

# Teta

Third time lucky?





**1/2008/CR (8)** February 4, 2008

**Analyst:** Sobiesław Pająk, CFA, s.pajak@idmsa.pl, +48 (22) 489 94 70

# Teta

**Sector:** IT  
**Fundamental rating:** Buy (-)  
**12M relative:** Overweight (-)  
**Price:** PLN 17.5  
**12M EFV:** PLN 26.3 (-)

**Market Cap.:** US\$ 65 m  
**Reuters code:** TETA.WA  
**Av. daily turnover:** US\$ 0.11 m  
**Free float:** 90%  
**12M range:** PLN 15.50-28.89

## Third time lucky?

Teta apparently has a bad luck in executing M&A transactions; out of three attempts to date only one was brought to a happy ending. Given such poor track record so far in this field, it does not surprise that the market ceased to price in such potential future transactions. It does, however, surprise us why such deep discounts are applied to the value of the Company's existing operations, given (i) favorable SME ERP/HR software sector outlook and (ii) expected strong momentum of Teta's earnings in the coming quarters.

▲ The ERP software market in Poland is facing few more years of a double-digit growth (providing that the economy does not falter), especially in its SME segment. The inevitable consolidation of the market is likely to eliminate small local vendors squeezed out by 3-5 strong local players and increasingly present foreign software producers, whose growing focus on the SME part of the market may, on one hand, heat up the competition, and – on the other – introduce the former as potential takeover targets into the radar screen of the latter. Overall, we perceive such an environment and market outlook as fairly favorable to strong local ERP software houses.

▲ The SME segment is far from being saturated with the ERP systems (only 25%/ less than 10% of mid-sized/ small enterprises utilize such applications); hence, we expect that intensifying competition will rather cap further upside for the margins of strong local players than drive them down.

▲ At current market price Teta trades with deep discounts to the local and foreign peers, and much below our 12M EFV of PLN 26.3. Even in the absence of M&A transactions these discounts should narrow, in our view, on the back of solid organic growth of Teta's earnings; hence, we initiate our coverage of Teta's equities with a LT fundamental Buy rating and an Overweight ST market-relative stance.

▲ Possible M&As constitute potential upside to our current financial forecasts and valuation of Teta; we tentatively estimate that - under some conditions - successful finalization of the Hungarian ERP/HR player takeover attempt (whose due-diligence is under way) could enhance its EFV by at least 5% (>PLN 1 per share), and increase its consolidated net income by c. 8-10% (>PLN 1 million).

### Guide to adjusted profits

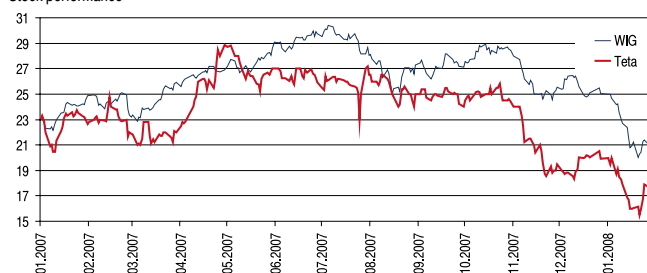
No factors necessitating adjustments to reported earnings. In the future minor IFRS2 SOC-adjustments are likely.

### Key data

| IFRS, consolidated   |       | 2007E | 2008E | 2009E | 2010E |
|----------------------|-------|-------|-------|-------|-------|
| Sales                | PLN m | 61.4  | 76.2  | 85.8  | 95.8  |
| EBITDA               | PLN m | 16.0  | 20.5  | 23.2  | 25.3  |
| EBIT                 | PLN m | 12.9  | 16.4  | 18.8  | 20.9  |
| Net profit           | PLN m | 9.6   | 12.5  | 14.8  | 17.0  |
| EPS                  | PLN   | 1.07  | 1.39  | 1.65  | 1.89  |
| EPS yoy chng         | %     | 17    | 30    | 19    | 15    |
| Net debt             | PLN m | -4.0  | -7.3  | -12.9 | -25.0 |
| P/E                  | x     | 16.4  | 12.6  | 10.6  | 9.3   |
| P/CE                 | x     | 12.4  | 9.6   | 8.2   | 7.4   |
| EV/EBITDA            | x     | 10.1  | 7.7   | 6.3   | 5.2   |
| EV/EBIT              | x     | 12.7  | 9.6   | 7.8   | 6.3   |
| Gross dividend yield | %     | 0.0   | 0.0   | 0.0   | 0.0   |
| No. of shares (eop)  | ths.  | 9,000 | 9,000 | 9,000 | 9,000 |

EV and multiples based on proportional consolidation of P&Ls and BSs of subs in which Teta holds < 100% stakes.  
Source: DM IDMSA estimates

### Stock performance



Source: www.money.pl

### Upcoming events

1. Release of 4Q07 results (expected to be strong): 14 February 2008
2. Release of management's forecast for 2008: early March 2008
3. Acquisition of a controlling stake in a Hungarian ERP/HR company: by the end of 1Q08 (uncertain as of now)
4. Acquisition of a further 15% stake in Pyton (rising Teta's ownership to 85%): 2Q08

### Catalysts

1. Management's forecast for 2008: we would expect yoy profit growth well in a double-digit range
2. Low penetration of ERP packages among domestic SMEs: a plenty of room to expand (especially in a sound macro environment) for Teta and other ERP vendors targeting this segment
3. Expected strong organic earnings growth in the coming quarters on the back of growing economy (higher correlation with IT demand of SMEs than of large corporations), revenue synergies between Teta's and Pyton's products, full-blown sales of Teta Constellation and last year's launched HR outsourcing project (M&As may further add to the profits momentum)
4. M&As of ERP/HR companies may materialize (not priced in, the way we see it, in the Company's share market price)
5. Teta may prove a potential takeover target for large foreign ERP vendors increasingly eyeing the SME sector (or is it a risk factor?)

### Risk factors

1. Major slowdown of GDP: would cap the new license sales, as SMEs' IT demand shows strong cyclicity
2. Decline of Oracle's data bases popularity: would cap the growth of Teta's ERP suite (new license sales + implementations), which does not operate on MSC' SQL data bases
3. Global ERP vendors' increasing interest in the SME segment: could heat up the competition in the Company's target segment (or is it a potential trigger?)
4. Wage pressures in the IT industry: could put a pressure on margins, especially in weaker macro environment
5. Pure commercial sector play with no public exposure: means that expected pick up of public sector's IT demand in 2008E and beyond is irrelevant for Teta
6. ABS aggressively consolidates the local ERP market: emergence of a much stronger competitor, local M&A market more competitive
7. Poor to-date track-record in the M&A area (three attempts, out of which two failed): so maybe the M&As story is a fairy-tale?

# Contents

|  |           |
|--|-----------|
| <b>1. Investment story</b> .....                       | <b>5</b>  |
| <b>2. Valuation</b> .....                              | <b>6</b>  |
| <b>3. Drivers</b> .....                                | <b>11</b> |
| 3.1. The market .....                                  | 11        |
| 3.2. The Company .....                                 | 13        |
| <b>4. Financial forecast</b> .....                     | <b>15</b> |
| 4.1. Quarterly results corner; 4Q07E preview .....     | 15        |
| 4.2. Revenues .....                                    | 16        |
| 4.3. Profits and margins .....                         | 18        |
| <b>5. Financial Statements</b> .....                   | <b>19</b> |
| <b>Appendix</b> .....                                  | <b>21</b> |
| <b>1. Teta's management stock option program</b> ..... | <b>22</b> |

## 1. Investment story

- ▲ Teta = exposure to the favorable dynamics of the SME ERP segment.
- ▲ Growing competition will eliminate the marginal ERP vendors and cap the upside potential for the margins of strong local players; no major margin contraction should be expected, though, as the SME ERP market is far from the saturation level.
- ▲ Teta's to-date track record in successfully finalized M&A deals is poor, which explains why the market ceased to price in their expected incremental impact. It does not, however, explain low – in our view – valuation of the Company's current operations.

**Teta = exposure to the favorable dynamics of the SME ERP segment**

The 2006-2007 double-digit growth of the ERP market in Poland is expected to extend for next few years, on the back of a solid list of underlying drivers, including: continued healthy GDP growth (spurring rise in corporate investments), EU funding to projects designed to foster SMEs' competitiveness, better financial situation of enterprises (enabling them to expand the functionalities of their ERP packages beyond the basics), increasing competition across an array of industries prompting companies to more vigorously search for tools enhancing their competitive power, and low saturation of the SME segment with ERP applications. Teta, with its proprietary ERP/HR applications offer suited for the mid-sized enterprises, provides an exposure to capture this favorable sector's dynamics.

**Growing competition will eliminate the marginal ERP vendors, and cap the upside potential for the margins of strong local players**

The SME segment of the ERP market is expected to grow faster than the large corporations' niche, which attracts the interest of global players and signals heating up competition; this is likely to doom the horde of local tiny ERP vendors which lack necessary scale of operations to support their fixed costs. On the other hand, the progressing consolidation and growing competition will most likely cap further meaningful improvement of strong local ERP players' margins, but not necessarily drive them down, as the SME ERP market is far from its saturation level.

**Teta's to-date track record in successfully finalized M&A deals is poor;...**

The way we see it, even strong local SME ERP vendors are not able to grow organically much faster than the market for longer time periods, which necessitates external fueling in the form of acquisitions to accelerate the organic momentum. While Teta appears to be fully aware of that – striving for past two years to complete M&A deals – its to-date track record is fairly poor; out of three advanced acquisition attempts only one (Pyton) was successfully finalized.

**...while this explains why the market disregards such potential transactions in pricing Teta's equities, it does not explain why the current operations are priced at such a low level**

While such low "success ratio" in completing takeover attempts explains why the market ceased to price in the future possible acquisitions of Teta in its share price, we do not find clear company- or sector-specific reasons why the current operations of Teta are being priced at such low – in our view – level. The way we see it, with good mid-term SME sector outlook and sound organic growth profile of the Company (c. 30% NI growth expected this year), Teta's current discounts to local and foreign peers (respectively, in the vicinity of 29-36% and 28-38%) are excessive. We would expect these discounts to narrow (even in the absence of M&A transactions) on the back of strong organic earnings momentum expected to be delivered by the Company in the coming quarters; consequently, we initiate our coverage of Teta with a LT fundamental Buy rating and an Overweight ST market-relative stance.

## 2. Valuation

- ▲ **DCF + peer-relative valuation.**
- ▲ **Due to Company's low to-date success rate in finalizing takeover attempts, valuation assumes no value-enhancing M&As. Due to uncertainty regarding the attainment of criteria upon which the issuance of management stock options hinges, valuation does not dilute for these conditional shares (resultant potential upward bias is negligible).**
- ▲ **12M DCF-derived EFV of PLN 26.3 per share suggests fundamental upside. Local peer relative comparison implies Teta's EFVs above current market price.**
- ▲ **Teta's large discounts to the averages for foreign vendors of ERP and related software are unjustified, in our view.**
- ▲ **Possible M&As constitute potential upside to our current valuation of Teta; we tentatively estimate that - under some conditions - successful finalization of the Hungarian ERP/HR player takeover attempt (which is being due-diligenced at the moment) could add >PLN 1 of value per Teta' share.**

### DCF + peer comparisons

We value Teta using our standard DCF FCFF procedure and cross-check the findings via local and foreign peer comparison exercises.

**Valuation assumes no value creation from the possible future takeovers of CEE ERPs, which hence constitute a potential conditional upside to our current assessment of Teta's EFV**

Given the Company's to date fairly poor track record in finalizing the ERP software vendors takeover attempts (especially in the cross-border context, where Teta's both encroachments failed), our valuation of its equities does not assume any additional value creation from M&As that the Company plans to execute (apart from these that have already materialized (Pyton)<sup>1</sup>); putting another way, future takeovers constitute a potential upside to our assessment of Company's EFV (providing, obviously, that they are made on comparably favorable terms as was the case with Pyton). Putting this statement into context, we tentatively estimate that under some conditions (assuming that (i) a 75% stake is bought at 10x P/E, (ii) 15% net margin of the target, (iii) target's FY sales of Euro 5.5 million, and (iv) that the market would price in the incremental profits contributed by the target at a higher P/E multiple (app. 15x, broadly in line with Teta's)), the possible acquisition of a Hungarian ERP/HR company (which is being at the moment negotiated by Teta, but which cannot be taken for granted as of now) could create >PLN 1 of incremental shareholder value per Teta's share (coming on the top of our current 12M EFV assessment, which – as noted above – abstracts from non-organic growth and non-organic shareholder value creation).

**EFV not diluted for the net impact of the stock option program conditional shares; the resultant potential upward bias is negligible, though**

Our valuation of the Company's equities is not diluted for the stock option program conditional shares (regarding the details of this scheme, please refer to *Appendix 1* of this research report), because as of now it cannot be determined whether the conditions upon which the issuance of shares hinges will be met or not. While, in the optimistic scenario (from the program's beneficiaries perspective) as much as 450 ths. of shares may be issued (5% dilution), it should be noted that the issue price of these shares would stand at PLN 15.5 per share; hence, after accounting for the conditional issue proceeds, the net per share EFV dilution would be negligible, in our view.

**Effective CIT rate assumed to permanently dwell above the statutory level**

Practically all of Teta's marketing expenses are of non-public nature, which (given the prevailing tax regime under which strict limits are imposed for such costs to qualify as CIT-deductible items) results in effective CIT rate of the Company exceeding the statutory one. We assume that this situation will not change (i.e. that Teta will continue to exceed the limits of tax-deductible non-public marketing expenses) and – which follows – adopt an effective CIT rate permanently in excess (by c. 1-2 pp) of the statutory 19% level. As far as the residual period goes, we have adopted

<sup>1</sup> We assume that Teta will increase its call options on the remaining 30% stake in Pyton, increasing its shareholding to 100% within 2-year span.



– in the base-case scenario – 4.0% (2.0%) nominal (real) FCFF growth assumption, in line with what we typically assume for local software houses.

**DCF-derived 12M EFV of PLN 26.3 per share**

In the base case scenario (regarding the details, please refer to *Figures 1 and 2*), our DCF FCFF model implies 12M EFV for Teta at PLN 26.3 per share, which suggests fundamental upside.

Fig. 1 Teta; DCF model

|   | 2007E        | 2008E        | 2009E        | 2010E        | 2011E        | 2012E        | 2013E        | 2014E        | 2015E        | 2016E        | 2017E        | 2018E        | >2018E      |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| Sales (PLN m)                                     | 61.4         | 76.2         | 85.8         | 95.8         | 104.2        | 112.0        | 118.3        | 124.7        | 131.5        | 138.5        | 145.8        | 153.5        |             |
| yoy change  | 54%          | 24%          | 13%          | 12%          | 9%           | 7%           | 6%           | 5%           | 5%           | 5%           | 5%           | 5%           |             |
| EBIT margin                                       | 21.0%        | 21.6%        | 22.0%        | 21.9%        | 21.6%        | 21.6%        | 21.6%        | 21.3%        | 20.9%        | 21.0%        | 21.0%        | 21.0%        |             |
| EBIT (PLN m)                                      | 12.9         | 16.4         | 18.8         | 20.9         | 22.5         | 24.2         | 25.6         | 26.6         | 27.5         | 29.1         | 30.7         | 32.2         |             |
| yoy change  | 82%          | 28%          | 15%          | 11%          | 8%           | 7%           | 6%           | 4%           | 3%           | 6%           | 5%           | 5%           |             |
| Effective cash tax rate (T)                       | 21%          | 21%          | 20%          | 20%          | 20%          | 20%          | 20%          | 20%          | 20%          | 20%          | 20%          | 20%          |             |
| EBIT * (1-T), (PLN m)                             | 10.2         | 13.0         | 15.0         | 16.7         | 18.0         | 19.4         | 20.5         | 21.3         | 22.0         | 23.3         | 24.6         | 25.8         |             |
| yoy change  | 67%          | 28%          | 15%          | 12%          | 8%           | 7%           | 6%           | 4%           | 3%           | 6%           | 5%           | 5%           |             |
| EBITDA (PLN m)                                    | 16.0         | 20.5         | 23.2         | 25.3         | 27.6         | 29.5         | 31.5         | 33.0         | 34.1         | 35.9         | 37.5         | 39.1         |             |
| yoy change  | 86%          | 28%          | 13%          | 9%           | 9%           | 7%           | 7%           | 5%           | 3%           | 5%           | 5%           | 4%           |             |
| Depreciation (PLN m)                              | 3.1          | 4.1          | 4.4          | 4.4          | 5.1          | 5.3          | 5.9          | 6.4          | 6.7          | 6.7          | 6.8          | 6.9          |             |
| EBIT * (1-T) + D, (PLN m)                         | 13.3         | 17.1         | 19.3         | 21.1         | 23.1         | 24.7         | 26.4         | 27.7         | 28.7         | 30.1         | 31.4         | 32.7         |             |
| yoy change  | 74%          | 28%          | 13%          | 9%           | 9%           | 7%           | 7%           | 5%           | 3%           | 5%           | 4%           | 4%           |             |
| Capex (PLN m)                                     | -17.0        | -5.0         | -7.4         | -5.5         | -6.5         | -6.6         | -6.7         | -6.8         | -6.9         | -6.9         | -7.0         | -7.1         |             |
| Change in NWC (PLN m)                             | -10.0        | -6.9         | -4.5         | -4.7         | -3.9         | -3.6         | -3.0         | -3.0         | -3.1         | -3.3         | -3.4         | -3.6         |             |
| Equity issue proceeds (PLN m)                     | 19.3         | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |             |
| Change in deferred assets and liabilities (PLN m) | 0.7          | 0.5          | 0.3          | 0.3          | 0.3          | 0.3          | 0.2          | 0.2          | 0.2          | 0.2          | 0.2          | 0.3          |             |
| <b>Free cash flow (PLN m)</b>                     | <b>6.3</b>   | <b>5.8</b>   | <b>7.7</b>   | <b>11.3</b>  | <b>12.9</b>  | <b>14.7</b>  | <b>16.9</b>  | <b>18.2</b>  | <b>18.9</b>  | <b>20.1</b>  | <b>21.2</b>  | <b>22.2</b>  |             |
| yoy change  | n.m.         | -9%          | 34%          | 46%          | 14%          | 14%          | 15%          | 7%           | 4%           | 6%           | 5%           | 5%           | <b>4.0%</b> |
| <b>Cost of equity</b>                             |              |              |              |              |              |              |              |              |              |              |              |              |             |
| Risk free rate (nominal)                          | 6.0%         | 6.0%         | 6.0%         | 6.0%         | 6.0%         | 6.0%         | 6.0%         | 6.0%         | 6.0%         | 6.0%         | 6.0%         | 6.0%         | 5.0%        |
| Equity risk premium                               | 4.5%         | 4.5%         | 4.5%         | 4.5%         | 4.5%         | 4.5%         | 4.5%         | 4.5%         | 4.5%         | 4.5%         | 4.5%         | 4.5%         | 4.5%        |
| Unlevered Beta                                    | 1.10         | 1.10         | 1.10         | 1.10         | 1.10         | 1.10         | 1.10         | 1.10         | 1.10         | 1.10         | 1.10         | 1.10         | 1.10        |
| Beta adjusted for level of leverage               | 1.10         | 1.10         | 1.10         | 1.10         | 1.10         | 1.10         | 1.10         | 1.10         | 1.10         | 1.10         | 1.10         | 1.10         | 1.10        |
| <b>Required rate of return</b>                    | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>9.9%</b> |
| <b>Cost of debt</b>                               |              |              |              |              |              |              |              |              |              |              |              |              |             |
| Cost of debt (pre-tax)                            | 7.0%         | 7.7%         | 7.3%         | 6.7%         | 6.4%         | 6.3%         | 6.3%         | 6.3%         | 6.3%         | 6.3%         | 6.3%         | 6.3%         | 5.8%        |
| Effective tax rate                                | 21%          | 21%          | 20%          | 20%          | 20%          | 20%          | 20%          | 20%          | 20%          | 20%          | 20%          | 20%          | 20%         |
| <b>After-tax cost of debt</b>                     | <b>5.5%</b>  | <b>6.1%</b>  | <b>5.8%</b>  | <b>5.4%</b>  | <b>5.2%</b>  | <b>5.0%</b>  | <b>5.0%</b>  | <b>5.0%</b>  | <b>5.0%</b>  | <b>5.0%</b>  | <b>5.0%</b>  | <b>5.0%</b>  | <b>4.6%</b> |
| <b>WACC</b>                                       |              |              |              |              |              |              |              |              |              |              |              |              |             |
| Weight of debt                                    | 0%           | 0%           | 0%           | 0%           | 0%           | 0%           | 0%           | 0%           | 0%           | 0%           | 0%           | 0%           | 0%          |
| Weight of equity                                  | 100%         | 100%         | 100%         | 100%         | 100%         | 100%         | 100%         | 100%         | 100%         | 100%         | 100%         | 100%         | 100%        |
| Cost of equity                                    | 10.9%        | 10.9%        | 10.9%        | 10.9%        | 10.9%        | 10.9%        | 10.9%        | 10.9%        | 10.9%        | 10.9%        | 10.9%        | 10.9%        | 9.9%        |
| After-tax cost of debt                            | 5.5%         | 6.1%         | 5.8%         | 5.4%         | 5.2%         | 5.0%         | 5.0%         | 5.0%         | 5.0%         | 5.0%         | 5.0%         | 5.0%         | 4.6%        |
| <b>WACC</b>                                       | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>10.9%</b> | <b>9.9%</b> |
| Discount multiple                                 | 1.00         | 1.00         | 1.10         | 1.22         | 1.35         | 1.50         | 1.66         | 1.84         | 2.05         | 2.27         | 2.52         | 2.79         |             |
| Discount factor                                   | 1.00         | 1.00         | 0.91         | 0.82         | 0.74         | 0.67         | 0.60         | 0.54         | 0.49         | 0.44         | 0.40         | 0.36         |             |
| <b>PV of free cash flow (PLN m)</b>               |              |              | <b>7.0</b>   | <b>9.3</b>   | <b>9.6</b>   | <b>9.8</b>   | <b>10.2</b>  | <b>9.8</b>   | <b>9.2</b>   | <b>8.8</b>   | <b>8.4</b>   | <b>8.0</b>   |             |

Source: DM IDMSA estimates

Fig. 2 Teta; DCF model (continued)

|   |             |
|---|-------------|
| Sum of FCFFs PVs (PLN m)  | 90.1        |
| Weight of debt in the residual period (%)   | 0%          |
| Weight of equity in the residual period (%)   | 100%        |
| Average cost of equity in the definite period (%)   | 10.9%       |
| Average WACC in the definite period (%)   | 10.9%       |
| WACC in the residual period, base-case scenario (%)   | 9.9%        |
| <b>Residual growth of FCFFs, base-case scenario (%)</b>   | <b>4.0%</b> |
| Residual value (PLN m)  | 388.3       |
| Present value of the residual value (PLN m)   | 139.2       |
| Value of operations (PLN m)   | 229.3       |
| Value of stakes in unconsolidated subsidiaries and affiliates (PLN m)                                     | 0.0         |
| Non-operating assets (PLN m)  | 0.0         |
| Cash and equivalents (PLN m)  | 8.0         |
| Interest-bearing debt (PLN m)   | 0.0         |
| Equity value before minority stakes adjustment (PLN m)  | 237.3       |
| Value of the stakes of the minority shareholders in subsidiaries in which Teta holds <100% stakes (PLN m) | 0.9         |
| Equity value (PLN m)  | 236.4       |
| No. of shares   | 9,000,000   |
| <b>12-month forward fair value of Teta, base-case scenario (PLN)</b>                                      | <b>26.3</b> |

Source: DM.IDMSA estimates

Fig. 3 Teta's DCF valuation; sensitivity analysis

|                             |             | Equity risk premium                 |       |             |       |       |
|-----------------------------|-------------|-------------------------------------|-------|-------------|-------|-------|
|                             |             | 4.00%                               | 4.25% | 4.50%       | 4.75% | 5.00% |
| <b>FCFF residual growth</b> |             | Residual weight of debt             |       |             |       |       |
|                             |             | 0%                                  | 0%    | 0%          | 0%    | 0%    |
|                             |             | Residual WACC                       |       |             |       |       |
|                             |             | 9.5%                                | 9.7%  | 9.9%        | 10.3% | 10.7% |
| Nominal                     | Real        | Implied 12M EFV of Teta (PLN/share) |       |             |       |       |
| 3.0%                        | 1.0%        | 26.0                                | 24.9  | 23.9        | 23.0  | 22.1  |
| 3.5%                        | 1.5%        | 27.4                                | 26.1  | 25.0        | 24.0  | 23.0  |
| <b>4.0%</b>                 | <b>2.0%</b> | 29.0                                | 27.6  | <b>26.3</b> | 25.1  | 24.0  |
| 4.5%                        | 2.5%        | 30.9                                | 29.2  | 27.8        | 26.4  | 25.2  |
| 5.0%                        | 3.0%        | 33.3                                | 31.3  | 29.6        | 28.0  | 26.6  |

Source: DM.IDMSA estimates

#### Local peer-relative EFVs above market share price

The local peer comparison exercise also suggests undervaluation of Teta's equities on the WSE at the moment. The Company trades with discount on forward multiples to the average of a broad universe of WSE-listed software houses. Against the closest peer (Asseco Business Solutions), Teta also trades with a material discount<sup>2</sup>. While we do believe that Teta should be priced with some discount to local peers, due to (i) its smaller size and lower share liquidity, (ii) peers' stronger position in their respective markets (Asseco Poland, ComArch), (iii) broader geographical coverage of peers (Asseco Poland, ComArch, Asseco Slovakia) and (iv) peer's (Asseco Business Solutions) broader product range in terms of customer segments and underlying technologies, Teta's current discount levels seem excessive to us.

<sup>2</sup> Please note that the consensus estimates for the other very close peer, Macrologix, are very scarce.

Fig. 4 Teta's valuation relative to local peers (software houses + CSIs)

|   | 2008E       | 2009E       | 2010E       |
|---|-------------|-------------|-------------|
| EV/EBITDA   |             |             |             |
| <b>Average for local peers:</b>   | <b>10.8</b> | <b>9.0</b>  | <b>8.3</b>  |
| ComArch   | 11.4        | 9.5         | 8.0         |
| Asseco Poland   | 11.5        | 8.2         | 7.5         |
| Asseco Business Solutions   | 10.9        | 9.1         | 7.7         |
| Asseco Slovakia   | 11.2        | 10.2        | 9.6         |
| Macrologic  | 7.4         | 6.9         | n.a.        |
| Infovide  | 12.6        | 10.2        | 8.4         |
| <b>Teta</b>   | <b>7.7</b>  | <b>6.3</b>  | <b>5.2</b>  |
| <i>Teta's premium (discount) to average</i>                               | -29%        | -30%        | -37%        |
| <b>Teta's implied share price at local peers' multiples average (PLN)</b> | <b>24.4</b> | <b>24.3</b> | <b>26.0</b> |
| EV/EBIT   |             |             |             |
| <b>Average for local peers:</b>   | <b>14.1</b> | <b>11.4</b> | <b>9.8</b>  |
| ComArch   | 15.0        | 11.9        | 9.8         |
| Asseco Poland   | 13.9        | 9.7         | 8.9         |
| Asseco Business Solutions   | 13.8        | 11.4        | 9.5         |
| Asseco Slovakia   | 13.3        | 12.1        | 11.3        |
| Macrologic  | n.a.        | n.a.        | n.a.        |
| Infovide  | 14.7        | 11.7        | 9.6         |
| <b>Teta</b>   | <b>9.6</b>  | <b>7.8</b>  | <b>6.3</b>  |
| <i>Teta's premium (discount) to average</i>                               | -32%        | -31%        | -36%        |
| <b>Teta's implied share price at local peers' multiples average (PLN)</b> | <b>24.4</b> | <b>23.4</b> | <b>22.9</b> |
| P/CE  |             |             |             |
| <b>Average for local peers:</b>   | <b>14.2</b> | <b>12.1</b> | <b>11.1</b> |
| ComArch   | 14.8        | 12.8        | 11.5        |
| Asseco Poland   | 13.2        | 9.8         | 9.4         |
| Asseco Business Solutions   | 13.0        | 11.9        | 10.9        |
| Asseco Slovakia   | 14.1        | 12.6        | 11.9        |
| Macrologic  | n.a.        | n.a.        | n.a.        |
| Infovide  | 15.6        | 13.2        | 11.8        |
| <b>Teta</b>   | <b>9.6</b>  | <b>8.2</b>  | <b>7.4</b>  |
| <i>Teta's premium (discount) to average</i>                               | -33%        | -32%        | -34%        |
| <b>Teta's implied share price at local peers' multiples average (PLN)</b> | <b>25.9</b> | <b>25.6</b> | <b>26.4</b> |
| P/E   |             |             |             |
| <b>Average for local peers:</b>   | <b>17.8</b> | <b>14.9</b> | <b>13.5</b> |
| ComArch   | 19.7        | 16.1        | 14.0        |
| Asseco Poland   | 16.4        | 11.9        | 11.4        |
| Asseco Business Solutions   | 16.8        | 15.4        | 13.8        |
| Asseco Slovakia   | 17.7        | 15.6        | 14.6        |
| Macrologic  | n.a.        | n.a.        | n.a.        |
| Infovide  | 18.6        | 15.4        | 13.6        |
| <b>Teta</b>   | <b>12.6</b> | <b>10.6</b> | <b>9.3</b>  |
| <i>Teta's premium (discount) to average</i>                               | -29%        | -29%        | -31%        |
| <b>Teta's implied share price at local peers' multiples average (PLN)</b> | <b>24.7</b> | <b>24.5</b> | <b>25.5</b> |

Ratios based on adjusted EBIT and adjusted net income numbers.

1. ComArch. Adjusted profits exclude the impact of SOCs, one-off gain on divestiture of Interia.pl and recognition via P&L of SEZ-related deferred tax asset (and its subsequent amortization).

2. Asseco Poland. Calculated on the basis of proportional consolidation of P&Ls and BSs of subsidiaries in which Asseco Poland holds <100% stakes. Adjusted profits exclude paper gains on diluting the stakes in subsidiaries.

3. Teta. Multiples calculated assuming proportional consolidation of companies in which Teta holds <100% stakes.

4. Asseco Business Solutions. Calculated on the basis of proportional consolidation of P&Ls and BSs of subsidiaries in which Asseco Business Solutions holds <100% stakes.

5. Asseco Slovakia. Calculated on the basis of proportional consolidation of P&Ls and BSs of subsidiaries in which Asseco Slovakia holds <100% stakes.

6. Infovide. Adjusted EBIT and adjusted NI exclude IFRS2 SOCs. Calculated on the basis of proportional consolidation of P&Ls and BSs of subsidiaries in which Infovide holds <100% stakes.

Source: Reuters' consensus estimates (Macrologic), DM IDMSA estimates.

**Deep discount to foreign peers**

As far as the valuation of Teta relative to foreign peers (vendors of ERP and related software) goes, the Company is being priced with deep discounts, which we do not find justified (at least at such a deep level).

Fig. 5 Teta's valuation relative to foreign peers (ERP and related software)

|   | 2008E       | 2009E       | 2010E       | 2008E       | 2009E       | 2010E       | 2008E       | 2009E       | 2010E       |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Company   | EV/EBITDA   |             |             | EV/EBIT     |             |             | P/E         |             |             |
| <b>Average for foreign peers:</b>   | <b>11.4</b> | <b>9.7</b>  | <b>8.2</b>  | <b>13.5</b> | <b>11.1</b> | <b>10.2</b> | <b>19.3</b> | <b>16.0</b> | <b>12.9</b> |
| Autonomy Corporation  | 21.9        | 17.5        | 14.9        | 23.6        | 18.9        | 15.9        | 32.6        | 26.5        | 22.4        |
| Misys plc   | 10.6        | 9.6         | 8.9         | 12.4        | 11.1        | 9.8         | 14.9        | 13.6        | 11.9        |
| Sage group plc  | 10.6        | 9.9         | 9.3         | 11.4        | 10.6        | 9.9         | 15.4        | 13.7        | 12.5        |
| SAP AG  | 11.0        | 9.0         | 8.0         | 11.9        | 9.8         | 8.6         | 16.8        | 14.2        | 12.2        |
| Simcorp A/S   | 13.2        | 11.6        | 9.7         | 14.2        | 12.2        | 10.3        | 20.5        | 16.9        | 14.3        |
| Oracle  | 10.3        | 9.2         | 8.0         | 11.3        | 9.9         | 8.9         | 16.4        | 14.3        | 12.7        |
| Microsoft   | 10.0        | 9.0         | 8.4         | 10.8        | 9.7         | 8.9         | 16.3        | 14.4        | 13.1        |
| Lawson Software   | 12.2        | 9.5         | 8.0         | 16.5        | 11.0        | 9.0         | 24.9        | 17.3        | 13.2        |
| Cognos  | 18.0        | 14.9        | n.a.        | 19.8        | 15.8        | n.a.        | 24.2        | 19.8        | n.a.        |
| Business Objects  | 15.6        | 13.0        | n.a.        | 17.3        | 14.1        | n.a.        | 28.7        | 24.9        | n.a.        |
| Epicor Software   | 7.5         | 7.2         | n.a.        | 8.8         | 6.9         | n.a.        | 11.6        | 10.1        | n.a.        |
| QAD Inc   | 8.1         | 6.8         | n.a.        | 11.0        | 9.0         | n.a.        | 20.7        | 15.6        | n.a.        |
| Indust & Financial System   | 3.8         | 3.7         | 3.1         | 7.7         | 7.1         | n.a.        | 11.4        | 11.0        | 6.8         |
| IBS AB  | 6.3         | 4.7         | 4.4         | 11.9        | 9.2         | n.a.        | 16.3        | 11.6        | 9.7         |
| <b>Teta</b>   | <b>7.7</b>  | <b>6.3</b>  | <b>5.2</b>  | <b>9.6</b>  | <b>7.8</b>  | <b>6.3</b>  | <b>12.6</b> | <b>10.6</b> | <b>9.3</b>  |
| <i>Teta's premium (discount) to average</i>                                 | <i>-33%</i> | <i>-35%</i> | <i>-37%</i> | <i>-28%</i> | <i>-30%</i> | <i>-38%</i> | <i>-35%</i> | <i>-34%</i> | <i>-28%</i> |
| <b>Teta's implied share price at foreign peers' multiples average (PLN)</b> | <b>25.6</b> | <b>26.0</b> | <b>26.0</b> | <b>24.1</b> | <b>24.2</b> | <b>26.5</b> | <b>26.8</b> | <b>26.3</b> | <b>24.3</b> |

Note: Multiples for Teta calculated assuming proportional consolidation of companies in which Teta holds <100% stakes.  
Source: Reuters, DM IDMSA estimates

### 3. Drivers

- ▲ The 2006-2007 double-digit growth of the ERP market in Poland is expected to extend for next few years, on the back of a solid list of underlying drivers, and is supported by current low level of ERP systems saturation among SMEs.
- ▲ The SME segment of the ERP market is expected to grow faster than the large corporations' niche, which attracts the interest of global players and signals heating up competition, likely, in our view, to cap the ability of strong local players to further improve their margins. On the other hand, the progressing consolidation and growing competitive pressure will doom the horde of tiny local SME ERP software vendors.
- ▲ The longer-term local market consolidation scenario: will the foreign giants eye leading domestic ERP houses as takeover targets?
- ▲ New license sales are the core of the ERP/HR software business, driving both software implementation and maintenance revenues; new licenses make the cake, and the maintenance is the cherry on the top of the pie.
- ▲ Strong local ERP software houses grow also via acquisitions; here Teta's track-record is quite poor (two out of three to-date takeover attempts failed). In the M&A area Teta may come under greater time pressure; the capital increase proceeds need to be spent by August this year (otherwise will have to be earmarked for a share buy-back).

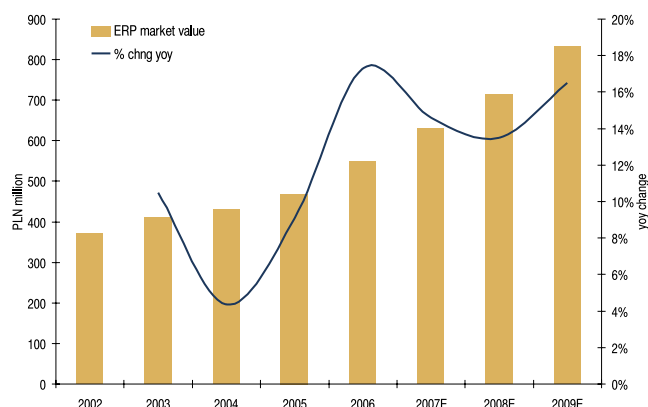
#### 3.1. The market

Past two years' robust growth of the ERP market in Poland expected to extend for next few years, on the back of a solid list of underlying drivers,...

During the 2004-2006 period the growth of the ERP market in Poland has been clearly accelerating, from the level of low single-digit numbers well into the teens range; while no 2007 data are available yet, according to market's participants the growth last year came in the vicinity of c. 15% (in line with IDC's forecasts). Furthermore, this segment of the IT market is expected to maintain its vivid growth in the mid-term, advancing at c. 15% yoy rates in 2008-2009E, on the back of:

- ▲ continued healthy GDP growth, spurring rise in corporate investments (inclusive of IT outlays),
- ▲ EU funding to projects designed to foster SMEs' (small- and medium-sized enterprises) competitiveness,
- ▲ better financial situation of enterprises, enabling them to expand the functionalities of their ERP packages beyond the basic modules (this factor especially pertains to SMEs, whose investment demand is more sensitive to swings in the economic cycle than that of the large corporations),

Fig. 6 ERP market in Poland



Source: IDC

- ▲ increasing competition across an array of industries prompting companies to more vigorously search for tools enhancing their competitive power.

**...and is supported by current low level of ERP systems saturation among enterprises in Poland**

Such growth expectations appear to be well grounded by the current low level of saturation of the enterprises in Poland with ERP applications; according to CSO's (GUS, in Polish abbreviation) estimates, c. 13% of all enterprises is equipped with such a system (50% of large enterprises, 25% of mid-sized enterprises, and less than 10% of small enterprises).

**Two segments of the ERP market: applications for large corporations (dominated by global vendors),...**

From the vendor and product-type perspective, there are two distinct segments of the ERP market; one for large corporations, and one for SMEs. The former, encompassing also multinationals (local branches of foreign companies often have to use the same software applications as their parents), is dominated by global ERP vendors (SAP, Oracle, Sage, Microsoft, Infor, Lawson), offering their integrated systems capable of servicing various units of a large corporation with hundreds of simultaneous users' at premium prices.

**...and for SMEs (here the local houses reign)**

The latter segment is inhabited by a group of domestic software vendors (ComArch, Asseco Business Solutions, Teta, BPSC, Macrologic, Simple), though foreign players (Microsoft, Sage (following its acquisition of the rights to the Symfonia application from Matrix) or SAP) are becoming increasingly present there. The global ERP vendors are lured into the SME domain by the differential in ERP systems' saturation levels between the large enterprise and SME segments, inescapably translating into more favorable growth profile of the latter; consequently, they are scaling down their ERP suites to the budgets and requirements of SMEs (e.g. SAP's Business ByDesign SME ERP pack has already been offered in the west, and is expected to be introduced into the Polish market some time next year). While such actions unanimously corroborate the superior growth outlook of the SME segment – which, apart from the lower saturation argument, is underpinned by (i) higher sensitivity of the SMEs' investment demand to the swings in the entire economy (a feature clearly supportive at the current phase of the cycle), and (ii) SMEs' shallower (in comparison to large corporations) pockets, reinforcing the effect of EU funding – they are simultaneously tantamount to a rising level of competition on the mid-term horizon.

**The latter expected to grow ahead of the former,...**

**... which attracts the interest of global players and signals heating up competition**

**The myriad of tiny local SME ERP software vendors is doomed as the consolidation progresses**

Additionally, Polish SME ERP systems domain is inhabited by a horde (app. 200) of tiny local players, providing their software to a few accounts only (or even a single one); in such cases software maintenance and upgrade costs are high from the user perspective, which increasingly prompts the customers of these tiny ERP providers to migrate into the mainstream vendors' applications, as their standardized solutions and larger scale of operations allow for much lower per client maintenance and annual service costs. We expect this tendency to continue in the coming years, resulting in the elimination of these marginal players from the market and further consolidation of the domestic market for ERP solutions. The consolidation of the fragmented local ERP market has already started, with Asseco Business Solutions (a company created on the basis of a merger of three local ERP vendors – Wa-Pro, SoftLab and Safo), taking the clear lead in this field, assembling a comprehensive ERP product offer in terms of the client orientation (from micro- to large enterprises) and underlying data-base technologies (both Oracle and Microsoft SQL), and intending to pursue its aggressive acquisition spree (in line with its parent's (Asseco Poland's) spirit) in the foreseeable future. The way we see it, Asseco Business Solutions is unlikely to materially alter the competitive landscape for other strong local ERP vendors by the time its prepares a new product suite (which could take c. 2 years); this "status-quo" period could, however, shorten to c. 1-1.5 year, if instead of writing a new software Asseco Business Solutions decides to localize (i.e. polonize) the applications of foreign ERP vendors within Asseco Poland's (its parent company) capital group (e.g. of Czech LCS or German AP Automation + Productivity). All in all, however, whatever course of action is taken by Asseco Business Solutions, the status-quo will continue at least by the end of this year.

**Asseco Business Solutions on the forefront of the consolidation processes**

**Looming encroachment of global ERP vendors into the locals' SME home turf => potential to further grow margins may be capped**

With the consolidation under way and looming global players' greater focus on the SME segment, it is widely believed that down the road there may be room for 3-5 domestic ERP software vendors on the market. While subscribing to this assertion it is worth considering who might emerge among the victors from this consolidation process. In this context we see a number of potential successful survivors: segment's leaders (ComArch and Asseco Business Solutions), BPSC, Teta, possibly Macrologic. Though the threat of global vendors' encroachment into the locals' home turf does exist, we would not overestimate it, due to lower ability to tailor their products to client's needs at an affordable price. We believe this trend would rather accelerate the elimination of the marginal local vendors from the market than put an enormous pressure on strong local producers (though may

**Will the foreign giants eye leading domestic ERP houses as takeover targets?**

squeeze their margins, or at least cap their further enhancement), or alternatively may take the form of global players acquiring leading local SME ERP providers<sup>3</sup>, though probably for this to materialize local leading ERP houses would need first to gain the critical mass (by consolidating the market themselves) to become noticeable on their radar screens.

**Conclusion: the mid-term market outlook seems reasonably favorable for strong local ERP houses**

Summing up, it appears that the ERP software market in Poland is facing few more years of a double-digit growth (providing that the economy does not falter), especially in its SME segment. The inevitable consolidation of the market is likely to eliminate small local vendors from the market, squeezed out by 3-5 strong local players and increasingly present foreign software producers, whose growing focus on the SME part of the market may, on one hand, put a cap on the ability of leading local players to further enhance their margins, and – on the other – introduce the former as potential takeover targets into the radar screen of the latter. Overall, we perceive such an environment and market outlook as fairly favorable to strong local ERP software houses.

### 3.2. The Company

**An ERP/HR software house since the inception**

Founded 21 years ago, since its inception Teta focused on development of HR software solutions, expanding in time the functionality of its applications to one of a full-blown ERP package. The development of the Company's applications was facilitated by private equity funding; Enterprise Investors (EI) bought into Teta in 1998. Following EI's exit in the December'05-January'06 and Teta's IPO, it is currently mainly owned by financial investors.

**No client concentration risk**

Teta is an ERP-HR software house targeting the SME segment of the market. The proprietary software-related revenues (sale of new licenses and their implementation, software maintenance services) account for the bulk of Teta's business. Additionally to proprietary software, the Company also offers third-party software (data bases, IT security) and hardware; these sales always had an auxiliary character constituting part of works related to proprietary software implementations. The Company's business model eliminates the account concentration risk; with >100 new system licenses sold p.a. and over 1,200 accounts in the maintenance service, Teta's reliance on any particular client is fully manageable.

Teta's proprietary software business encompasses three interrelated streams of revenues: (i) sale of new software licenses, (ii) software implementation services (putting Teta's applications into operation in the client's hardware and system software environment) and (iii) software maintenance services (safeguarding smooth operations and up-to-date content).

**New license sales are the core of business, driving both software implementations...**

The core of Teta's offer is the sale of new software licenses, which constitutes the pre-requisite for (i) pocketing in the software implementation revenues, and (ii) growing the pool of seasoned customers paying the annual maintenance fees. The software implementation services allow in turn Teta to additionally sell hardware and third-party software as a part of the entire package (this, however, bears few fold lower, though positive, margins).

**...and maintenance revenues**

**New licenses make the cake; maintenance is the cherry on the top of it**

The beauty of the software maintenance service<sup>4</sup> lies in the predictable nature of the revenues, and – foremost – their high profitability. The profitability of the maintenance service is likely to rise further on the back of high operating leverage<sup>5</sup>, and efficiency-enhancing moves.

**Proprietary ERP/HR software complemented by knowledge management applications and payroll outsourcing**

The Company's ERP/HR suite – (i) Teta Business Partner (an ERP application for the "S" niche of the SME segment), (ii) Teta2000/Teta Constellation (older/newer ERP software for the "M" niche of the SME segment), (iii) Teta Retail (an ERP application tailored to the needs of retailers), and Teta Kadry-Place/ Teta HR/ Teta HRM (HR packages) – is accompanied by (i) the knowledge management

<sup>3</sup> As a master of fact, we have already witnessed such a transaction on the local market – Sage's acquisition of Matrix's Symfonia ERP suite assets.

<sup>4</sup> The software maintenance services encompass: (i) application's updates in accordance with changing laws and regulations, (ii) new functions implementation, (iii) application administration both on-site and via the Internet, (iv) upgrades to new software versions, (v) hot-line and (occasionally) on-site consultancy.

<sup>5</sup> Marginal cost of adding a new account to the maintenance service clients' pool is practically zero.

applications of Pyton, 70% subsidiary (the only successful acquisition of the Company so far) and (ii) complementary payroll outsourcing services (launched in mid-2007)<sup>6</sup>.

**Strong local ERP software houses grow also via acquisitions; here the Company's track-record is quite poor (two out of three to-date takeover attempts failed)**

The way we see it, even strong local SME ERP vendors are not able to grow organically much faster than the market for longer time periods (e.g. Teta, or the past track record of Safo, Softlab and Wa-Pro – the three ERP providers that merged into Asseco Business Solutions), which necessitates external fuel in the form of acquisitions to accelerate the organic momentum. Teta appears to be fully aware of that (as well as of the fact that the time for the consolidation is now), and for past two years has been striving to execute M&A deals, both domestically and abroad (CEE region). Unfortunately, the way we see it, the to-date track record of the company in this field is fairly poor; out of three advanced acquisition attempts only one (Pyton) was successfully finalized; the other two (Czech ERP vendor LCS and a Hungarian ERP software house) failed at their final stages, due to various reasons (LCS decided to join much stronger regional capital group of Asseco Slovakia, the owners of the approached Hungarian company “changed their minds” regarding the proposed transaction technicalities in the very last moment). This way or another, the Company's success ratio in this field is fairly low, which explains our stance towards the prospective M&A transactions (their exclusion from the financial forecasts and valuation by the time they actually materialize).

**Talks with another foreign ERP target are under way**

Hence, even though currently the Company is in advanced M&A talks with yet another leading vendor of ERP/HR software in Hungary (with annual revenues in excess of Euro 5 million and “sound” profitability), we will wait for this deal to be sealed in blood before we start to include it into our “Teta story”. The acquisitive attempts of Teta need to be put in the context of its 1Q07 capital increase (c. PLN 19 million of proceeds gathered with an aim to finance the M&As), which requires the Company to spend the issue proceeds on takeover purposes by August 2008; otherwise, the cash will need to be earmarked for a buy-back and redemption of own shares. This time constraint needs to be remembered, as with further passage of time Teta will come under time pressure, which (at least theoretically) could (though does not have to) promote inferior investment choices, and – here we have no doubts – may decrease the Company's bargaining power with relation to the current owners of takeover targets.

**In the M&A area Teta may come under greater time pressure; the capital increase proceeds need to be spent by August this year (otherwise will have to be earmarked for a share buy-back)**

<sup>6</sup> While this endeavor seems to constitute a by-product of the Company's core operations (calculation of payrolls for external accounts' employees rather than proprietary software implementation), we like the idea, as (at minor capex and short expected pay-back period (i.e. low downside risk)) it constitutes a good fit for the core business, providing source of incremental revenues (and profits; this project's post-tax EBIT margin is seen at c. 15%) and some softening of the quarterly results' seasonality.

## 4. Financial forecast

- ▲ Due to mediocre (at best) track record, our forecasts do not incorporate the impact of possible acquisitions.
  
- ▲ Very strong 4Q07E numbers are unlikely to result in a major re-rating of Teta's share price on the WSE, as the implied FY2007 numbers are likely to come out in line with the management's forecast.
  
- ▲ Margin scenario for Teta: increasing competition on a market which is far from its saturation levels will cap further progression of margins, but not necessarily will drive them steeply down.
  
- ▲ We forecast a solid organic growth at Teta in the mid-term (2008-2010E CARGs of sales, EBITDA and NI of, respectively, 16%, 16% and 20%), with 2008E bottom line coming out at PLN 12.5 million (30% up yoy).
  
- ▲ Management's tentative loose guideline (not an official forecast) on 2008E results outlook (top line at c. PLN 100 million, NI at app. PLN 15 million) includes the estimated impact of a possible Hungarian ERP/HR house takeover (possible, but not certain); after stripping it off, the implied management's figures come out reasonably close to our forecasts.

### 4.1. Quarterly results corner; 4Q07E preview

**Very strong 4Q07 results forecasted, on the back of robust ERP market performance and consolidation of Pyton,...**

For 4Q07 (the year's harvest season for ERP vendors) we forecast Teta to show very strong financial posting, with almost doubled yoy operating profit, <80% yoy improvement of bottom line, and <60% yoy growth of sales. While the robust growth of the ERP market (especially in the SME segment) should constitute the main driving force behind the Company's quarterly performance, it should be remembered that the yoy dynamics of Teta's reported figures is boosted by Pyton's contribution (70%-owned knowledge management systems subsidiary, which was not consolidated for 2006).

Fig. 7 Teta's 4Q07 forecasted results

| 2007 – IFRS consolidated,<br>2006 – PAS unconsolidated |       |       | yoy    |         |        | yoy    | realization             |      |
|--|-------|-------|--------|---------|--------|--------|-------------------------|------|
|  | 4Q07E | 4Q06  | change | 1-4Q07E | 1-4Q06 | change | of the FY figures in 4Q |      |
|  |       |       |        |         |        |        | 2007E                   | 2006 |
| Sales (PLN m)  | 23.3  | 14.7  | 59%    | 61.4    | 39.9   | 54%    | 38%                     | 37%  |
| EBITDA (PLN m)   | 8.7   | 4.2   | 105%   | 16.0    | 8.7    | 85%    | 54%                     | 49%  |
| EBITDA margin  | 37.2% | 28.8% | -      | 26.1%   | 21.7%  | -      | -                       | -    |
| EBIT (PLN m)   | 7.5   | 3.8   | 98%    | 12.9    | 7.1    | 82%    | 58%                     | 53%  |
| EBIT margin  | 32.0% | 25.7% | -      | 21.0%   | 17.7%  | -      | -                       | -    |
| Pre-tax profit (PLN m)                                 | 7.3   | 3.7   | 98%    | 13.0    | 6.9    | 89%    | 56%                     | 54%  |
| Pre-tax margin   | 31.4% | 25.2% | -      | 21.2%   | 17.2%  | -      | -                       | -    |
| Net profit (PLN m)                                     | 5.5   | 3.1   | 78%    | 9.6     | 6.4    | 50%    | 57%                     | 48%  |
| Net margin   | 23.5% | 21.1% | -      | 15.7%   | 16.0%  | -      | -                       | -    |

Source: Company, DM IDMSA estimates

**...is unlikely to spur a positive reaction of the market, as the FY2007 numbers are likely to come out in line with the management's forecast**

Despite expected stellar financial performance for 4Q07 (and undemanding valuation of the Company's equities on the WSE; regarding the details, please refer to the *Valuation* section of this research report), they are unlikely, in our view, to provide a meaningful positive catalyst for the share price performance, as such quarterly financial posting would translate – from the FY2007 results' perspective – into FY numbers broadly in line with the management's forecast (envisaging FY2007 revenues of PLN 60 million and FY2007 net income of PLN 10 million).

## 4.2. Revenues

### Future M&As excluded from the forecast

For the reasons explained in the preceding sections, our forecast of Teta's financial results does not incorporate the possible impact of Company's planned M&As (Hungarian ERP/HR software house, etc.). On the other hand, though, we assume that over the 2008-2009 span the Company will execute its call options on the remaining 30% stake in Pyton, rising its equity holding to 85% this year and to 100% next year (this does not impact the sales or EBIT forecasts, but favorably effects NI projections (evaporating minorities' component)).

### Various (i) drivers, (ii) underlying costs structures and (iii) profitability necessitate disaggregating Teta's revenues for forecasting purposes

In forecasting Teta's (parent company's) revenues we have differentiated between sales of products (proprietary software and services) and goods (hardware and third-party software sales, supplementary to the core business of proprietary ERP/HR software provision). Further on, within the products area, we differentiate between (i) sales of new licenses and (related) implementation services and (ii) software upgrades and maintenance, due to: (i) various drivers of these revenue streams (new customers vs. "old" customers), (ii) different cost structures relating to them (e.g. much higher operating leverage in software maintenance than in new implementations), and (iii) material differences in their profitability. On the top of it we superimpose our projections for knowledge management software and payroll outsourcing, which are run via Company's subsidiaries.

### The Company's profits and EFV are not sensitive to sales of goods assumption, due to embedded low profitability

As noted above, Teta's sales of goods constitute an auxiliary add-on to the core business of proprietary software provision, related mainly to the new implementations. Consequently, we link the pace of growth of the goods' sales to our projections related to Teta's ERP/HR software new implementation revenues (with the forward CAGR of the former lagging, however, the latter's). Please note that the trends in the sales of goods area are not (largely due to auxiliary nature of these activities and low margin realized on them) of major importance to Teta's profits and EFV; to visualize, please note that should we assume that the Company's sales of goods remain flat in perpetuity at their 2007E level, our forecast of Teta's forward profits would be lower by a mere 1-2%, and our assessment of Teta's 12M EFM would be lower by PLN 0.4 per share (<1.5%).

### New license sales depend on volumes and average unit prices

As far as the Company's sales of new licenses (and related implementation services) go, we have adopted two main assumptions, regarding the number of new implementations per annum and their average size; we discuss them below.

- ▲ *No. of new implementations.* We assume that last year Teta sold its ERP and HR packages to 115 new accounts (up from 95 in 2006); we assume that this number will grow to 123 this year, and beyond 2008E will drift slowly upward, reaching 145 in 4-year time (remaining flat at that level thereafter). We believe that the main driving force of this year's new licenses sales should be Teta Constellation, though sales of Teta HRM should also continue to be strong.
- ▲ *Unit price.* The average value of the new licenses (with related implementation services) sold by the Company in a given year depends on the proportion of "larger" (i.e. more expensive) applications' implementations (e.g. Teta Constellation, Teta2000) to "smaller" (i.e. cheaper) applications' implementations (e.g. Teta BP, Teta HRM) in the period. We estimate that during the 2005-2006 period, it was trending upwards at a double-digit rate, most likely due to declining new licenses' sales of Teta BP and growing number of Teta2000's new implementations. As last year Teta HRM drove the Company's new licenses' sales, we would expect to see some decline of the average "unit price" for 2007. Going forward, however, we expect the growth in new accounts to be more driven by Teta Constellation, which translates into an assumption of the average "unit price" returning to its upward trend (c. 5% forward CAGR; much below the 2005-2006 pace, due to much higher contribution of the HR packages to the overall growth).

Overall the above assumptions imply c. 15% yoy growth of the Company's new ERP/ HR licenses this year, and c. 11% CAGR over 2008-10E. Such growth numbers do not appear especially bullish given forecasts for the ERP segment in Poland, envisaging c. 15% mid-term growth rates (please refer to *Chapter 3.1*, regarding the details).

Software upgrade/maintenance sales exhibit quite different economics than the new licenses sales. First, they are characterized by much higher operating leverage, implying at their current levels,



**Software maintenance sales: (i) less volatile than new licenses sales, (ii) embedded upward drift**

much higher profitability. This is a positive feature, providing profit and cash flow cushion to the Company in times of the market's downturns. Second, derived from c. 10 times larger number of accounts that the new license sales, they exhibit much larger stationarity, with a typical upward drift due to (i) preceding year's new license clients joining the maintenance service, and (ii) the upgrades in the level of annual maintenance fee.

Approaching the forecast of Teta's revenues from the upgrade and maintenance service the main assumptions relate to the number of new customers joining the service, the churn among the existing customers and the trend in the annual maintenance fee. We discuss them below.

- ▲ *The number of new-joiners to the service.* This is a no-brainer; given the business economics, we set it at the number of the previous year's new buyers of the Company's proprietary applications.
- ▲ *The churn.* An outflow of customers from the pool paying the annual maintenance fees has not been historically a major issue at Teta (churn in the range of 1-2%; with a hefty margin offset by the additions to the maintenance clients' pool from the new-joiners). We assume that this will hold in the future.
- ▲ *The number of customers paying the annual upgrade/maintenance fees.* It constitutes a simple consequence of the net additions to the service (new joiners less churners). The aforementioned assumptions result in doubling the assumed number of Teta's seasoned customers in the maintenance service over the next decade (from app. 1.3 ths as of eop 2007E).
- ▲ *Annual changes of the maintenance fee.* According to our estimates, historically the yoy changes in this fee level have not been materially diverging from the inflation. Going forward, we assume this relationship will continue.

**The bulk of the Pyton-Teta cross-selling opportunities likely to be explored by the end of this year**

We assume that the bulk of Pyton's knowledge-management software cross-selling opportunities to Teta's „old” ERP/HR accounts will be explored by the end of 2008E; consequently, following strong growth last year (we forecast Pyton's revenues at PLN 11 million, c. 70% increase over 2006), we assume vivid (though slower than last year), c. 40% yoy, growth this year, followed by a major deceleration beyond (first to c. 10% rates, and then (from 2011E onwards) to 5%).

**Payroll outsourcing project to fully develop over the course of three years**

As far as the payroll outsourcing goes, we do not incorporate possible replications of this project into other countries (e.g. Ukraine), and include only its development on the local market; we assume project's revenues rising to c. PLN 4 million this year and to c. PLN 8 million in 2010E; afterwards, we assume flattening of growth towards c. 5% rate.

**Management's informal 2008E top line target (PLN 100 million) includes the M&A-introduced component; stripping it off, we see a reasonable convergence with our current forecast**

Putting the above bits together, we forecast Teta's FY2008 consolidated revenues at PLN 76 million (up 24% yoy), with next three-year top line's CAGR at c. 16%. While our current 2008 forecast dwells visibly below the management's signaling (c. PLN 100 million; please note that this is not an official forecast), the latter incorporates the incremental impact of a takeover of a Hungarian ERP/HR company, which is being approached by Teta. As the Company disclosed that this target generates revenues in excess of Euro 5 million per annum, removing them from the management's unofficial guidance, results in implied FY2008E sales of c. PLN 80 million – reasonably close to our projection (PLN 76 million).

Fig. 8 Teta's sales split (PLN m)

|                     | 2003        | 2004        | 2005        | 2006        | 2007E       | 2008E       | 2009E       | 2010E       | 2011E        | 2012E        | 2013E        | 2014E        | 2015E        | 2016E        | 2017E        | 2018E        |
|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Total sales:</b> | <b>28.4</b> | <b>33.3</b> | <b>34.2</b> | <b>39.9</b> | <b>61.4</b> | <b>76.2</b> | <b>85.8</b> | <b>95.8</b> | <b>104.2</b> | <b>112.0</b> | <b>118.3</b> | <b>124.7</b> | <b>131.5</b> | <b>138.5</b> | <b>145.8</b> | <b>153.5</b> |
| Teta S.A.:          | 28.4        | 33.3        | 34.2        | 39.9        | 49.4        | 56.8        | 62.0        | 68.4        | 75.0         | 81.3         | 86.0         | 90.9         | 95.9         | 101.1        | 106.6        | 112.3        |
| Goods               | 7.2         | 6.7         | 5.2         | 4.9         | 9.0         | 10.5        | 11.6        | 12.3        | 12.9         | 13.5         | 14.1         | 14.5         | 14.9         | 15.4         | 15.8         | 16.3         |
| Products:           | 21.2        | 26.6        | 29.0        | 35.0        | 40.4        | 46.2        | 50.5        | 56.1        | 62.1         | 67.7         | 72.0         | 76.4         | 81.0         | 85.8         | 90.8         | 96.0         |
| New licenses        | 12.9        | 17.3        | 19.9        | 25.5        | 30.0        | 34.4        | 37.3        | 41.5        | 45.9         | 49.9         | 52.4         | 55.0         | 57.8         | 60.7         | 63.7         | 66.9         |
| Maintenance         | 6.8         | 7.5         | 8.4         | 9.5         | 10.4        | 11.8        | 13.2        | 14.6        | 16.2         | 17.8         | 19.5         | 21.3         | 23.2         | 25.1         | 27.1         | 29.1         |
| Other               | 1.6         | 1.8         | 0.8         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Pyton               | 0.0         | 0.0         | 0.0         | 0.0         | 11.0        | 15.4        | 17.7        | 19.5        | 20.5         | 21.5         | 22.6         | 23.7         | 24.9         | 26.1         | 27.4         | 28.8         |
| Payroll outsourcing | 0.0         | 0.0         | 0.0         | 0.0         | 1.0         | 4.0         | 6.0         | 8.0         | 8.8          | 9.2          | 9.7          | 10.2         | 10.7         | 11.2         | 11.8         | 12.4         |

Source: Company, DM IDMSA estimates

Fig. 9 Teta's sales; % yoy change

|                     | 2003 | 2004 | 2005 | 2006  | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E |
|---------------------|------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Total sales:</b> | -1%  | 17%  | 3%   | 17%   | 54%   | 24%   | 13%   | 12%   | 9%    | 7%    | 6%    | 5%    | 5%    | 5%    | 5%    | 5%    |
| Teta S.A.:          | -1%  | 17%  | 3%   | 17%   | 24%   | 15%   | 9%    | 10%   | 10%   | 8%    | 6%    | 6%    | 6%    | 5%    | 5%    | 5%    |
| - Goods             | 20%  | -7%  | -22% | -5%   | 82%   | 17%   | 10%   | 6%    | 5%    | 5%    | 4%    | 3%    | 3%    | 3%    | 3%    | 3%    |
| - Products:         | -6%  | 25%  | 9%   | 21%   | 15%   | 14%   | 9%    | 11%   | 11%   | 9%    | 6%    | 6%    | 6%    | 6%    | 6%    | 6%    |
| - New licenses      | -14% | 34%  | 15%  | 28%   | 18%   | 15%   | 8%    | 11%   | 11%   | 9%    | 5%    | 5%    | 5%    | 5%    | 5%    | 5%    |
| - Maintenance       | 8%   | 11%  | 11%  | 13%   | 9%    | 14%   | 12%   | 11%   | 11%   | 10%   | 10%   | 9%    | 9%    | 8%    | 8%    | 8%    |
| - Other             | 17%  | 14%  | -56% | -100% | n.m.  | n.m.  | n.m.  | n.m.  | n.m.  | n.m.  | n.m.  | n.m.  | n.m.  | n.m.  | n.m.  | n.m.  |
| Pyton               | n.a. | n.a. | n.a. | n.a.  | n.a.  | 40%   | 15%   | 10%   | 5%    | 5%    | 5%    | 5%    | 5%    | 5%    | 5%    | 5%    |
| Payroll outsourcing | n.a. | n.a. | n.a. | n.a.  | n.a.  | 300%  | 50%   | 33%   | 10%   | 5%    | 5%    | 5%    | 5%    | 5%    | 5%    | 5%    |

Source: Company, DM IDMSA estimates

Fig. 10 Teta's sales structure

|                     | 2003 | 2004 | 2005 | 2006 | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E |
|---------------------|------|------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Total sales:</b> | 100% | 100% | 100% | 100% | 100%  | 100%  | 100%  | 100%  | 100%  | 100%  | 100%  | 100%  | 100%  | 100%  | 100%  | 100%  |
| Teta S.A.:          | 100% | 100% | 100% | 100% | 80%   | 75%   | 72%   | 71%   | 72%   | 73%   | 73%   | 73%   | 73%   | 73%   | 73%   | 73%   |
| - Goods             | 25%  | 20%  | 15%  | 12%  | 15%   | 14%   | 14%   | 13%   | 12%   | 12%   | 12%   | 12%   | 11%   | 11%   | 11%   | 11%   |
| - Products:         | 75%  | 80%  | 85%  | 88%  | 66%   | 61%   | 59%   | 59%   | 60%   | 60%   | 61%   | 61%   | 62%   | 62%   | 62%   | 63%   |
| - New licenses      | 45%  | 52%  | 58%  | 64%  | 49%   | 45%   | 43%   | 43%   | 44%   | 45%   | 44%   | 44%   | 44%   | 44%   | 44%   | 44%   |
| - Maintenance       | 24%  | 23%  | 24%  | 24%  | 17%   | 15%   | 15%   | 15%   | 16%   | 16%   | 17%   | 17%   | 18%   | 18%   | 19%   | 19%   |
| - Other             | 5%   | 5%   | 2%   | 0%   | 0%    | 0%    | 0%    | 0%    | 0%    | 0%    | 0%    | 0%    | 0%    | 0%    | 0%    | 0%    |
| Pyton               | 0%   | 0%   | 0%   | 0%   | 18%   | 20%   | 21%   | 20%   | 20%   | 19%   | 19%   | 19%   | 19%   | 19%   | 19%   | 19%   |
| Payroll outsourcing | 0%   | 0%   | 0%   | 0%   | 2%    | 5%    | 7%    | 8%    | 8%    | 8%    | 8%    | 8%    | 8%    | 8%    | 8%    | 8%    |

Source: Company, DM IDMSA estimates

### 4.3. Profits and margins

#### Product-type-specific margin assumptions

#### Potential for further meaningful progression of Teta's margins capped

Apart from the level of Teta's revenues and their composition (goods vs. products, new licenses vs. maintenance), the main assumptions underlying our forecast of the Company's profits pertain to the margins realized on its product mix. As far as the margin on goods (hardware and third-party software) goes, we assume that it will dwell at c. 10% (broadly in line with the level for 1-3Q07). As far as the payroll outsourcing project goes, we assume c. 15% post-tax profitability (in line with management's guidance), which at the EBIT level translates into c. 19-20% margin. For Pyton's knowledge management software, we assume flat operating profitability in the mid-term (at c. 25%), yet slow erosion in the LT (towards c. 22% level). Finally, for Teta's products (ERP/HR software) we assume broadly flat operating profitability (at their 2007E level of c. 23%). The sales-weighted average of these components produces, at the consolidated EBITDA margin level, a minor growth of margin over the course of 2008-2009E (mainly due to rising share of knowledge management applications, which bear above average profitability), followed by some deterioration in the LT (fairly slow, as the impact of assumed weakening in the embedded profitability of some products is partially offset by declining share of goods (bearing the lowest margins) in the sales structure). Such margin behavior is broadly in line with our conviction that increasing competition on a market which is far from its saturation levels may put a cap on further progression of margins, but not necessarily will pull them steeply down.

#### With no M&A impact, we forecast Teta's 2008E consolidated NI to grow by c. 30% yoy

The above assumptions regarding the operating profitability, after their superimposition on the top line forecast, imply c. PLN 12.5 million at the 2008E consolidated bottom line level, marking c. 30% yoy increase. This figure dwells markedly below the Company's management tentative signaling on the target level of 2008E NI (c. PLN 15 million; we remind that this is not an official forecast), but it should be remembered that the management's loosely guided figure encompasses the incremental impact of the Hungarian ERP/HR software house which the Company hopes to acquire; stripping off its impact (under the assumptions that it enjoys similar net profitability as Teta does, and that a controlling (but not 100% stake) is to be bought) from the management's unofficial guideline, yields implied 2008E "organic" bottom line in the PLN 12.5-13.5 million range, reasonably close to our current forecast.

## 5. Financial Statements

(IFRS consolidated – from 2007E onwards,  
PAS unconsolidated for the previous years)

Fig. 11 Teta; Balance sheet

| PLN m                               | 2005        | 2006        | 2007E       | 2008E       | 2009E        | 2010E        | 2011E        | 2012E        | 2013E        | 2014E        | 2015E        | 2016E        | 2017E        | 2018E        |
|-------------------------------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Fixed assets</b>                 | <b>1.3</b>  | <b>11.0</b> | <b>28.7</b> | <b>29.6</b> | <b>32.6</b>  | <b>33.6</b>  | <b>35.1</b>  | <b>36.4</b>  | <b>37.2</b>  | <b>37.6</b>  | <b>37.7</b>  | <b>37.9</b>  | <b>38.2</b>  | <b>38.4</b>  |
| Intangibles                         | 0.2         | 8.6         | 7.9         | 6.1         | 6.1          | 7.2          | 8.6          | 9.9          | 10.7         | 11.0         | 11.2         | 11.4         | 11.6         | 11.8         |
| Goodwill                            | 0.0         | 0.0         | 14.5        | 14.5        | 14.5         | 14.5         | 14.5         | 14.5         | 14.5         | 14.5         | 14.5         | 14.5         | 14.5         | 14.5         |
| Tangible fixed assets               | 0.7         | 1.5         | 5.4         | 5.1         | 5.1          | 5.1          | 5.2          | 5.2          | 5.2          | 5.2          | 5.2          | 5.2          | 5.3          | 5.3          |
| LT receivables                      | 0.4         | 0.4         | 0.4         | 0.4         | 0.4          | 0.4          | 0.4          | 0.4          | 0.4          | 0.4          | 0.4          | 0.4          | 0.4          | 0.4          |
| LT investments                      | 0.0         | 0.0         | 0.0         | 3.0         | 6.0          | 6.0          | 6.0          | 6.0          | 6.0          | 6.0          | 6.0          | 6.0          | 6.0          | 6.0          |
| LT deferred assets                  | 0.0         | 0.5         | 0.5         | 0.5         | 0.5          | 0.5          | 0.5          | 0.5          | 0.5          | 0.5          | 0.5          | 0.5          | 0.5          | 0.5          |
| <b>Current assets</b>               | <b>22.0</b> | <b>26.8</b> | <b>45.7</b> | <b>58.9</b> | <b>70.3</b>  | <b>88.9</b>  | <b>108.2</b> | <b>129.2</b> | <b>151.6</b> | <b>176.0</b> | <b>201.9</b> | <b>229.6</b> | <b>259.2</b> | <b>290.7</b> |
| Inventories                         | 5.4         | 3.0         | 4.5         | 5.5         | 6.1          | 6.8          | 7.4          | 7.9          | 8.3          | 8.7          | 9.2          | 9.7          | 10.2         | 10.8         |
| ST receivables                      | 16.5        | 23.5        | 36.1        | 44.7        | 50.4         | 56.3         | 61.2         | 65.8         | 69.5         | 73.2         | 77.2         | 81.3         | 85.6         | 90.1         |
| ST investments                      | 0.0         | 0.0         | 4.7         | 8.0         | 13.1         | 25.0         | 38.7         | 54.5         | 72.9         | 93.0         | 114.4        | 137.4        | 162.1        | 188.5        |
| ST deferred assets                  | 0.1         | 0.3         | 0.5         | 0.6         | 0.7          | 0.8          | 0.9          | 0.9          | 1.0          | 1.0          | 1.1          | 1.1          | 1.2          | 1.3          |
| <b>Total assets</b>                 | <b>23.3</b> | <b>37.8</b> | <b>74.4</b> | <b>88.5</b> | <b>102.9</b> | <b>122.5</b> | <b>143.3</b> | <b>165.6</b> | <b>188.9</b> | <b>213.6</b> | <b>239.6</b> | <b>267.5</b> | <b>297.4</b> | <b>329.1</b> |
| <b>Equity</b>                       | <b>15.9</b> | <b>22.6</b> | <b>51.5</b> | <b>64.0</b> | <b>78.8</b>  | <b>95.8</b>  | <b>114.4</b> | <b>134.6</b> | <b>156.4</b> | <b>179.5</b> | <b>203.7</b> | <b>229.8</b> | <b>257.8</b> | <b>287.5</b> |
| <b>Minority interest</b>            | <b>0.0</b>  | <b>0.0</b>  | <b>0.7</b>  | <b>1.4</b>  | <b>1.6</b>   | <b>1.6</b>   | <b>1.6</b>   | <b>1.6</b>   | <b>1.6</b>   | <b>1.6</b>   | <b>1.6</b>   | <b>1.6</b>   | <b>1.6</b>   | <b>1.6</b>   |
| <b>Liabilities and reserves</b>     | <b>7.4</b>  | <b>15.2</b> | <b>22.3</b> | <b>23.1</b> | <b>22.5</b>  | <b>25.1</b>  | <b>27.3</b>  | <b>29.3</b>  | <b>30.8</b>  | <b>32.5</b>  | <b>34.3</b>  | <b>36.1</b>  | <b>38.0</b>  | <b>40.0</b>  |
| Reserves                            | 0.2         | 1.1         | 1.7         | 2.1         | 2.4          | 2.7          | 2.9          | 3.1          | 3.3          | 3.5          | 3.7          | 3.9          | 4.1          | 4.3          |
| LT liabilities                      | 0.0         | 0.0         | 6.0         | 3.0         | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Non-interest-bearing                | 0.0         | 0.0         | 6.0         | 3.0         | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Interest-bearing                    | 0.0         | 0.0         | 0.0         | 0.0         | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| ST liabilities                      | 5.9         | 12.5        | 12.0        | 14.9        | 16.5         | 18.5         | 20.1         | 21.5         | 22.6         | 23.8         | 25.1         | 26.5         | 27.9         | 29.3         |
| Non-interest-bearing                | 5.8         | 7.9         | 12.0        | 14.9        | 16.5         | 18.5         | 20.1         | 21.5         | 22.6         | 23.8         | 25.1         | 26.5         | 27.9         | 29.3         |
| Interest-bearing                    | 0.2         | 4.6         | 0.0         | 0.0         | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Deferred liabilities                | 1.3         | 1.7         | 2.6         | 3.2         | 3.6          | 4.0          | 4.3          | 4.7          | 4.9          | 5.2          | 5.5          | 5.8          | 6.1          | 6.4          |
| <b>Total liabilities and equity</b> | <b>23.3</b> | <b>37.8</b> | <b>74.4</b> | <b>88.5</b> | <b>102.9</b> | <b>122.5</b> | <b>143.3</b> | <b>165.6</b> | <b>188.9</b> | <b>213.6</b> | <b>239.6</b> | <b>267.5</b> | <b>297.4</b> | <b>329.1</b> |

Source: Company data, DM IDMSA estimates

Fig. 12 Teta; Cash flow

| PLN m                             | 2005        | 2006        | 2007E        | 2008E       | 2009E       | 2010E       | 2011E       | 2012E       | 2013E       | 2014E       | 2015E       | 2016E       | 2017E       | 2018E       |
|-----------------------------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Net income (loss)                 | 4.5         | 6.4         | 9.6          | 12.5        | 14.8        | 17.0        | 18.6        | 20.2        | 21.8        | 23.1        | 24.2        | 26.1        | 27.9        | 29.8        |
| Share of minorities in net income | 0.0         | 0.0         | 0.7          | 0.7         | 0.3         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Depreciation and amortization     | 0.6         | 1.5         | 3.1          | 4.1         | 4.4         | 4.4         | 5.1         | 5.3         | 5.9         | 6.4         | 6.7         | 6.7         | 6.8         | 6.9         |
| NWC change:                       | -8.5        | -2.5        | -10.0        | -6.9        | -4.5        | -4.7        | -3.9        | -3.6        | -3.0        | -3.0        | -3.1        | -3.3        | -3.4        | -3.6        |
| Change in inventories             | -1.5        | 2.4         | -1.5         | -1.0        | -0.6        | -0.7        | -0.6        | -0.5        | -0.4        | -0.4        | -0.5        | -0.5        | -0.5        | -0.5        |
| Change in receivables             | -8.7        | -7.0        | -12.6        | -8.7        | -5.6        | -5.9        | -4.9        | -4.6        | -3.7        | -3.8        | -3.9        | -4.1        | -4.3        | -4.5        |
| Change in payables                | 1.7         | 2.1         | 4.2          | 2.8         | 1.7         | 2.0         | 1.6         | 1.5         | 1.1         | 1.2         | 1.4         | 1.3         | 1.4         | 1.5         |
| Other                             | -0.4        | -3.2        | 3.9          | -2.1        | -2.5        | 0.3         | -0.2        | -0.6        | -1.2        | -1.8        | -2.4        | -3.0        | -3.7        | -4.5        |
| <b>Operating cash flow</b>        | <b>-3.7</b> | <b>2.2</b>  | <b>7.3</b>   | <b>8.3</b>  | <b>12.4</b> | <b>17.0</b> | <b>19.5</b> | <b>21.3</b> | <b>23.4</b> | <b>24.7</b> | <b>25.4</b> | <b>26.5</b> | <b>27.6</b> | <b>28.6</b> |
| Capital expenditures              | -0.6        | -6.6        | -17.0        | -5.0        | -7.4        | -5.5        | -6.5        | -6.6        | -6.7        | -6.8        | -6.9        | -6.9        | -7.0        | -7.1        |
| Other                             | 7.7         | 0.1         | 0.1          | 0.3         | 0.4         | 0.7         | 1.0         | 1.4         | 1.9         | 2.5         | 3.1         | 3.8         | 4.5         | 5.3         |
| <b>Investing cash flow</b>        | <b>7.1</b>  | <b>-6.5</b> | <b>-17.0</b> | <b>-4.7</b> | <b>-6.9</b> | <b>-4.8</b> | <b>-5.5</b> | <b>-5.2</b> | <b>-4.8</b> | <b>-4.3</b> | <b>-3.7</b> | <b>-3.2</b> | <b>-2.6</b> | <b>-1.9</b> |
| Equity issue proceeds             | 4.0         | 0.0         | 19.3         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Change in interest-bearing debt   | -5.1        | 4.4         | -4.6         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Dividends payment                 | -2.0        | 0.0         | 0.0          | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Interest                          | -0.2        | -0.2        | -0.2         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Other                             | 0.0         | 0.0         | -0.3         | -0.3        | -0.3        | -0.3        | -0.3        | -0.3        | -0.3        | -0.3        | -0.3        | -0.3        | -0.3        | -0.3        |
| <b>Financing cash flow</b>        | <b>-3.4</b> | <b>4.2</b>  | <b>14.3</b>  | <b>-0.3</b> | <b>-0.3</b> | <b>-0.3</b> | <b>-0.3</b> | <b>-0.3</b> | <b>-0.3</b> | <b>-0.3</b> | <b>-0.3</b> | <b>-0.3</b> | <b>-0.3</b> | <b>-0.3</b> |
| <b>Total cash flow</b>            | <b>0.0</b>  | <b>0.0</b>  | <b>4.6</b>   | <b>3.3</b>  | <b>5.1</b>  | <b>11.9</b> | <b>13.7</b> | <b>15.8</b> | <b>18.4</b> | <b>20.1</b> | <b>21.4</b> | <b>23.0</b> | <b>24.7</b> | <b>26.4</b> |

Source: Company data, DM IDMSA estimates

Fig. 13 Teta; Income statement

| PLN m                               | 2005        | 2006        | 2007E       | 2008E       | 2009E       | 2010E       | 2011E        | 2012E        | 2013E        | 2014E        | 2015E        | 2016E        | 2017E        | 2018E        |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Sales:</b>                       | <b>34.2</b> | <b>39.9</b> | <b>61.4</b> | <b>76.2</b> | <b>85.8</b> | <b>95.8</b> | <b>104.2</b> | <b>112.0</b> | <b>118.3</b> | <b>124.7</b> | <b>131.5</b> | <b>138.5</b> | <b>145.8</b> | <b>153.5</b> |
| <b>Parent company:</b>              | <b>34.2</b> | <b>39.9</b> | <b>49.4</b> | <b>56.8</b> | <b>62.0</b> | <b>68.4</b> | <b>75.0</b>  | <b>81.3</b>  | <b>86.0</b>  | <b>90.9</b>  | <b>95.9</b>  | <b>101.1</b> | <b>106.6</b> | <b>112.3</b> |
| Proprietary software and services:  | 29.0        | 35.0        | 40.4        | 46.2        | 50.5        | 56.1        | 62.1         | 67.7         | 72.0         | 76.4         | 81.0         | 85.8         | 90.8         | 96.0         |
| New licenses                        | 19.9        | 25.5        | 30.0        | 34.4        | 37.3        | 41.5        | 45.9         | 49.9         | 52.4         | 55.0         | 57.8         | 60.7         | 63.7         | 66.9         |
| Maintenance                         | 8.4         | 9.5         | 10.4        | 11.8        | 13.2        | 14.6        | 16.2         | 17.8         | 19.5         | 21.3         | 23.2         | 25.1         | 27.1         | 29.1         |
| Other                               | 0.8         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Third-party software and hardware   | 5.2         | 4.9         | 9.0         | 10.5        | 11.6        | 12.3        | 12.9         | 13.5         | 14.1         | 14.5         | 14.9         | 15.4         | 15.8         | 16.3         |
| <b>Pyton (knowledge management)</b> | <b>0.0</b>  | <b>0.0</b>  | <b>11.0</b> | <b>15.4</b> | <b>17.7</b> | <b>19.5</b> | <b>20.5</b>  | <b>21.5</b>  | <b>22.6</b>  | <b>23.7</b>  | <b>24.9</b>  | <b>26.1</b>  | <b>27.4</b>  | <b>28.8</b>  |
| <b>Payroll outsourcing</b>          | <b>0.0</b>  | <b>0.0</b>  | <b>1.0</b>  | <b>4.0</b>  | <b>6.0</b>  | <b>8.0</b>  | <b>8.8</b>   | <b>9.2</b>   | <b>9.7</b>   | <b>10.2</b>  | <b>10.7</b>  | <b>11.2</b>  | <b>11.8</b>  | <b>12.4</b>  |
| COGS                                | -22.2       | -24.5       | -37.3       | -45.9       | -50.6       | -56.6       | -61.4        | -65.9        | -68.8        | -72.4        | -76.6        | -80.6        | -84.8        | -89.4        |
| <b>Gross profit on sales</b>        | <b>12.0</b> | <b>15.5</b> | <b>24.1</b> | <b>30.2</b> | <b>35.2</b> | <b>39.2</b> | <b>42.9</b>  | <b>46.1</b>  | <b>49.5</b>  | <b>52.4</b>  | <b>54.8</b>  | <b>57.9</b>  | <b>61.0</b>  | <b>64.1</b>  |
| SG&A                                | -7.6        | -8.3        | -11.0       | -13.5       | -16.1       | -18.0       | -20.0        | -21.6        | -23.5        | -25.3        | -26.9        | -28.3        | -29.8        | -31.5        |
| <b>Net profit on sales</b>          | <b>4.4</b>  | <b>7.2</b>  | <b>13.1</b> | <b>16.7</b> | <b>19.1</b> | <b>21.3</b> | <b>22.9</b>  | <b>24.5</b>  | <b>26.0</b>  | <b>27.0</b>  | <b>27.9</b>  | <b>29.6</b>  | <b>31.2</b>  | <b>32.7</b>  |
| Other operating income              | 0.8         | 0.1         | 0.3         | 0.4         | 0.4         | 0.5         | 0.5          | 0.5          | 0.6          | 0.6          | 0.6          | 0.7          | 0.7          | 0.7          |
| Other operating costs               | -0.4        | -0.2        | -0.5        | -0.6        | -0.7        | -0.8        | -0.8         | -0.9         | -1.0         | -1.0         | -1.1         | -1.1         | -1.2         | -1.2         |
| <b>EBIT:</b>                        | <b>4.8</b>  | <b>7.1</b>  | <b>12.9</b> | <b>16.4</b> | <b>18.8</b> | <b>20.9</b> | <b>22.5</b>  | <b>24.2</b>  | <b>25.6</b>  | <b>26.6</b>  | <b>27.5</b>  | <b>29.1</b>  | <b>30.7</b>  | <b>32.2</b>  |
| <b>Parent company</b>               | <b>4.8</b>  | <b>7.1</b>  | <b>10.1</b> | <b>11.8</b> | <b>13.3</b> | <b>14.6</b> | <b>15.9</b>  | <b>17.2</b>  | <b>18.4</b>  | <b>19.1</b>  | <b>19.6</b>  | <b>21.0</b>  | <b>22.2</b>  | <b>23.4</b>  |
| <b>Pyton</b>                        | <b>0.0</b>  | <b>0.0</b>  | <b>2.8</b>  | <b>3.9</b>  | <b>4.4</b>  | <b>4.9</b>  | <b>5.1</b>   | <b>5.2</b>   | <b>5.4</b>   | <b>5.6</b>   | <b>5.8</b>   | <b>6.1</b>   | <b>6.3</b>   | <b>6.5</b>   |
| <b>Payroll outsourcing</b>          | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.7</b>  | <b>1.1</b>  | <b>1.5</b>  | <b>1.6</b>   | <b>1.7</b>   | <b>1.8</b>   | <b>1.9</b>   | <b>2.0</b>   | <b>2.1</b>   | <b>2.2</b>   | <b>2.3</b>   |
| Financial income                    | 0.2         | 0.0         | 0.6         | 0.5         | 0.4         | 0.7         | 1.0          | 1.4          | 1.9          | 2.5          | 3.1          | 3.8          | 4.5          | 5.3          |
| Financial costs                     | -0.3        | -0.2        | -0.5        | -0.3        | -0.3        | -0.3        | -0.3         | -0.3         | -0.3         | -0.3         | -0.3         | -0.3         | -0.3         | -0.3         |
| <b>Pre-tax income</b>               | <b>4.7</b>  | <b>6.9</b>  | <b>13.0</b> | <b>16.6</b> | <b>19.0</b> | <b>21.3</b> | <b>23.3</b>  | <b>25.3</b>  | <b>27.2</b>  | <b>28.8</b>  | <b>30.3</b>  | <b>32.6</b>  | <b>34.9</b>  | <b>37.1</b>  |
| Income tax                          | -0.2        | -0.5        | -2.7        | -3.4        | -3.9        | -4.3        | -4.6         | -5.0         | -5.4         | -5.7         | -6.0         | -6.5         | -6.9         | -7.4         |
| Minority interest                   | 0.0         | 0.0         | -0.7        | -0.7        | -0.3        | 0.0         | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Net income</b>                   | <b>4.5</b>  | <b>6.4</b>  | <b>9.6</b>  | <b>12.5</b> | <b>14.8</b> | <b>17.0</b> | <b>18.6</b>  | <b>20.2</b>  | <b>21.8</b>  | <b>23.1</b>  | <b>24.2</b>  | <b>26.1</b>  | <b>27.9</b>  | <b>29.8</b>  |
| <b>EBITDA</b>                       | <b>5.4</b>  | <b>8.6</b>  | <b>16.0</b> | <b>20.5</b> | <b>23.2</b> | <b>25.3</b> | <b>27.6</b>  | <b>29.5</b>  | <b>31.5</b>  | <b>33.0</b>  | <b>34.1</b>  | <b>35.9</b>  | <b>37.5</b>  | <b>39.1</b>  |

Source: Company data, DM IDMSA estimates

Fig. 14 Teta; Ratios

|                               | 2005  | 2006  | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Sales growth (yoy)            | 3%    | 17%   | 54%   | 24%   | 13%   | 12%   | 9%    | 7%    | 6%    | 5%    | 5%    | 5%    | 5%    | 5%    |
| EBITDA growth (yoy)           | 18%   | 58%   | 86%   | 28%   | 13%   | 9%    | 9%    | 7%    | 7%    | 5%    | 3%    | 5%    | 5%    | 4%    |
| Operating profit growth (yoy) | 24%   | 47%   | 82%   | 28%   | 15%   | 11%   | 8%    | 7%    | 6%    | 4%    | 3%    | 6%    | 5%    | 5%    |
| Net income growth (yoy)       | 31%   | 43%   | 50%   | 30%   | 19%   | 15%   | 10%   | 9%    | 8%    | 6%    | 5%    | 8%    | 7%    | 6%    |
| A/R turnover days             | 132   | 183   | 177   | 194   | 202   | 203   | 206   | 207   | 209   | 209   | 209   | 209   | 209   | 209   |
| Inventory turnover days       | 76    | 62    | 36    | 40    | 42    | 42    | 42    | 43    | 43    | 43    | 43    | 43    | 43    | 43    |
| A/P turnover days             | 81    | 102   | 97    | 107   | 113   | 113   | 114   | 115   | 117   | 117   | 116   | 117   | 117   | 117   |
| Cash cycle days               | 127   | 143   | 116   | 127   | 131   | 132   | 134   | 134   | 135   | 135   | 135   | 135   | 135   | 135   |
| Current ratio                 | 3.7   | 2.1   | 3.8   | 4.0   | 4.3   | 4.8   | 5.4   | 6.0   | 6.7   | 7.4   | 8.0   | 8.7   | 9.3   | 9.9   |
| Quick ratio                   | 3.4   | 1.9   | 3.4   | 3.6   | 3.9   | 4.4   | 5.0   | 5.6   | 6.3   | 7.0   | 7.7   | 8.3   | 8.9   | 9.5   |
| Interest bearing debt/ Equity | 0.0   | 0.2   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| EBITDA/ Interest              | 19    | 39    | 100   | n.m.  | n.m.  | n.m.  | n.m.  | n.m.  | n.m.  | n.m.  | n.m.  | n.m.  | n.m.  | n.m.  |
| Cash sales/ Accrual sales     | 125%  | 117%  | 121%  | 111%  | 107%  | 106%  | 105%  | 104%  | 103%  | 103%  | 103%  | 103%  | 103%  | 103%  |
| Cash opex/ Accrual opex       | 97%   | 82%   | 89%   | 91%   | 92%   | 93%   | 93%   | 93%   | 93%   | 93%   | 93%   | 93%   | 94%   | 94%   |
| NWC/ Sales                    | 36%   | 46%   | 46%   | 46%   | 47%   | 47%   | 47%   | 47%   | 47%   | 47%   | 47%   | 47%   | 47%   | 47%   |
| Operating cash flow/EBIT      | -78%  | 32%   | 57%   | 51%   | 66%   | 81%   | 87%   | 88%   | 92%   | 93%   | 93%   | 91%   | 90%   | 89%   |
| EBITDA margin                 | 15.9% | 21.6% | 26.1% | 26.9% | 27.0% | 26.4% | 26.5% | 26.3% | 26.6% | 26.5% | 26.0% | 25.9% | 25.7% | 25.5% |
| EBIT margin                   | 14.0% | 17.7% | 21.0% | 21.6% | 22.0% | 21.9% | 21.6% | 21.6% | 21.6% | 21.3% | 20.9% | 21.0% | 21.0% | 21.0% |
| Pre-tax margin                | 13.7% | 17.2% | 21.2% | 21.8% | 22.1% | 22.2% | 22.3% | 22.6% | 23.0% | 23.1% | 23.0% | 23.5% | 23.9% | 24.2% |
| Net margin                    | 13.1% | 16.0% | 15.7% | 16.4% | 17.3% | 17.7% | 17.9% | 18.1% | 18.4% | 18.5% | 18.4% | 18.8% | 19.2% | 19.4% |
| ROE                           | 35.6% | 33.3% | 26.0% | 21.6% | 20.7% | 19.5% | 17.7% | 16.2% | 15.0% | 13.7% | 12.6% | 12.0% | 11.5% | 10.9% |
| ROA                           | 22.1% | 21.6% | 17.4% | 15.3% | 15.5% | 15.1% | 14.0% | 13.1% | 12.3% | 11.5% | 10.7% | 10.3% | 9.9%  | 9.5%  |

Source: Company data, DM IDMSA estimates

# Appendix

## 1. Teta's management stock option program

**One of the best, in our view, stock option programs on the WSE**

The stock option program for the management and key employees of Teta (and its subsidiaries) provides for a conditional issue of up to 450,000 shares (5% dilution), with the share options allocated between the managers of particular companies of the Teta group on the basis of the particular companies' percentage contribution to the consolidated EBIT in a given period (regarding the details of the option program, please refer to *Figure 15*). Compared to the bulk of other option programs on the WSE, we like Teta's program as: (i) the discount of the strike price to the current market price is reasonable, and (ii) for the stock options to be granted not only Teta's share price must appreciate, but its appreciation must simultaneously beat the benchmark of TechWIG. Putting another way, the terms of the program are demanding for its beneficiaries (and in line with the shareholders' interest), which makes the program truly motivational one.

*Fig. 15 Teta's Management Stock Option Program*

| Vesting period                    | Max number of shares to be issued   | Strike price (PLN/share) | The conditions that must be met for the management share options to vest  |   |
|-----------------------------------|---|--------------------------|---|---|
| 1 January 2007 - 31 December 2007 | 125,000   | 15.5                     | <p>1. Average market price of Teta's share in December 2007 is higher than average market price of Teta's share in December 2006.</p> <p>2. % change of Teta's share (averages for December 2007 and December 2006; thereafter Teta change) is higher than the % change of TechWIG index (averages for December 2007 and December 2006; thereafter TechWIG change).</p> <p><i>Note: These conditions were not met for 2007 =&gt; no management shares issued for last year.</i></p> | <p>2a. If TechWIG change <math>\leq 0</math> and Teta change <math>&gt; 0</math> =&gt; program's beneficiaries are granted maximum number of share options vested in the period.</p> <p>2b. If TechWIG change <math>&gt;</math> Teta change =&gt; program's beneficiaries are granted no share options for the period.</p> <p>2c. If <math>1.0 &lt; \text{Teta change/TechWIG change} &lt; 1.2</math> =&gt; program's beneficiaries are granted for the period number of share options calculated according to the formula: <math>((\text{Teta change}/\text{TechWIG change})/1.2) * \text{Max}</math> (where Max = maximum number of share options vesting in the period).</p> <p>2d. If <math>(\text{Teta change}/\text{TechWIG change}) &gt; 1.2</math> =&gt; program's beneficiaries are granted maximal number of share options vesting in the period.</p> |
| 1 January 2008 - December 2008    | 125,000   | 15.5                     | <p>1. Average market price of Teta's share in December 2008 is higher than average market price of Teta's share in December 2007.</p> <p>2. % change of Teta's share (averages for December 2008 and December 2007; thereafter Teta change) is higher than the % change of TechWIG index (averages for December 2008 and December 2007; thereafter TechWIG change).</p>   |   |
| 1 January 2009 - 31 December 2009 | 125,000   | 15.5                     | <p>1. Average market price of Teta's share in December 2009 is higher than average market price of Teta's share in December 2008.</p> <p>2. % change of Teta's share (averages for December 2009 and December 2008; thereafter Teta change) is higher than the % change of TechWIG index (averages for December 2009 and December 2008; thereafter TechWIG change).</p>   |   |
| 1 January 2007 - 31 December 2009 | the rest (i.e. 450,000 minus shares issued for the preceding vesting periods) | 15.5                     | <p>1. Average market price of Teta's share in December 2009 is higher than average market price of Teta's share in December 2006.</p> <p>2. % change of Teta's share (averages for December 2009 and December 2006; thereafter Teta change) is higher than the % change of TechWIG index (averages for December 2009 and December 2006; thereafter TechWIG change).</p>   |   |

Source: Company

## BASIC DEFINITIONS

**A/R turnover** (in days) = 365/(sales/average A/R)  
**Inventory turnover** (in days) = 365/(COGS/average inventory)  
**A/P turnover** (in days) = 365/(COGS/average A/P)  
**Current ratio** = (current assets - ST deferred assets)/current liabilities  
**Quick ratio** = ((current assets - ST deferred assets - inventory)/current liabilities)  
**Interest coverage** = (pre-tax profit before extraordinary items + interest payable)/interest payable  
**Gross margin** = gross profit on sales/sales  
**EBITDA margin** = EBITDA/sales  
**EBIT margin** = EBIT/sales  
**Pre-tax margin** = pre-tax profit/sales  
**Net margin** = net profit/sales  
**ROE** = net profit/average equity  
**ROA** = (net income + interest payable)/average assets  
**EV** = market capitalization + interest bearing debt - cash and equivalents  
**EPS** = net profit/ no. of shares outstanding  
**CE** = net profit + depreciation  
**Dividend yield** (gross) = pre-tax DPS/stock market price  
**Cash sales** = accrual sales corrected for the change in A/R  
**Cash operating expenses** = accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes

DM IDM S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

## KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:

**Buy** - fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;  
**Hold** - either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;  
**Sell** - fundamentally overvalued (12M EFV < current share price) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

**Overweight** - expected to perform better than the benchmark (WIG) over the next quarter in relative terms  
**Neutral** - expected to perform in line with the benchmark (WIG) over the next quarter in relative terms  
**Underweight** - expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM IDMSA's recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first. Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or - in case of maintained recommendations - from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

### LT fundamental recommendation tracker

| Recommendation | Issue date | Reiteration date | Expiry date | Performance               | Relative performance | Price at issue/reiteration (PLN) | 12M EFV (12 months) |
|----------------|------------|------------------|-------------|---------------------------|----------------------|----------------------------------|---------------------|
| <b>Teta</b>    |            |                  |             |                           |                      |                                  |                     |
| Buy            | -          | 04.02.2008       | -           | not later than 04.02.2009 | -                    | 17.5                             | 26.3                |

### Market-relative recommendation tracker

| Relative recommendation | Issue date | Reiteration date | Expiry date               | Price at issue/reiteration (PLN) | Relative performance |
|-------------------------|------------|------------------|---------------------------|----------------------------------|----------------------|
| <b>Teta</b>             |            |                  |                           |                                  |                      |
| Overweight              | 04.02.2008 | -                | not later than 04.02.2009 | 17.5                             | -                    |

### Distribution of IDM's current recommendations

|            | Buy | Hold | Sell | Suspended | Under revision |
|------------|-----|------|------|-----------|----------------|
| Numbers    | 15  | 9    | 3    | 0         | 0              |
| Percentage | 56% | 33%  | 11%  | 0%        | 0%             |

## Banks

**Net Interest Margin (NIM)** = net interest income/average assets  
**NIM Adjusted** = (net interest income adjusted for SWAPs)/average assets  
**Net interest income** = fees&commissions + result on financial operations (trading gains) + FX gains  
**Interest Spread** = (interest income/average interest earning assets)/ (interest cost/average interest bearing liabilities)  
**Cost/Income** = (general costs + depreciation + other operating costs)/ (profit on banking activity + other operating income)  
**ROE** = net profit/average equity  
**ROA** = net income/average assets  
**Non performing loans (NPL)** = loans in 'substandard', 'doubtful' and 'lost' categories  
**NPL coverage ratio** = loan loss provisions/NPL  
**Net provision charge** = provisions created - provisions released

DM IDM S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation.

Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc.

Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

### Distribution of IDM's current recommendations for companies that were within the last 12M IDM customers in investment banking

|            | Buy | Hold | Sell | Suspend | Under revision |
|------------|-----|------|------|---------|----------------|
| Numbers    | 1   | 2    | 1    | 0       | 0              |
| Percentage | 25% | 50%  | 25%  | 0%      | 0%             |

### Distribution of IDM's current market relative recommended weightings

|            | Overweight | Neutral | Underweight | Suspended | Under revision |
|------------|------------|---------|-------------|-----------|----------------|
| Numbers    | 9          | 13      | 5           | 0         | 0              |
| Percentage | 33%        | 48%     | 19%         | 0%        | 0%             |

### Distribution of IDM's current market relative recommended weightings for the companies that were within the last 12M IDM customers in investment banking

|            | Overweight | Neutral | Underweight | Suspended | Under revision |
|------------|------------|---------|-------------|-----------|----------------|
| Numbers    | 1          | 2       | 1           | 0         | 0              |
| Percentage | 25%        | 50%     | 25%         | 0%        | 0%             |

**Institutional sales**

Director – **Dariusz Wareluk**

tel.: +48 (22) 489 94 12  
d.wareluk@idmsa.pl

**Leszek Mackiewicz**

tel.: +48 (22) 489 94 23  
l.mackiewicz@idmsa.pl

**Maciej Bąk**

tel.: +48 (22) 489 94 14  
m.bak@idmsa.pl

**Bartosz Zieliński**

tel.: +48 (22) 489 94 13  
b.zielinski@idmsa.pl

**Research**

**Sobiesław Pająk, CFA**

(IT, Media)  
tel.: +48 (22) 489 94 70  
s.pajak@idmsa.pl

**Sylwia Jaśkiewicz**

(Mid-caps)  
tel.: +48 (22) 489 94 78  
s.jaskiewicz@idmsa.pl

**Maciej Wewiórski**

(Commodities, Construction, Real estate)  
tel.: +48 (22) 489 94 62  
m.wewiorski@idmsa.pl

**Michał Sobolewski**

(Banks)  
tel.: +48 (22) 489 94 77  
m.sobolewski@idmsa.pl

**Adrian Kyrzcz**

(Associate)  
tel.: +48 (22) 489 94 74  
a.kyrzcz@idmsa.pl

**Łukasz Prokopiuk**

(Associate)  
tel.: +48 (22) 489 94 72  
l.prokopiuk@idmsa.pl

This report is for information purposes only. Neither the information nor the opinions expressed in the report constitute a solicitation or an offer to buy or sell any securities referred herein. The opinions expressed in the report reflect independent, current judgement of DM IDM S.A. Securities. This report was prepared with due diligence and scrutiny. The information used in the report is based on all public sources such as press and branch publications, company's financial statements, current and periodic reports, as well as meetings and telephone conversations with company's representatives. We believe the above mentioned sources of information to be reliable, however we do not guarantee their accuracy and completeness. All estimates and opinions included in the report represent our judgment as of the date of the issue. The legal entity supervising DM IDM S.A. is Financial Supervision Commission in Warsaw (KNF in Polish abbreviation).

IDM does not take any responsibility for decisions taken on the basis of this report and opinions stated in it. Investors bear all responsibility for investment decisions taken on the basis of the contents of this report. The report is intended exclusively for private use of investors – customers of IDM. No part or excerpt of the report may be redistributed, reproduced or conveyed in any manner or form written or oral without the prior written consent of IDM. This report is released to customers the moment it is issued and the whole report is made available to the public one month after the issuance.

The analyst(s) responsible for covering the securities in this report receives compensation based upon the overall profitability of IDM which includes profits derived from investment banking activities, although the analyst compensation is not directly related thereto.

IDM releases analytical reports via mail or electronic mail to selected clients (professional clients).

During the last 12 months DM IDM S.A. was or has been the market maker for the stock of Teta and received a fee by virtue of this.

During the last 12 months DM IDM S.A. was or has been an offeror of Teta's shares in the Secondary Public Offering and received a fee by virtue of this.

During the last 12 months DM IDM S.A. was or has been a depository of shares for Teta and received a fee by virtue of this.

During the last 12 months Mr Grzegorz Leszczyński, the President of DM IDM S.A., was or has been a member of the Supervisory Board of Teta S.A.

Apart from mentioned above, there are no ties of any kind between DM IDM S.A., the analyst/analysts involved in the preparation of the report and his/her relatives and the company/companies analyzed in this publication, especially in the form of: i) offering of financial instruments in the primary market or/and Initial Public Offer within 12 months preceding the issue of this report, ii) purchasing and selling of financial instruments for own account due to tasks connected with organization of the regulated market, iii) purchasing and selling of financial instruments due to underwriting agreements and iv) the role of a market maker for securities analysed by IDM. The analysed company/companies does/do not possess DM IDM S.A. shares.

IDM has not signed with the company/companies any contracts for recommendation writing. Investors should assume that DM IDM S.A. is seeking or will seek business relationships with the company/companies described in this report. The report was not shown to the analyzed company/companies before the distribution of the report to clients.