

7 Mile Advisors



Q3 Earnings Report: IT Services - Eastern Europe

December 2020



IT Services - Eastern Europe

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Overview

7MA provides Investment Banking & Advisory Services to the Business Services and Technology Industries globally.

We advise on M&A and private capital transactions and provide market assessments and benchmarking. As a close-knit team with a long history together and a laser focus on our target markets, we help our clients sell their companies, raise capital, grow through acquisitions, and evaluate new markets.

We publish our earnings report, a review of publicly traded companies, M&A, and operational trends in the industries we focus.

DASHBOARD & BASKET PERFORMANCE

- Summary metrics on Eastern Europe IT Services
- Commentary on market momentum by comparing the most recent 12-month performance against the last 3-year averages
- Summary valuation and operating metrics for a basket of comparable public companies

VALUATION COMPARISON

- Graphical, detailed comparison of valuation multiples for the public basket

RECENT DEALS

- The most recently announced deals in the sector

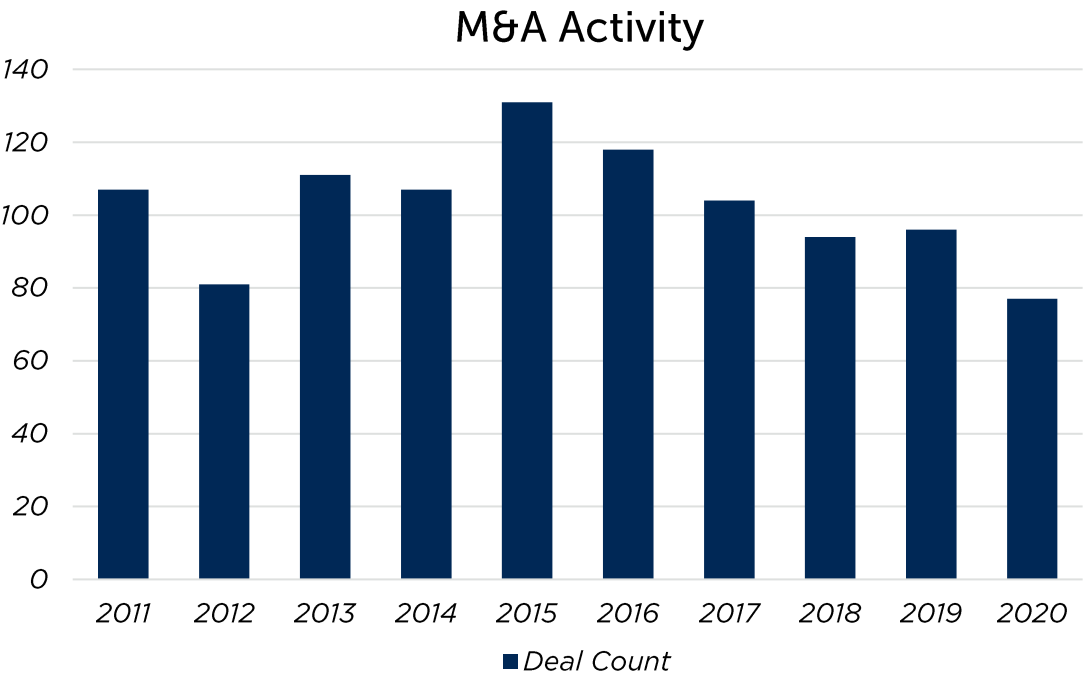
EARNINGS HIGHLIGHTS

- Recap of the most recent quarter's earnings across publicly traded companies

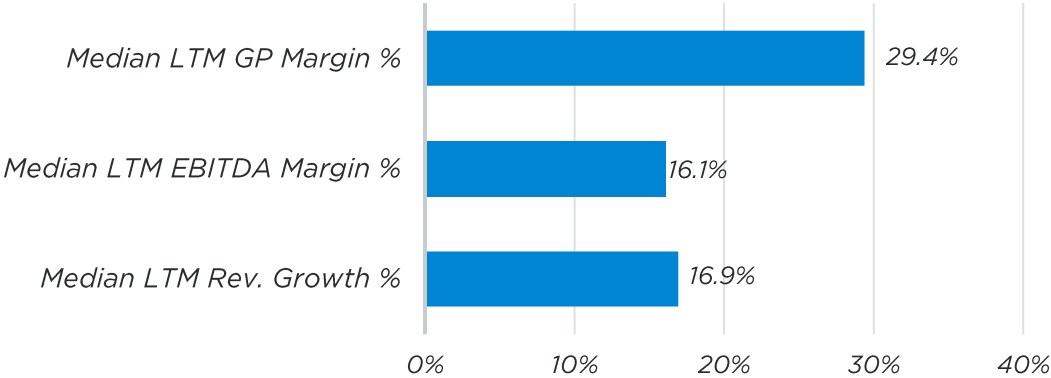
Dashboard

REVENUE GROWTH MOMENTUM ↑ 8.0%

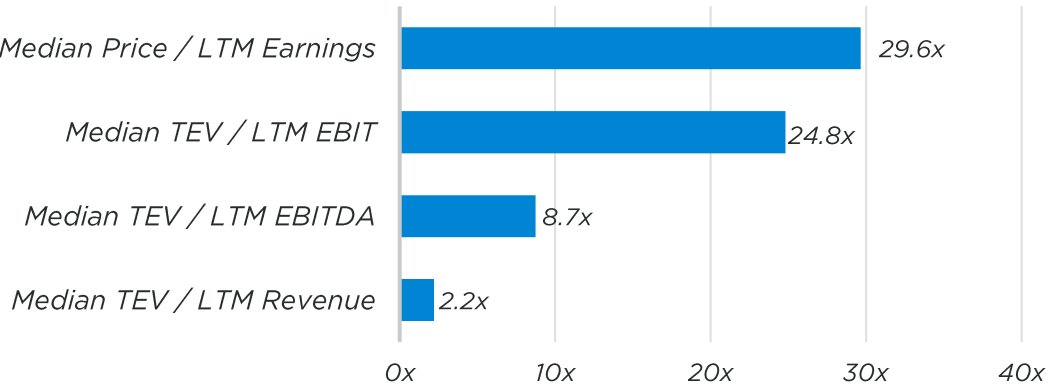
1 - year revenue growth compared to revenue growth average for last 3 years - Current revenue growth rate exceeds the average of the last 3 years by this amount, indicating that market momentum is increasing



Operating Metrics



Valuation

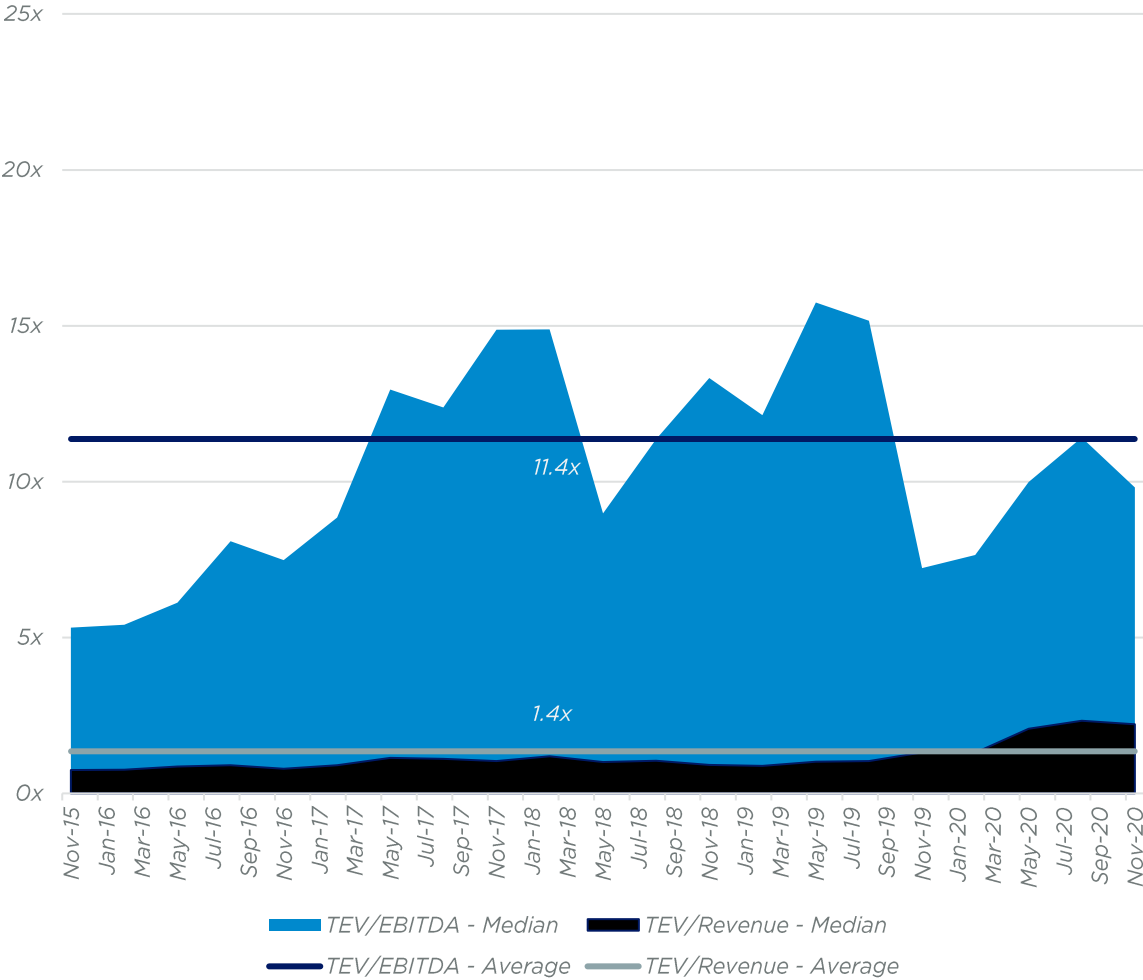


Public Basket

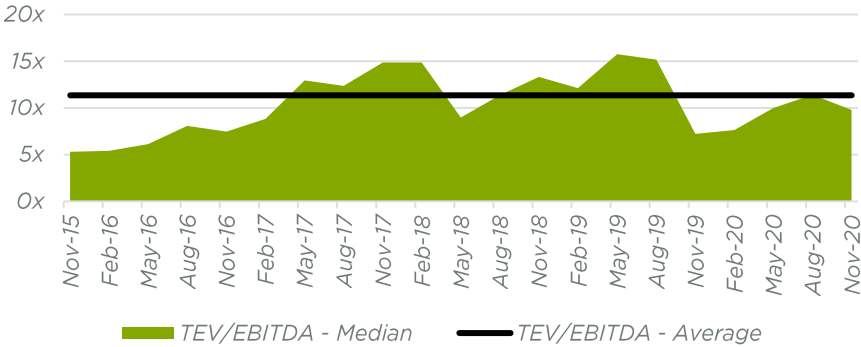
Company	TEV \$m	LTM EBITDA \$m	LTM Rev \$m	Rev Growth y/y	GP %	EBITDA %	TEV / Rev X	TEV / EBITDA X	# FTEs	Rev / FTE \$k
Atende	35	8	61	-17.5%	33.7%	15.6%	0.6x	4.4x	211	287
Comp Service Support	141	14	177	-0.6%	29.1%	7.9%	0.8x	10.0x	1,198	148
Comarch	383	58	377	2.6%	27.3%	16.1%	1.0x	6.6x	6,625	57
Grid Dynamics	422	24	117	-	-	20.5%	3.6x	17.6x	1,204	97
Asseco South Eastern Europe	536	57	247	16.9%	26.4%	21.9%	2.2x	9.4x	2,885	85
Endava	3,791	98	463	19.7%	28.4%	7.8%	8.2x	38.5x	6,468	72
EPAM Systems	17,096	557	2,569	18.6%	34.7%	18.6%	6.7x	30.7x	36,739	70
Average	3,201	117	573	6.6%	29.9%	15.5%	3.3x	16.7x	7,904	117
Median	422	57	247	9.8%	28.7%	16.1%	2.2x	10.0x	2,885	85

share price as of 30Nov20

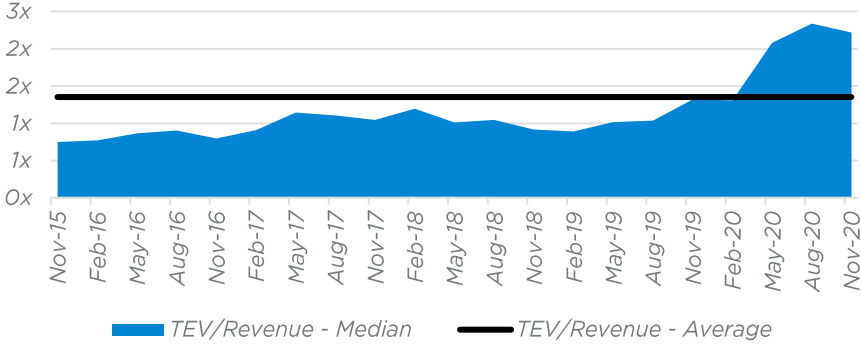
Public Basket



Public EBITDA Multiples over Time

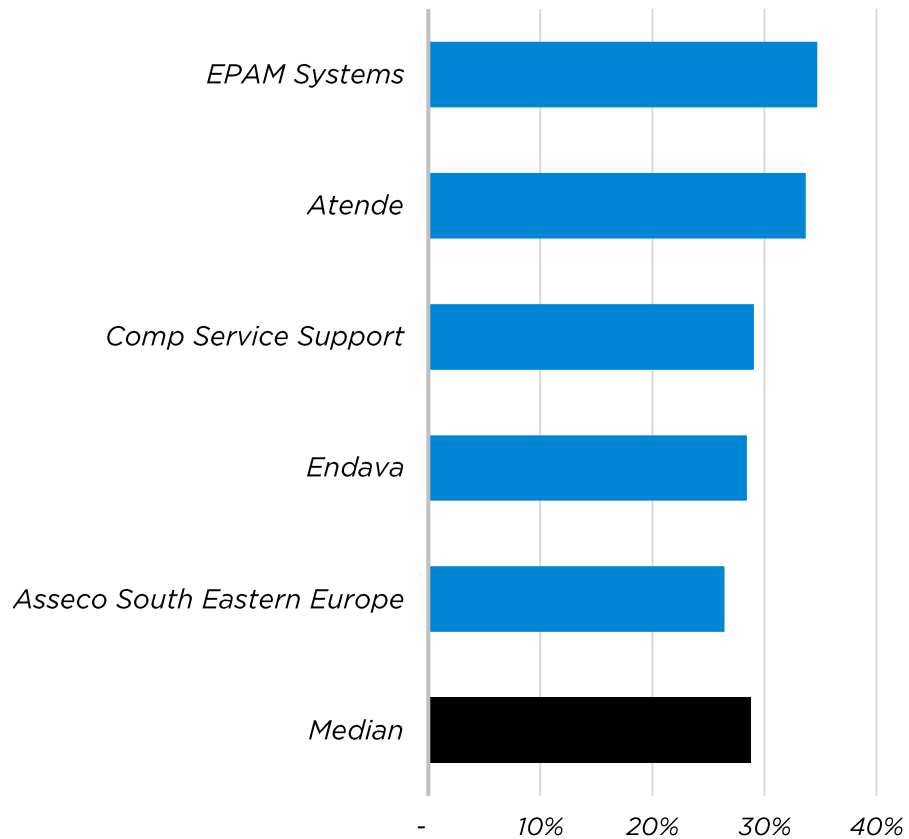


Public Revenue Multiples over Time

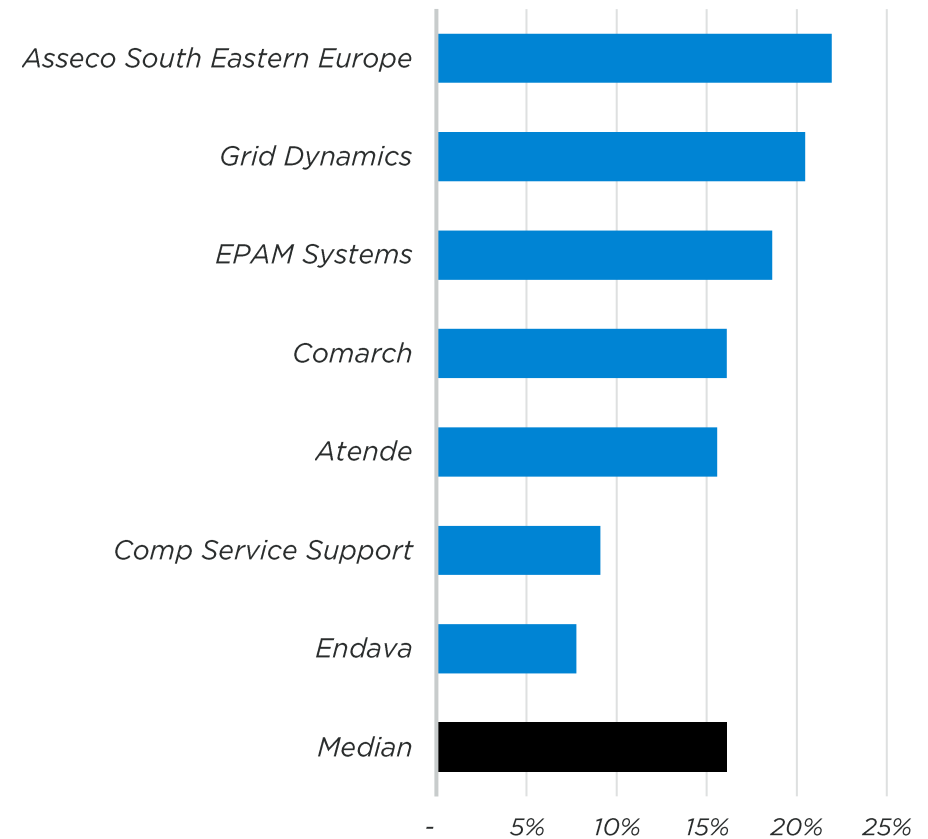


Operational Metrics

LTM Gross Profit Margin %

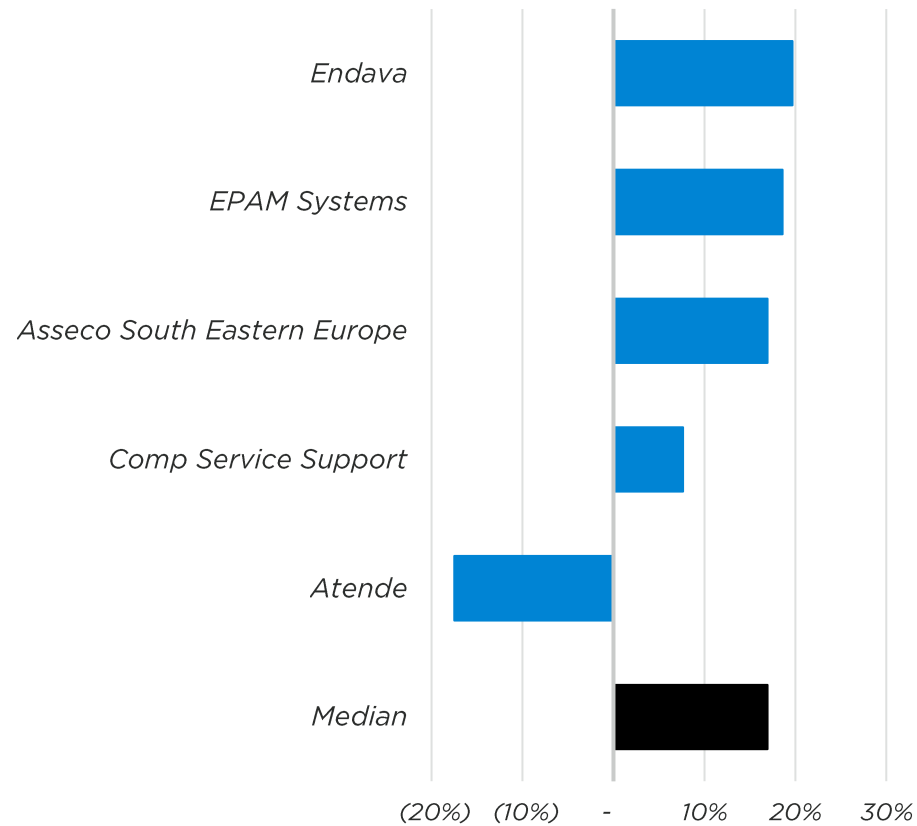


LTM EBITDA %

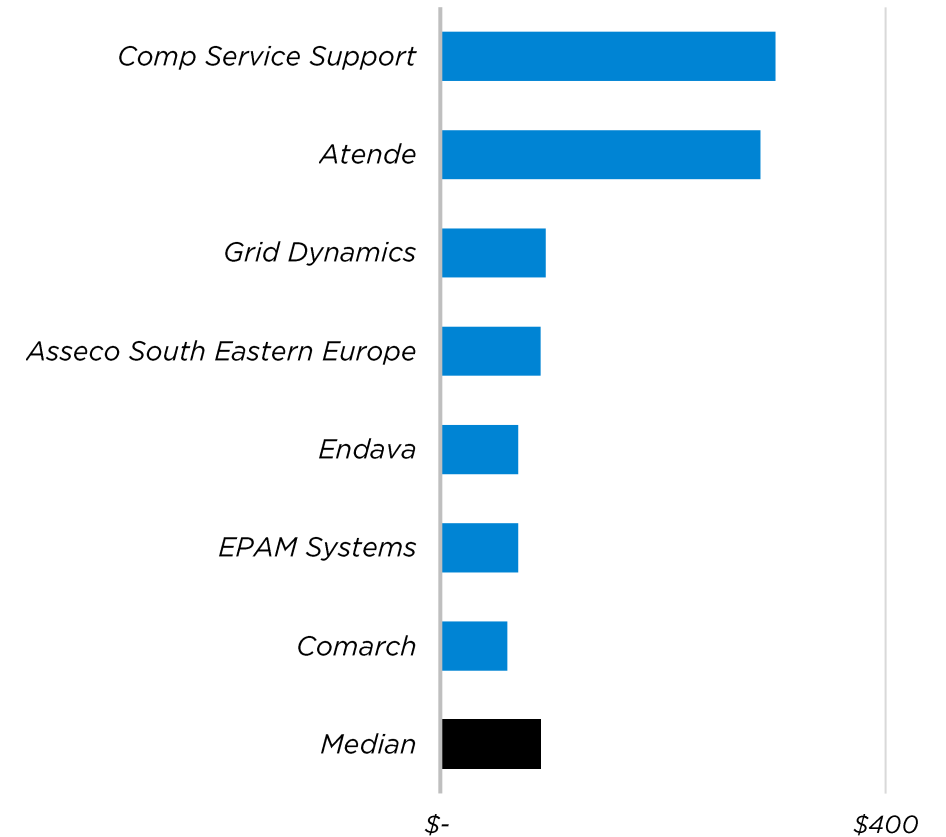


Operational Metrics

LTM Revenue Growth %

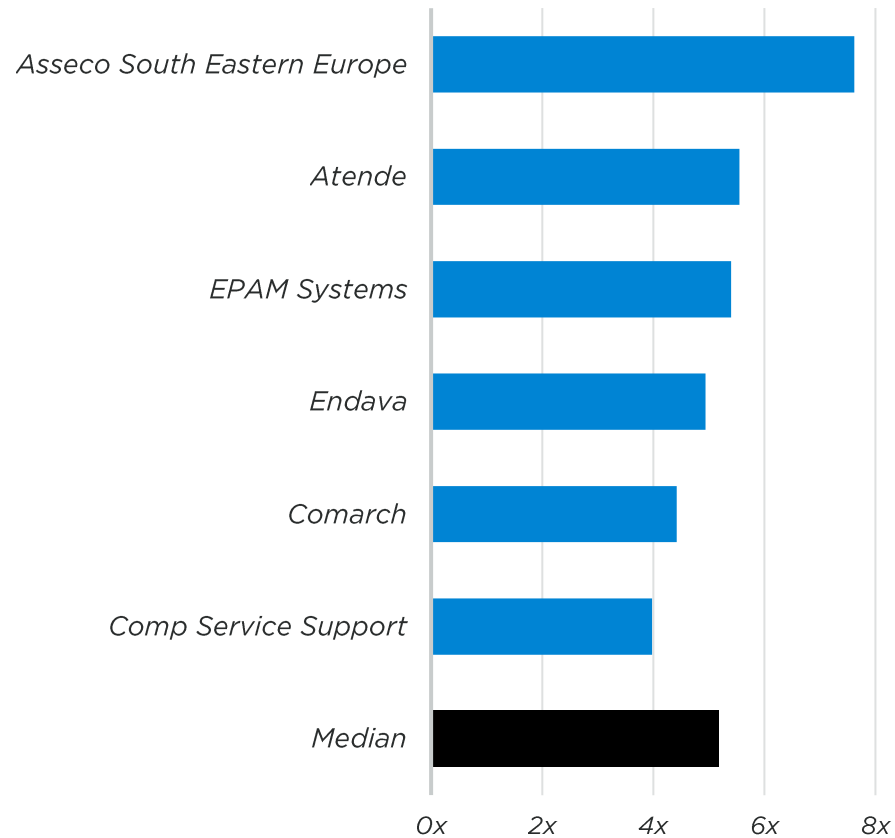


LTM Revenue per Full Time Employee x 000's

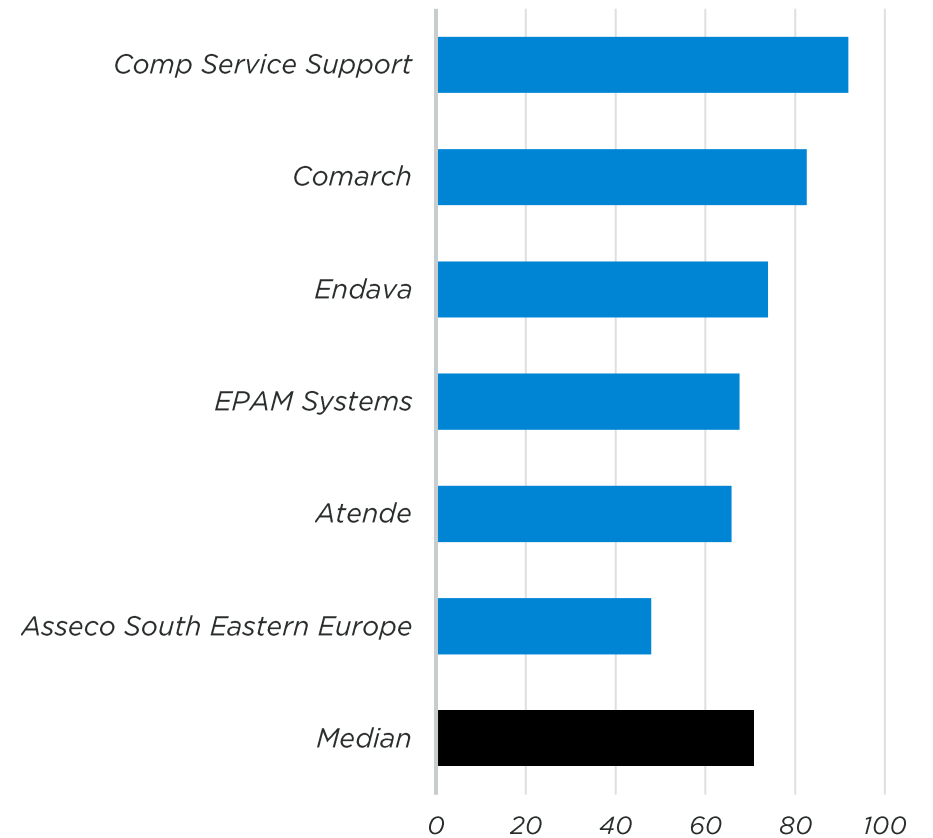


Operational Metrics

Accounts Receivable Turnover

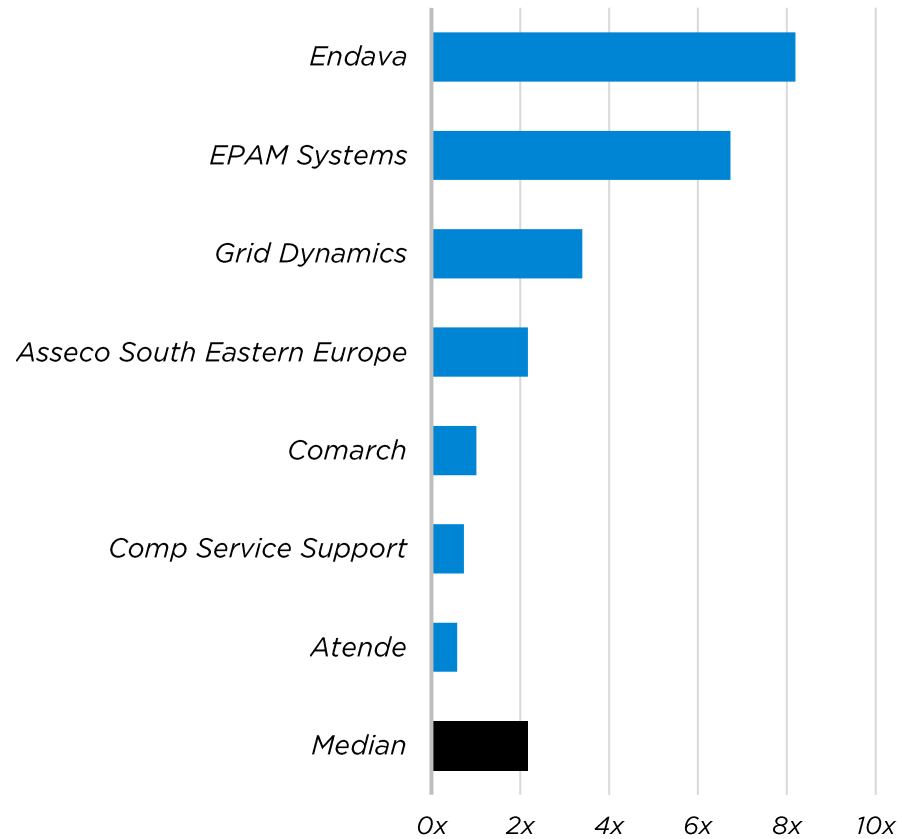


Average Days Sales Outstanding

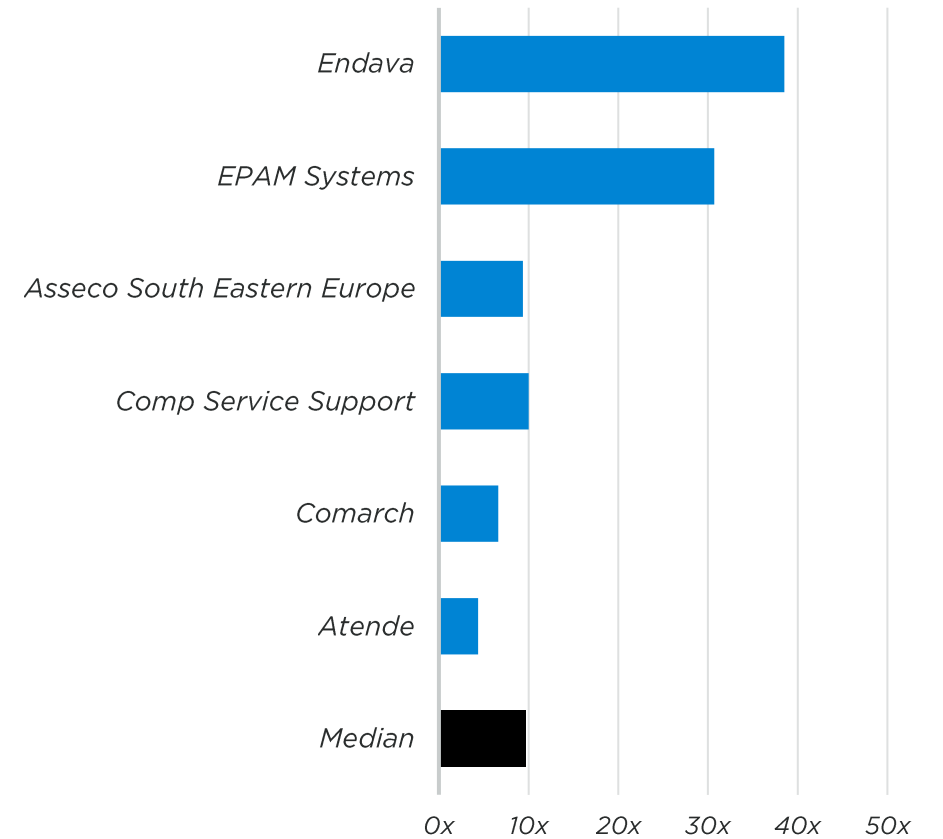


Valuation

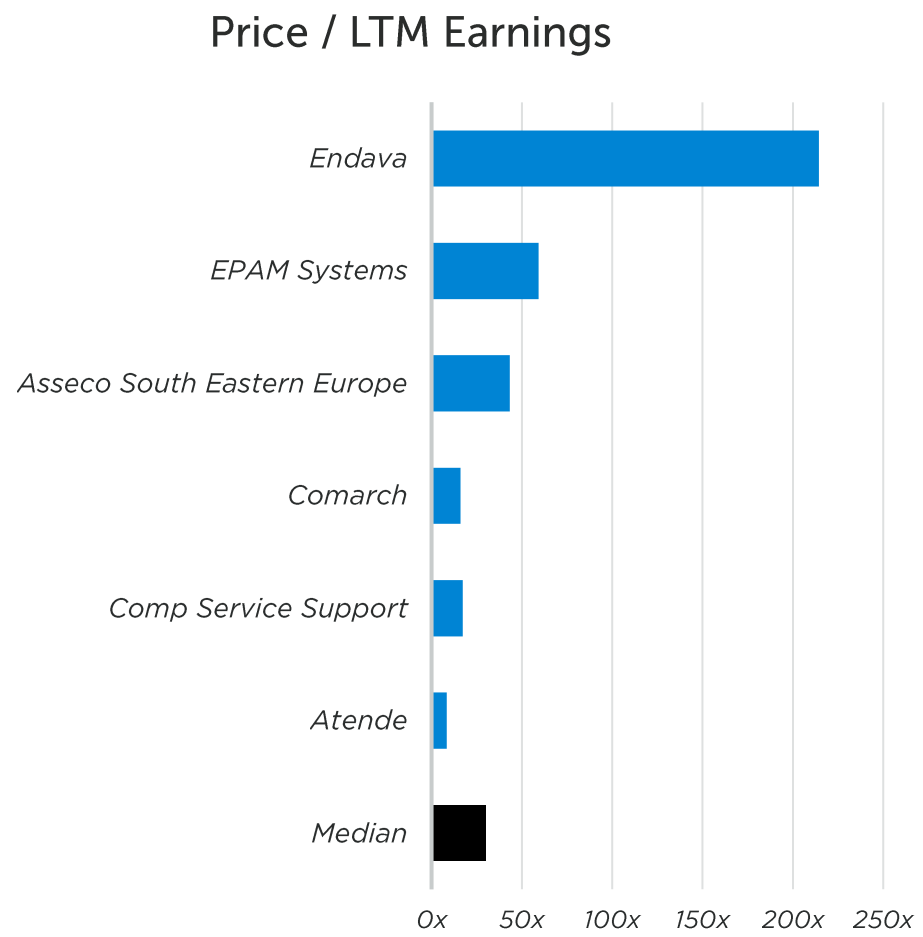
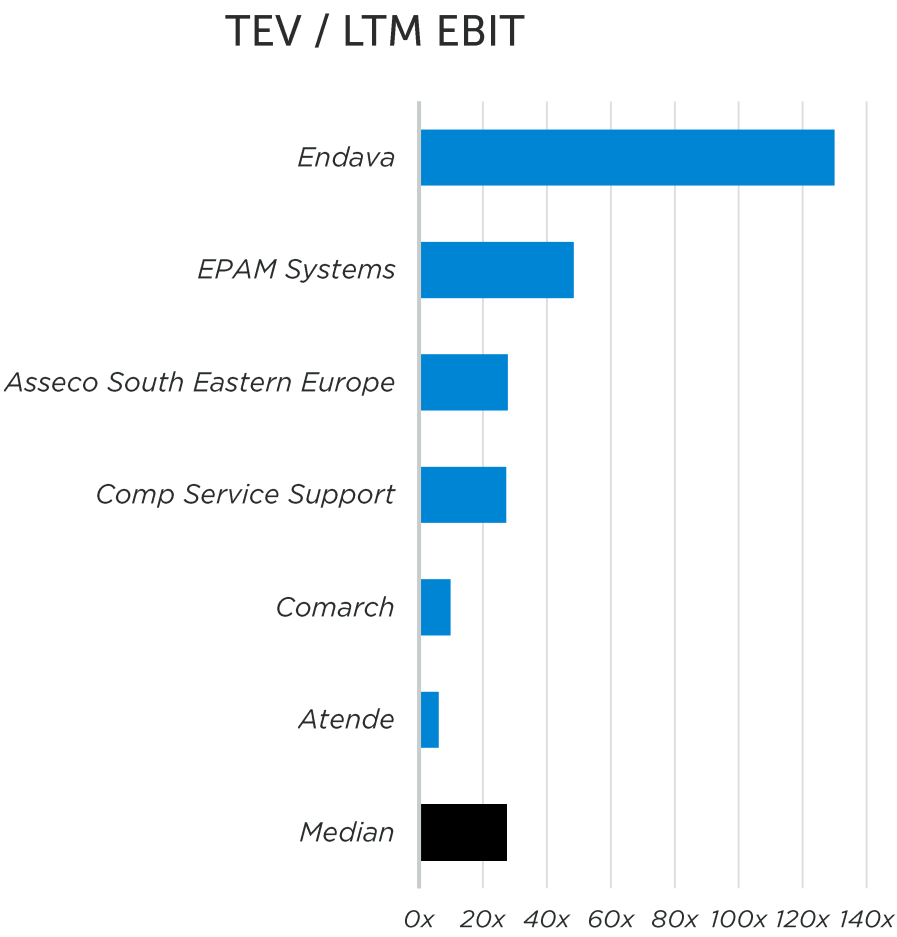
TEV / LTM Revenue



TEV / LTM EBITDA

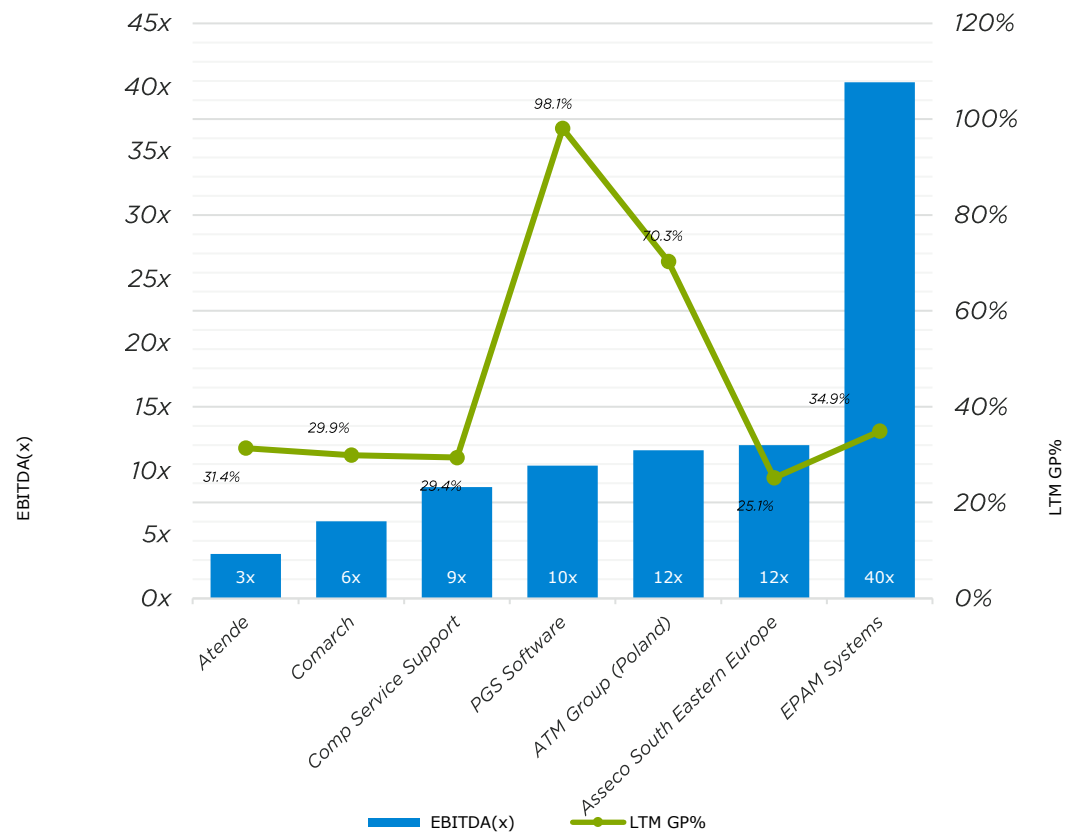


Valuation

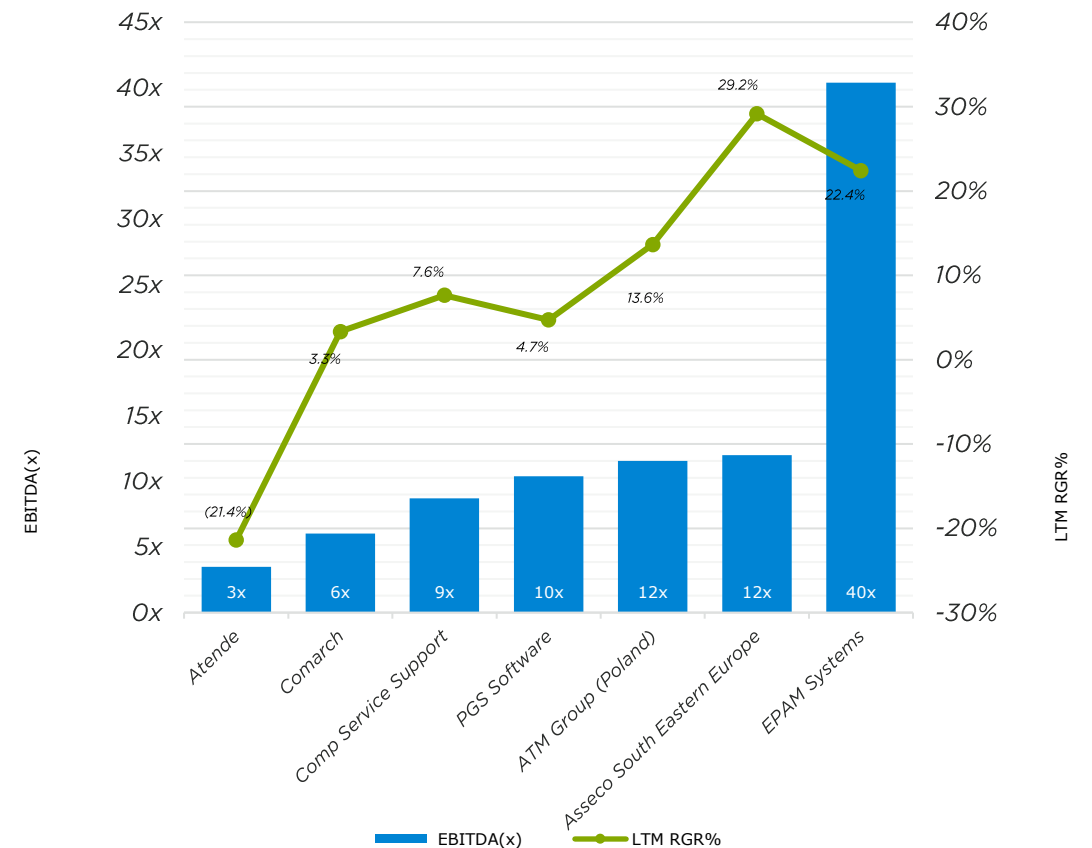


Valuation

Historical Valuation Multiples versus Gross Profit



Historical Valuation Multiples versus Revenue Growth Rate



Recent Transactions

Date	Target	Buyer	Total Transaction Amount	Target Revenue (TTM at time of deal)	TEV / Revenue	TEV / EBITDA
26-Nov-20	Forteq	Liberta Partners	-	-	-	-
24-Nov-20	Accesa IT Consulting	Ratiodata	-	-	-	-
18-Nov-20	LeanNetworking	Adesso	-	-	-	-
16-Nov-20	Banzai Cloud	Cisco Systems	-	-	-	-
08-Nov-20	Flowmon Networks	KEMP Technologies	-	-	-	-
27-Oct-20	VSHosting	Contabo	-	6.54	-	-
26-Oct-20	Forcepoint	Francisco Partners	1,100.00	-	-	-
22-Oct-20	SEC Consult	Atos	-	-	-	-
22-Oct-20	TVC (Road)	Broadcast Solutions	-	-	-	-
21-Oct-20	SmartBear	Vista Equity Partners	1,700.00	-	-	-
17-Oct-20	ATM Group (Poland)	Global Compute Infrastructure	35.19	40.57	-	-
16-Oct-20	Rubecap	Astra Linux	-	-	-	-
08-Oct-20	Boftel (Business in Poland)	Unikie	-	-	-	-
05-Oct-20	GuideVision	Infosys	35.30	14.44	-	-
30-Sep-20	Archer Software	cPrime (California)	-	-	-	-
07-Sep-20	Veracomp	Exclusive Networks	-	-	-	-
02-Sep-20	HyperAspect	Concord USA	-	-	-	-
02-Sep-20	SimpliciTy	Ricoh Europe	-	-	-	-
03-Aug-20	Musoft	Axiell Group	-	-	-	-
15-Jul-20	Bonair	Fellowmind	-	-	-	-
13-Jul-20	TR Consult	4iG	-	-	-	-
01-Jul-20	DataStork	HeleCloud	-	-	-	-

EPAM Systems

EPAM Systems Inc provides software product development and digital platform engineering services to clients located around the world.

The company offers six main services: software product development, custom application development, application testing, enterprise application platforms, application maintenance, and support and infrastructure management. The company focuses on innovative and scalable software solutions. The company uses industry standard and custom developed technology, tools, and platforms to deliver results that adress business challenges. The company primarily offers their solutions in the following industries: financial services, travel and consumer, software and hi-tech, and life sciences and healthcare. The majority of revenue is generated from North American clients.

EPAM – Q3 2020

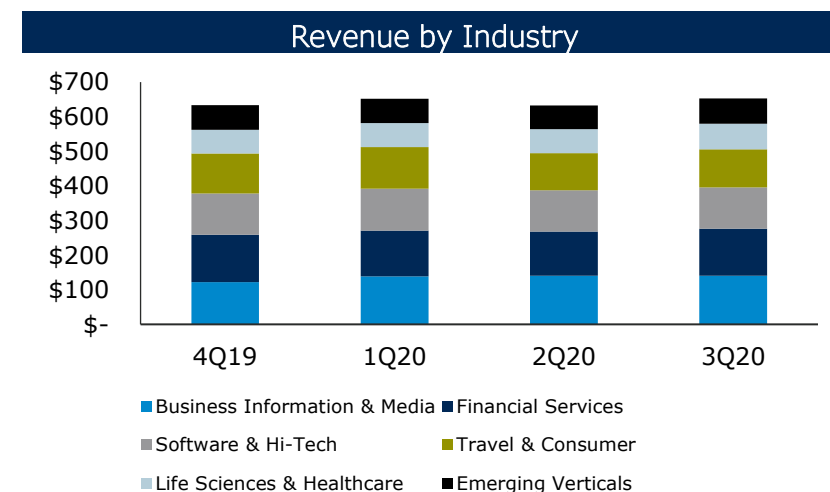
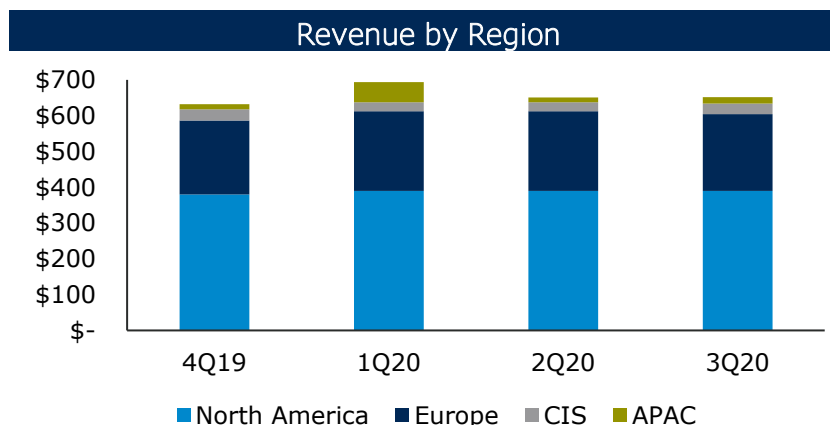
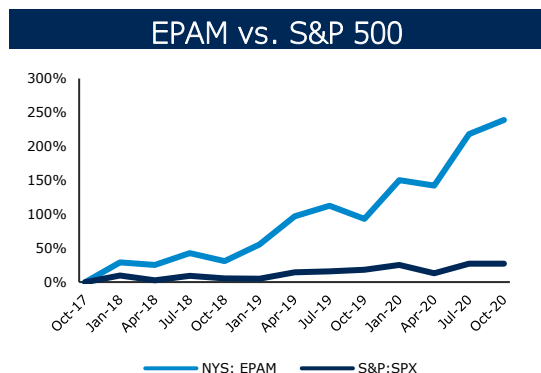


EPAM reported 3Q20 revenues of \$652.2m, up 10.9% year-over-year.

Ticker	NYS: EPAM
52 Week Range	\$151.97 - \$356.48
Market Cap	\$17,521
Enterprise Value	\$18,574

Financials	2017CY	2018CY	2019CY
Revenue	\$1,450	\$1,843	\$2,294
EBITDA	\$203	\$343	\$482

Multiples	2017CY	2018CY	2019CY
EV/Revenue	12.8x	10.1x	8.1x
EV/EBITDA	91.4x	54.2x	38.5x



The Numbers. EPAM reported 3Q20 revenue and EBITDA both higher than the Street expected. Revenue of \$652.2m was ahead of the consensus estimate of \$641m, while EBITDA of \$139.2 was ahead of the Street's \$120.3m.

Regional Performance. APAC was the best performer with 27.4% y/y growth, up from 20.5% in 2Q20 and 4.7% in 1Q20. However, this region only represents 2.7% of revenue. The company's largest region, North America (~60% of revenue), only grew at 8.8% y/y compared to its historical growth rate in the mid-to-high 20s.

Industry Performance. EPAM's largest segment by revenue contribution, Business Information & Media, grew at 32.3% y/y which was well ahead of its other segments. Contrarily, Travel & Consumer contracted (2%) compared to a year ago, as COVID-19 continues to act as a headwind for the industry.

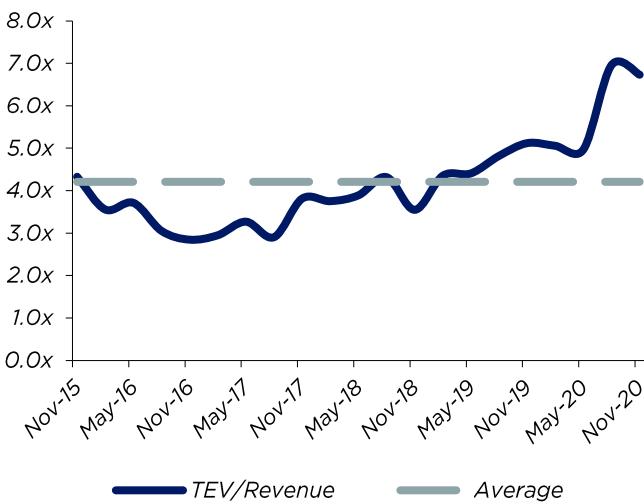
M&A. EPAM currently has more than \$1b of cash on its balance sheet. In deploying that capital, management intends to focus on an inorganic growth strategy, and stated it is active in evaluating a number of opportunities. The company expects to announce a deal in the next few quarters, and it hinted an acquisition would likely be small. That being said, management did not rule out the opportunity of engaging in larger acquisitions than it has in the past.

Looking Ahead. Management stated that it is seeing an improving demand environment as it continues to expand its capabilities, and it stressed the importance of adaptability in today's macro environment. EPAM anticipates 4Q20 revenue between \$695m - \$705m, implying 10.6% y/y growth at the midpoint. This is well ahead of the 4Q20 consensus estimate of \$691.6m.

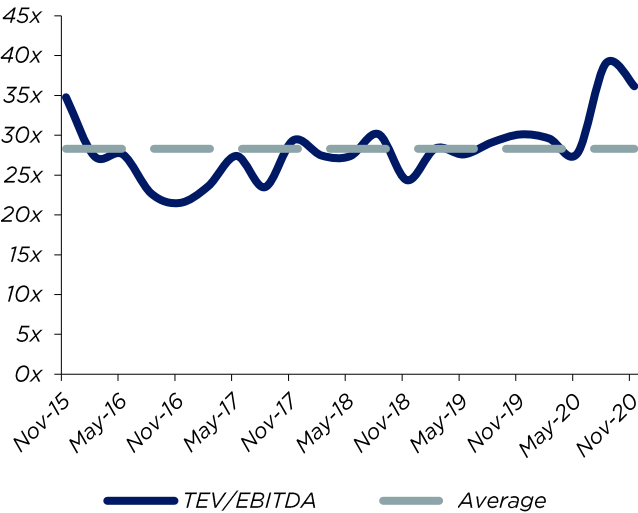
Public Basket

EPAM Systems

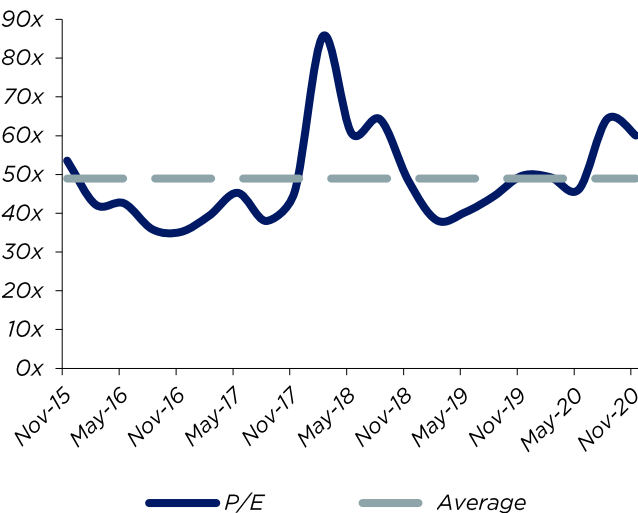
Revenue Multiples - EPAM Systems



EBITDA Multiples - EPAM Systems



P/E Multiples - EPAM Systems



Grid Dynamics

Grid Dynamics Holdings Inc is an enterprise-level digital transformation services company.

The company supports organizations become more agile and create innovative digital products and experiences using deep expertise in emerging technology, global engineering talent, lean software development practices, and a high-performance product culture. It applies emerging technologies such as artificial intelligence, data science, cloud computing, Big Data, and DevOps to enable digital transformation across the enterprise.

Grid Dynamics – Q3 2020

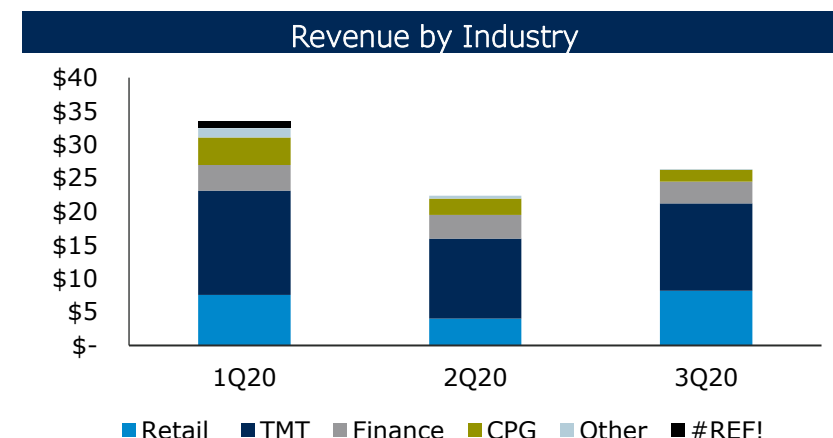
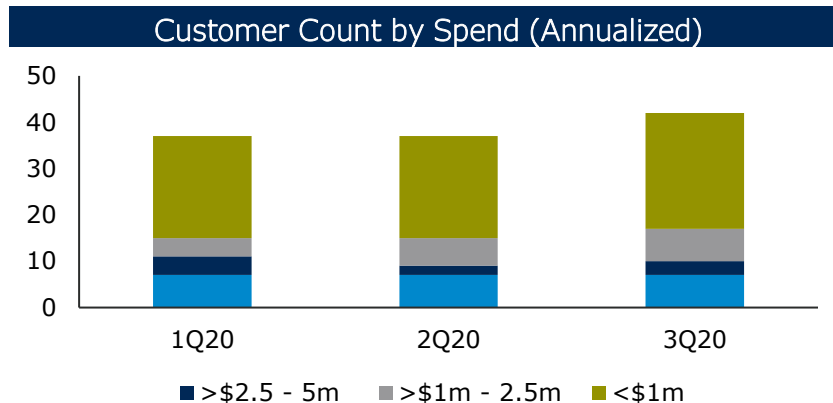
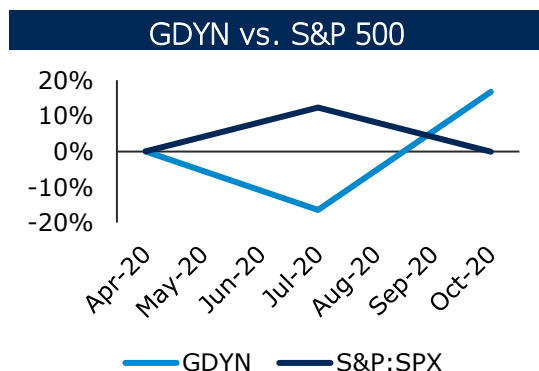


Grid Dynamics went public via a reverse merger in March 2020.

Ticker	GDYN
52 Week Range	\$4.61 - \$12.49
Market Cap	\$402
Enterprise Value	\$288

Financials	2017CY	2018CY	2019CY
Revenue	NA	NA	NA
EBITDA	NA	NA	NA

Multiples	2017CY	2018CY	2019CY
EV/Revenue	NA	NA	NA
EV/EBITDA	NA	NA	NA



The Numbers. GDYN reported 3Q20 revenue and EBITDA both higher than the Street expected. Revenue of \$26.3m was ahead of the consensus estimate of \$25.1m, while EBITDA of \$4.2 was well ahead of the Street's \$118k.

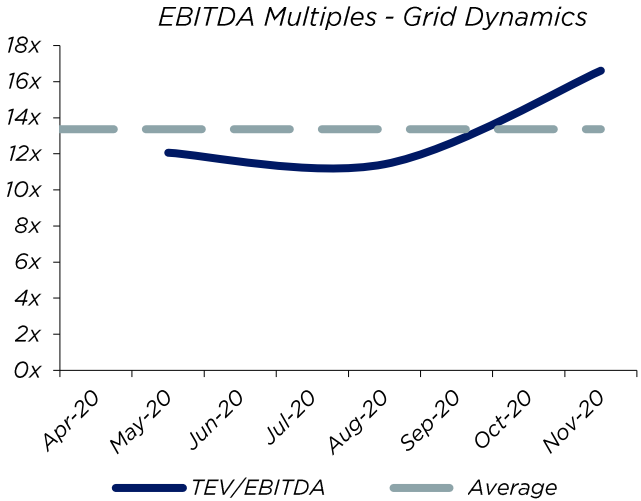
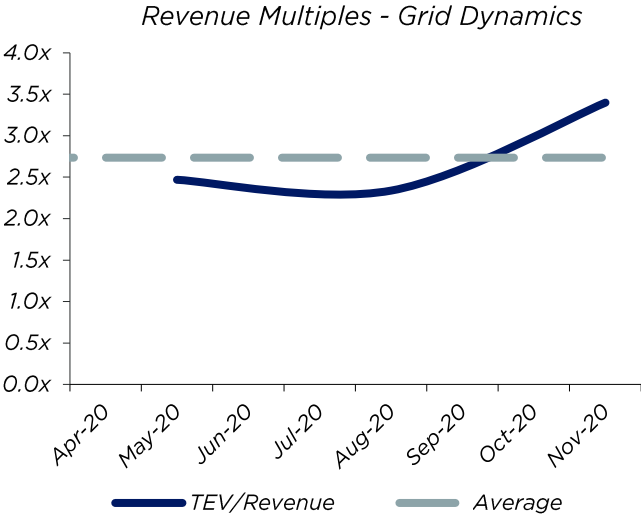
Industry Performance. The retail segment saw strong sequential growth more than doubling from the prior quarter, as the industry began to recover from COVID-19 related lockdowns. Management noted that specialized e-commerce type retail companies fared better than their brick and mortar counter parts. It accounted for 31% of sales in 3Q20 compared to 18% in 2Q20. TMT, the largest segment by revenue (50%), grew by 9.1% from the previous quarter.

M&A. Management stated it is considering opportunities in its pipeline to expand both geographic and industry footprints. The company is currently exploring options in the U.S. & Europe, but it declined to comment on what verticals it is considering expanding into.

Looking Ahead. The company anticipates its revenue run rate to approach pre-COVID-19 levels as it exits 2020, driven by strong demand from top clients. Grid Dynamics provided the Street with 4Q20 guidance of \$27.7m - \$28.7m, which implies \$28.2m at the mid-point. This was in-line with the Street's expectations.

Public Basket

Grid Dynamics



Company Name	Date	Deal Synopsis
ChaSerg Tech Acquisition	05-Mar-20	The company was acquired by Grid Dynamics for \$407 million through a reverse merger on March 05, 2020.
Tonomi	17-Aug-15	The company was acquired by Grid Dynamics for an undisclosed amount on August 17, 2015. This acquisition will enable the acquirer to deliver their customers with safe and secure management of applications and their environments on public and private clouds.

Endava

Endava PLC provides technology solutions.

The company offers various services such as Agile Transformation, through which the company will identify, define, and implement the mix of process, technology, and culture. It also provides digital evolution and automation, test automation and engineering, cloud, architecture, software engineering, and others. The company offers its services to various industries such as Finance, Retail and Consumer Goods, Telecommunication, Media, and Technology, Insurance and Healthcare, and among others.

Endava – FQ1 2021

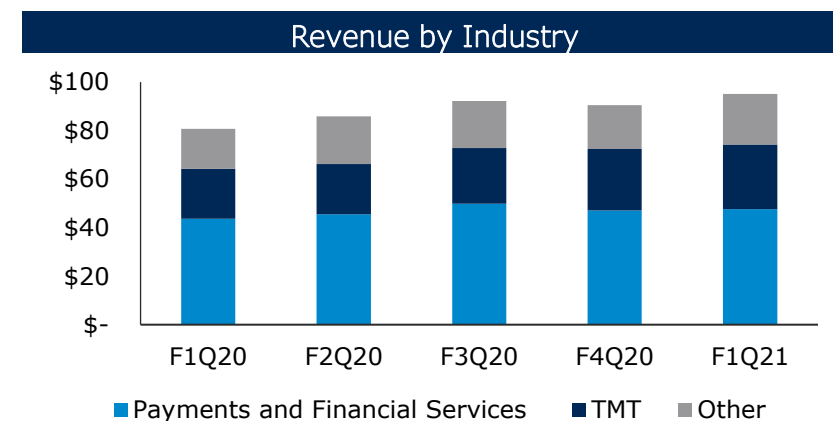
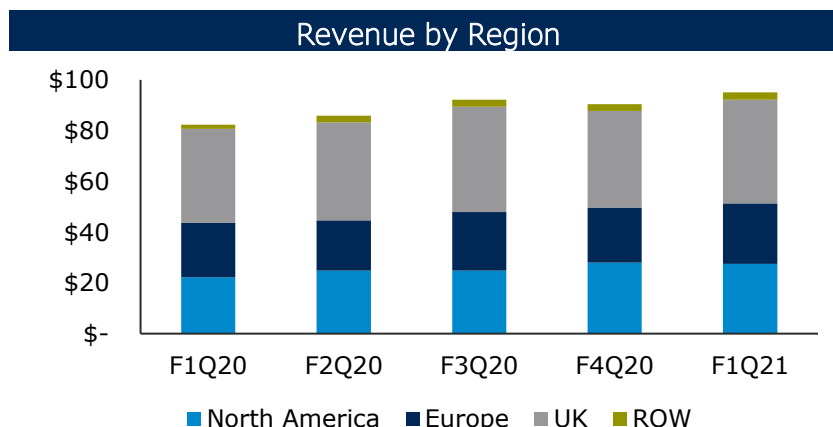
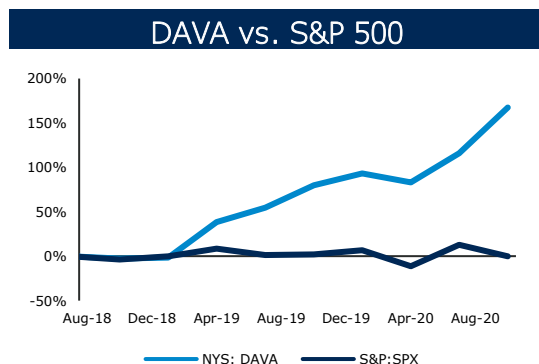


Revenue for Q1 FY2021 was £95.1m, an increase of 15.5% compared to £82.4m y/y

Ticker	NYS: DAVA
52 Week Range	\$27.21 - \$70
Market Cap	\$3,828
Enterprise Value	\$3,636

Financials	2017CY	2018CY	2019CY
Revenue	\$331	\$344	\$406
EBITDA	\$45	\$38	\$72

Multiples	2017CY	2018CY	2019CY
EV/Revenue	11.0x	10.6x	9.0x
EV/EBITDA	80.2x	94.4x	50.5x



The Numbers. DAVA reported FQ1 2021 revenue and EBITDA both higher than the Street expected. Revenue of \$125m was ahead of the consensus estimate of \$119.4m, while EBITDA of \$30.1 exceeded the \$24.3m consensus estimate.

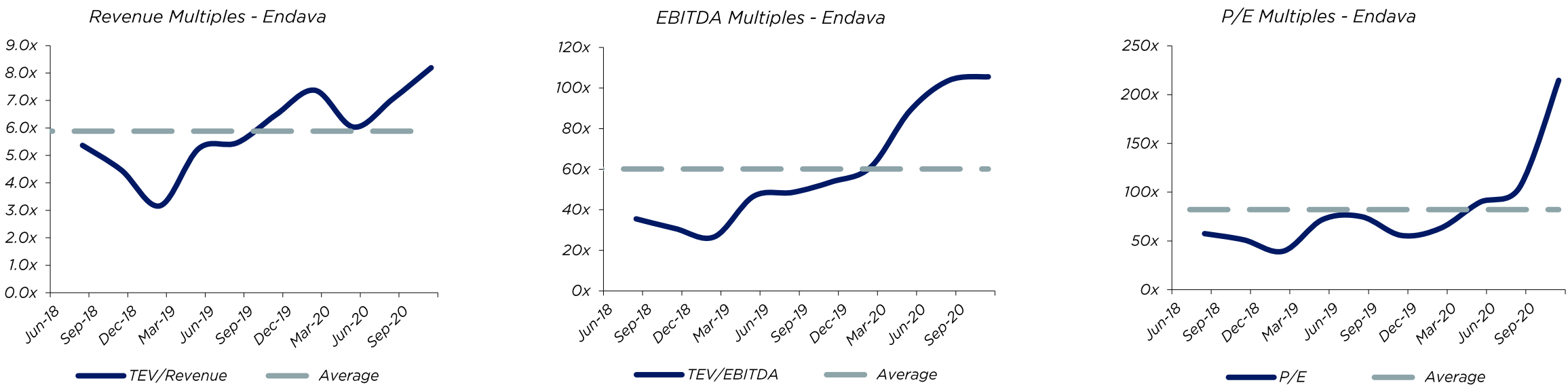
Regional & Industry Performance. Revenue growth of 15.4% YoY was led by 73.2% growth in Endava's Rest of World (ROW) segment, however, this segment only accounts for 3% of revenue. The company's second largest segment, North America (29% of revenue), grew by 24% compared to the prior year. From an industry perspective, the fastest growing segment was TMT which experienced 29.3% growth and accounted for 28% of revenue in the quarter.

M&A. Management stated it is looking to expand its mobility presence via M&A, but noted that it is exploring deals across the space to include those without a mobility presence. Endava believes there are a number of attractive opportunities for M&A today.

Looking Ahead. The company is anticipating revenue to be in the range of £ 419m – £421m — an implied constant currency growth rate of 20% - 20.5%. Adjusted diluted EPS is anticipated to be in the range of £ 1.04 – £1.08 per share.

Public Basket

Endava



Company Name	Date	Deal Synopsis
Exozet	17-Dec-19	The company was acquired by Endava (NYS: DAVA), a subsidiary of Concise, for an undisclosed amount on December 17, 2019.
Intuitus	04-Nov-19	The company was acquired by Endava (NYS: DAVA), a subsidiary of Concise, for an undisclosed amount on November 4, 2019.

Comarch

Comarch SA is a Polish company which is engaged in designing, implementation and integration of IT (Information Technology) services and software.

The company provides IT solutions to various industries including Telecommunications, Banking, Financial & Insurance companies, Airlines, Petrol stations, Utilities, Healthcare, and small-medium enterprises. The company is engaged in providing end-to-end customer loyalty management solutions, both for software and on-going services, business to business solutions, data analytics, network and service assurance, and sales channel management. Its operating segments include IT, Sport, Investment, and Medical. The majority of the company's revenue comes from domestic sales.

Comarch – Q3 2020

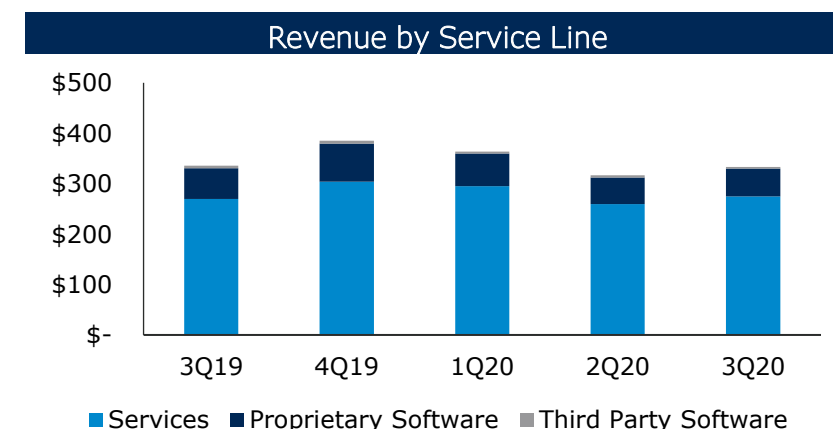
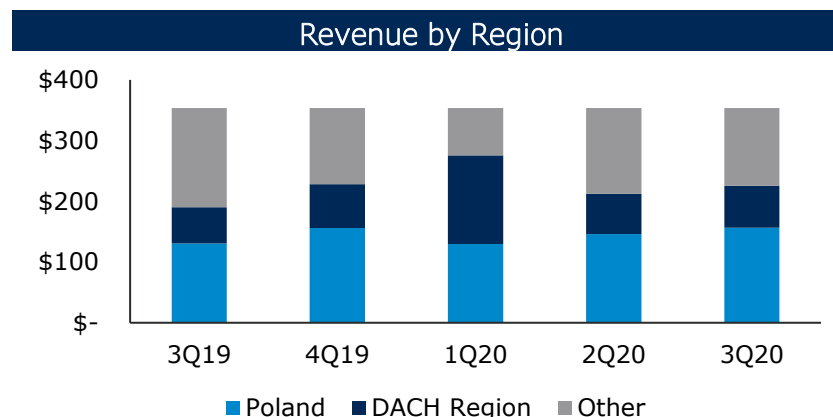
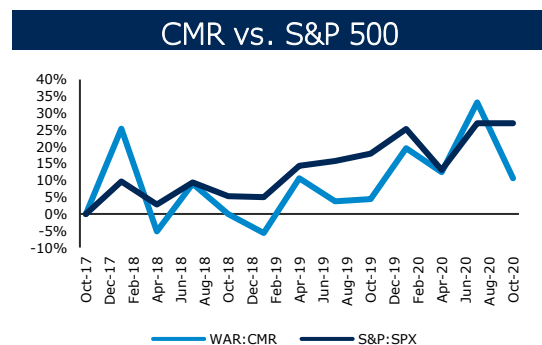
COMARCH

Revenue remains flat in 3Q20 compared to a year ago.

Ticker	WAR:CMR	
52 Week Range	\$71.79 - \$124.85	
Market Cap	\$409	
Enterprise Value	\$403	

Financials	2017CY	2018CY	2019CY
Revenue	\$298	\$379	\$374
EBITDA	\$32	\$41	\$58

Multiples	2017CY	2018CY	2019CY
EV/Revenue	1.4x	1.1x	1.1x
EV/EBITDA	12.5x	9.7x	6.9x



The Numbers. CMR reported 3Q20 revenue lower than the Street expected, while EBITDA was ahead of expectations. Revenue of PLN 354m was less than the consensus estimate of PLN 367m. Contrarily, EBITDA of PLN 64.5m was slightly ahead of the Street's PLN 62.4m.

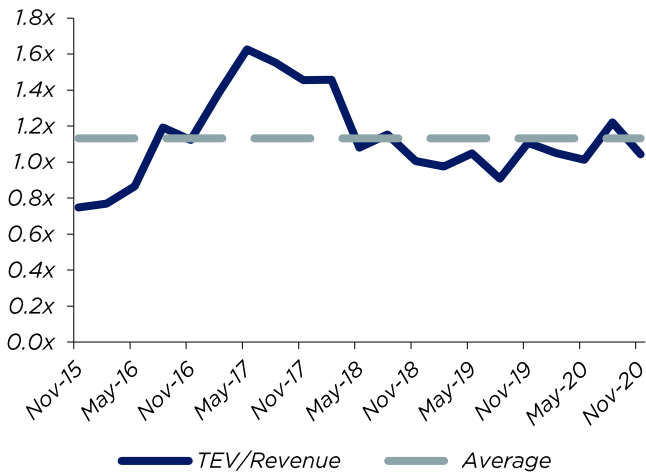
Regional Performance. Revenue was in-line with 3Q19 levels, although we note it did contract slightly to PLN 353.7m from PLN 354.5m. Poland was the best performing region with 20.1% growth from a year ago, and it accounted for more than 44% of sales. This growth was offset by a (21.6%) decline in revenue in the countries Other segment, which comprises 36.2% of revenue.

Service Line Performance. Proprietary Hardware was the worst performing segment decreasing (60.1%) compared to a year ago, however, we note this segment only accounts for .4% of total sales. The company's largest service line, Services, increased 2% y/y but growth was offset by a (9.5%) decrease in Comarch's second largest service line by revenue, Proprietary Software.

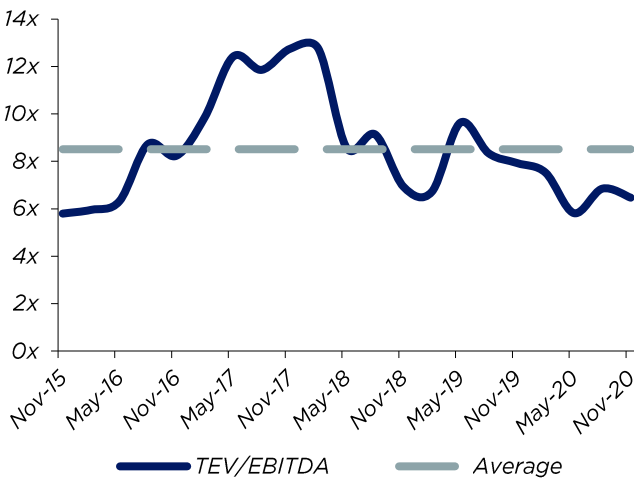
Public Basket

Comarch

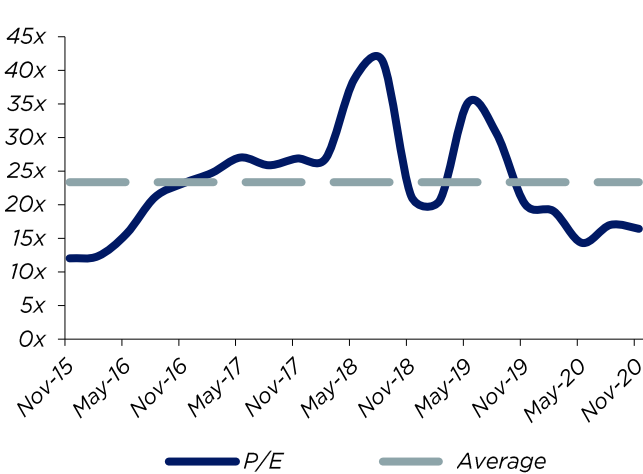
Revenue Multiples - Comarch



EBITDA Multiples - Comarch



P/E Multiples - Comarch



Asseco South Eastern Europe

Asseco South Eastern Europe SA, along with its subsidiaries, provides implementation, integration, and outsourcing services.

The conducts business operations in the markets of Poland, South Eastern Europe, and Turkey. Its business is divided into three operating segments. The Banking Solutions segment deals with integrated banking systems based on the Oracle and Microsoft platforms, including primarily core banking systems. Payment Solutions is engaged in the sale and maintenance of ATMs and POS terminals (point of sale) as well as in the provision of related support services. The Systems Integration segment is engaged in the development of customized IT systems, integration of third-party software and elements of infrastructure, as well as in the sale and installation of hardware solutions.

Asseco South Eastern Europe – Q3 2020

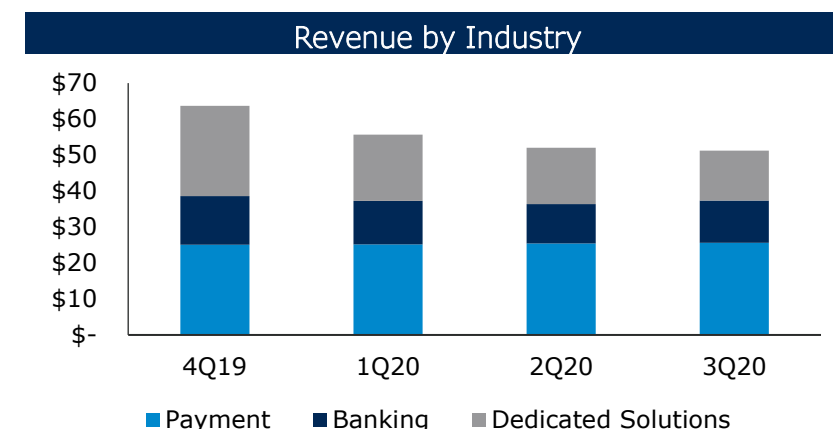
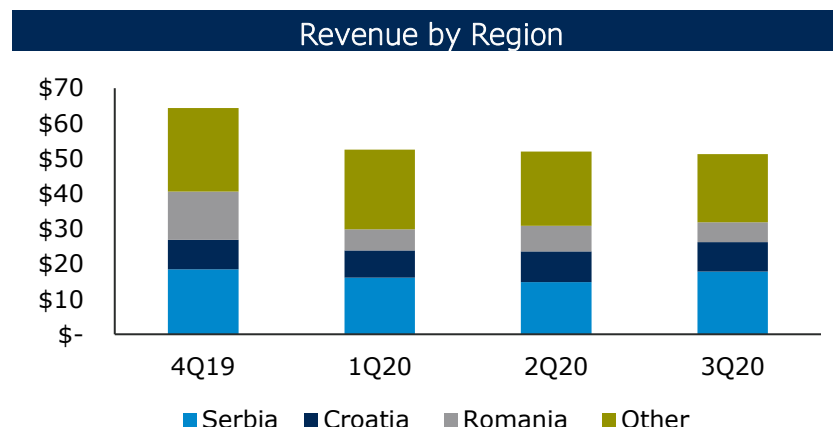
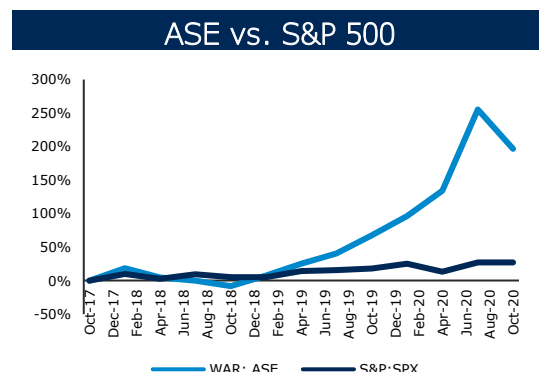


Top line decreases (2.8%) in the quarter compared to 3Q19

Ticker	WAR: ASE		
52 Week Range	\$5.60 - \$13.25		
Market Cap	\$566		
Enterprise Value	\$555		

Financials	2017CY	2018CY	2019CY
Revenue	\$151	\$186	\$230
EBITDA	\$29	\$36	\$49

Multiples	2017CY	2018CY	2019CY
EV/Revenue	3.7x	3.0x	2.4x
EV/EBITDA	18.8x	15.3x	11.4x



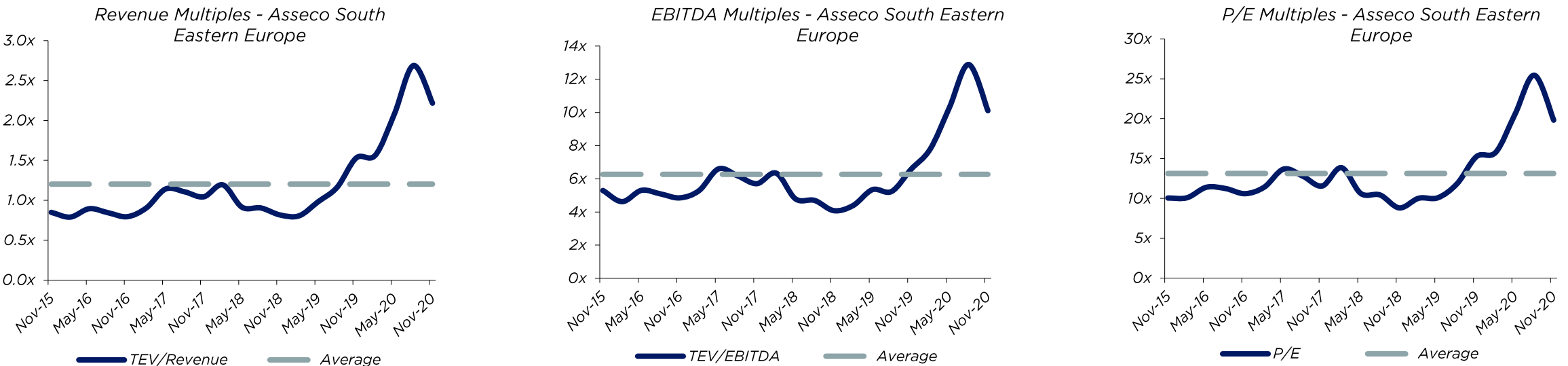
The Numbers. ASE reported revenue of EUR 51.2m, which represents a decrease of (2.8%) compared to 3Q19. The Street expected slightly higher revenue of EUR 52.4m. Contrarily, EBITDA of EUR 12.8m was ahead of the consensus estimate of EUR 12.1m.

Regional Performance. Sales in Serbia and Croatia each decreased by (4.8%) and (5.7%), respectively. Romania also saw decreased revenue generated in the country with the top line declining by (12.3%). The decreased revenue derived in these three countries was partially offset by a 2% increase in the top line across Asseco SEE's Other regions.

Industry Performance. ASE's largest industry end market, Payments, (50% of sales) grew by 13% compared to a year ago. Moreover, the banking segment grew by 17.6%. The growth across these two segments was more than offset by a (31%) decrease in Dedicated Solutions revenue.

Public Basket

Asseco South Eastern Europe



Company Name	Date	Deal Synopsis
EPTA (EFT POS)	23-Oct-13	The company was acquired by Asseco South Eastern Europe for an undisclosed amount on October 23, 2013.
Sigma Consultancy	14-Sep-12	The company was acquired by Asseco South Eastern Europe for an undisclosed amount on September 14, 2012. The acquisition strengthens Asseco South Eastern Europe’s presence in the Turkish market.

Atende

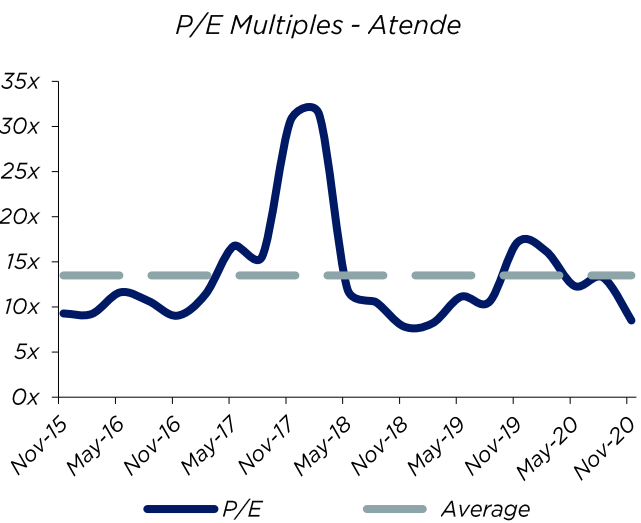
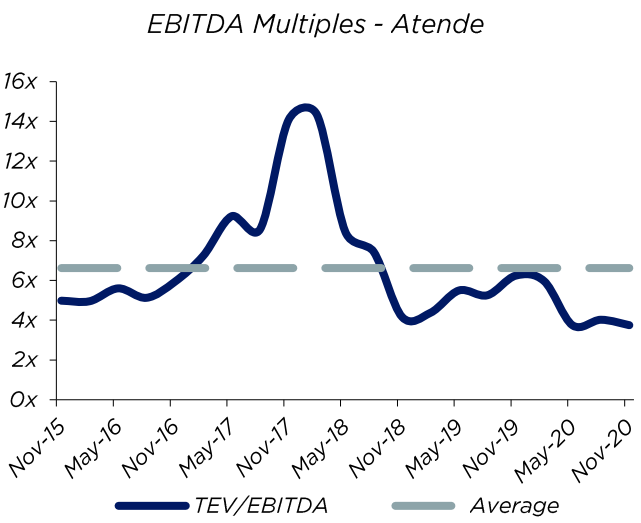
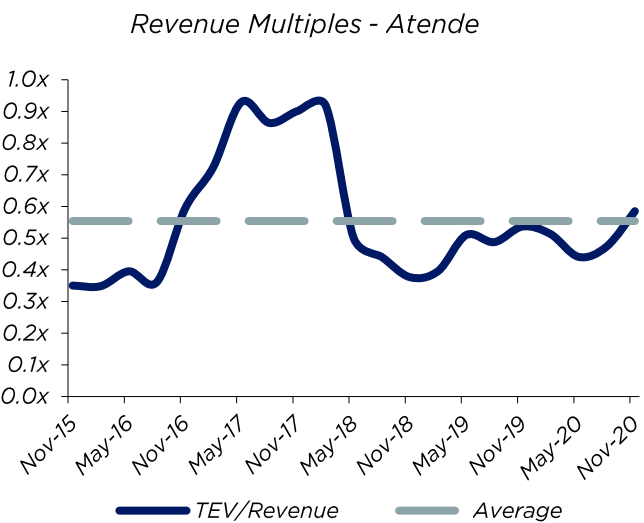
Atende SA provides information technology solutions in Poland.

The company is engaged in the integration of ICT, building new generation computer networks and data centers. It offers leading solutions in the area of cybersecurity. It also provides IT systems for market segments such as Telecommunications, Energy, Public Administration, Media, Finance and Healthcare.

3Q 2020 earnings data not yet available

Public Basket

Atende



Company Name	Date	Deal Synopsis
A2 Customer Care	31-Mar-17	The company was acquired by Atende (WAR: ATD) for PLN 360000 on March 31, 2017.

Comp Service Support

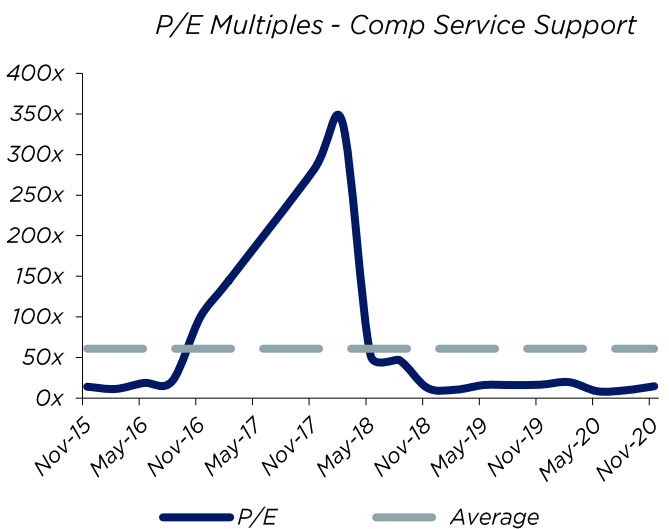
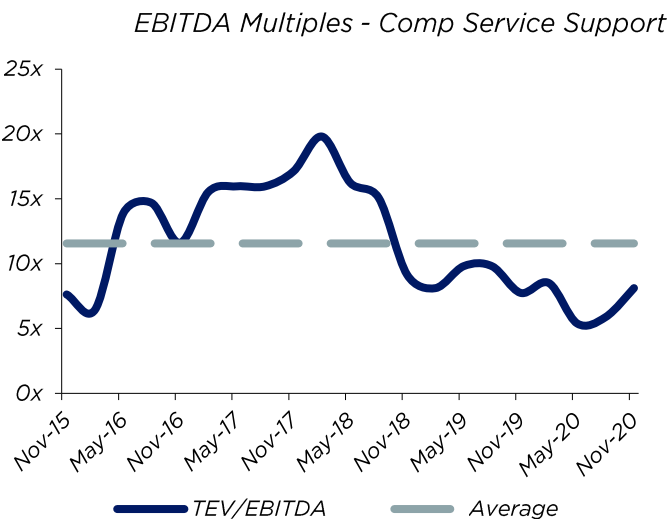
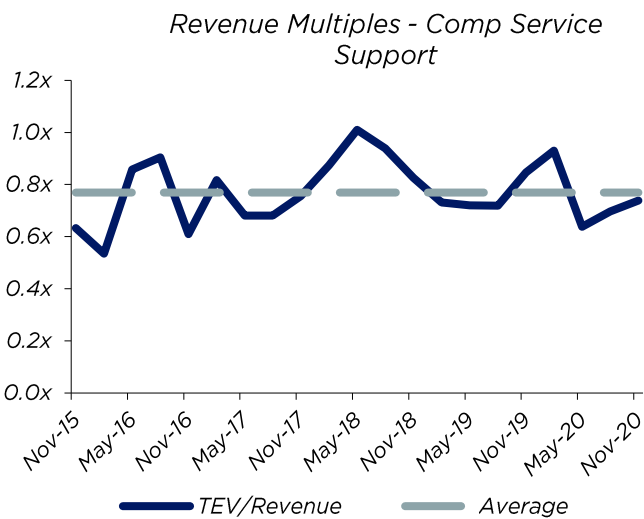
Comp SA is a Turkey-based technological company specializing in IT security, network security, and retail solutions.

The services provided by the company include corporate and network security, design, and implementation of complex ICT systems, market sectors, and authorized servicing and maintenance services of computer hardware.

3Q 2020 earnings data not available in English

Public Basket

Comp Service Support



Company Name	Date	Deal Synopsis
Comp Nowoczesne Rozwiązanie sprzedażowe	01-Apr-19	The company was formed as a joint venture between Comp Service Support (CMP: WAR) and Grupa Zywiec (ZWC: WAR) in April 2019. The joint venture is intended to provide development and commercialization of IT technology solutions for FMCG retail outlets based on bilateral communication with fiscal cash registers.
Novitus	17-Jan-12	The company was acquired by Comp Safe Support (WSE: CMP) for PLN 438.6 million on January 17, 2012.

Contact Info

7MA provides Investment Banking & Advisory Services to the Business Services and Technology Industries globally. We advise on M&A and private capital transactions and provide market assessments and benchmarking.

As a close-knit team with a long history together and a laser focus on our target markets, we help our clients sell their companies, raise capital, grow through acquisitions, and evaluate new markets. Securities offered through 7M Securities LLC.

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