TELELINK BUSINESS SERVICES GROUP (TBS BU)
INFORMATION TECHNOLOGIES/SYSTEM INTEGRATION

STRONG PLAYER IN TOUGH TIMES

NOT RATED
INTRINSIC VALUE: BGN 10.25

WITH AN OUTSTANDING 1Q'20 PERFORMANCE AND STRONG FUNDAMENTALS FOR 2016-2019 ON 4% REVENUE AND 16% NET PROFIT CAGR, BULGARIA'S LEADING SYSTEM INTEGRATOR, NETWORKING AND PRODUCTIVITY SOLUTIONS PROVIDER TELELINK BUSINESS SERVICES GROUP TO REAP FRUITS FROM ACCELERATED DIGITALIZATION IN POST COVID-19 REALITY. SOLID CLIENT AND PARTNER BASE TO ENHANCE FUNDAMENTALS EXPANSION.

LEADING BULGARIAN SYSTEM INTEGRATOR
Telelink Business Services Group (TBS Group, the Group) is a leading broad scope system integrator in Bulgaria, evolved from experienced local TELELINK group. It specializes in 4 main segments – networking (70% of sales on average), data centers (18% of sales), productivity (9% of sales) and information security (3% of sales).

STRONG REVENUE GENERATING POWER ON SOLID CLIENT BASE ACROSS LOCATIONS
For 2016-2019, revenues marked a 4% CAGR across various locations on the Balkans with sales in Bulgaria contributing 45% on average to the top line, Midwest Balkan region (Serbia, Slovenia, Bosnia, Montenegro) - 53%. Adding international clients since 2016 by servicing their global locations boosted the Group's presence to 30+ countries on solid 200+ clients in telecom, finance, utilities, logistics and pharma industries and the public sector.

SPECIALIZED IN FAST-GROWING SOLUTIONS NEEDED IN POST COVID-19 ECONOMY
The Group's position of a digital services provider makes it resilient to latest COVID shock. Growth in demand for efficient and safe remote working to further boost top and bottom line. Key telecom clients continue their 5G driven CAPEX which would translate into stable revenue streams for Telelink.

INTERIM 1Q'20 RESULTS FORTIFY FUNDAMENTALS AND LONG TERM POTENTIAL
The Company delivered outstanding 1Q'20 performance with revenues surging 2x y/y, and net profit up 10x+ y/y. Growth came from all locations and all technological sectors despite the outbreak of the COVID 19 pandemic.

PRODUCT AND GEOGRAPHIC EXPANSION FOCUSED ON PROFITABILITY
Planned expansion across multiple markets combined with targeting the growing demand for modern workplace and security solutions as well as enterprise connectivity for home offices. The latter, in combination with telecom solutions are to deliver considerable top and bottom line growth. Further boost in margin expansion to be aided by cloud-based managed services by 2024.

TO LIST WITH ATTRACTIVE PROFIT SHARING PROPOSITION OF 4.2% DY IN 2020
The Group is to start trading in Sofia in mid-June 2020 with shareholders to build up to 30% free float at min. BGN 7.60 per share. The latter yields lucrative relative valuation of 8.3x P/E ttm together with an attractive profit sharing proposition. The Company is to distribute min. 50% of profits with 2020 dividend expected at BGN 0.32 per share or 4.2% DY. Additional market support to come from a share buy-back to be voted at an upcoming GSM aiming to provide for a future ESOP.

FOUNDED BY SEASONED INVESTORS AND MANAGED BY INTERNALLY GROWN TALENT
Founded and owned by seasoned Bulgarian investors and entrepreneurs Lyubomir Minchev (majority stake), Ivo Evgeniev and Spas Shopov (minority shareholders). Senior managers grown internally, incl. CEO Ivan Zhitiyanov, hold minority stakes.

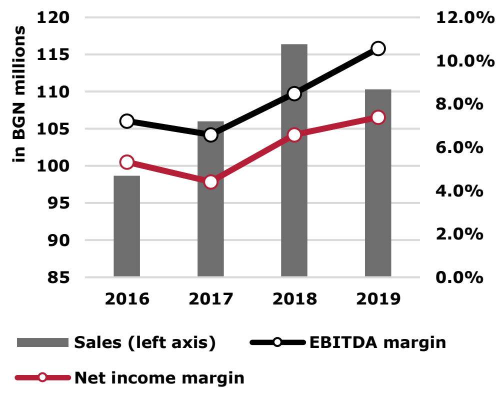
VALUATION/RISKS
VALUATION: To value the Company we take into account management guidance, but base our valuation on our more conservative view. Accordingly, we arrive at a BGN 10.25 intrinsic value per share via combined DCF and peer valuation and applying a minority shareholders' discount. This offers 35% upside potential from the minimum price at which the stock will start trading in June, excluding expected current income from dividends.
RISKS: Fierce business and engineering talent competition in the ICT sector;

EXCHANGE RATES
EUR/BGN(FIXED): 1.95583
USD/BGN: 1.77948

MARKET DATA

Shares Outstanding:	**12.5 million shares**
Share Capital:	**BGN 12.5m**
Securities offered	**up to 30% of existing shares**
Offering schedule	**In two tranches**
1st Tranche	**June 8th-19th 2020**
Offer price (1st Tranche)	**BGN 7.60**
2nd Tranche	**Exp. Sept. 2020**
Offer price 2nd Tranche	**Min. 8.5 EV/EBITDA TTM as of 1H 2020**
Start of trading	**June 8th 2020**
Market	**Bulgarian Stock Exchange**
Ticker	**TBS BU**
Listing manager	**Elana Trading**
Market maker (expected)	**Elana Trading**

STRONG RESULTS AND INCREASING MARGINS

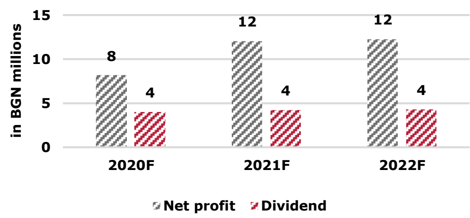


Source: Company data

KEY FINANCIALS

BGN '000, excl. ratios	2016A	2017A	2018A	2019A	2020F
Revenues	98 663	105 987	116 367	110 328	135 703
EBITDA	7 117	6 978	9 868	11 655	16 020
Net profit	5 247	4 676	7 664	8 152	12 041
EBITDA margin	7.21%	6.58%	8.48%	10.56%	11.80%
Net profit Margin	5.32%	4.41%	6.59%	7.39%	8.87%
ROA	13%	10%	14%	15%	16%
Total assets	39 002	48 491	55 458	54 115	74 533
Interest-bearing debt, incl. IFRS 16	4 084	2 888	6 740	10 338	12 997
Debt-to-assets	10.47%	5.96%	12.15%	19.10%	17.44%
EPS (BGN)	0.42	0.37	0.61	0.65	0.96

REGULAR DIVIDEND DISTRIBUTION EXPECTED



Source: Elana Trading estimates
(net profit is on consolidated-basis, dividend at standalone basis). 2020 dividend based on management guidance

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RESEARCH TEAM RESEARCH@ELANA.NET

THE COMPANY

Telelink Business Services Group (TBS Group, the Company, the Group) is a leading Bulgarian IT powerhouse which spun off from local TELELINK Group in July 2019. The latter was founded in 2001 by seasoned investor and entrepreneur Lyubomir Minchev. TELELINK Group gradually emerged as a key local and regional player offering a full scope of ICT, infrastructure and automation solutions serving a wide range of industries. Following the spin-off, TBS Group united all TELELINK Group's subsidiaries operating the ICT-focused business services, while the latter kept all products and services related to physical network infrastructure.

Currently, TBS Group has operations in seven European countries servicing clients in 30+ countries on four continents. It employs 200+ employees, 80%+ of which are in Bulgaria.

TBS Group's business model stems on high-volume full-fledged system integration (design, configuration, installation and commissioning) and delivery and support of software and hardware equipment produced by third party vendors, and builds on low-volume, high-margin data center, productivity and information security solutions.

The Group partners with 50+ international vendors, world leaders in the software and hardware industries, including Cisco, Microsoft, VMware. TBS Group is the biggest partner of Microsoft, VMware and Dell for Bulgaria and in top 5 for the other vendors in the country.

Its customer base has been continuously diversified and currently consists of 200+ clients, incl. telecoms, utilities, finance, logistics and healthcare companies operating both locally and internationally, as well as public sector accounts. Key clients are leading telecom and media provider in South East Europe - United Group, Bulgaria's biggest telecom Vivacom (acquired by United Group), the three electricity distribution companies in Bulgaria: CEZ, EVN and Energo Pro, First Investment Bank (5F4 BU), Raiffeisenbank and Citibank in Bulgaria along with local pharma and healthcare providers Sopharma (3JR BU) and Acibadem. Key multinational clients include Lufthansa and Contour Global.

Key revenue drivers: For the 2016-2019 period it achieved a 4% CAGR of sales, the total revenue reaching BGN 110.3m for FY2019. The majority of sales are generated by the networks segment (60% on average for the period 2016-2019), followed by data center solutions and services (18%), modern workplace solutions (9%) and information security (3%). Medium- to long-term strategy is focused on growth in service providers' solutions (telecoms), enterprise connectivity, remote work solutions and information security.

Recent COVID-19 pandemic has had a two-fold effect: on the one hand, it has opened an opportunity for Telelink to further expand its revenues from modern workplace and accelerate its information security solutions as the need for efficient and secure remote operations has surged in both public and private institutions. The need for telecoms' networking solutions, provided by the Group, remains stable as conversion to 5G is hardly susceptible to the negative impact of the corona crisis. On the other hand, some postponement of new projects in the data center solutions could be expected in the next couple of years as some firms are delaying investments in the field due to COVID-19. Accordingly, the Group expects strong growth in its productivity, security and telecom-specific networking segments and stable revenue streams from data center segment in the next few years. Recently won tender offers for projects in the public sector (e.g. e-government hub and education) will contribute to the stability of top line as most of these will be recurring in the next couple of years. Q1'20 results already show an outstanding performance with revenues surging 84% y/y as all three operating sectors were outperforming: telecom clients (+57% y/y), public clients (+156% y/y) and enterprise clients (+69% y/y).

Client wise, telecoms dominated the top line followed by public sector and enterprises. For the next couple of years management expects a balanced client mix. In terms of geography, Bulgaria and Serbia are the two biggest contributors to the top line, yet other Balkan countries and international clients are quickly stepping up.

Product and market strategy: In the short run, fastest growth is expected from sales in information security and business productivity segments, driven by COVID-19 pandemic, followed by networking solutions for telecoms and enterprises related to 5G technologies and public cloud services. As firms are postponing investments in lean infrastructure and applications, growth in the data center segment could be expected post-2022. In the mid to long term, internet-of-things (IoT), artificial intelligence (AI) and machine learning (ML) combined with expansion of virtual reality and blockchain infrastructure will add to growth as companies will need to keep up with new technologies. The Group will continue its traditional expansion in Bulgaria with strong focus on high margin Western European, global markets plus the underdeveloped tech markets on the Balkans. Profitability to increase on economies of scale and rise in higher margin international sales.

Listing and Lock up: The Company to list on the BSE on June 8th 2020 with certain shareholders allowed to sell up to 30% of the share capital, as per approved Prospectus and signed Lock up agreement. They are to tap the market in two tranches – in June and September 2020, by offering 7% + an additional stake in case of huge investor demand at BGN 7.6 per share in June and the rest up to 30% in Sep'20 at a minimum price based on 1H2020 financial results (min. 8.5 EV/EBITDA ttm), according to the announced selling procedure. Selling shareholders have committed not to sell any shares below BGN 7.60 per share by end-2020, with majority owner by end of 2021.

SHAREHOLDERS' STRUCTURE

TBS Group's registered share capital is BGN 12.5m distributed among 12 500 000 outstanding ordinary shares with a nominal value of BGN 1 per share.

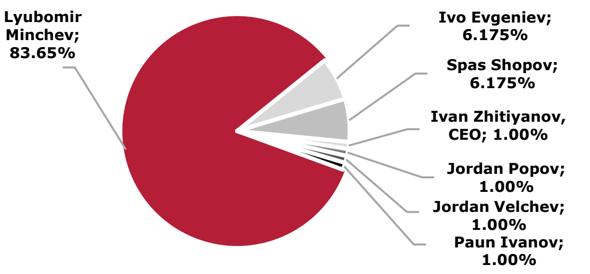
The Company's majority shareholder is its founder Lyubomir Minchev, who holds 83.65%. Seasoned investors Ivo Evgeniev and Spas Shopov each hold 6.175%, while the remainder is equally distributed among senior managers, including CEO Ivan Zhitiyanov.

In the upcoming listing, only Minchev, Evgeniev and Shopov will be selling shares, up to 30% on a cumulative base, according to signed Lockup agreement. By the end of 2020, Minchev can sell up to between 23.825% and 30%, while Evgeniev and Shopov – up to 3.0875% each.

Managers are locked and cannot sell shares by end of 2020.

Additionally, Minchev must maintain a controlling stake by end of 2021.

Number of shares outstanding: 12 500 000



Source: Company data

THE COUNTRY AND THE MARKET

Bulgaria is under a currency board, the Bulgarian Lev pegged to the Euro at fixed rate 1.95583. Joining the Eurozone is a midterm strategic goal. The current political situation is stable. The economy booked 3.4% y/y real GDP growth in 2019, yet COVID-19 is expected to impact negatively the overall economy, consensus estimates pointing to 5.5% drop in 2020 and a rebound of 5.4% in 2021. Prior to COVID-19 unemployment was at its lowest level in 11 years, yet consensus estimates signaling an increase to 8% by end of 2020.

The local ICT and telecom market grew by 25% y/y to BGN 5.5bn in 2018, with IT services, incl. IT outsourcing, adding 45% y/y to BGN 3bn during the year. Sales generated from system integration in Bulgaria surged 30.7% y/y to over BGN 200m in 2018, with top 10 companies generating over 75% of the revenues. Expectations are that the sector will keep its rapid expansion as companies from more economic sectors, incl. manufacturing and public administration, seek higher digitalization.

BUSINESS OVERVIEW

A well-diversified system integration leader in Bulgaria

TBS Group is a well-diversified, broad scope system integrator set to meet the ever-increasing needs of businesses focusing on simplification of highly complex systems and applications, rendering higher efficiency.

The Group offers a full range of ICT services, including delivery and support of equipment and software produced by third parties, system integration (design, configuration and installation of software and hardware), along with consulting services. It provides its services both on premises and "in the cloud", the latter featuring Software-as-a-service (SaaS), Infrastructure-as-a-service (IaaS) and as of 2019 – Platform-as-a-service (PaaS) solutions.

Along with the technical, cloud and consulting services, the Group is also specialized in the provision of high-margin managed services. The latter is a full-featured pro-active service management of IT operations for companies from various sectors and sizes facing challenges with keeping up with the fast evolvement of technologies and the need for IT personnel.

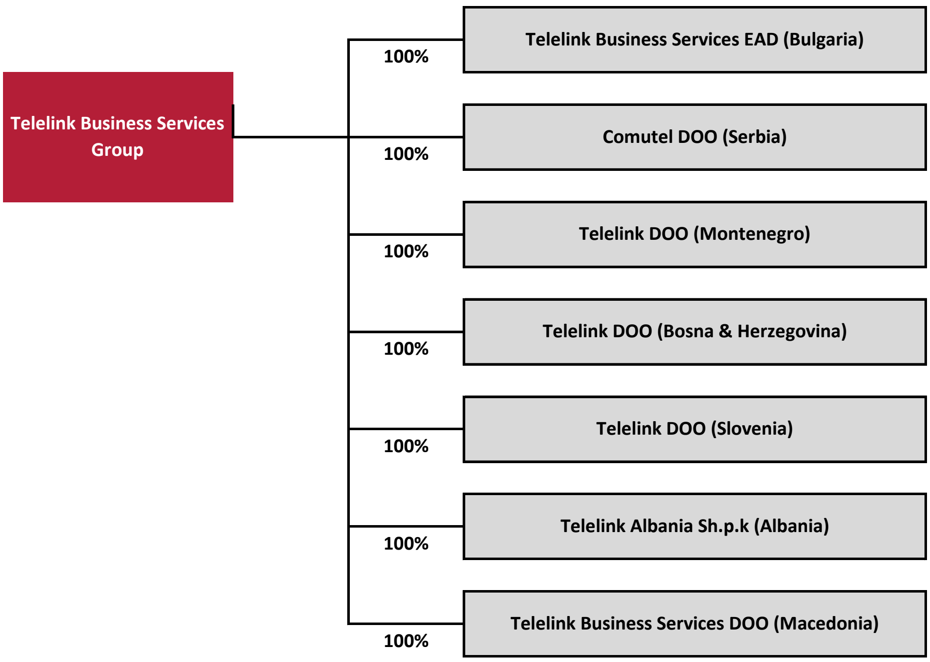
All operations can be united in four segments featuring seven technological groups of products and services. The former are:

- **Networking** - encompasses *technological solutions for telecoms* and *enterprise-related networks*. The telecom branch provides core and access networks, as well as optical, cable networks and network function virtualization (NFV), premise equipment, software defined networking (SDN), etc. The enterprise networks branch is responsible for the set-up of corporate networks, firewalls, data center networking and virtualization, among others;
- **Data centers** - the segment's solutions offer clients *platform-based (lean) infrastructure*, *hybrid cloud* and *applications services* (software development), bringing higher efficiency and flexibility in a cost-effective way;
- **Productivity** - these include modern workplace technological solutions featuring software services bringing more flexibility and efficiency at the workplace;
- **Security** – the segment features a wide range of products and services for prevention of data leakages and risk analysis;

The managed services business is characterized with mid-to-long-term contractual arrangement with most contracts being signed for a five- to seven-year term. Very often, once a client signs with TBS Group for a given service, it later expands the service mix buying/subscribing for additional services and solutions, as a result of which a growing part of the Company's revenues are recurring.

The Group is among the leaders in the system integration in Bulgaria and prior to the spin-off from TELELINK Group held the first place (2017 and 2018) in terms of sales generated from system integration among all Bulgarian players. In addition, thanks to its well-developed subsidiary network, the Company evolved as a key player in the Balkan region. Apart from its Bulgarian headquarters, the holding company has seven subsidiaries in Serbia, Montenegro, Slovenia, Bosnia, Albania and Macedonia, the latter two established in 2019.

Appendix 1: The Group's corporate structure and subsidiaries



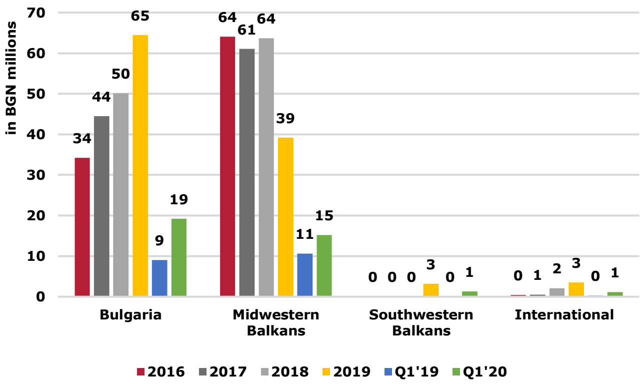
Source: Company data

In terms of geographic outreach, TBS Group is active in markets with low technological maturity (Albania, Macedonia), semi-mature markets with high level of competition (Bulgaria, Serbia, Bosnia, Slovenia and Montenegro) and international technologically mature markets. The majority of the Group's revenues are generated in Bulgaria (45% on average for 2016-2019) and countries from the Midwestern Balkan region (Serbia, Montenegro, Bosnia and Slovenia, with an average contribution to sales of 53%) and multinational clients (with 3% on average). Since Q4'19, the Group is active in Southwestern Balkans (Macedonia and Albania), where it generated 3% of its FY2019 sales.

In terms of service mix, the Bulgarian subsidiary, which is also the biggest in number of employees, offers the whole palette of technological solutions, while the Serbian, Slovenian and Bosnian subsidiaries are almost entirely focused on services within the segments of networking and data centers. The Macedonian and Albanian subsidiaries were established in 2019 and are yet to be developed, with special focus set on the networking and data center segments as the Group is targeting the telecom and public sectors in these two markets.

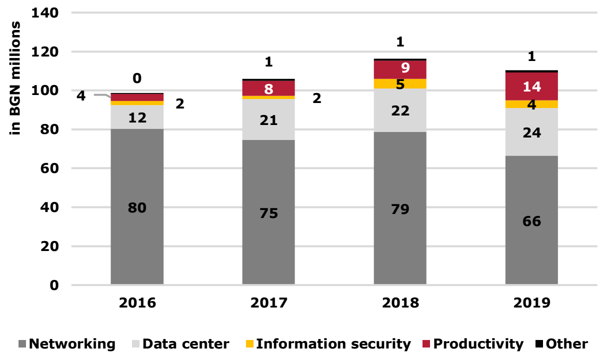
The Group employs 200+ people (as at the beginning of 2020), ca. 70% of whom are working in operations (pre-sales and field engineers, developers, consultants) while marketing and administrative staff make up 14% and 16%, respectively. Despite fierce IT talent competition on the market, employee turnover for the Group averages 7%, according to management estimates.

Exhibit 1: The home market in Bulgaria emerged as top contributor to the top line



Source: The Company

Exhibit 2: The Group has been gradually diversifying the mix of services, boosting fast high-margin segments



Source: The Company

STRATEGY

Product development

Expanding on the Balkans and Western Europe

After having developed a strong position in Bulgaria and Serbia, the Group is targeting expansion in the remaining Western Balkan countries as well as Western Europe. Product-wise, it has already taken steps in this direction as it introduced several strategic new solutions and services in the period 2016-2019. These include SaaS productivity solutions for modern workplace (offered since 2015), managed services focused on cost savings and higher efficiency in the segments of information security and enterprise-related networking (offered since 2016) as well as Advanced Security Operations Center service (offered since 2017) giving clients more flexible and cost-efficient information security service. The latter two will play a crucial role in revenue and profit generation in the short-term as COVID-19 has already underlined the importance of flexibility in terms of remote work in enterprises and public administration.

During the 2016-2019 period, the Group developed its managed services expertise along with Equipment-as-a-Service (EaaS), IaaS, PaaS and IoT solutions which are expected to grow in popularity with the expansion of cloud-based infrastructure. COVID-19 has put on hold some companies' plans in this area, yet rebound could be expected in the midterm as re-start in investment plans in the field takes place and companies will need to keep up with technology advancements.

Thanks to its client and product diversification, the Group is well-equipped to navigate the critical post-COVID-19 situation. It has set up a well-defined strategy that incorporates a mix of both its well-established products and the above-outlined recently adopted technological solutions to address and profit from increasing corporate needs in view of the new post COVID-19 economic reality.

Chop off significant chunk of the investments from telecom consolidation and 5G needs

For the ***networking segment***, TBS Group envisions a further expansion of managed services with growing importance of NFV and SDN solutions driven by the increasing penetration of cloud solutions, the continuing consolidation of telecom business in the Balkan region and the upcoming 5G technological era.

The ***data center segment*** is expected to witness a strong growth, albeit delayed in the short-run with COVID-19 in view, defined by the transition from traditional in-house infrastructure to a hybrid or an entirely cloud-based one. In order to take advantage of this switch, TBS Group will focus on the provision of high margin hybrid cloud and PaaS services coupled with client-tailored application services. The increasing flexibility and efficiency sought by enterprises in terms of office environment will be addressed via a focus on the ***productivity segment***'s solutions, while the ***information security segment*** will become a focal point in view of the increasing cyber threats turning into a major concern for companies. Furthermore, as efficient office solutions and high-quality information security are usually an upfront and clear need in most companies, these two segments will serve as TBS Group's penetration channels in new markets and clients.

Market development

In terms of geographic expansion strategy, the Group has set up a differentiable midterm approach based on the level of market's digital maturity and the future up-sell potential. For the Bulgarian market, which could be characterized as semi-developed, TBS Group plans expansion in existing clients via modernization of their infrastructure based on hybrid cloud solutions, application services and information security products. For the remainder of semi-developed digital markets, including Serbia, Montenegro, Bosnia, Slovenia, Croatia and Romania, the group has developed a multi-layer plan.

Up-selling multinational clients

On the one hand, it will use Productivity-based modern workplace solutions for digitally immature clients coupled with information security for the more digitally mature clients, the ultimate goal being to subsequently up-sell them its advanced solutions (e.g. data centers, managed services, etc.). COVID-19 will bring more clients looking for modern workplace and information security solutions, which could be later converted to clients of data center and managed services solutions. On the other hand, it will target telecom expansion, based on sector consolidation-related projects, 5G and channeled services, coupled with improving quality of revenues from existing clients.

Underdeveloped markets, featuring recently entered Macedonia, Albania and Kosovo, have been identified as good opportunity for the Group to penetrate both digitally immature and mature clients. On these markets, it will offer security solutions which have been previously unavailable there, including networking and data center solutions in the sales mix.

Expansion into digitally-developed markets, including Western Europe and the US, will feature boosting the number of services that TBS Group is offering to its existing clients from those markets, with emphasis on managed services, including EaaS, as well as PaaS, application services and information security solutions. A key step in the expansion will be targeting multinational companies with operations in Bulgaria as the Group could more easily target these companies' worldwide offices once a local relation has been established.

In order to see its strategy through, the Group has outlined several steps, including:

- expansion of existing and establishment of new tech hubs in the Balkans;
- growth in the number of employees on all levels, i.e. operations (technical and project management), marketing and administrative services;
- steady growth in CAPEX as a result of increase in the EaaS line of business post-2022;

The Group does not foresee any investments in standalone sales offices abroad, aiming to keep marketing costs low and efficiency high.

POTENTIAL CATALYSTS

Fast digitalization post-COVID 19: COVID 19 has changed dramatically the way both public and private enterprises work, opening a growth opportunity for modern (remote) workplace solutions providers like TBS Group. This high-margin niche will further expand its bottom line in the next couple of years. Moreover, the Group is in a unique position being among the market leaders in the Southeastern region where most enterprises and public administrations are heavily underdeveloped in terms of digitization.

Upcoming introduction of 5G: The increasing volume of data could no longer be transferred that easily via current 3G and 4G technologies and countries worldwide are preparing to introduce the next level 5G network. Although its adoption could take several years, telecoms are already preparing for the switch seeking to upgrade their hardware and software systems putting TBS Group in good position to penetrate a profitable market niche. So far, COVID-19 has not affected dramatically telecom's investment plans in the field.

Increase in the importance of information security: Although information security is not directly related to the return on investment for most enterprises, the threat of information leakage in an era driven by data, is already pushing more and more of them to strengthen their systems and allocate more resources in this direction. The rising global need for secure remote connections triggered by COVID-19 offers excellent opportunity of this segment's growth in the short to mid-term.

Regional telecom consolidation: The telecom consolidation that has been going on in the Balkan region is expected to continue in the next few years with among the rumored targets being Romanian Romtelecom. Furthermore, with the closing of the acquisition of local Vivacom by United Group, the former is expected to boost investments in infrastructure as those have been postponed up until its acquisition, announced in late 2019. Despite COVID-19, the telecom sector is continuing its investment programs as planned.

Growth in cloud-based infrastructure: The Cloud computing is being boosted by data surge and the digitization of companies' operations, as well as by IoT, APIs, artificial intelligence (AI) and machine learning (ML) technologies have been growing in spikes. Although the COVID-19 outbreak could lead to some companies putting on-hold new projects, expectations are for a rebound as early as 2022. As a result, TBS Group will be able to reap profits from the ever pressing need for simplification of complex structures and processes on all companies' levels, coupled with stronger information security.

SECTOR OVERVIEW

GLOBAL ICT MARKET AND KEY TRENDS OVERVIEW

Gartner predicts 8% y/y global drop in 2020 IT spending due to COVID-19

Prior to COVID-19, the system integration market was projected to witness fast growth driven by the rise of cloud computing, increase in business processes automation and demand for virtualization. The growth on global level was forecasted to reach 11.7% CAGR over the period 2019-2025 according to research agency GrandView, with system integration market size to reach ca. USD 600bn by the end of the period. COVID-19, however, has brought new perspectives on the IT sector, with Gartner expecting a drop of 8% in overall IT spending by companies on a global level in 2020. Although few projections are available, dominating opinions are that some new projects and services related to IT are about to be postponed in the short-term. However, not everything within the IT field is forecast to underperform. The increasing need for remote working will spur a strong growth in remote workplace solutions, with Gartner predicting 30% increase rise in demand for remote work by 2030. The latter will push up the demand for work-from-home and virtualization infrastructure, VPN networking, security solutions and desktop support, among others. According to Gartner, in 2020, some longer-term cloud-based transformational projects may be put on hiatus, but the overall cloud spending levels Gartner was projecting for 2023 and 2024 will now be showing up as early as 2022.

New projects related with IoT and AI could be postponed because of COVID-19, yet governments and enterprises will not be able to postpone too long to make investments in their networks if they want to be up-to-date with newest technologies such as IoT and AI as well as the ever increasing complexity of processes in a highly digitized environments. Healthcare, public sector, and education sectors are adopting digitalization at an unprecedented rate and digital infrastructure is already being termed as an essential infrastructure. Prior to COVID-19, the global IoT market alone was projected to expand from USD 212bn as at the end of 2019 to USD 1.6tn by 2025, while the global AI market is to reach USD 191bn (growing tat 36.6% CAGR) by 2025 according to Statista. Factoring in the COVID-19, Statista has conducted a study among 631 respondents from major IT-focused enterprises in Apr'20. According to the results from it, worldwide most IT vendors expect their clients' spending in 2020 on cybersecurity, AI, smart analytics and hybrid cloud are said to remain strong, with few of the respondents expecting decrease in their clients' spending due to COVID-19. Some drops could be expected in projects from the IoT field.

5G, cybersecurity, remote working-related technologies and public cloud services to remain strong despite the pandemic

Prior to the corona crisis, network virtualization was said to be growing in importance, boosting the need for new technologies like SDN and NFV, the former expected to grow at CAGR of 26.8% by 2023 and the latter – at CAGR of 42% to USD 70bn by 2024, according to Gartner. To big extent that was expected to be driven by upcoming 5G adoption. According to market researcher Technavio, the 5G equipment market remains strong, posed to grow by USD 11.8bn during 2020-2024, with COVID-19's impact to be significant in the first quarter but gradually lessen in subsequent quarters – with a limited impact on the 2020 full-year economic growth.

The trend towards achieving stable and secure networks, coupled with the adoption of bring-your-own-device targeting to make the workforce more mobile was existent prior to COVID-19 and could be easily further strengthened by it. Before the pandemic, forecasts were for enterprise network equipment market to almost double by 2025, reaching USD 15.5bn (CAGR of 7.9%), according to Mordor Intelligence. The latter could further increase in view of COVID-19. Another pocket of growth aided by the pandemic will be the enterprise network equipment market, as the business is expected to continuously invest in its productivity propelled by the need to easily connect data and coordinate processes from any location. Prior to COVID-19, the business development software market was forecast to witness 12.6% CAGR in the 2020-2025 period (Mordor Intelligence) as companies have been seeking tech solutions targeting better content management, virtualization, predictive analytics, connectivity and coordination solutions. With COVID-19 already present, this number could easily rise as workforce mobility has surged.

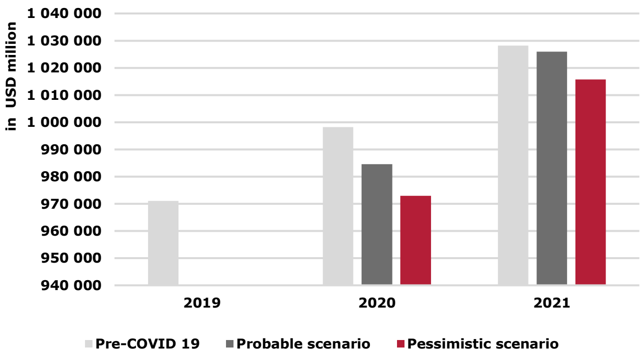
Undisputedly, the major game changer in the ICT sector has been the rapidly developing public cloud services. Prior to COVID-19, Gartner projected that the latter will grow at 16.1% CAGR by 2022, ultimately reaching USD 331.4bn at the end of the period, with all cloud-based services, including IaaS, SaaS, PaaS, Cloud Business Process Services and Cloud Management and Security Services marking significant growth. Due to the need for remote working environment at a global scale, public cloud services are among the strong spots in Gartner's post-COVID-19 forecasts, expectations being for a 19% y/y increase in this segment for 2020.

Information security is another key factor in the ICT market development as data and systems have become increasingly susceptible to hacker attacks and information leakages, especially in the time when people are operating from their homes and other environments distant from their offices. Pre-COVID-19 projections were pointing to a CAGR growth of 10.6% until 2026 to ca. USD 300bn market size, yet this number could surge under the new way of work operations.

The increased complexity of networks, security and business processes coupled with increased dependence of organizations on IT assets, has led to the emergence of managed services. Prior to the pandemic, the latter were projected to grow at CAGR of 9.3% to USD 282bn by 2023 according to Markets and Markets. However, post COVID-19 outlook for the segment is more on the negative side, with expectations tilted towards a 7% y/y drop in the market for managed services according to global technology research Information Services Group.

Among the major global system integrators are Accenture, IBM, HCL, CSC, Wipro and Atos.

Exhibit 3: European ICT Spending Outlook post-COVID 19



Source: IDC, scenarios estimates dating from Mar'20

Exhibit 4: IT spending to slow down in 2020 due to COVID-19

	2018 Value	2018 y/y (%)	2019 Value	2019 y/y (%)	2020 Value	2020 y/y (%)
Data Center Systems	210	15.5	212	0.7	191	-9.7
Enterprise Software	399	9.3	458	8.8	426	-6.9
Devices	667	0.3	698	-2.2	590	-15.5
IT Services	982	5.5	1,032	3.8	952	-7.7
Communication Services	1,489	2.1	1,357	-1.6	1,297	-4.5
Overall IT	**3,747**	**4**	**3,756**	**1.0**	**3,456**	**-8.0**

Source: Gartner, in USD bn

LOCAL AND REGIONAL ICT MARKETS AND COMPETITIVE POSITON OF THE GROUP

Regional system integration market has been growing at 7-9% CAGR

Local and regional system integration markets have been growing at 7-9% CAGR for the past few years, according to data from market players. The local system integration market is estimated at EUR 100m-125m with TBS Group holding a 25% of it. Serbian ICT market, which is the second largest for the Group, is estimated at EUR 150m (as at 2017 according to Vojvodina IT cluster).

Overall, the markets where TBS Group is either active or preparing to enter, can be divided into underdeveloped, semi-developed and developed markets.

Underdeveloped markets include Macedonia, Albania (entered in 2019) and Kosovo. They can be characterized as easily accessible for new system integration companies in all segments and industries as competition is not that saturated. Information security and networking segments pose good opportunities for development, but high tech data products and services will take time to become mass adopted. Among the main players are regional well-diversified in terms of services and products providers Saga and Comtrade, along with international system integrators active in CEE region, including S&T and Asseco, and smaller players like Infosoft and Kernel.

The semi-developed markets are characterized by high level of competition among both regional and international system integrators and high potential for entering into underdeveloped industries such as manufacturing and agriculture. Markets belonging to this category include Bulgaria, Serbia, Croatia, Slovenia, Romania, Montenegro and Bosnia and Herzegovina. Information security coupled with newest technologies featuring PaaS and hybrid cloud as well as managed services pose good opportunities for expansion of current and new players operating in the market.

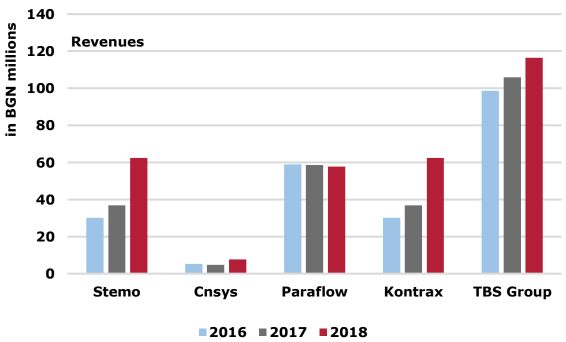
Strong local and regional player, with a competitive edge to tap Western European and US markets

In Bulgaria alone, TBS Group competes with both local and international players. The closest competitor is CNsys which offer a broad scope of system integration services and products. Other competitors include Stemo, Kontrax, Paraflow and Index Bulgaria. Most of them, however, are focused mostly on the local market. Among international competitors operating in Bulgaria, are S&T Bulgaria, IBM Bulgaria and Atos Bulgaria.

Developed markets include Western Europe and the US, and can be characterized as highly competitive with great number of digitally mature companies across a variety of sectors. New technologies adoption levels are high there.

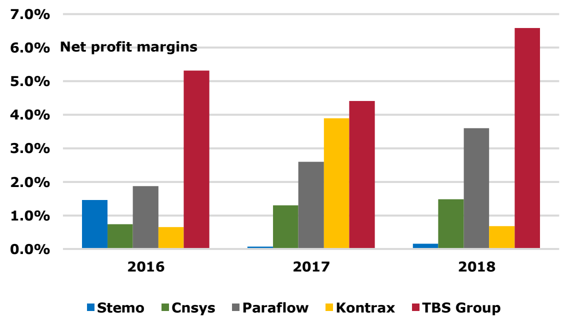
Thanks to its broad portfolio of products and services along with its exposure to both local and foreign players, TBS Group is well positioned in the respective markets. Furthermore, the Group serves companies from a variety of sectors, including telecoms, public, financial, utility and healthcare, giving it a competitive edge in targeting clients in existing and new markets. Good product differentiation, high level of flexibility compared to bigger peers and simplicity in delivering complex solutions further adds to its competitive advantages, not only on the local, but also foreign markets. It is the product and clients' diversification, coupled with the varying length of its contracts (both short and midterm), which will enable Telelink to cope easier with the expected COVID-19 negative effect that is projected to be in place for the next couple of years, before the ICT sector completely rebounds back to its strong growth trajectory.

Exhibit 3: TBS Group excels Bulgarian peers both in terms of sales ….



Source: Company data, Commercial register

Exhibit 4: ….. and profitability



Source: Company data, Commercial register

FINANCIAL PERFORMANCE ANALYSIS AND FORECAST

Steady 4% sales CAGR accompanied by steep 16% net income CAGR over the 2016-2019 period

During the 2016-2019 period, TBS Group delivered steady annual top line growth of 4% on average mainly driven by local sales with revenues in FY2019 arriving to BGN 110.3m. The major top line contributor has been the networking segment (an average of 70% share), followed by data center segment (18%). Productivity and Information security segments, which have been developed in the 2015-2016 period made up on average 9% and 3%, respectively. The trend, however, is towards a more balanced mix and accelerated diversification, as the share of the networking segment is to gradually decrease, productivity and information security segments to grow strong in the short-run due to COVID-19 and data center segment to accelerate post-2022.

Profitability has been growing fast, with net profit surging 16% on average on annual basis for the 2016-2019 period. The strong performance has been a result of the Group's focus on high margin services in the data center (hybrid cloud), productivity and security solutions, coupled with the introduction of high-end application and managed services. As a result of business expansion, the Group has been accounting for higher depreciation and amortization (D&A) costs, which have led to EBITDA also rising during the period. Accordingly, margins expanded with EBITDA and net margin during the period averaging 8.2% and 5.9%, respectively.

In terms of geographic sales distribution, Bulgaria has been holding the first place with average share of 45% in the 2016-2019 period. Midwest Balkans region including Serbia, Slovenia and Bosnia and Montenegro, delivered 53% on average to the top line for the same period. Multinational clients added 2% with their share to increase in the midterm.

Focus on high margin services and products, which is reflected in increasing profitability

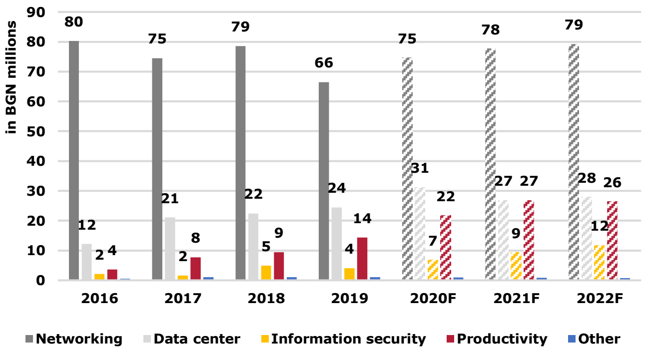
Despite the start of the COVID-19 pandemic, TBS Group has delivered exceptional and above our expectations Q1'20 results. Revenues were up 84% y/y to BGN 36.7m and net income surged 10x y/y to BGN 3.6m.

The outstanding interim performance has been driven by increases in all of its operating sector. The telecom sector added 57% y/y, partly because of filling a backlog of projects from last year. The public sector grew by 156% y/y as a result of TBS Group's winning a tender offer as part of a consortium in which it holds 50%, for a three-year long project targeting the design, construction and commissioning of a State Hybrid Private Cloud with consideration amounting to BGN 33m. Enterprise sector grew by 69% y/y which most probably came from rise in sales from modern workplace, security and enterprise connectivity solutions.

Boost in interim net profit during the first quarter of 2020 was also aided by lower administrative expenses due to shrinking of business trips due to COVID-19. Accordingly, EBITDA margin expanded to 12.2% and net profit margin reaching 9% for the 12 months up to March 31st 2020, thanks to accelerating sales of higher added value services and solutions.

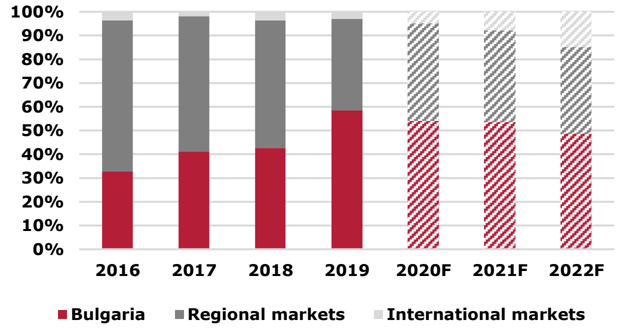
Balance sheet-wise, TBS Group saw serious boost in fixed assets in FY2019. The latter was almost entirely a result of both investments in EaaS provided under long-term managed services contracts (usually seven years) and the recognition of rights-of-use assets under rentals and operating leases in accordance with the new IFRS 16 standard. In relation to its EaaS business, the Group accounts as sales both the provided services and purchased equipment (usually 50:50 ratio) for the use of its clients on an annual basis for the contract's period and depreciates the equipment for the same period. The Group's own investments make up less than 0.5% of its sales.

Exhibit 5: Sales in all segments are poised for growth



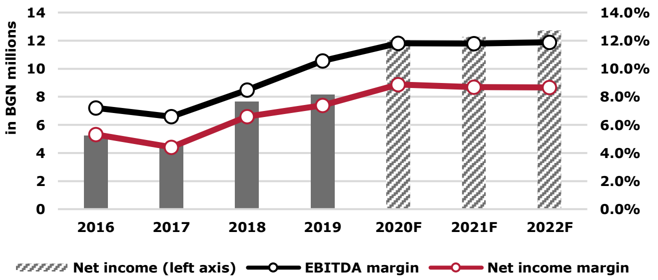
Source: Company data; Elana Trading estimates

Exhibit 6: The Group to gradually expand its presence in technologically developed markets in Western Europe & US



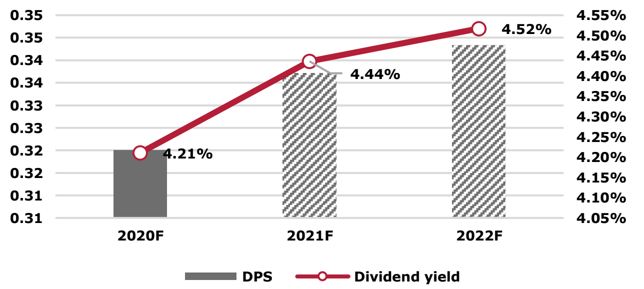
Source: Company data; Elana Trading estimates

Exhibit 7: Boost in profitability thanks to focus on high-margin services and economies of scale



Source: Company data; Elana Trading estimates

Exhibit 8: Consistent dividend distribution to be expected



Source: Company data, Elana Trading estimates; div. yield based on BGN 7.60 min. stock price per share

In terms of capital structure, the Group has been lightly leveraged, with total interest-bearing debt as at the end of Q1'20 including IFRS 16 leasing data standing at BGN 11.6m (16.5% of total assets). Excluding the latter, points to 12% of assets in interest-bearing debt. The Group's obligations traditionally consist of working capital facilities and financial leasing, incurred for the purchase of equipment that is provided to its clients over the period of their contracts. Deserving mentioning is that throughout the year there are some bigger fluctuations in debt related to the management of TBS Group's working capital.

Accounting for substantial dividend distributions over the period from the existing subsidiaries, combined equity ended 2019 at 14.4% of total assets. Besides dividends, the low ratio ratio is due to the Group's reorganization and the respective transition from combined to consolidated financial statements prepared according to the predecessor method, whereby equity incorporated the difference between the net assets of TBS Group EAD and the balance sheet value of its investments in the Group's operating subsidiaries.

Concerning dividend policy, subsidiaries to the Company, prior to the establishment of the latter, have distributed on average 46% of their net profits per year for the 2016-2018 period. Moreover, according to the Group's listing prospectus, the former will distribute at least 50% of the net profit realized on standalone financial base. Earlier in 2020, the Group's management projected a BGN 4m dividend in 2020, entailing a DPS of BGN 0.32, yielding 4.2% DY at the minimum offer price of BGN 7.60 per share.

Expected CAGR of 14.3% for the 2019-2022 period

Our five-year forecast has been revised since our January 2020 valuation to take into consideration the Group's audited FY2019 results as well as its recently published Q1'20 numbers, coupled with the arrival of COVID-19 pandemic which has affected global activity. We have decreased the revenue growth forecast for the next five years from CAGR of 11.7% to CAGR of 10.2% as we expect a slowdown in growth in some segments like data centers and managed services due to indication of some companies postponing their investment plans in this field. Still, growth will be sustained on the back of increased demand for efficient and secure remote workspaces triggered by COVID-19 coupled with telecom 5G investment plans going forward despite the corona crisis.

Due to strong Q1'20 results, we increase slightly our 2020 projection, expecting the Group to achieve a 23% y/y top line growth vs. 20% growth expectations in January 2020. Still, to stay on the safe side our estimates are considerably below management guidance of 40% y/y growth in 2020, to stay on the safe side.

Profit margins to further expand on high-value-added services and economies of scale

In terms of markets, we expect 2020 top line to be driven mainly by the local market, international clients as well as the Macedonian and Albanian markets where the Group has recently entered. The Group's guidance points to doubling of revenues y/y from the latter for 2020. Testimony for the increasing local potential is the news that TBS Group, along with CNsys, won a tender offer for BGN 33m for an information security project with the Bulgarian public administration. Local telecom Vivacom, recently acquired by United Group, has been a long term client of the Group and is expected to see through substantial investments in 2020 as these have been postponed until after the acquisition. The Group extensive expertise and good regional position enabled it to win several public tender offers in neighboring markets which will affect positively sales starting from 2020. Moreover, in 2019, the Group signed a contract with a big multinational company to service its ICT operations across multiple locations, effective as of 2020, to boost the Groups top line in 2020-21.

For 2021 and 2022, we envision a slowdown in growth to 4% on annual basis as some postponements in data centers, software development and managed services could be expected due to the uncertainties related with possible new wave of COVID-19 and its negative implications on overall economic players. In line with global trends, we expect that the companies will re-start their tech investments post-2022 as the need to stay ahead with new technologies will become more pressing. Profit margins are forecast to remain stable by the end of 2022. Accordingly, we envision a top line growth of 9% and 12% for 2023 and 2024, accordingly as the Group is expected to boost its portfolio of multinational clients and increase sales in all of its operating segments, the highest rise to be seen in information system and productivity, followed by data center segment.

We forecast cost of sales to grow slower than sales (at CAGR of 9.1% by 2024) as the Group is expected to experience economies of sales and will focus more on high margin services. The latter will boost gross margin from 18% (in 2019) to 22% (in 2024).

We account for rise in both the number of employees and their remuneration, expressed in higher administrative and sales & marketing expenses (labor costs are included in both).

Compared to our earlier forecast, depreciation is expected to start rising faster post-2022 when acceleration in EaaS business is projected. The latter will affect positively EBITDA, which we expect to grow at CAGR of 12.4% by 2024.

Turning to the balance sheet, we expect growth in PPE entirely driven by the expansion in EaaS line of business post-2022. Financial leasing will also be on the increase, as the Group will finance investments by both loans and own cash.

KEY ASSUMPTIONS

'000 BGN	2017	2018	2019	2020F	2021F	2022F
Sales	105 987	116 367	110 328	135 703	141 132	146 777
y/y growth	*7.4%*	*9.8%*	*-5.2%*	*23.0%*	*4.0%*	*4.0%*
EBITDA	6 978	9 868	11 655	16 020	16 649	17 448
EBITDA margin	*6.6%*	*8.5%*	*10.6%*	*11.8%*	*11.8%*	*11.9%*
D&A	1 546	919	2 151	2 307	2 681	2 936
% of PPE and intangible long-term assets	*73.1%*	*31.3%*	*24.0%*	*18.8%*	*19.9%*	*18.9%*
Investments	1 600	1 738	#REF!	5 471	3 849	4 911
% of sales	*1.5%*	*1.5%*	*#REF!*	*4.0%*	*2.7%*	*3.3%*
EBIT	5 669	9 228	9 802	13 713	13 967	14 513
EBIT margin	*5.3%*	*7.9%*	*8.9%*	*10.1%*	*9.9%*	*9.9%*
Non-cash working capital	(3 938)	2 062	(455)	(387)	5 855	8 009
% of sales	*-3.7%*	*1.8%*	*-0.4%*	*-0.3%*	*4.1%*	*5.5%*
Change in non-cash working capital	(2 771)	6 000	(2 517)	68	6 242	2 154

VALUATION

In order to extract the most proper value to a minority shareholder in TBS Group, we use both the discounted cash flow model and peer valuation, equally weighted, when arriving at its fair value per share.

In our DCF model, for the growth phase (2020-2024) we take into consideration the management's CAPEX and sales guidance, yet also take in the sector's regional and global growth potential, especially post COVID-19. To arrive at the terminal value for the model, we to use a market observed EV/EBITDA multiple based on recent deals within the ICT sector, more precisely a 30 month trailing median EV/EBITDA as at H2'19 published by tech M&A consultant Hampleton.

For the peer analysis, we have outlined a group of nine ICT-focused listed companies which by no means are perfect matches for TBS Group, yet operate and exhibit strong similarities in terms of business models, targeted products and services, as well as territorial markets and industries. The peer group includes both global and regional players.

Finally, we apply a discount for minority shareholding considering the concentration of more than 80% of the shares in one majority owner, who thus has significant power in strategic decisions, coupled with the still unknown level of the free float following the completion of the two initial offer tranches.

DISCOUNTED CASH FLOWS AND PEER VALUATION MODELS

We base our DCF analysis on an updated 10.2% CAGR of the top line for the 2020-2024 period and a terminal value based on an EV/EBITDA exit multiple of 9.4x based on M&A data from H2'19 Hampleton's IT & Business Services report. This is the average of medians for the integration services and IT outsourced services sub-sectors. Based on the profile of companies operating in these two sub-sectors, we believe that the multiple is a good approximate for TBS Group.

Investments are projected in line with the management guidance for growth in its EaaS operations and global expectations for the business amid the COVID-19 outbreak.

In our updated DCF analysis we incorporate an increased fixed 9.63% weighted average cost of capital based on the average value of WACC in the 2020-2024 period which is in line with the higher risk following the COVID-19 outbreak. For the forecasted period we expect the current low interest rates both on corporate and sovereign debt to remain low, albeit slowly increasing. We keep a constant equity risk premium for the Bulgarian capital market, as stipulated by the latest estimates of NYU Stern Professor Damodaran as we believe that it is adequate for the Bulgarian capital market for the forecasted period.

Finally, when projecting TBS Group's relative volatility to the market returns, we take into account its beta value derived from Prof. Damodaran's database for system and application IT and telecom equipment sectors.

For cost of debt we assume a gradually increasing interests on leasing (which is the main debt instrument used by the Group). Concerning the calculation of the weight of debt in the Group's capital structure, we take the ratio of the book value of interest-bearing liabilities to constant market value of equity at the time of listing (12.5 million share x BGN 7.60) added to the book value of interest-bearing liabilities. Thus, the average weight of debt in the capital structure arrives to 13%, which is also in line with the average for the sector.

After taking into consideration the outstanding debt and cash as at the end of Q1'20, we come up with an intrinsic value of BGN 12.47 per share. The latter is a bit lower to our previous valuation due to the decreased growth forecast and higher discount factor. We also provide a sensitivity analysis to reflect the different scenarios if different WACC and EV/EBITDA exit multiples are used.

DISCOUNTED CASH FLOWS

BGN'000	2020F	2021F	2022F	2023F	2024F	Terminal value (exit multiple x EBITDA 2024)
EBITDA	**16 020**	**16 649**	**17 448**	**19 016**	**20 945**	
EBIT	**13 713**	**13 967**	**14 513**	**13 417**	**13 419**	
EBIT(1-T)	12 341	12 570	13 062	12 075	12 077	
Add: D&A	2 307	2 681	2 936	5 600	7 526	
Less: Investments	5 471	3 849	4 911	13 320	13 797	
Less: Change NWC	68	6 242	2 154	2 351	250	
FCF	**9 110**	**5 162**	**8 932**	**2 003**	**5 556**	**196 885**
PV FCF	**8 903**	**4 601**	**7 262**	**1 486**	**3 759**	
					EV/EBITDA multiple	**9.40**
Sum of PV FCF	26 011					
PV of Continuing Value	133 196					
Total PV Free Cash Flows	159 206					
Less: Outstanding Debt (as at end of Q1'20)	8 011					
Plus: Financial Assets (as at end of Q1'20)	4 738					
PV of Equity	**155 933**					
Total number of shares outstanding	**12 500**					
Fair Value per share (BGN)	**12.47**					

To arrive at a final fair value for the Company we add a peer comparison analysis based on the median P/E and EV/EBITDA exit multiple for the industry in the ratio of 10% to 90%, giving the former a much lower weight as we believe that current earnings multiples have expanded considerably. The peer multiple comparison based on 2020 TTM results, yields BGN 12.96 per share fair value for TBS Group's stock. The latter is higher compared to our previous valuation (BGN 9.57 per share) mainly due to TBS Group's strong Q1'20 financials vs. the preliminary 2019 results that were previously used.

When equally weighting the outcomes of the two valuation models - DCF and peer comparison, we arrive at a BGN 12.71 per share intrinsic value.

Considering the substantial majority ownership and the still unknown amount of the free float following the two offering tranches, we apply a minority shareholding discount. The latter is derived from the average acquisition premium paid on M&A deals with public companies in 2018, which stood at 24.1% according to data from Boston Consulting Group. Accordingly, we arrive at a discount rate of 19.4%.

Thus, discounting the fair value of BGN 12.71 with the minority discount of 19.4%, we come up with a final intrinsic value of BGN 10.25 per share. The latter yields 35% upside potential from the minimum offer price of BGN 7.60 per share.

WEIGHTED AVERAGE COST OF CAPITAL

	2020	2021	2022	2023	2024
Risk free rate (Yield on 10-year Bulgarian Bonds)	0.30%	0.50%	0.70%	0.80%	0.90%
Equity risk premium (NYU Stern Estimate)	9.49%	9.49%	9.49%	9.49%	9.49%
Beta (NYU Stern Estimate)	1.05	1.05	1.05	1.05	1.05
Cost of equity	**10.26%**	**10.46%**	**10.66%**	**10.76%**	**10.86%**
Cost of debt	3.0%	3.3%	3.5%	3.7%	3.9%
Effective tax rate	10%	10%	10%	10%	10%
After-tax cost of debt	**2.7%**	**3.0%**	**3.2%**	**3.3%**	**3.5%**
Weight of debt	12.0%	11.4%	11.5%	13.3%	16.9%
WACC	**9.4%**	**9.6%**	**9.8%**	**9.8%**	**9.6%**
Average WACC	**9.63%**				

SENSITIVITY ANALYSIS

EXIT MULTIPLE / DISCOUNT RATE	7.6%	8.6%	9.6%	10.6%	11.6%
7.4x	10.97	10.59	10.22	9.87	9.53
8.4x	12.20	11.77	11.35	10.96	10.58
9.4x	13.43	12.95	12.49	12.05	11.64
10.4x	14.65	14.13	13.62	13.14	12.69
11.4x	15.88	15.31	14.76	14.24	13.74

Peer Comparison

Name	Ticker	Country	Mkt Cap (M EUR)	P/E	EV/EBITDA T12M
ACCENTURE PLC-CL A	ACN US	IRELAND	112 190	25.43	14.31
ATOS SE	ATO FP	FRANCE	7 151	21.45	6.72
TIETO OYJ	TIETO FH	FINLAND	2 660	22.73	14.10
COMPUTACENTER PLC	CCC LN	BRITAIN	2 079	18.77	8.17
S&T AG	SANT GR	AUSTRIA	1 523	31.5	14.26
COMARCH SA	CMR PW	POLAND	370	14.52	5.98
ASSECO SOUTH EASTERN EUROPE	ASE PW	POLAND	414	19.97	10.13
4IG	4IG HB	HUNGARY	176	21.57	15.27
COMP SA	CMP PW	POLAND	77	11.31	6.9
Mean			**14 071**	**20.81**	**10.65**
Median			**1 523**	**21.45**	**10.13**

Source: Bloomberg

Peer Multiples	P/E ttm	EV/EBITDA ttm
Median peer multiple	21.45	10.13
TBS Group’s fair value based on peer multiple (‘000 BGN)	244 273	152 871
Fair value per share based on peer multiple (BGN)	19.54	12.23
Weight of multiple fair value	10%	90%
Final peer multiple fair value per share (BGN)	**12.96**	

	DCF	Peer Comparison
Fair Value per Model	12.47	12.96
Weight of Model	50%	50%
Discount for minority shareholding	19.42%	
FINAL FAIR VALUE PER SHARE (BGN)	**10.25**	

Annual Consolidated Financial Data

Income Statement ('000 BGN)	2016	2017	2018	Q1'19	2019	Q1'20	TTM	2020F	2021F	2022F
Sales, incl.	**98 663**	**105 987**	**116 367**	**19 954**	**110 328**	**36 744**	**127 118**	**135 703**	**141 132**	**146 777**
Networking	*80 255*	*74 534*	*78 585*	*undisclosed*	*66 456*	*undisclosed*	*n/a*	*74 637*	*77 622*	*79 259*
Data center	*12 163*	*21 063*	*22 443*	*undisclosed*	*24 450*	*undisclosed*	*n/a*	*31 212*	*26 815*	*27 888*
Information security	*2 158*	*1 601*	*4 908*	*undisclosed*	*4 086*	*undisclosed*	*n/a*	*6 785*	*9 300*	*11 742*
Productivity	*3 596*	*7 687*	*9 395*	*undisclosed*	*14 308*	*undisclosed*	*n/a*	*21 713*	*26 815*	*26 420*
Other	*490*	*1 102*	*1 036*	*undisclosed*	*1 030*	*undisclosed*	*n/a*	*919*	*820*	*771*
Cost of sales	(84 841)	(91 852)	(97 806)	**(17 060)**	(90 469)	**(30 016)**	**(103 425)**	(109 241)	(112 341)	(115 954)
Gross profit	**13 822**	**14 135**	**18 561**	**2 894**	**19 859**	**6 736**	**23 701**	**26 462**	**28 791**	**30 823**
Gross margin	***14.0%***	***13.3%***	***16.0%***	***14.5%***	***18.0%***	***18.3%***	***18.6%***	***19.5%***	***20.4%***	***21.0%***
Other income	152	112	323	**33**	364	**104**	**435**	339	353	367
Administrative expense	(3 264)	(3 833)	(4 541)	**(1 185)**	(4 589)	**(974)**	**(4 378)**	(4 614)	(5 504)	(5 871)
Sales and marketing expense	(4 396)	(4 555)	(4 962)	**(1 052)**	(5 498)	**(1 641)**	**(6 087)**	(5 971)	(6 774)	(7 632)
Other expenses	(87)	(131)	(161)	0	(179)	0	(179)	(197)	(217)	(238)
Net impairment of receivables and assets	0	(59)	8	0	(155)	0	(155)	0	0	0
EBIT	**6 227**	**5 669**	**9 228**	**691**	**9 802**	**4 217**	**13 328**	**13 713**	**13 967**	**14 513**
EBIT margin	***6.3%***	***5.3%***	***7.9%***	***3.5%***	***8.9%***	***11.5%***	***10.5%***	***10.1%***	***9.9%***	***9.9%***
Depreciation and amortization expense	(938)	(1 546)	(919)	(470)	(2 151)	(613)	(2 294)	(2 307)	(2 681)	(2 936)
EBITDA	**7 117**	**6 978**	**9 868**	**954**	**11 655**	**4 713**	**15 414**	**16 020**	**16 649**	**17 448**
EBITDA margin	***7.2%***	***6.6%***	***8.5%***	***4.8%***	***10.6%***	***12.8%***	***12.1%***	***11.8%***	***11.8%***	***11.9%***
Normalized EBITDA	7 117	7 037	9 860	0	11 831	0	11 831	16 020	16 649	17 448
Net financial result	(223)	(328)	(460)	(379)	(660)	(262)	(543)	(333)	(344)	(373)
Pre-tax income	6 004	5 341	8 768	398	9 142	4 029	12 773	13 379	13 623	14 140
Income tax	(757)	(665)	(1 104)	(75)	(990)	(470)	(1 385)	(1 338)	(1 362)	(1 414)
Net income	**5 247**	**4 676**	**7 664**	**323**	**8 152**	**3 559**	**11 388**	**12 041**	**12 261**	**12 726**
Net income margin	***5.3%***	***4.4%***	***6.6%***	***1.6%***	***7.4%***	***9.7%***	***9.0%***	***8.9%***	***8.7%***	***8.7%***
Other comprehensive income	(59)	102	8	0	0	0	0	0	0	0
incl. currency exchange rates differences	(59)	102	8	0	0	0	0	0	0	0
Total comprehensive income	**5 188**	**4 778**	**7 672**	**323**	**8 152**	**3 559**	**11 388**	**12 041**	**12 261**	**12 726**

Balance Sheet ('000 BGN)	2016	2017	2018	2019	Q1'20	2020F	2021F	2022F
Property, plant and equipment	751	1 654	2 132	8 371	8 516	**Q1'20**	**2020F**	**2021F**
Investment properties	332	332	342	362	0	8 516	11 535	12 702
Intangible assets	1 310	461	802	574	662	0	362	362
Other non-current assets	2 756	2 572	3 342	4 134	4 655	662	746	776
Non-current Assets	**5 149**	**5 019**	**6 618**	**13 441**	**13 833**	4 655	6 799	7 071
Inventories	1 875	4 063	3 865	5 691	3 793	**13 833**	**19 442**	**20 911**
Trade and other receivables	24 384	26 055	26 384	24 871	33 458	3 793	7 192	9 174
Other current assets	6 338	5 946	15 278	7 913	9 011	33 458	33 926	35 989
Cash and cash equivalents	1 256	7 408	3 313	2 199	4 738	9 011	8 821	10 585
Current assets	**33 853**	**43 472**	**48 840**	**40 674**	**51 000**	4 739	5 152	5 746
Total Assets	**39 002**	**48 491**	**55 458**	**54 115**	**64 834**	**51 001**	**55 091**	**61 493**
Share capital	1 572	1 580	1 580	12 500	12 500	**64 834**	**74 533**	**82 404**
Reserves	(572)	(478)	(470)	(14 351)	(14 352)	12 500	12 500	12 500
Retained Earnings	2 232	4 561	7 360	9 635	13 190	(14 352)	(13 167)	(13 145)
Equity	**3 232**	**5 663**	**8 469**	**7 784**	**11 338**	13 190	16 472	23 293
Financial leasing liabilities	23	766	890	4 331	3 772	**11 338**	**15 805**	**22 647**
Other non-current liabilities	1 983	2 060	2 634	3 080	3 590	3 772	4 331	5 630
Non-current liabilities	**2 006**	**2 826**	**3 524**	**7 401**	**7 362**	3 590	4 071	4 234
Interest-bearing borrowings	4 047	1 845	5 312	4 124	6 004	**7 362**	**8 402**	**9 864**
Short-term financial leasing liabilities	14	277	538	1 883	1 784	6 004	4 900	2 800
Other current liabilities	29 703	37 880	37 615	32 923	38 346	1 784	3 766	3 766
Current liabilities	**33 764**	**40 002**	**43 465**	**38 930**	**46 134**	38 346	41 660	43 326
Total Equity & Liabilities	**39 002**	**48 491**	**55 458**	**54 115**	**64 834**	**46 134**	**50 326**	**49 892**

FINANCIAL AND PERFORMANCE INDICATORS

Financial and Performance Indicators	2020F	2021F	2022F
Valuation			
Price/Earnings (P/E)	7.89	7.75	7.465
Price/Sales (P/S)	0.70	0.67	0.65
EV (in '000 BGN)	102 845	101 450	98 643
EV/EBITDA	6.42	6.09	5.65
Profitability			
Return on assets	16.16%	14.88%	13.88%
EBITDA margin	11.80%	11.80%	11.89%
Operating margin	10.10%	9.90%	9.89%
Net income margin	8.87%	8.69%	8.67%
Dividend			
Dividend yield	4.21%	4.44%	4.52%
Dividend per share	0.32	0.34	0.34
Liquidity			
Current ratio	1.09	1.23	1.33
Credit			
Debt/assets	0.17	0.15	0.14

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BUY	Target price is more than 10% above current quotes
HOLD	Target price in +/-10% range of the current quotes
SELL	Target price is more than 10% below the current quotes

Frequency of Recommendations: No schedule of recommendations is available. The frequency of recommendations depends on specific factors to individual companies and the opinion of the analyst(s) for the necessity of minor or major changes.

Q1 2020 Recommendation Review			**Market Maker Services**
Recommendation	**#**	**Share**	
BUY	6	38%	SKK BU; Korado; Elana Agrocredit; Albena; Expat Bulgaria SOFIX UCITS ETF
HOLD	10	62%	
SELL	0	0%	

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