	1.0%										
Present value of residual value	118,002										484,801
Less: non-controlling interests	-257										
<b>Equity value (RON '000)</b>	<b>217,009</b>										
Shares ('000)	247,228										
<b>Equity value per share (RON)</b>	<b>0.88</b>										
Current Share Price (RON)	0.698										
<b>Upside (%)</b>	<b>25.8%</b>										

Source: Company, IPOPEMA Research

**Sensitivity Analysis.** In our analysis, we have relied on what we considered to be reasonable assumptions and conservative estimations. Below we show a sensitivity analysis by varying a few parameters such as discount rate and residual growth.

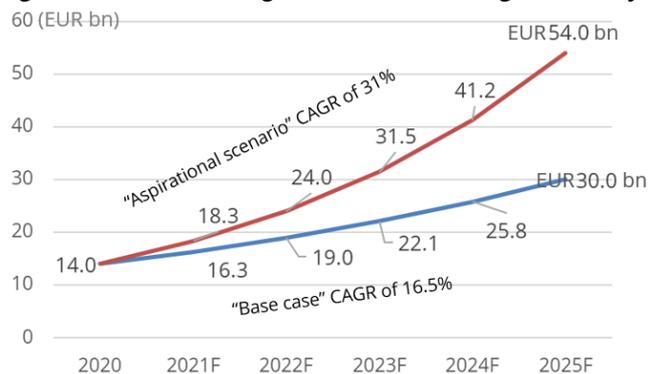
Figure 3. Sensitivity analysis

RON/share		Residual Growth Rate					
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%
Discount Rate	15.0%	1.06	1.07	1.09	1.11	1.13	1.15
	16.0%	0.95	0.96	0.98	0.99	1.01	1.02
	<b>17.0%</b>	0.86	0.87	<b>0.88</b>	0.89	0.91	0.92
	18.0%	0.78	0.78	0.79	0.80	0.81	0.82
	19.0%	0.70	0.71	0.72	0.73	0.73	0.74

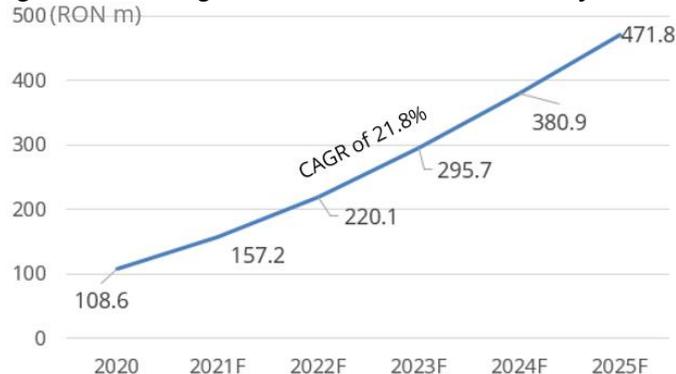
Source: Company, IPOPEMA Research

**Revenue assumptions.** We incorporate into our assumptions the expected growth of the digital economy of Romania from a base case of 16.5% CAGR in 2020 up to 2025, to an aspirational scenario of 31% CAGR. Based on input from Bittnet management (ex. [the indicative budget for 2021](#)) and other industry experts, in our forecasts for company revenues we incorporate an overall CAGR of 21.8% for Bittnet over the next five years based on the expected increase in number of IT professionals with a need for education and the increase in consulting projects for IT integration. Although Bittnet is largely the result of the group pursuing expansion through acquisitions, we did not include any acquisitions into our modelling but assumed organic growth with the existing businesses.

**Figure 4. Potential overall growth for Romania's digital economy**



**Figure 5. Estimated growth in revenues for Bittnet for five years**



Source: Eurostat; Digital Economy, IPOPEMA Research

**Cost assumptions.** Based on the historical split of costs of goods sold and including management estimates, we model the evolution of costs going forward. Overall there is competition for talent in the sector and labour is a major component of its cost. The company relies on its IT professionals in a teaching role (for the education division) and also many of them take part as consultants for IT integration projects. Conservatively, we model the gross profit margin to increase only slightly.

**Income statement.** With the estimated revenues and costs, we built the income statements. Below we show only the estimates for five years. We calculate the depreciation separately in the investment schedule; we used a 16% tax rate.

**Figure 6. Income statement forecast**

Type of expense/revenue	Year 0	% op	Year 1	% op	Year 2	% op	Year 3	% op	Year 4	% op	Year 5	% op
RON '000	2020	income	2021	income	2022	income	2023	income	2024	income	2025	income
Revenues	108,617	100.0%	157,200	100.0%	220,080	100.0%	295,729	100.0%	380,862	100.0%	471,775	100.0%
<i>Growth</i>			44.7%		40.0%		34.4%		28.8%		23.9%	
Depreciation	1,994	1.8%	2,061	1.3%	2,227	1.0%	2,494	0.8%	2,827	0.7%	3,161	0.7%
COGS (ex. depreciation)	85,627	78.8%	119,878	76.3%	167,830	76.3%	226,570	76.6%	283,213	74.4%	345,520	73.2%
Gross profit	20,995	19.3%	35,261	22.4%	50,022.9	22.7%	66,664.8	22.5%	94,822.2	24.9%	123,095.2	26.1%
Other operating expenses	18,238	16.8%	25,624	16.3%	34,553	15.7%	44,655	15.1%	55,225	14.5%	65,577	13.9%
of which:												
Selling expenses	7,966	7.3%	11,004	7.0%	14,745	6.7%	18,927	6.4%	23,233	6.1%	27,363	5.8%
G&A expenses	10,272	9.5%	14,620	9.3%	19,807	9.0%	25,728	8.7%	31,992	8.4%	38,214	8.1%
Total operating expenses	105,860	97.5%	147,563	93.9%	204,610	93.0%	273,719	92.6%	341,265	89.6%	414,257	87.8%
Operating profit	2,757	2.5%	9,637	6.1%	15,470	7.0%	22,010	7.4%	39,597	10.4%	57,518	12.2%
Interest income	1,550	1.4%	108	0.1%	136	0.1%	182	0.1%	209	0.1%	259	0.1%
Investment gains/losses	405	0.4%	0	0	0	0	0	0	0	0	0	
Other revenues	449	0.4%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Profit before interest & tax	4,350	4.0%	9,745	6.2%	15,606	7.1%	22,192	7.5%	39,806	10.5%	57,777	12.2%
Interest expense	4,020	3.7%	3,928	2.5%	3,963	1.8%	4,103	1.4%	3,809	1.0%	3,234	0.7%
Profit before tax (PBT)	331	0.3%	5,817	3.7%	11,643	5.3%	18,089	6.1%	35,997	9.5%	54,543	11.6%
Loss from previous years												
Taxable income	331	0.3%	5,817	3.7%	11,643	5.3%	18,089	6.1%	35,997	9.5%	54,543	11.6%
Tax rate:	16%											
Income tax	278	0.3%	931	0.6%	1,863	0.8%	2,894	1.0%	5,759	1.5%	8,727	1.8%
NET PROFIT (LOSS)	52.6	0.0%	4,886	3.1%	9,780	4.4%	15,195	5.1%	30,237	7.9%	45,816	9.7%

Source: Company, IPOPEMA Research

**CapEx and depreciation.** We do not include any acquisitions into our modelling. To deliver on this expected growth, in order to maintain its historical rate of net fixed assets to total assets of approximately 5%, the company should allocate the amounts below for capex. We depreciate the new investments using a straight line, over 15 years.

**Figure 7. Investment and depreciation schedule forecast**

Investment schedule	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
RON '000	2020	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Fixed assets already in place, at book value - beginning of year		7,444	7,444	7,444	7,444	7,444	7,444	7,444	7,444	7,444	7,444
Write-offs		0	0	0	0	0	0	0	0	0	0
Fixed assets already in place at year 0 end, at book value, including investment in progress	7,444	7,444	7,444	7,444	7,444	7,444	7,444	7,444	7,444	7,444	7,444
Capex (RON '000)		2,000	3,000	5,000	5,000	5,000	6,000	6,000	7,000	7,000	5,300
Capex to sales ratio		1.3%	1.4%	1.7%	1.3%	1.1%	1.1%	1.0%	1.1%	1.0%	0.8%
Average depreciation period all new assets		15	15	15	15	15	15	15	15	15	15
Total fixed assets at book value	7,444	9,444	12,444	17,444	22,444	27,444	33,444	39,444	46,444	53,444	58,744
<b>Depreciation schedule</b>											
Annual depreciation, fixed assets already in place at the end of year 0	1,994	1,994	1,994	1,994	1,994	1,994	1,994	1,994	1,994	1,994	1,994
Average depreciation period		15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Annual depreciation for new acquisitions											
2021		67	133	133	133	133	133	133	133	133	133
2022			100	200	200	200	200	200	200	200	200
2023				167	333	333	333	333	333	333	333
2024					167	333	333	333	333	333	333
2025						167	333	333	333	333	333
2026							200	400	400	400	400
2027								200	400	400	400
2028									233	467	467
2029										233	467
2030											177
Total annual deprec. for new equipment		67	233	500	833	1,167	1,533	1,933	2,367	2,833	3,243
Total annual depreciation, all fixed assets	1,994	2,061	2,227	2,494	2,827	3,161	3,527	3,927	4,361	4,827	5,237
Accumulated depreciation	2,000	4,061	6,288	8,782	11,609	14,770	18,297	22,224	26,585	31,412	36,649
Net fixed assets	5,444	5,384	6,156	8,662	10,835	12,675	15,147	17,220	19,860	22,032	22,095

Source: Company, IPOPEMA Research

**Debt Schedule.** Currently Bittnet has a series of bonds at 9% interest; we assumed a cost of debt between 7% and 10%. Conservatively we assumed the company would pay off its debt from internally generated cash flows in 10 years.

**Figure 8. Debt schedule forecast**

RON '000	Base year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
		2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
<b>Short term bank debt</b>											
Cost of debt		7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Short term debt as percent of sales	6.98%	6.00%	5.00%	5.00%	4.00%	3.00%	2.00%	1.00%	0.50%	0.25%	0.25%
Average debt balance	7,584	9,432	11,004	14,786	15,234	14,153	11,224	6,157	3,232	1,668	1,718
Interest expense		660	770	1,035	1,066	991	786	431	226	117	120
<b>Long term Debt</b>											
Cost of debt		10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Beginning of period balance		32,928	32,428	31,428	29,928	24,928	19,928	14,928	9,928	4,678	-0
New debt		0	0	0	0	0	0	0	0	0	0
Current portion of long term debt		1,646	1,621	1,571	1,496	1,246	996	746	496	0	-0
Principal payments		-500	-1,000	-1,500	-5,000	-5,000	-5,000	-5,000	-5,000	-4,678	0
End of period balance	32,927.8	32,428	31,428	29,928	24,928	19,928	14,928	9,928	4,928	0	0
Long term portion		30,781	29,806	28,356	23,431	18,681	13,931	9,181	4,431	-0	0
Interest expense	4,020	3,268	3,193	3,068	2,743	2,243	1,743	1,243	743	0	-0
<b>End of period balance long term debt</b>	<b>32,928</b>	<b>30,781</b>	<b>29,806</b>	<b>28,356</b>	<b>23,431</b>	<b>18,681</b>	<b>13,931</b>	<b>9,181</b>	<b>4,431</b>	<b>-0</b>	<b>-0</b>
Increase in long term debt		-2,146	-975	-1,450	-4,925	-4,750	-4,750	-4,750	-4,750	-4,678	246
Total interest expense	4,020	3,928	3,963	4,103	3,809	3,234	2,528	1,674	969	363	120
<b>Cash at bank</b>											
Interest on cash at bank		0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Cash at bank in days sales	84	50	45	45	40	40	35	35	30	25	25
Average cash balance	24,873	21,534	27,133	36,460	41,738	51,701	53,812	59,037	53,133	45,690	47,060
Interest income		108	136	182	209	259	269	295	266	228	235

Source: Company, IPOPEMA Research

**Balance Sheet.** Based on the company's historical ratios, we derived the ratios for the components of the working capital, which we used in building up the balance sheet items. For example, historically the company incurred about three months (90 – 100 days) in accounts receivable days and paid its creditors in approximately the same length of time (100 – 110 days), which we maintained going forward.

Figure 9. Balance sheet forecast

RON '000	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2020	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
<b>Current assets</b>											
Cash and equivalent	24,873	34,455	48,237	60,766	78,259	90,477	99,937	109,640	106,266	109,655	112,945
Accounts receivable	30,156	43,068	57,281	76,971	99,129	122,791	146,061	160,242	168,254	173,620	178,829
Other financial assets	1,460	1,460	1,460	1,460	1,460	1,460	1,460	1,460	1,460	1,460	1,460
Inventory	466	657	920	1,241	1,552	1,893	2,272	2,476	2,600	2,704	2,812
<b>Total current assets</b>	<b>56,954</b>	<b>79,640</b>	<b>107,897</b>	<b>140,438</b>	<b>180,399</b>	<b>216,621</b>	<b>249,729</b>	<b>273,818</b>	<b>278,580</b>	<b>287,439</b>	<b>296,046</b>
Fixed assets	7,444	9,444	12,444	17,444	22,444	27,444	33,444	39,444	46,444	53,444	58,744
less: acc deprec	-2,000	-4,061	-6,288	-8,782	-11,609	-14,770	-18,297	-22,224	-26,585	-31,412	-36,649
<b>Net fixed assets</b>	<b>5,444</b>	<b>5,384</b>	<b>6,156</b>	<b>8,662</b>	<b>10,835</b>	<b>12,675</b>	<b>15,147</b>	<b>17,220</b>	<b>19,860</b>	<b>22,032</b>	<b>22,095</b>
Goodwill	17,708	17,708	17,708	17,708	17,708	17,708	17,708	17,708	17,708	17,708	17,708
Intangible assets	20,352	20,352	20,352	20,352	20,352	20,352	20,352	20,352	20,352	20,352	20,352
Other financial assets	7	7	7	7	7	7	7	7	7	7	7
Deferred tax	638	638	638	638	638	638	638	638	638	638	638
<b>Total assets</b>	<b>101,103</b>	<b>123,729</b>	<b>152,759</b>	<b>187,806</b>	<b>229,940</b>	<b>268,001</b>	<b>303,582</b>	<b>329,743</b>	<b>337,145</b>	<b>348,177</b>	<b>356,846</b>
<b>Current liabilities</b>											
Accounts payable	27,311	37,770	52,878	71,385	89,231	108,862	130,635	142,392	149,512	155,492	161,712
Leasing	1,401	2,044	2,861	3,844	4,951	6,133	7,295	8,004	8,404	8,672	8,932
Current portion of lease liability	124	157	220	296	381	472	561	616	646	667	687
Current portion of LT Debt	7,584	9,432	11,004	14,786	15,234	14,153	11,224	6,157	3,232	1,668	1,718
<b>Total current liabilities</b>	<b>36,420</b>	<b>49,403</b>	<b>66,963</b>	<b>90,312</b>	<b>109,798</b>	<b>129,620</b>	<b>149,715</b>	<b>157,168</b>	<b>161,794</b>	<b>166,499</b>	<b>173,049</b>
Long term bank debt +bonds	32,928	30,781	29,806	28,356	23,431	18,681	13,931	9,181	4,431	-247	0
Leasing	3,037	3,037	3,037	3,037	3,037	3,037	3,037	3,037	3,037	3,037	3,037
Deferred tax liability	151	151	151	151	151	151	151	151	151	151	151
<b>Total long term liabilities</b>	<b>36,116</b>	<b>33,969</b>	<b>32,994</b>	<b>31,544</b>	<b>26,619</b>	<b>21,869</b>	<b>17,119</b>	<b>12,369</b>	<b>7,619</b>	<b>2,941</b>	<b>3,188</b>
Equity	26,443	26,443	26,443	26,443	26,443	26,443	26,443	26,443	26,443	26,443	26,443
Retained earnings	-4,197	7,593	20,037	33,186	60,759	83,747	103,984	127,442	134,968	145,973	147,846
Premiums	5,582	5,582	5,582	5,582	5,582	5,582	5,582	5,582	5,582	5,582	5,582
Reserves	483	483	483	483	483	483	483	483	483	483	483
<b>Net worth</b>	<b>28,311</b>	<b>40,100</b>	<b>52,545</b>	<b>65,693</b>	<b>93,266</b>	<b>116,255</b>	<b>136,491</b>	<b>159,950</b>	<b>167,475</b>	<b>178,481</b>	<b>180,354</b>
Non-controlling interests	257	257	257	257	257	257	257	257	257	257	257
<b>Total liabilities and shrd cap</b>	<b>101,104</b>	<b>123,729</b>	<b>152,759</b>	<b>187,806</b>	<b>229,940</b>	<b>268,001</b>	<b>303,582</b>	<b>329,744</b>	<b>337,146</b>	<b>348,177</b>	<b>356,846</b>
<b>Working capital</b>	<b>20,534</b>	<b>30,237</b>	<b>40,934</b>	<b>50,126</b>	<b>70,601</b>	<b>87,001</b>	<b>100,014</b>	<b>116,650</b>	<b>116,786</b>	<b>120,941</b>	<b>122,997</b>

Source: Company, IPOPEMA Research

## Risks to fair value

**Employee retention, and M&A.** The IT sector in Romania is becoming more competitive, putting pressure on salaries, and making it more difficult to recruit and keep professionals. With M&A as its core main strategy for growth, new investors are faced with potential dilution on an annual basis - through the company's option plans - and, opportunistically, due to the company's pursuit of acquisitions and deleveraging.

## Historical financial statements

**Balance sheet and income statement.** Based on the company's historical financial statements, we derived some of the ratios for the components of working capital, and several margins we used in the forecasted income statements. Since the company is in full expansion in a growing industry, we relied only briefly on the historical data.

**Figure 10. Historical income statements**

RON	2017	2018	2019	2020
Education		7,408,425	12,830,590	
Technology		40,482,619	86,919,239	
Revenues from customers	27,681,996	47,891,044	99,749,829	108,616,585
Education		-3,239,216	-5,618,785	
Technology		-35,774,127	-76,875,891	
COGS	-20,263,782	-39,013,343	-82,494,676	-87,621,459
<b>Gross Margin</b>	<b>7,418,214</b>	<b>8,877,701</b>	<b>17,255,153</b>	<b>20,995,126</b>
Other revenues	163,002	5,968,250	657,734	449,054
Selling expenses	-1,633,463	-2,485,635	-6,417,530	-7,966,024
G&A expenses	-3,604,948	-6,006,901	-11,658,788	-10,272,297
Investment gains (losses)	-	180,328	6,411	-405,313
Interest income	1,601	72,889	371,828	1,549,733
Financial expenses	-884,771	-1,317,020	-3,177,062	-4,019,590
<b>PBT</b>	<b>1,459,636</b>	<b>5,289,611</b>	<b>-2,962,255</b>	<b>330,688</b>
Income Tax	-254,026	-881,666	331,642	-278,108
Income Tax (%)	17.4%	16.7%	11.2%	84.1%
<b>Net profit, of which</b>	<b>1,205,609</b>	<b>4,407,945</b>	<b>-2,630,613</b>	<b>52,579</b>
Minority interests	-	36,743	122,885	131,335

Source: Company, IPOPEMA Research

**Figure 11. Historical balance sheets**

RON	2017	2018	2019	2020
Cash and equivalents	11,060,150	13,047,882	20,824,117	24,872,655
Other financial assets			-	1,459,700
Trade receivables	15,409,713	22,771,507	32,300,201	30,155,984
Inventory	395,856	618,060	1,997,289	465,766
<b>Current Assets</b>	<b>26,865,719</b>	<b>36,437,449</b>	<b>55,121,607</b>	<b>56,954,105</b>
Gross fixed assets	1,084,993	2,701,212	8,877,816	7,444,100
Depreciation	609,243	687,395	2,135,246	2,000,000
Tangible fixed assets	475,751	2,003,818	6,742,570	5,444,104
Goodwill	2,536,315	12,241,308	17,701,643	17,707,720
Other intangible assets	163,040	6,099,112	6,039,991	11,824,995
Investments	0	1,230,328	1,236,738	8,527,500
Other financial assets	768,821	1,056,588	1,056,588	7,483
Deferred tax	88,009	-	562,443	637,592
<b>Total Fixed Assets</b>	<b>4,031,936</b>	<b>22,631,154</b>	<b>33,339,973</b>	<b>44,149,394</b>
<b>Total assets</b>	<b>30,897,655</b>	<b>59,068,603</b>	<b>88,461,580</b>	<b>101,103,499</b>
Bank loans	6,000,000	8,017,675	3,560,417	7,583,930
Bonds	0	4,164,585	0	0
Leasing	0	78,555	1,325,649	1,401,465
Income Tax	320,568	570,928	226,880	124,311
Payables	9,444,817	12,569,875	34,130,835	27,310,938
<b>Current liabilities</b>	<b>15,765,385</b>	<b>25,401,618</b>	<b>39,243,781</b>	<b>36,420,644</b>
Bonds	8,472,807	18,380,363	28,195,592	28,357,324
Bank loans	0	1,164,199	4,807,687	4,570,517
Leasing	0	93,025	3,842,943	3,036,719
Payables	698,955	-	-	-
Deferred tax liabilities	0	28,852	0	151,320
<b>LT liabilities</b>	<b>9,171,762</b>	<b>19,666,439</b>	<b>36,846,222</b>	<b>36,115,880</b>
Equity				
Share capital	3,044,426	5,175,524	11,620,321	26,443,139
Premiums	680,248	2,594,889	-	25,409,965
Other equity items	471,070	1,038,755	1,118,923	-19,828,513
Reserves	164,559	266,124	352,151	482,673
Retained Earnings	394,597	352,234	-1,044,521	-4,196,863
Capital related to parent co	4,754,900	9,427,526	12,046,874	28,310,401
Non-controlling interests	-	201,818	324,703	256,573
Total shareholder equity	5,960,508	14,000,546	12,371,577	28,566,975
<b>Total equity and liabilities</b>	<b>30,897,655</b>	<b>59,068,603</b>	<b>88,461,580</b>	<b>101,103,499</b>

Source: Company, IPOPEMA Research

## Industry analysis

**Technology is considered a primary growth driver for Romania.**

Global software companies such as Oracle, Amazon, IBM and Deutsche Bank already leverage the development potential of Romanian software developers at a fraction of the cost compared to Western Europe, while maintaining their product quality. They have also contributed to the initial development of the tech start-up environment that is developing today. Today, Romania is one of the leading countries in the region for IT development.

**Human capital in Romania: a low number of ICT specialists (est. 170,000)**

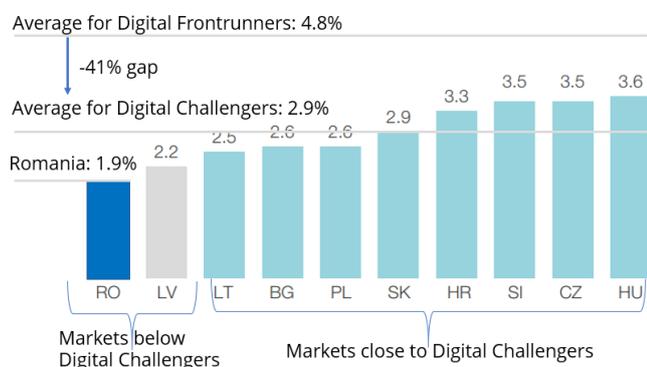
A country with a large pool of ICT specialists is advantageous as it enables the digitization of both private and public sectors. ICT specialists are the driving force behind the digitization and automation of back-end processes, developing next-generation customer experience solutions and building data-driven insights. Developers and engineers who are up-to-date with the latest technology trends also form the technological and creative backbone of start-ups.

According to data provided by the National Institute of Statistics, in 2020 Romania had approximately 19.4 m inhabitants of which the active civilian population amounted to 8.7 m persons. Of the active civilian population, a figure of 1.9% (as in the table below) represents approximately 170,000 ICT specialists.

**ICT specialists in high demand (est. +300,000)**

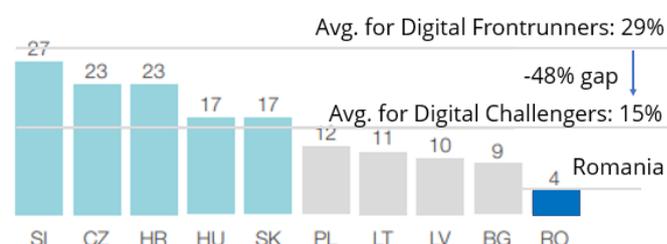
With a talent pool in the business service sector of over 64,000 university graduates and a long-term potential of over 300,000 IT-employees, Romania stands as one of the leading destinations in the CEE for Business process outsourcing (BPO), Information Technology Outsourcing (ITO), and Research and development (R&D).

**Figure 12. ICT specialists (%) of total working population in CEE**



Source: Eurostat; Digital Economy, IPOPEMA Research

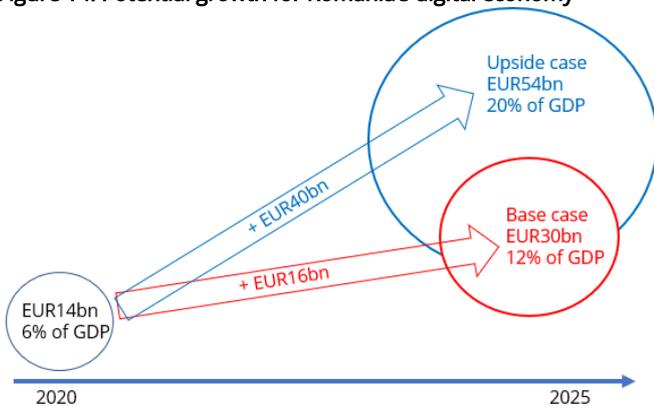
**Figure 13. % of firms providing training to develop employees' ICT skills**



### Romania's ICT sector may reach 12% to 20% of GDP by 2025

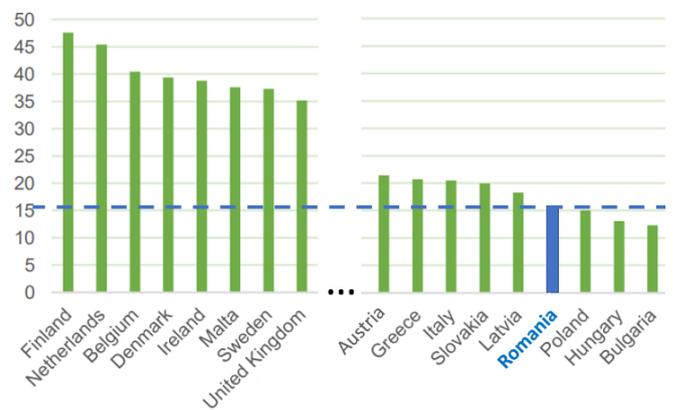
- McKinsey provides two scenarios for the trajectory of Digital Romania: A base case with growth of EUR 16bn by the year 2025 (representing a CAGR of 16.5%) and an upside case (or aspirational scenario) with growth of EUR 40bn by 2025 (or a CAGR of 31%).
- Representatives of the Romanian software industry association (ANIS) stated in December 2020 that the local IT industry's objectives for Digital Romania in 2025 are for the information and communications technology (ICT) sector to reach 10% of GDP, from approximately 6% currently.
- In its 2019 DESI report, the European Commission placed Romania among the lowest-ranked countries in terms of business digitization. This highlights the gap that Romania has to close with the more developed, and even emerging, but digitized markets.

Figure 14. Potential growth for Romania's digital economy



Source: ANIS, McKinsey, European Commission, IPOPEMA Research

Figure 15. Business digitalization across EU countries (DESI Index)



The association calls the authorities to further expand the fiscal facilities and open the public sector to digitalization and private projects by favouring interoperable (API first) and cloud-based public infrastructure. In exchange, ANIS plans to create the biggest information technology hub in Central and Eastern Europe by value.

At least 50 technology companies could list their shares on the Bucharest Stock Exchange (BVB) through local IPOs. At least five unicorns (i.e. companies with a fair value of at least USD 1.0 bn) are expected to emerge under ANIS' strategy.

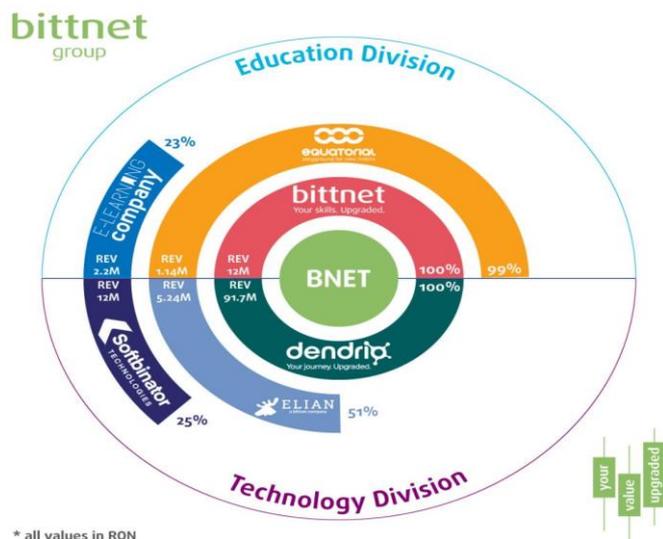
## Company description

The company was founded as an IT training provider in 2007 by brothers Mihai and Cristian Logofatu, who remain the largest shareholders, with a combined 25% stake. Since its beginnings, it has grown significantly, mainly through acquisitions. Its education division represented only 13% of sales in 2020, while the rest was represented by its IT integration business. The latter is the result of acquisitions, starting with GECAD Net in 2017, and Crescendo in 2018, a much larger business. Bittnet listed in 2015 on the AeRO, Bucharest Stock Exchange's alternative trading venue, was promoted to the main market in 2020, and made part of four different BET indices. To fuel its growth and acquisitions since its listing, it raised additional money in equity and debt in several issuances.

On March 22, Bittnet was included in the FTSE Global Micro Cap and FTSE Total-Cap which should result in increased exposure and potential demand for the company's shares.

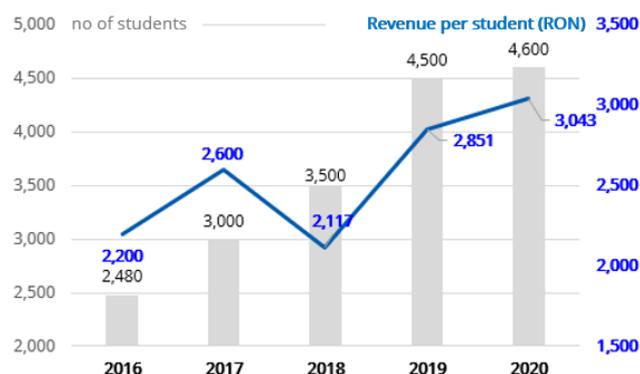
Bittnet splits its business into two divisions, education and technology. Education is where the company started, focused on IT training. Technology is an area that has become significantly more important in terms of sales, and a result of acquisitions, focused on IT integration, from the planning and assessment, to its implementation and maintenance. The current structure of the Group contains six companies with a potential addition of a seventh:

Figure 16. Bittnet group structure



Source: Company, IPOPEMA Research

Figure 17. Bittnet training: students and revenue per student



The education division is comprised of:

- **Bittnet Systems:** the parent company of the group, listed on the Bucharest Stock Exchange. It carries out the holding activity plus the IT Training activity, being the undisputed leader of this market in Romania. Revenues in 2020: RON 12m.
- **Equatorial Gaming:** currently owned 99% by Bittnet, it is a game-based learning company that offers software training for the IT industry, both in the classic and gamified form. Revenues in 2020 amounted to RON 1.14m, and are not included in the consolidation since during 2020; the package of shares in the company varied from 25% to 45% and up to 99%.
- **The eLearning Company:** owned 23% by Bittnet, is an entrepreneurial company that offers eLearning courses for companies. Founded in 2012, it registered in 2020 a doubling of revenues up to RON 2.2m. The results of The eLearning Company for 2020 were not included in the consolidation.

**The technology division is comprised of:**

- **Softbinator Technologies** owned 23% by Bittnet, is a product development company, specialized in the design, development and launch of software products mainly in the fields of Fintech, MedTech/HealthTech and EdTech, in which Bittnet became a shareholder in December 2020. Softbinator recorded in 2020 revenues of RON 12m an amount not included in the consolidation.
- **Elian Solutions** is a gold-certified partner by Microsoft for ERP solutions, a company founded in 2008 and 51% owned by Bittnet. Revenues in 2020: RON 5.2m.
- **Dendrio Solutions**, the only multi-cloud integrator in Romania, is a certified partner by Cisco, Microsoft, Google, Amazon Web Services, and also many other vendors, and is the company that brings together IT&C integration activities from Bittnet, Gecad Net and Crescendo. Revenues in 2020: RON 91.7m.
- **Servodata** – on March 2, 2021 [Bittnet said](#) it plans to acquire a 35% stake in this Czech IT company for an estimated EUR 1.4m. The transaction will be subject to approval at the general meeting of shareholders from both Bittnet and Servodata and is subject to the successful completion of the due diligence process. Bittnet's shareholder meeting is scheduled for April 27. Servodata offers customers solutions similar to those by Dendrio. The company specializes in the integration of technologies from international vendors such as Dell, HP, and Microsoft as well as in the design and implementation of technology infrastructure, in IT consulting and outsourcing.

**Dividend policy:** as the company relies for its growth on M&A, the dividend policy is of secondary importance. In 2020 a portion of the shareholders received one share for each 10 shares held; the remaining shareholders were remunerated with cash. Per company management, the policy for 2021 would be discussed during the Ordinary General Meeting of Shareholders in April 2021.

**SWOT analysis:**

- **Strengths:** the company's strength lies in its ability to expand through acquisitions. To finance such acquisitions, Bittnet has been an active issuer on the capital market.
- **Weaknesses:** Its average traded volumes over the past 12 months have been as low as EUR 31,000/day, which creates the risk of higher price fluctuations;
- **Opportunities:** Bittnet operates currently in a growing market;
- **Threats:** 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.

**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

- Mr. Mihai Logofatu, Chairman of the Board. Mr. Logofatu is one of the co-founders of the company, and is currently the CEO. 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.
- Mr. Cristian Logofatu, Member of the Board. Mr Logofatu co-founded the company in 2007. He previously served as acting CFO for the company.

The company also has an advisory committee formed of leading local entrepreneurs, such as Mr. Sergiu Negut (Co-founder of FintechOS), Mr. Andrei Pitis (Founder of Vector), Mr. Dan Stefan (Founder of Autonom Rent a Car), and Mr. Dan Berceanu (Founder of Equatorial – acquired by Bittnet).

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The definitions of terms used in the document include:

NII – Net interest income – interest income minus interest expense.

Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.

LLP – loan loss provisions – an expense set aside as an allowance for bad loans.

NPL – non-performing loan – loans that are in default or close to be in default.

Cost/Income – operating expenses divided by total banking revenue.

ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.

ROA – return on assets – net income (or adjusted net income) divided by the average assets.

EBIT – earnings before interests and tax.

EBITDA – earnings before interests, tax, depreciation and amortization.

EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding.

P/E – price to earnings ratio – price divided by earnings per share.

PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.

CAGR – compound annual growth rate.

BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.

P/BV – price to book value - price divided by the BVPS.

DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.

DY – dividend yield – dividend of a given year divided by the current price.

DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.

FV – Fair Value, calculated based on valuation methods outlined in the document.

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Buy	Above 10%
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Sell	Below -10%

### IPOPEMA Research - Distribution by rating category (October 1 – December 31, 2020)

	Number	%
Buy	17	53%
Hold	10	31%
Sell	5	16%
Total	32	100%

### Rating History – Bittnet Systems

Date	Recommendation	Fair Value	Price at recommendation	Author
03/24/2021	BUY	RON0.88	RON0.698	Florin-Adrian Ciocoi