

OTT-ONE

We initiate a coverage of OTT-ONE with a BUY rating and a TP of HUF 296 implying a 75% upside potential.

- OTT-ONE is a Hungarian IT company. The Company's main activity is the development of innovative market solutions and products in the fields of IT security, security technology, as well as streaming and artificial intelligence.
- OTT-ONE intends to continue its dynamic growth in the coming years, and its core strategy is to develop and sell high value-added, innovative IT solutions, technologies, and to explore related markets and provide services.
- OTT-ONE is trading at a P/E ratio of 33.34, well below the peer group's median of 42.93.

Recommendation	BUY
12m target price	HUF 296 per share
Current price	HUF 169 per share
Trading range	HUF 90-293
52 week performance	-40%
Market capitalization	6 094 mn HUF
Average daily turnover (number of shares)	51 690
Number of shares	35 852 000
Freefloat	100%
Tickers	Bloomberg: OTT1 HB
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SELECTED FINANCIAL METRICS AND RATIOS					
million HUF / for the year of	2015	2016	2017	2018	2019
Sales	356,4	903,3	1 152,3	1 700,9	2 861,8
EBITDA	34,5	146,6	157,3	336,8	443,0
EBITDA margin	9,7%	16,2%	13,7%	19,8%	15,5%
Depreciation and amortization	-	-	49,5	62,7	159,2
Operating profit	29,2	-10,1	137,5	274,1	283,8
Operating profit margin	8,2%	-1,1%	11,9%	16,1%	9,9%
Net profit	-127,4	76,2	111,4	215,6	204,9
Net profit margin	-	8,4%	9,7%	12,7%	7,2%
ROE	-	31,3%	24,3%	14,8%	8,6%

Source: MKB, OTT-ONE

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INVESTMENT CASE

OTT-ONE Plc. is a Hungarian IT company. The Company's activities include streaming, high-tech security technologies, blockchain, e-learning, e-sport and Industry 4.0. The Company is engaged in the development of high value-added and innovative IT solutions

In 2018, the Company established a long-term strategic cooperation with the local TV2 Group and Telenor Magyarország. The Company has also entered into an agreement with the UK subsidiary of Sony Corporation, and has also cooperated with several companies in Colombia. In 2019 the Company finished the establishment of its own multi-purpose server capacity, which could generate stable sales in the coming years. Last year, the Company also launched development projects focusing on Industry 4.0.

In 2019, the Company achieved a sales revenue of HUF 2,883.7 million, which is a 68% increase compared to previous year. The revenue came mainly from high value-added projects; as a result, the Company's margins were also high last year. The operating margin was 9.9% and the net profit margin was 7.2%. The stability and possible expansion of the margins as well as the further growth of the sales revenue can be supported in the future by the established domestic and international partnerships.

As a result of the long-term cooperation agreements, the Company could increase the proportion of recurring, regular sources of revenue. In our opinion, the regular revenue comes mainly from the streaming business (which accounted for 17% of last year's sales revenue) and the server investment business (which accounted between 15-20% of last year's sales revenue of HUF 2.883,7 million), but in other business lines (high-tech security technologies, blockchain, e-learning), there may also be orders that could contribute to a stable income stream in the long run. OTT-ONE is active in industries, special segments with untapped potential, where large market competitors are not yet present.

In addition, the Company participates in unique, high value-added projects (e.g. in the fields of artificial intelligence, cyber security), which requires a team of highly experienced professionals. The Company also has strong professional relationships, experience and a valuable staff of developers, which may serve as a good basis for stable growth in the coming years.

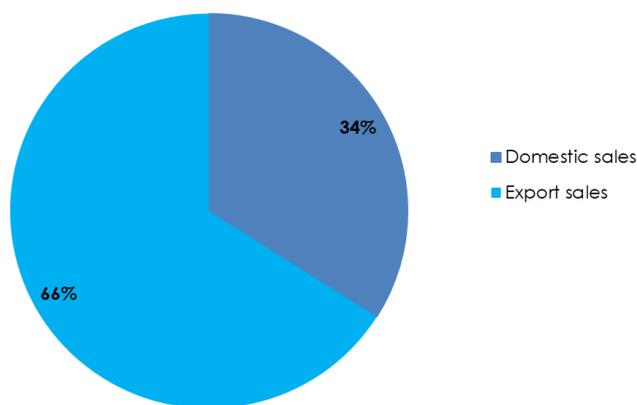
The Company has been involved in several special development projects during recent years. In addition, the Company has targeted new business directions, for example, last year the Company finished the development of its own multi-purpose server capacity (which may contribute to the sales revenue from 2020 onwards). OTT-ONE has also started several other major developments (although the details have not yet been announced by the management), which are expected to provide a significant growth opportunity. With its latest development, the Company also supports telemedicine-type solutions, which could also be a new direction in the future.

2019 RESULTS

In 2019, the Company achieved sales revenue of HUF 2,883.7 million, which represents a significant increase compared to the HUF 1,712.8 million result of the previous year. The Company's turnover increased by a total of 68%.

Domestic turnover accounted for 34% of last year's sales revenue (HUF 977.5 million) and 66% of revenue were attributed to foreign orders (HUF 1,884.2 million). The composition of sales revenue changed significantly in one year, as sales revenue from export has doubled compared to the base year of 2018, while domestic sales revenue was able to expand to a much lesser extent, by only 34%.

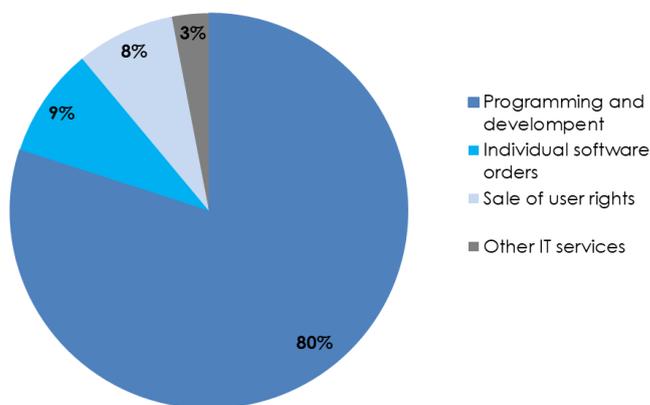
Sales breakdown



Source: OTT-ONE, MKB

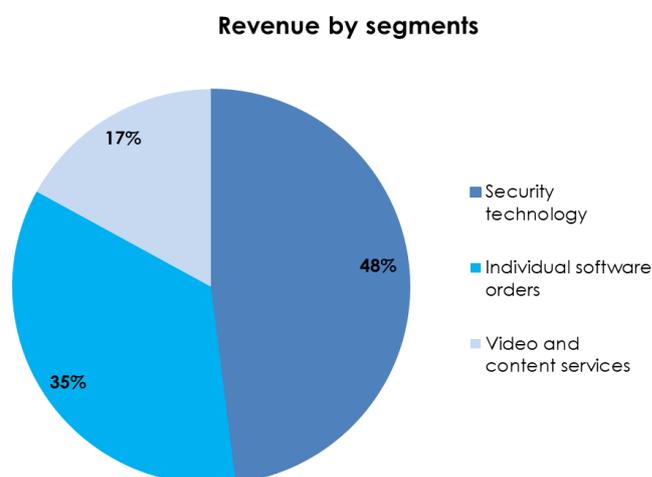
The largest part of the sales revenue in 2019 was related to the programming and development sales, where OTT-ONE Nyrt. generated a turnover of HUF 2,286.8 million. The Company achieved a revenue of HUF 267.7 million from computer system operation business, while the revenue from the sale of user rights was HUF 245.5 million. Other IT services generated an additional revenue of HUF 61.7 million.

Sales breakdown



Source: OTT-ONE, MKB

Among the segments, the largest sales revenue can be attributed to security technology, which amounted to HUF 1,334.5 million last year (48% of total sales revenue). The Company realized HUF 1,029 million from individual software orders, the sales revenue from video and content services was HUF 498.2 million last year. the company also realized an additional HUF 22 million in other income.



Source: OTT-ONE, MKB

In 2019, the Company achieved an operating profit of HUF 247.4 million, which is almost the same as the operating profit of a year before. Last year the operating profit margin of the Company equaled to 9.9%, while a year earlier the margin was significantly higher (16.1%). In 2019, the Company accounted for HUF 159.1 million amortization, which is significantly higher than the amortization of HUF 62.7 million in 2018. Despite the higher sales revenue the operating profit of 2019 did not increase. The main reason behind the stagnation of the profit margin is the establishment of the Company's own multi-purpose server capacity in the amount of HUF 1.1 billion, which resulted in the significant increase in the amortization.

In 2019, OTT-ONE has signed the largest contract in the Company's history: it received an order of approximately HUF 2 billion to implement innovative IT and information security technology developments for a Hungarian customer.

In addition to the continuously improving sales performance and substantially increasing revenues of 2019, in the beginning of 2020 – despite the current global crisis brought about by COVID-19 – OTT-ONE also delivered strong performance: it signed a contract for the manufacturing and shipping of hundreds of ventilators, and the Company's online education platform also managed to make a contribution to distance learning and teleworking in many sectors.

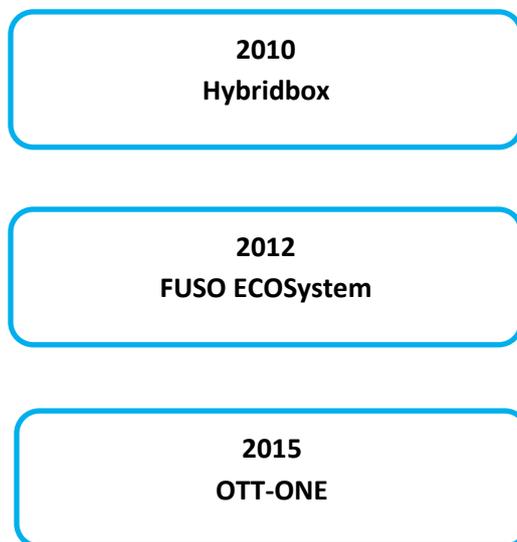
HISTORY

OTT-ONE Plc. is a Hungarian IT company. The Company's activities include streaming, high-tech security technologies, blockchain, e-learning, e-sport and Industry 4.0. Its clients include Telenor, Columbia Pictures Corporation Limited and the Hungarian TV2 Group.

The Company was listed on the Budapest Stock Exchange in 2010 under the name HybridBox. The Company's product was Hybridbox, a Home Theater PC (HTPC) intended

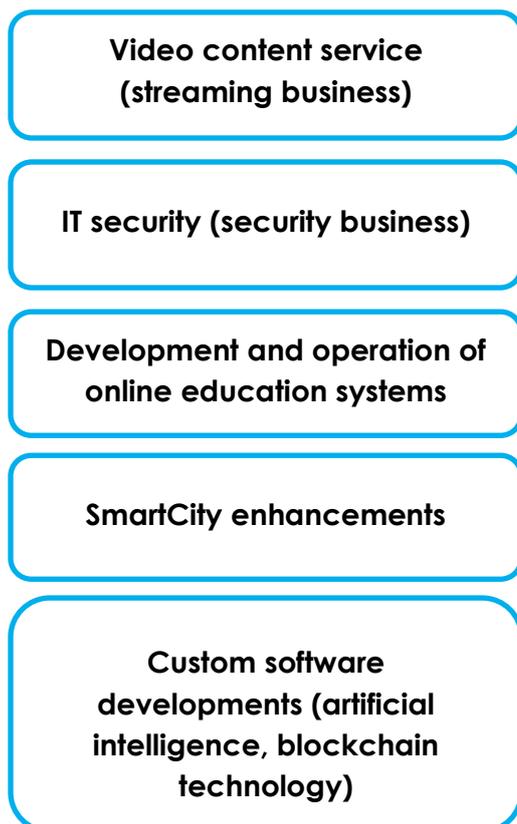
to connect television devices through the internet. Later on, the Company was renamed to FUSO EcoSystem. The year 2015 marked the implementation of a new business strategy and the appointment of a new management and the Company took the current name, OTT-ONE. The new management changed the focus of its activities from B2C to B2B.

Following the reorganization, in 2017 the company had a private capital issue of HUF 250 million.



COMPANY OVERVIEW

OTT-ONE Plc's main activity is the development of innovative market solutions and products in the fields of IT security, security technology, streaming and artificial intelligence. The Company also develops and implements essentially project-based and high value-added IT products and solutions. Its operation is currently divided into the following segments:



During recent years, the Company's sales have been generated exclusively by private clients; however, the current developments are also tailored to the needs of state actors, so in some (current and future) segments state orders may appear in the future, either from the Hungarian state or from the governments of other countries (making thereby the government sector as a potential contributor to the Company's future growth).

Over the past few years, the security sector has grown into the Company's largest business in addition to custom developments, while the streaming area has also remained dominant. During previous business years, the Hungarian market played a prominent role in the Company's sales activities, however, this trend changed in 2018 and foreign markets surpassed Hungary in terms of sales revenue.

The Company is actively looking for new areas, solutions and opportunities that can contribute to future expansion and further growth; where the knowledge and professional experience accumulated by the Company's activities so far are considered as a great advantage.

Within the **streaming business**, the Company offers turnkey solutions either in the form of video-on-demand or live TV service. The Company also provides content services, offers live TV shows, movies and series through its partners. However, the main activity is operations and program management. The Company's service includes all the tools that may be required to operate a TV platform.

Within the **IT security segment**, the Company offers software security technology (digital signature authentication and control, remote authentication with vein scanner, manual signatures on electronic documents, long-term authenticity preservation), hardware security technology (access control systems, identification procedures, biometric identification) and cyber security solutions.

The Company's **online education platform** can be used in the following three areas: corporate knowledge development, educational and training institutions, healthcare (medical knowledge sharing through video streaming).

OWNERSHIP STRUCTURE

There are no shareholders holding more than 10% in OTT-ONE Plc. The total number of issued shares is 35.8 million with a free float of 100%.

In 2017, iSRV Ltd. providing security technology solutions, acquired a 10% stake in OTT-ONE. This stake was sold in March 2020 in the framework of an over-the-counter (OTC) transaction, thus the influence of iSRV Ltd. in the Company decreased below 5%.

IMPORTANT STRATEGIC PARTNER – iSRV Ltd.

The most important strategic partner of the company is iSRV Ltd. Many of OTT-One's projects are being developed by iSRV. The Company provides hardware and software solutions. iSRV Ltd. is engaged in the development of custom-designed hardware, cryptographic solutions consisting of biometric security features and provides unique and innovative solutions in the fields of AI, image recognition/image analysis, streaming technologies, and online learning.

SERVER CENTER

In 2019, the Company finished its own multi-purpose server capacity and established a secure, qualified server center. This capacity is built from more than 800 servers. in a value of HUF 1.1 billion, financed entirely from own resources. In July the Company announced its plans to expand its server capacity by EUR 2 million. The investment is scheduled to be completed by the end of November 2020. The reason for the expansion is that during the virus situation, IT solutions enabling secure communication and cloud-based services have become more valuable.

After the completion of the investment, following projects could be supported:

- providing computing capacities related to artificial intelligence-based projects,
- video transcoding tasks,
- server support for custom blockchain solutions,
- performing cryptographic tasks.

In addition, the server capacity will effectively support OTT-ONE's streaming solutions, especially its online education projects, as well as its work in the Company's security business. The Company uses the server capacity not only for own projects, but also sells its computing resources.

The Company signed its first service contract last November, under which the U.S. customer partner contracted a computing capacity of about 600 processors from the Company for a period of 10 months, for a total amount of USD 586,500. According to the Company, the expected return on this investment is 3 years. The Company's server capacity could generate stable revenue in the coming years.

In 2019, the global Data Center Server market size was USD 42.6 billion, and it is expected to reach USD 58.8 billion by the end of 2026, with a compound annual growth rate (**CAGR**) of 4.7% during 2021-2026, according to 360ResearchReports.¹ Advent and growing adoption of new technologies, such as cloud and big data is anticipated to substantially impact the market growth. In the absence of a more detailed geographical breakdown, this forecast was used to forecast the Company's future growth potential.

INDUSTRY 4.0

The Company is working on a development project focusing on Industry 4.0, which will develop a dual-mode CNC target machine. The total value of the project is HUF 385 million.

COVID-19 – Ventilators delivery

Even though it is not directly related to the Company's core activities, but OTT-ONE has signed a contract for the China-based production and delivery to Hungary of hundreds of ventilators. The total value of the order placed by the National Healthcare Services Center (ÁEEK) is HUF 12.4 billion. Over the past year, OTT-ONE has placed great emphasis on building business relationships with China, which it could monetize in the current epidemic situation.

Due to the purchase of hundreds of ventilators, the Company's sales in 2020 will increase significantly. The profit content of ventilators is very low according to our calculations, therefore no significant jump in net profit is expected due to this item. With this order, the Company will be able to further strengthen its relationship with China.

STRATEGY/FUTURE

OTT-ONE's future focus includes areas with high business potential, such as image recognition algorithms, machine learning solutions and special AI technologies, and SmartCity technologies. In addition, OTT-ONE's strategy focuses on the Company's self-developed online education platform, as well as more traditional industrial solutions and activities.

INDUSTRY OUTLOOK

IT Security

"IT security is a set of cybersecurity strategies that prevents unauthorized access to organizational assets such as computers, networks, and data. It maintains the integrity and confidentiality of sensitive information, blocking the access of sophisticated hackers." - Cisco²

IT Security dominates the priorities of every organization since the appearance of COVID-19. The companies try to adapt to the post-COVID 19 life, in which IT security plays a much bigger role than before. Remote workers' personal data and devices must be protected.

A new research from the UK made by Centrifly shows that 71% of the surveyed business decision makers believe that the shift to remote working during the COVID-19 crisis has increased the likelihood of a cyber security breach. 79% of the companies also increased their cyber security procedures to manage high volumes of remote access.³

IT security is a high priority sector in the EU, as well. In 2017 the European Commission adopted a cybersecurity package. The Cybersecurity Act lay at the core of the package. The changes this new EU regulation brings about are twofold: a comprehensive reform of ENISA (European Union Agency for Network and Information Security) and the creation of a certification framework. The growth of the cybersecurity market in the EU – in terms of products, services, and processes – is held back in a number of ways, also due to lack of a cybersecurity certification scheme recognized across the EU. The European Commission has therefore put forward a proposal to set up an EU certification framework with ENISA.

The sector is fast developing, and innovation driven. IT security companies are adopting technologies like internet of things (**IoT**), machine learning, AI, and big data in their security business units.

The fragmentation in the industry is increasing with the advancement in technology, which, in turn, enables other technology providers to enter the market by offering efficient real-time solutions to the organizations. Despite fragmentation, the increasing spending on security solutions is creating an opportunity for market participants. Thus, OTT-ONE can grow alongside large market players.

Asia-Pacific region is expected to reflect the highest CAGR in the coming years. The increasing efforts toward securing endpoints, networks, and cloud infrastructure are anticipated to contribute to the market growth in the Asia-Pacific region.

According to several sources, the global cybersecurity market is currently worth around USD 173 billion in 2020 and is predicted to grow to USD 270 billion by 2026.⁴ According to IDC (International Data Corporation, one of the leading global providers of market intelligence in the fields of information technology), spending on IT security solutions in Europe was about USD 27 billion in 2019.⁵ In the absence of a more detailed geographical breakdown, this forecast was used to calculate the Company's future growth potential.

Streaming

The big media companies are launching their own streaming services one after another. In the United States, it is already clear that the emphasis is shifting from traditional, linear television to the use of streaming services, and this is likely to become a global trend. The largest streaming service providers are Netflix, HBO GO, Disney+, Apple TV+ and Amazon Prime Video. They offer subscription-based video-on-demand services (Subscription-VoD or SVoD). The consumer gets unlimited access to their content libraries for a monthly subscription fee. Movies and TV series can be streamed to various supported connected devices.

Rising technological advancements and innovations, such as blockchain technology and Artificial Intelligence (AI) are improving the streaming services. AI is playing an essential role in editing, cinematography, voice-overs, scriptwriting, and several other aspects of video production and upload.

Due to COVID-19 the demand for streaming services is increasing. In the education and academic sector, videos can be effectively used to enhance the learning process. Experts expect streaming services to be widespread and gaining ground in the field of online education.

Online Education

Online learning has shown significant growth over the past decade as the combination of the internet and education offers opportunities for people to learn new skills. Since the outbreak of COVID-19, online learning has become more popular. The pandemic has forced schools, universities, and companies to work remotely, and this is stimulating the use of online learning.

By type, the global online education market is segmented as online education between academic institutions and the corporate sector. With the growing number of students in higher education institutions and the increased need for skills and the provision of relevant training for staff, academic institutions and businesses need to develop opportunities that allow individuals to study anywhere, anytime. Because of the cost-effectiveness of online education, many educational institutions integrate face-to-face learning with online learning at all levels of education.

E-Learning Market size (Online E-Learning, Learning Management System (LMS), Mobile E-Learning, Rapid E-Learning, Virtual Classroom) surpassed USD 200 billion in 2019 and is

anticipated to grow at over 8% CAGR between 2020 and 2026 according to Global Market Insights.⁶

Artificial Intelligence

Artificial intelligence has been one of the fastest-growing technologies in recent years. AI is associated to human intelligence with similar characteristics such as language understanding, reasoning, learning, problem solving, and others. Manufacturers in the market witness enormous underlying intellectual challenges in the development and revision of such a technology. AI is positioned at the core of the next-gen software technologies in the market. Companies such as Google, IBM, Microsoft, and other leading players have actively implemented AI as a crucial part of their technologies. According to Grand View Research, the market size was valued at USD 39.9 billion in 2019 and is expected to grow at CAGR of 42.2% from 2020 to 2027.⁷

The growth in this market is supported by the advent of industrial 4.0, increasing huge & complex amount of dataset, and rising adoption of industrial IoT in several industries. Moreover, increasing volume of data gathered through IoT devices, coupled with the widespread availability of high-speed broadband networks and the emergence of 5G technologies will further contribute to the global artificial intelligence in manufacturing market in the coming years.

Blockchain Technology

A simple analogy for understanding blockchain technology is Google Doc. When we create a document and share it with a group of people, the document is distributed instead of copied or transferred. This creates a decentralized distribution chain that gives everyone access to the document at the same time. No one is locked out awaiting changes from another party, while all modifications to the document are being recorded in real-time, making changes completely transparent (OTT-ONE has already developed a blockchain-based document management system). Of course, blockchain is more complicated than Google Doc, but the analogy is apt because it illustrates three critical ideas of the technology:

- Digital assets are distributed instead of copied or transferred.
- The asset is decentralized, allowing full real-time access.
- A transparent ledger of changes preserves integrity of the document, which creates trust in the asset.⁸

According to Grand View Research the global blockchain technology market size was valued at USD 1,590.9 million in 2018 and is expected to grow at a CAGR of 69.4% from 2019 to 2025.⁹

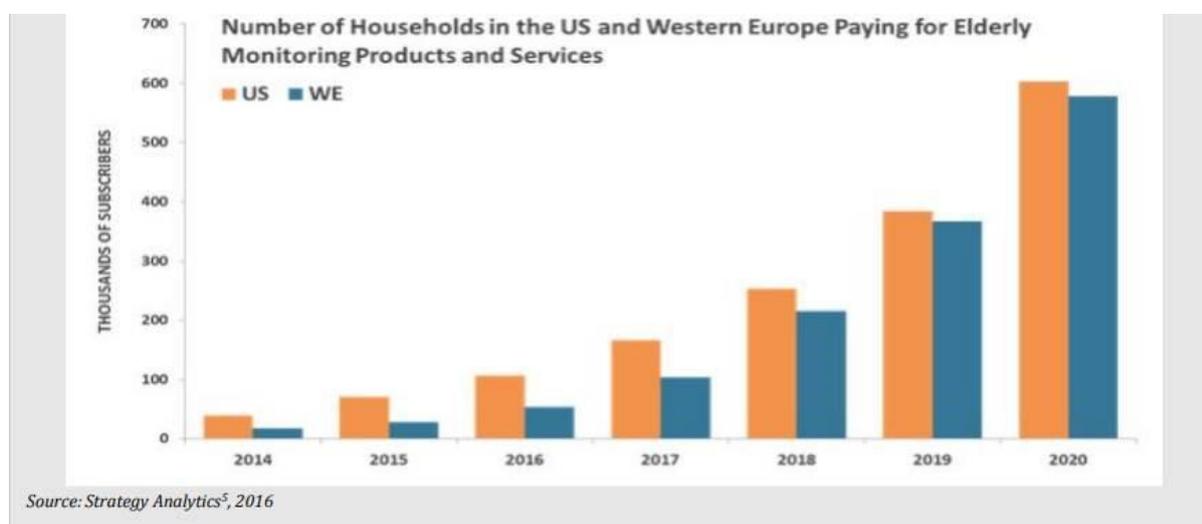
Telemedicine

Telemedicine refers to the practice of caring for patients remotely when the provider and patient are not physically present with each other. Modern technology has enabled doctors to consult patients by using video tools. There are three common types of telemedicine:

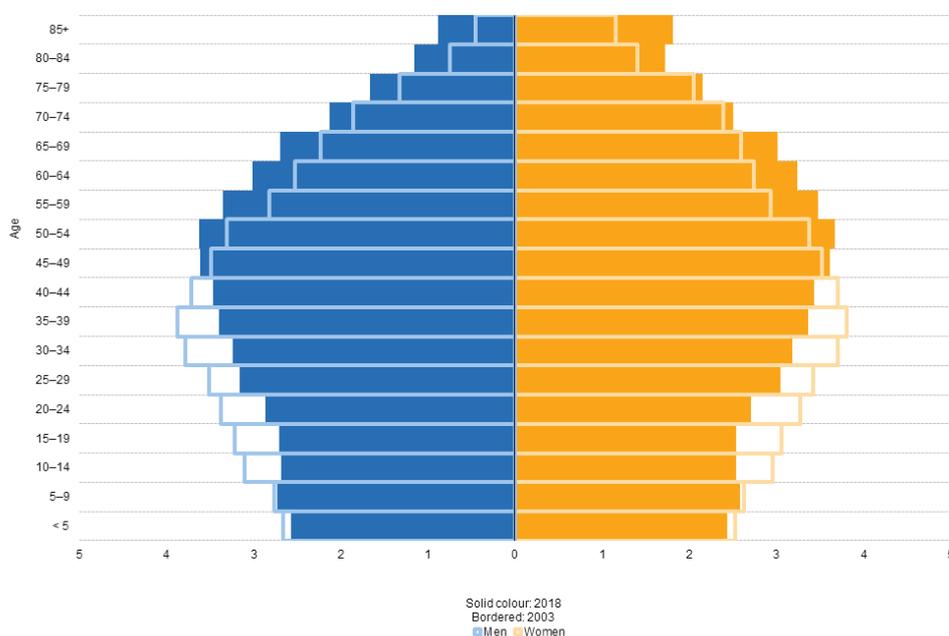
- Interactive Medicine – allows patients and doctors to communicate in real-time
- Store and Forward – allows providers to share information about patients with a doctor at another location
- Remote Patient Monitoring – allows remote caregivers to monitor patients at home using mobile medical devices to collect data

According to Global Market Insights, the telemedicine market size was valued at USD 45 billion in 2019 and is expected to witness 19,3% CAGR from 2020 to 2026.¹⁰ Market Data Forecast forecasts a growth from USD 9,93 billion in 2019 to USD 19,2 billion in 2024 in the European telemedicine market (CAGR: 14,1 over the next five years).¹¹

The drivers of growth of the European market are the aging of the population, the high rate of general well-being, increase in the rate of chronic diseases and increase in adoption of IT solutions in healthcare.



Population pyramids, EU-28, 2003 and 2018
(% of the total population)



Note: 2018 provisional.
 Source: Eurostat (online data code: demo_pjangroup)

STOCK MARKET PRESENCE

In 2019, the Company's shares were moved from the Budapest Stock Exchange's "T" (Technical) Category to the Standard Category and in the autumn it was included in the stock exchange index basket of mid- and low-market companies, BUMIX. In 2019, OTT-ONE also initiated preparations for a public capital market transaction, but based on the Company's announcement of 23 July 2020, the Hungarian National Bank rejected the request for approval of the prospectus for the transaction.

The Company will later decide on the further fate of the planned transaction. Due to the uncertain outcome, our discounted cash flow model does not include the effect of the transaction on the value of the Company.

OTT-ONE announced June 2019 that it had decided on a public capital market transaction. The Company have originally planned to offer 3 million OTT-ONE ordinary shares to its investors for purchase at a public auction.

The Company has received significant investor interest that a public auction of 3 million OTT-ONE ordinary shares would not cover investor needs, thus, instead of a public auction, approximately (in total) 5 million OTT-ONE ordinary shares are expected to be issued. The date of the secondary public offering (**SPO**) has not yet been announced by the Company.

The public transaction serves a dual purpose: on one hand, OTT-ONE intends to finance its future growth plans from the capital increase, on the other hand, if investors subscribed shares in the amount of at least HUF 100 million during the auction, the transaction could result in the possible reclassification of OTT-ONE into the Premium Category of the Budapest Stock Exchange.

It is important to note that the planned transaction would be a dilutive secondary offering, which means the creation and placement of new shares on the market in order to dilute existing shares. Dilutive offerings result in lower earnings per share because the number of shares in circulation increases. This type of secondary offering happens when a company's board of directors agrees to increase the share float for the purpose of selling more equity. A dilutive secondary offering usually results in some sort of drop in stock price due to the dilution of per-share earnings.

The Company already indicated that it had decided to issue shares to finance its future growth plans. Specific plans for future growth have not yet been announced, although it would strengthen investor confidence if OTT-ONE's management published a specific strategy on the Company's plans with regards of the proceeds from the sale of the shares.

Although this would be a dilutive offering, but it may also serve as a support for the stock price if the planned investments of the management would increase the profit dynamically in the coming years (either by the increase of the sales revenue or by the increase of the margins).

There are two types of capital that a company can use to fund operations: debt and equity. The mix of debt and equity is the most cost-effective. The most common types of debt capital companies use are loans and bonds. OTT-ONE's net loan was HUF 28.2 million

at the end of 2019, so there is still plenty of room for further growth of the loan. Due to the low interest rate environment, the loan portfolio could be expanded on very favorable terms.

DIVIDEND

Similarly, to the practice of previous years, and due to the current economic environment the Company intends to use its 2019 profit to finance investments necessary for growth. A decision was also made to purchase treasury shares, in connection with which the Board of Directors of the Company was once again authorized to purchase treasury shares in the future (the company may purchase up to 8,963,000 ordinary shares or up to 25% of the share capital). The company has never paid dividends in its history, but in the case of fast-growing companies (such as OTT-ONE currently), it is a widespread practice to spend the profit on further growth opportunities instead of paying dividends.

RISK

Foreign exchange risk: The Company makes and receives payments in two currencies (EUR/USD) facing thereby a significant foreign exchange risk. If the foreign partners are settled in currency, the Company usually contracts with their subcontractors in the same currency, thus, for a given project, only the profit will be exposed to currency risk. Otherwise, the Company does not use hedging transactions to manage currency risk

Increasing competition: OTT-ONE operates in a highly competitive industry. Large market players dominate those segments in which the Company operates. The Company has so far found development directions within each segment where the biggest competitors are not yet interested.

COVID19: The unfavorable economic effects of the measures introduced at the domestic and international level did not have an immediate effect on the Company's activities. However, the long-term outcome of the pandemic situation is unpredictable for the time being.

Intellectual capital: The cornerstones of the Company's stable operation are the highly skilled programmers. Therefore, the unexpected loss of key employees may have a temporarily negative effect the Company's operation. (E.g., the relationship with the most important strategic partner - iSRV Ltd. - is terminated for any reason).

Sustainable growth: The Company is currently in an intensive growth phase (sales increased by 68% last year), if growth expectations for the coming years slow down significantly, the Company's current valuation could deteriorate significantly.

Lack of strategy: The management has not published a detailed strategy for the coming years, which would reveal what projects and investments are planned. There is no forecast for either sales or profit or margins. The strategic directions published by the management could also serve as a guide for investors and provide a good basis for the analysis.

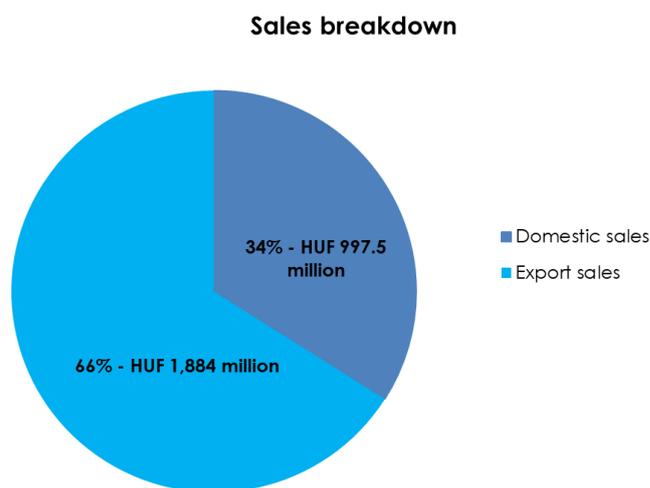
Public transaction: One of its important goals of the Company is to successfully complete the public capital market transaction in 2020. These would be a dilutive offering, which usually results in some sort of drop in stock price due to the dilution of per-share earnings. therefore, it would be very important for the management to describe in detail what new developments and investments are in the pipeline.

The operating structure of the Company/iSRV Ltd.: The development of OTT-ONE's projects is typically carried out by the Company's most important strategic partner, iSRV Ltd. One of the risks of this operational structure has already been mentioned above, if for some reason the strategic partnership between OTT-ONE and the iSRV is terminated, the development of OTT-ONE projects may be temporarily suspended.

The other risk related to this structure, is the impairment of the transparent operation. OTT-ONE's largest costs are the development costs of the projects and since the development tasks are carried out by another company, there is little room for maneuver to improve profit margins.

FX exposure

The other and financial related incomes and expenditures mainly represent the exchange related profits/losses. A significant portion of the Company's revenue is generated in EUR and USD terms (66% of revenue in 2019 can be attributed to foreign orders), therefore the fluctuation of these currencies can have a remarkable effect on the Company's financial outcome. The Company continuously monitors its open positions. At the end of 2019, the foreign currency exposure was EUR 3.35 million (its dollar exposure was very small). +/- HUF 10 movement of the EUR/HUF currency pair would have an impact on the financial result of EUR +/- 33500, which is 0.5% of last year's annual result.



Source: OTT-ONE, MKB

OTT-ONE'S MAIN BUSINESS AREAS/REVENUE FORECAST

To forecast the Company's sales for the next five years, we take 2019 as a starting point. The growth of the three main business lines will be examined separately. The Company has grown very dynamically in recent years, which makes it difficult to forecast the pace

of revenue growth in the coming years. Therefore, we use market forecasts for each segment as a basis for forecasting revenue growth, also examining to the possibility to outperform or underperform the average market growth. In addition, management does not have a forecast of sales. In 2019, OTT-ONE signed contracts for the following important projects:

- The Company signed the largest contract in its history since the change of management at the end of 2014. The value of the project in the field of informatics and information security technology is HUF 1,935 million, of which HUF 1,100 million worth of developments were delivered by the Company last year. No further details were published on the details of the project.
- Green Tech Innováció Zrt ordered the development and delivery of sensor island hardware related to the "SmartMetering" system in the food industry (the net value of the order is HUF 142.7 million), Integratechnology Kft. also ordered the development and delivery of low-level software algorithms and components related to the "SmartMetering" system in the food industry (the net value of the order was HUF 71.5 million).
- Docfinit Kutató-Fejlesztő Kft. ordered blockchain-based development from OTT-ONE in the net value of HUF 275 million.
- The Company delivered an innovative, highly protected, private cloud-based collaboration system enabling joint remote work to its Croatian customer in the net amount of HUF 719 million.
- As a result of the AI developments launched in the previous year, in November 2019, the Company signed a contract (for the customer in the United Kingdom) for the performance of AI-based software development work in the amount of EUR 347,000.

For 2020, the Company has announced the following orders:

- The Company sold an online education platform solution to a customer in Croatia for EUR 440,000.
- OTT-ONE launched a research and development project worth nearly HUF 662.5 million. It is an Artificial Intelligence-based solution and control center that would allow the continuous use of sensors in critical areas such as airport runways, enclosed areas, borderlines, freeways, runways, ski runs, as well as automated scanning and identification of foreign objects on them.
- OTT-ONE entered into a contract with a domestic company in the amount of HUF 510 million for the sale of a complex video encryption software system.
- Of the HUF 1,935 million order announced last year and detailed above, HUF 835 million must be fulfilled by the Company this year.
- Both in 2019 and 2020, the Company had regular sources of revenue, which can be attributed mainly to the streaming business. Details of this can be found below.
- From 2020 onwards, the regular sales revenue will be generated from the server investment.

Recurring and one-time sales

When forecasting sales, it is worth considering the ratio of recurring and one-time sales. Steadily recurring revenues include sales generated by the streaming business. Based on our own calculations the sales revenue of the streaming business may increase from HUF 498 million in 2019 to HUF 1,850 million in 2024 (this represents 17% of last year's annual sales). In 2019, the Company finished its own multi-purpose server capacity, which will be expanded this year. This investment may generate stable sales revenue already this year, and based on our own calculations, the investment can generate up to HUF 3-400 million in revenue per year. The rest of the turnover consists of individual projects, but there are also a number of returning customers that provide stability in terms of revenue.

IT Security

The Company's largest revenue segment is security technology, which amounted to HUF 1,334.5 million last year. In addition to the specific contracts, the Company announced the following strategic agreements and developments in 2019:

- OTT-ONE Plc., ISRV Ltd. and Stork Systems have entered into a strategic agreement, according to which they will jointly develop, manufacture and sell unique drone technologies based on artificial intelligence that can provide a complete solution for performing various discovery tasks.
- The Encrypted SSD product line, currently under development, covers external SSD-based storage devices with hardware encryption that meets unique government and military requirements. OTT-ONE Plc. and iSRV Ltd. provided the self-developed control electronics with external intrusion protection solutions, which automatically destroy their encryption keys in the event of external intervention or attack, thus ensuring the protection of the stored data. Access to device data requires high-security biometric identification, which can be accomplished using an existing biometric module in the user's phone.
- In 2019 OTT-ONE designed and developed a document management system based on blockchain technology. Thanks to the developments, a document management system with high-tech security solutions was created. Due to these developments, it is impossible to exchange or to garble the documents. Furthermore, the improvement makes it impossible to modify the permission settings without a trace.
- The Company signed a contract with the APEC E-commerce Business Alliance Smart Industry Committee at a conference held in Chengdu, China last year. This contract will allow the company to expand into the Chinese market with its innovative technologies.
- In 2019 the Company finished the development of its own multi-purpose server capacity and established a secure, qualified server center. This capacity is built from more than 800 servers. The servers operate and meet the needs of market orders.

According to Grand View Research the global cyber security market size was valued at USD 156.5 billion in 2019 and is expected to expand at a CAGR of 10.0% from 2020 to 2027.¹²

The growth forecast for the IT Security business for the next five years is based on Grand View Research figures. We assume stronger growth than Grand View Research numbers for the Company. Over the next five years, CAGR is expected to reach 15%. Growth starts from a low base, so we expected higher growth than market forecasts. Thus, the sales revenue of the IT Security business may increase from HUF 1334.5 million in 2019 to HUF 2683 million in 2024.

Some of the prominent players operating in the cyber security market include: Broadcom (Symantec Corporation), Cisco Systems, Check Point Software Technology Ltd, IBM, McAfee, Palo Alto Networks, Trend Micro Incorporated.

Custom software developments

Custom software developments are the Company's second largest business with a turnover of HUF 1,029 million, where it has implemented several developments in recent years. Among other things, developments have been made in the field of artificial intelligence, smart metering, and blockchain-based developments. The blockchain technology can be used in other research areas (e.g. drug research, genetic research) in addition to security applications (identification, authentication, tracking, etc.).

This segment is also developing rapidly, and several developments have already been implemented which could be a serious reference in the future. The Company has some ongoing developments (e.g. in the field of smart metering, artificial intelligence) that can be used for subsequent similar types of orders. Highlighting some key developments:

- Smart Metering: The Company develops and delivers sensor island hardware that are used in food industry. It also, develops and deliver low-level software algorithms and components related to this system.
- iCsekk: The iCsekk application, which is becoming more and more popular in Hungary, offers a fast and convenient payment method that requires only an Android or iOS smartphone, a credit card, a QR code on a postal check or invoice and / or registration in the Dijnnet system (a system which allows to manage all utility bill payments on a single platform). Thanks to the Company, the application got a more modern look, and the bank card payment function was also renewed, which thus already complies with the newly introduced PSD2 guidelines.

According to Grand View Research the global business software and services market size was valued at USD 322.91 billion in 2018 and is expected to expand at a CAGR of 10.7% from 2019 to 2025. It is worth looking at the growth expectations for the most important development directions.¹³

One of the Company's important development directions is artificial intelligence, a sector with a market size of USD 39.9 billion and a potential CAGR growth of : of 42.2% from 2020 to 2027.

The other important development direction is blockchain technology, according to Grand View Research the global blockchain technology market size was valued at USD 1,590.9 million in 2018 and is expected to grow at a CAGR of 69.4% from 2019 to 2025.¹⁴ The blockchain technology is one of the most promising upcoming technological trends in the information technology domain. Apart from the financial sector, blockchain technology holds enormous opportunities across multiple application arenas. Healthcare and public sector applications are expected to witness enormous growth in the years to come.

Considering these, over the next five years, based on market forecasts, compound annual average growth rate is expected to reach 35%. Thus, the sales revenue of the custom software development business may increase from HUF 1029 million in 2019 to HUF 4614 million in 2024.

Streaming/online education

The sales revenue from video and content services was HUF 498 million last year. Within the streaming business, the Company has the following two significant contracts (the sales revenue realized after each contract was not published by the Company):

- **Telenor MyTV:** OTT-ONE provides the technical infrastructure required for the Telenor MyTV service. The Company also operates and further develops the streaming service. In April 2019, Telenor Magyarország Inc. - under unchanged conditions - extended the long-term cooperation strategic agreement signed by the two parties in April 2016.
- **Spíler Extra:** The Company develops and operates the "Spíler Extra" video streaming application, which provides access to Spíler TV content on smart devices.

The above two contracts provide the stable and predictable sales revenue. In our view, further long-term contracts would be needed to strengthen the streaming business. As a development of the related service, the Company also strives to put together a streaming solution that is "boxed" to a certain level, which would not only facilitate sales activities but also result in significant cost reductions.

The Company considers online education as one of the most important future strategic areas. It has also developed an online education platform that is widely used: it could be applied with minimal modifications to schools, company trainings, various courses, and also to health care. As part of its online education, the Company entered into the following contracts last year.

- The OnlineLearningPlatform (OLP) is a streaming-based educational framework that combines the features of digital training systems and various online communication platforms. The system can also be used for general e-learning purposes, so it provides distance learning in primary, secondary or higher education, and can also be used by private schools and language schools. In addition, the system enables the digitization of special coaching activities, and can also be used in the field of

corporate training. The system is also able to support telemedicine-type solutions, online doctor-patient or doctor-doctor professional consultations, second-hand opinions, and even remote diagnosis in an innovative way.

- Education in Colombia: The Company used its online education system to launch a pilot project around the city of Yopal, Colombia with schools in disadvantaged settlements in which the goal is to create modern educational conditions. Using the experience of the pilot project, the Company prepares its education system for local needs.
- Budapest Institute of Banking (BIB) e-learning system: The Company provides the system for BIB's online education platform.

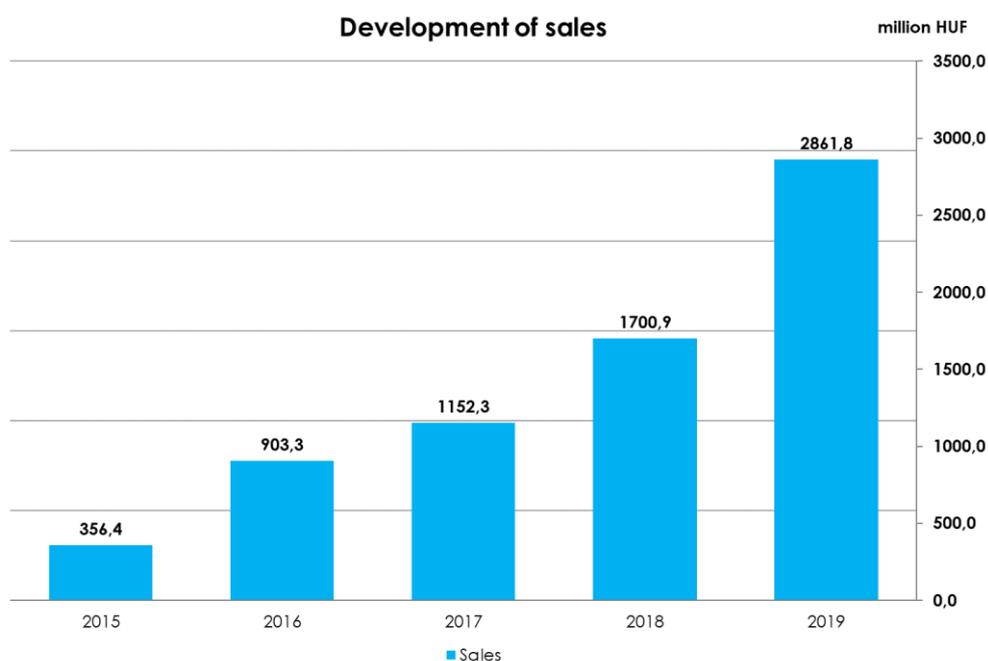
According to Grand View Research the global video streaming market size was valued at USD 42,60 billion in 2019 and is projected to grow at a CAGR of 20.4% from 2020 to 2027.¹⁵ Statista projects the global revenue in the Video Streaming (SVoD) segment to reach USD 27 billion in 2020. In Europe the revenue is expected to be around USD 6 billion.

The growth forecast for the streaming business for the next five years is based on Grand View Research figures. Thanks to developments in recent years, the streaming business of OTT-ONE could grow significantly in the coming years. Therefore, we assume stronger growth than grand view research numbers for the Company. Based on market forecasts, over the next five years, compound annual average growth rate is expected to reach 30%. Thus, the sales revenue of the streaming business may increase from HUF 498 million in 2019 to HUF 1,850 million in 2024.

Some prominent players in the video streaming market include: Akamai Technologies, Amazon Web Services, Apple, Google, Netflix, IBM, Cisco Systems. These large market players do not yet jeopardize the development of the Company's streaming business.

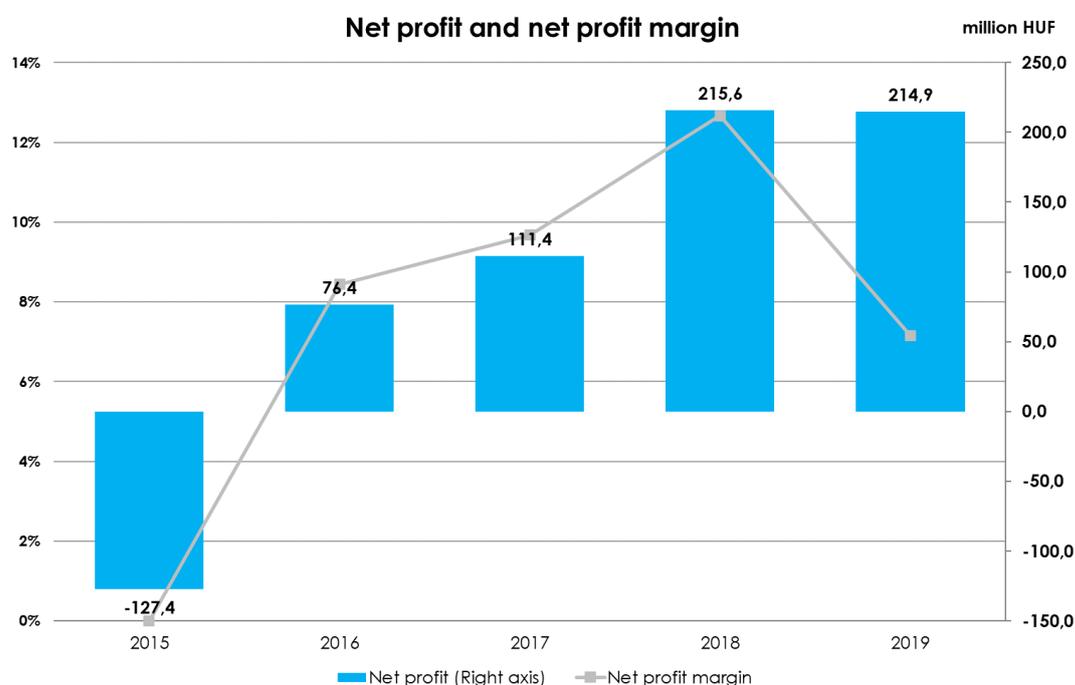
HISTORICAL FINANCIAL ANALYSIS

The Company's revenue grew from HUF 356,4 million to HUF 2861 million in 5 years. This is close to the 70% compound annual growth rate. In 2015, the Company still made a loss, the profit after tax was HUF -127.4 million. The following year the operations turned profitable, when a net profit of HUF 76 million was realized.



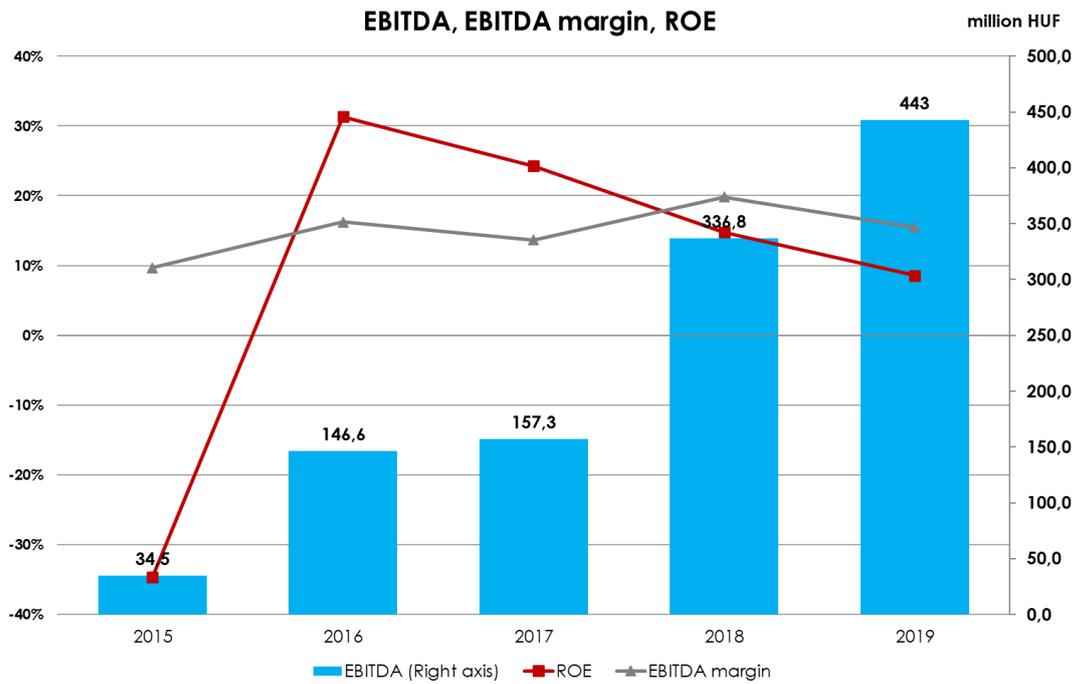
Source: OTT-ONE, MKB

The Company achieved in 2018 its highest net profit, HUF 215.6 million. In 2019, net profit fell to HUF 204.9 million due to higher amortization. In 2019 amortization increased to HUF 159.2 million after HUF 62.7 million in 2018. Between 2015 and 2019, the Company's operating profit increased from HUF 29.2 million to HUF 283.8 million. During the same period, EBITDA increased from HUF 34.5 million to HUF 443 million.



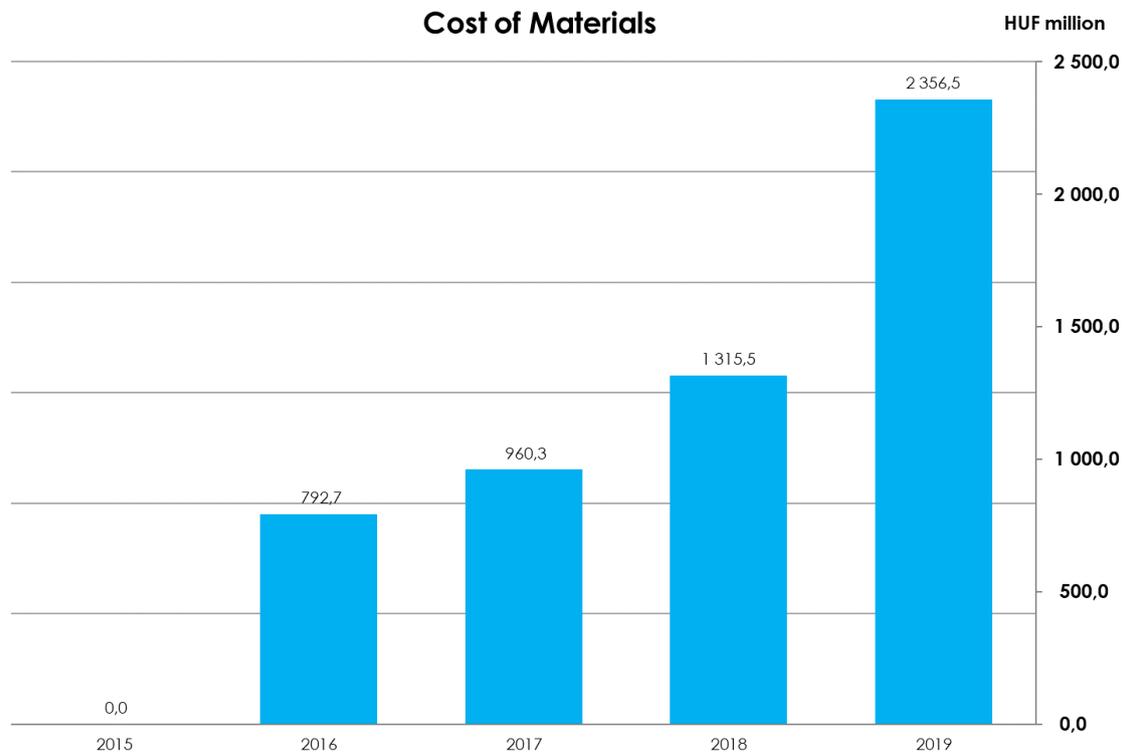
Source: OTT-ONE, MKB

The above figures clearly show the rapid growth of recent years. Analyzing ratios we could observe that EBITDA margin was quite stable around 13-20% respectively between 2016 and 2019.



Source: OTT-ONE, MKB

Looking at the balance sheet the net debt has been very low over the past five years, while in 2018 shareholder's equity jumped due to the SPO. Analyzing leverage ratios we could observe that net debt to equity and capital was quite stable around 1-2% respectively between 2018 and 2019.



Source: OTT-ONE, MKB

Cost of materials are one of the largest items among the operative expenses. Typically, this also includes project development costs. In 2019, material expenses amounted to HUF 2,356 million, which is 82% of sales revenue. A year earlier, in 2018, cost of materials amounted to HUF 1,315 million, which accounted for 77% of sales revenue. Personnel expenses amounted to HUF 62.3 million in 2019, while in 2018 they amounted to HUF 48.6 million. The Company outsources its developments to its partners, in the largest projects OTT-ONE cooperates with its strategic partner the iSRV.

SELECTED BALANCE SHEET FIGURES (million HUF) AND LEVERAGE RATIOS					
for the year of	2015	2016	2017	2018	2019
Current assets	93,1	438,6	726,7	1 935,8	1 309,6
Noncurrent assets	197,6	54,2	303,1	511,7	1 877,4
Current liabilities	85,4	211,3	389,5	160,2	648,7
Total liabilities & Equity	290,7	492,7	1 029,8	2 447,5	3 187,0
Shareholder's Equity	205,2	281,4	636,2	2 284,0	2 489,0
Net debt	14,6	37,8	-54,1	35,0	28,2
Net debt to Equity	0,07	0,13	-0,09	0,02	0,01
Net debt to Capital	0,07	0,12	-0,09	0,02	0,01

Source: OTT-ONE, MKB

VALUATION

Peer Group Comparison

Due to the unique projects and services of the Company, it is difficult to make a peer group analysis. In our opinion the greatest rivals are not listed on the stock exchanges, which makes it difficult to compare OTT-ONE's to peer group. There are few companies with a similar services range, with whom the valuation can be compared. We shortlisted a peer group, including: NCC Group, Kudelski SA, Software Ag, Check Point Software, Verimatrix SA, FFRI Security Inc., Onespan Inc., Rapid7 Inc., Tenable Holdings Inc., Proofprint Inc.

Considering relative valuation, OTT-ONE has a discount to its regional and global peers. According to the Bloomberg data, OTT-ONE has a ROIC of 9,68% and this number is much higher than the industrial average. In 2019 the peer group has an actual P/E ratio of 42.93 in average, while the Company's P/E ratio is 33.34. The other ratios are listed in the table below:

OTT-ONE valuation vs. Its peer group								
Company	Market Cap (millio HUF)	P/E (current)	EV/EBITDA	ROIC	ROE	ROA	EBITDA margin	P/BV
Median	925 271	42,93	15,92	-9,83	-13,00	0,05	13,40	9,52
OTT-ONE	6 812	33,24	19,93	9,68	8,58	7,27	16,23	2,74
NCC Group	201 583	38,45	13,56	5,29	6,43	3,66	-	2,50
Kudelski SA	61 994	-	18,60	-63,81	-11,51	-3,66	-	0,53
Sotware AG	926 553	17,98	6,75	8,58	10,91	7,05	28,62	1,90
Chek Point Software	4 790 843	19,17	11,52	21,03	22,87	14,42	44,86	4,37
Verimatrix SA	67 888	-	7,28	-4,46	-5,04	-2,82	-	1,70
FFRI Security Inc.	62 133	76,65	33,54	18,16	18,89	11,23	24,98	13,23
Onespan Inc.	341 192	72,12	16,20	5,26	5,73	3,98	15,04	4,14
Rapid7 Inc.	793 470	-	-	-18,23	-78,83	-10,87	-6,78	32,82
Tenable Holdings Inc.	940 433	-	-	-72,30	-87,98	-19,79	-15,76	29,59
Proofprint Inc.	1 985 079	-	-	-17,32	-33,08	-9,88	0,00	11,23

Source: OTT-ONE, MKB

DCF valuation

We initiate a coverage of OTT-ONE with a BUY rating and a TP of HUF 296 implying a 75% upside potential.

We used the following parameters and methodology during our DCF calculations:

- Based on our assumptions sales will grow dynamically in the next years.
- In 2020, the Company purchased HUF 12.4 billion worth of ventilators from China. This item is not included in the DCF model so that the sales growth trend can be clearly seen.
- We foresee EBIT margin increasing slightly from 12.04% to 17.38%. We calculated 17.38% EBIT-margin on the longer term.
- To get net operated profit less adjusted tax (NOPLAT= EBIT *(1-tax rate) we used a 11% tax rate.
- Net CAPEX is the capital expenditures exceeding depreciation and amortization expenses. Starting from 2020 we calculated with net CAPEX of HUF 400 million.
- For the terminal value we forecasted a perpetual growth rate of 3%.
- The discount rate we used to get the present value of future cash flows is 9.1%, however, we assume a slightly higher rate (9.74%) for the terminal value based on an assumption of a higher yield environment in the medium term.
- The debt level of HUF 28 million is the current debt level.
- Equity risk premium is assumed at 6% in the detailed period and in perpetuity.
- For calculating the target price, we used our 10 year Hungarian government bond yields forecast, which are available on this website: https://www.mkb.hu/sw/static/file/MKB_EK_elorejelzesek_2020_julius.pdf
- Minorities are deducted from DCF value.
- After deducting debt from FCFF, we get the equity value (FCFE) which - divided by the number of shares outstanding - leads us to a HUF 269 as the fair value of a share and HUF 296 as the 1-year target price.

DCF Model (HUF thousand)						
	2020	2021	2022	2023	2024	TV
Sales	3 936 060	5 085 839	6 159 244	7 496 410	8 778 620	9 891 793
Sales growth	37,54%	29,21%	21,11%	21,71%	17,10%	12,68%
EBIT	474 013	803 833	1 007 976	1 263 062	1 507 451	1 719 224
EBIT margin	12,04%	15,81%	16,37%	16,85%	17,17%	17,38%
Tax rate	11,0%	11,0%	11,0%	11,0%	11,0%	11,0%
Taxes on EBIT	-52141,44	-88421,59	-110877,31	-138936,84	-165819,64	-189114,67
NOPLAT	421 872	715 411	897 098	1 124 125	1 341 632	1 530 110
+Depreciation	-162 348	-165 595	-168 907	-172 285	-175 731	-179 246
+/- Change in working capital	13 220	26 704	27 238	27 782	28 338	28 905
- Capital Expenditures	-400 000	-400 000	-400 000	-400 000	-400 000	-400 000
Free Cash flow to the Firm	-127 257	176 519	355 429	579 622	794 239	979 769
Risk free rate	2,36%	2,36%	2,36%	2,36%	2,36%	3,00%
Equity risk premium	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%
Beta	1,15	1,15	1,15	1,15	1,15	1,15
Cost of equity	9,26%	9,26%	9,26%	9,26%	9,26%	9,90%
Cost of debt	4,4%	4,4%	4,4%	4,4%	4,4%	5,0%
Effective tax rate	11,0%	11,0%	11,0%	11,0%	11,0%	11,0%
After-tax cost of debt	3,88%	3,88%	3,88%	3,88%	3,88%	4,45%
Equity weight	97%	97%	97%	97%	97%	97%
WACC	9,10%	9,10%	9,10%	9,10%	9,10%	9,74%
Terminal value growth						3,0%
Terminal value						14980507
Discount factor	0,92	0,84	0,77	0,71	0,65	0,59
Discounted free cash flow	-116644	148304	273713	409137	513872	9410077
Enterprise value	10 638 458					
Net debt	28 000					
Equity value	10 610 458					
Number of shares outstanding (mn)	35 852					
Cost of equity	9,26%					
Fair value per share (EUR, HUF)	269					
12M target price (EUR, HUF)	296					

Source: OTT-ONE, MKB

		Terminal value growth				
		2,0%	2,5%	3,0%	3,5%	4,0%
WACC	8,74%	296	317	342	371	407
	9,24%	278	296	317	342	371
	9,74%	262	278	296	317	342
	10,24%	248	262	278	296	317
	10,74%	236	248	262	278	296

Source: OTT-ONE, MKB

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Links, sources:

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14. <https://www.grandviewresearch.com/industry-analysis/blockchain-technology-market>
15. <https://www.grandviewresearch.com/industry-analysis/video-streaming-market>

Change from the prior research

Our first research was published on 31 August 2020. Our price target is HUF 296.

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Methodology used for equity valuation and recommendation of covered companies

The discounted cash flow valuation is a method of valuing a company (or project, assets, business, etc.) with the time value of the money. The model forecasts the company's free cash flow (free cash flow to firm) and discounts it with the average cost of capital (WACC). The cash flow is simply the cash that is generated by a business and which can be distributed to investors. The free cash flow represents economic value, while accounting metric like net earning doesn't. The WACC represents the required rate of return by the investors. If a business is risky the required rate of return, the WACC will be higher.

Discounted cash flow model (DCF): We analyze the companies using five year forecast period and set a terminal value based on the entity's long term growth or on different exit multiples like EV/EBITDA or EV/EBIT. In certain cases the forecast period may differ from five years. In this case the analysts must define the reason for difference. The cash flows are discounted by the company's WACC unless otherwise specified.

In the first step we have to forecast the company's cash flow. The free cash flow to firm (FCFF) is based on the earnings before interest and taxes (EBIT), the tax rate, depreciation and amortization (D&A), net change in working capital (which is based on the current assets and current liabilities) and the capital expenditures (CAPEX). The model requires a terminal value which can be based on the long term growth or on an exit multiple like EV/EBITDA, or EV/EBIT. Forecasting the terminal value is a crucial point because in most cases it makes up more than 50% of the net present value.

The discount rate (WACC): The average cost of capital of the company is dependent on the industry, the risk free rate, tax, the cost of debt and the equity risk premium. The cost of equity is calculated by the CAPM model, where the independent variables are the risk free rate, the industry specific levered beta, and the equity risk premium. The WACC is dependent on the capital structure, so the forecast of the equity/debt mix is crucial.

At the end we get the enterprise value (EV). The EV is the market capitalization plus the total debt and preferred equity and minority interest, minus the company's cash. In the last step we have to reduce the EV with the net debt. This figures divided by the shares outstanding we arrive at the target share price.

The discounted cash flow model includes sensitivity analysis which takes the effects of the change in the WACC, the long term growth or the used exit multiples on which the terminal value is based.

Our target price is based on a 12 month basis, ex-dividend unless stated otherwise.

Peer group valuation: For comparison we use peer group valuation. The analysis based on important indicators and multiples like P/E, EV/EBITDA, EV/EBIT, market capitalization, P/S, EBITDA margin, net debt to EBITDA, EBITDA growth, dividend yield and ROIC. If the industry justifies we may use other multiples. The peer group is compiled according to the companies' main business, with respect to the region (DM or EM market).

Recommendations

- **Overweight:** A rating of overweight means the stock's return is expected to be above the average return of the overall industry, or the index benchmark over the next 12 months.
- **Underweight:** A rating of underweight means the stock's return is expected to be below the average return of the overall industry, or the index benchmark over the next 12 months.
- **Equal-weight:** A rating of equal-weight means the stock's return is expected to be in line with the average return of the overall industry, or the index benchmark over the next 12 months.
- **Buy:** total return is expected to exceed 10% in the next 12 months.
- **Neutral:** Total return is expected to be in the range of -10 - +10% In the next 12 months.
- **Sell:** Total return is expected to be below -10% in the next 12 months.
- **Under revision:** If new information comes to light, which is expected to change the valuation significantly.