ALTA Invest

DATALAB D.D.

6th November 2014

www.datalab.si

Technology

LJSE ticker: DATR
Bloomberg: DATR SV

Target price:
5.1 EUR

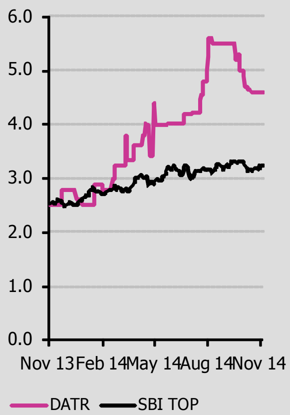
Previous target price: 5.0 EUR, BUY (05.03.14)

Recommendation:
BUY

Stock data as of 06.11.2014			
Market price (EUR)	4.60	Market Cap (EURm)	9.8
52 week range (EUR)	2.50-5.60	No. of Shares in mio	2.1
Avg. daily trade vol., EUR(k)	3.71	Free float	68%
Average daily % of stock traded	0.049%	Dividend yield	0.0%

Price performance	3 months	12 months	Multiples:	TTM	2015F
			P/E	15.9	11.1
price change in %	-17.9%	84.0%	EV/Sales	1.6	1.4
SBI TOP index change in %	2.2%	27.3%	EV/EBITDA	5.7	4.8
relative to SBI TOP index in %	-19.7%	44.5%	EV/EBIT	18.9	11.0

12 months stock performance in EUR



Key figures **(According to International Accounting Standards)** *Consolidated data in thousand EUR.*

Income statement:					Balance sheet:			
thousand €	2013	2014	2015F	2016F	*€*	2013	2014	TTM
Sales	6,635.5	7,294.0	8,356.5	11,000.6	Investmen	210.2	233.6	292.1
Growth yoy	*15.9%*	*9.9%*	*14.6%*	*31.6%*	Cash	205.4	411.5	302.8
EBITDA	1,876.0	2,041.3	2,422.1	3,298.6	Debt	2,296.2	2,607.8	2,590.9
Margin	*28.3%*	*28.0%*	*29.0%*	*30.0%*	Net debt	1,880.6	1,962.7	1,996.1
EBIT	609.1	619.5	1,069.5	1,744.9	Equity	4,541.7	5,224.5	4,876.9
Margin	*9.2%*	*8.5%*	*12.8%*	*15.9%*	Assets	8,383.6	9,964.6	9,020.6
Net income	651.5	614.4	875.9	1,492.0	Fin. D/E	50.6%	49.9%	53.1%
Growth	*94.0%*	*-5.7%*	*42.6%*	*70.3%*	Fin. D/A	27.4%	26.2%	28.7%
EPS	**0.39**	**0.29**	**0.41**	**0.66**	Debt/EBIT	1.2	1.3	1.2

* EPS includes new issued shares due to ESOP program. Fiscal year for Datalab Group is from 1st July till 30th of June (difference to calendar year).

Investment Thesis:

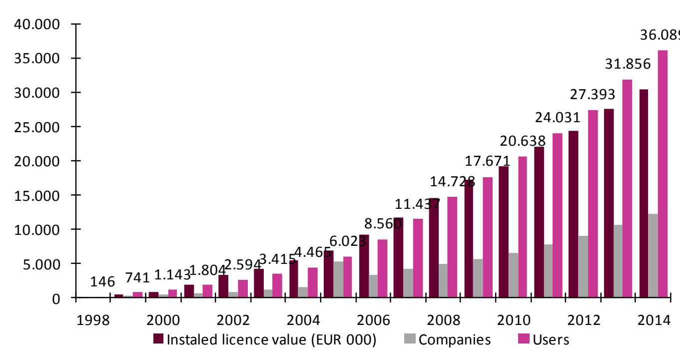
Growth company.

Agro accounting story developing.

Regional exposure.

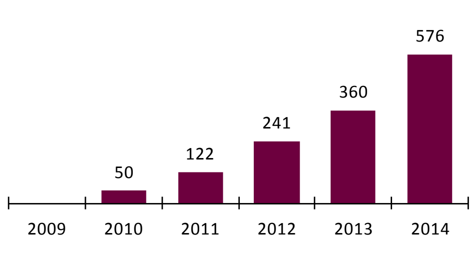
Ambitious plan.

- **High growth:** Datalab has a high growth rate of users, customers and value of installed base. Namely it had an average yearly growth rate of 42.9% in 1998 to 2014 period for installed value in EUR, a 38.6% CAGR for costumers (companies) and 41.1% CAGR for number of users. Respective average annual growth rates in 2009 to 2014 period are 12.1%, 16.7% and 15.4%. The decrease in growth levels is a logical consequence of higher base and economic slowdown of the region, which is still not achieving a full comeback. The consequence is clear: elevated bankruptcy number effect users, which need to be replaced.



We should also note that in business year 2014 installed license value increased by 10.1% while users by 13.3% YoY. Also note that while on 30.6.2014 Datalab had 36.089 users, Datalab Group has published on 24.10.2014 its user base exceeded 37.000. Therefore growth of users is continuing.

The Datalab's strategy here is to grow in terms of users in times where many of smaller IT firms (competitors) are contracting in order to capitalize on this in times of better economic growth. The crucial numbers to look at for future revenue growth is therefore the current increase in number of users. Pricing is where they are sacrificing some revenue growth. Here we note Datalab is intensifying its marketing for gaining users with cloud/hosting services (+65%; which are compensating weaker OTC licensing) and with so called partner from competitor program.



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The later means that growth is also M&A based, but a consequence of which is lower new license revenues in order to gain maintenance revenues and cloud services. All in all we asses this strategy makes sense, but it comes with risk attached (like higher level of intangibles).

The reason for management optimism regarding the future, as they expect more than 30% yearly growth (30% to 90% for all segments in all markets), can be found in a current environment of fragmented IT suppliers (most have only EUR 1 to 2m of revenues). As the complexity of platform and application grows, so will the need for R&D and with it economy of scale. This is even more likely in case of significant tax, accounting or regulatory changes (for example Croatia's entrance to European Union on July 1st 2013; more efficient tax evasion prevention etc.). Smaller competitors will not be able to provide sufficient IT support so their customers will likely switch to bigger companies. Recession is helping in that respect, as more price pressures are putting more pressure on economy of scale and therefore consolidation in the region. Here we must also note that growth potential can also be seen when comparing current customer base with all the companies in the region.

Therefore Datalab is a rare IT company listed on the exchange on the domestic market (as well as in region) and a rare growth company. This can be an important asset when capital and speculative inflows push valuations up, narrowing investors' scope to find good growth at reasonable price. Namely if taking into account management lower end of guidance (30%) PEG ratio stands at only 0.53; however management will have to deliver this growth.

- **Capital injection during 2014 provided funds for future growth.** Datalab issued 250,000 additional shares at price EUR 4.25 per share or in total value of EUR 1.1m. This was slightly above market price at the time of the issue. Domestic and foreign institutional investors participated. With this Datalab gained funds for further marketing activities and development, especially for Farm Accounting project, which we deem as perspective in terms of potential for high future growth. Also we believe it made a positive shift in shareholder structure. It also eliminated (for the short term) possible dilution uncertainties.

- **Ambitious strategy.** Datalab strategic plan continues to be ambitious. Namely they still see 30 to 90% growth in all segments in next few years, which should also translate into bottom line growth as costs will be applied to vaster base.

  For 2015 main projects are:
  - Connector license revenue stream. The project entails connection of Pantheon database and API over web and mobile interface.
  - Launch of mobile POS cas register and one-stop-shop bundles in cooperation with telecom operators.
  - Additional development of AgroIT project.
  - Revaluation of decision about restarting operations in Bolgaria and Albania. Also expansion of Datalab Farming into Romania.

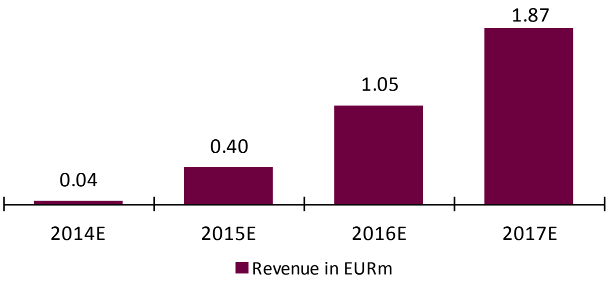
  Given the 2013 guidance, management delivered in terms of revenues (EUR 6.6m versus guided EUR 6.5m) but missed in terms of net income (EUR 0.7m versus guided EUR 1.2m). Most likely this is a consequence of tougher price environment, as economic situation in several markets remained adverse. As for 2014, the discussion with management implied EUR 7.2m of revenues and net profit in the range of EUR 0.75m to EUR 0.85m (hefty double figure growth). Management delivered in terms of total revenues, while net income amounted to EUR 0.64m. Therefore sales revenues increased by 13.0% YoY in 2014 however net income somewhat decreased YoY.

- **Farm Accounting prospects:** Farm Accounting project has a significant growth prospect as this is relatively new and underdeveloped area with only a few IT players. There lies the management strategy regarding Farm Accounting – namely to penetrate new markets with a unique product (very few products are found for Agriculture accounting in the world):
  - Firstly as there is less competition, penetration is easier and pricing environment more attractive than in regular accounting solution. The Company is therefore planning to expand to Swiss market, Czech Republic, Serbia, Poland and Romania. Also German language product will follow. So expansion on several markets is viable, however that will need financing.
  - Secondly, the groundwork made in Farm Accounting can be, after a couple of years, a good foundation for expansion of other products into these markets (cross sell potential).
  - Additionally regulatory environment is pushing for more administration and organized accounting in Agribusiness in European Union (especially for subsidies), which is beneficial to these solutions. The first movers advantage can be captured here and penetration potential and market share capture is significant.

- And lastly, EU is supporting R&D in this area. Namely EU is supporting financing of R&D, which lowers the overall risk profile of this project and cost structure. Namely on 16.7.2013 European Commission confirmed AgroIT project for Pilot Type B project so in 31 months it should (together with consortium partners) receive EUR 2.5m out of which EUR 1.0m should be used for development of Datalabs agro applications. So R&D financing is mostly covered.

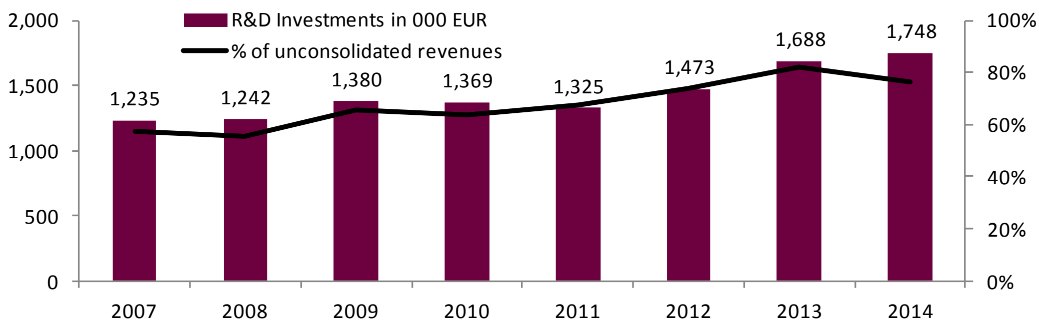
Here we note Datalab also established Datalab Agro CH AG in Switzerland, which is also part owned by Mattig Management Partners AG, with Datalab having a call option to exchange Mattig stake for DATR shares (at EUR 2.63 per share). Datalab Agro CH AG has been given copyrights for Pantheon FA and its worldwide distribution, with Datalab entitled for license payment.

We also note that in order to improve Farm Accounting segment, Datalab in the past purchased the application Vinar from Datapoint to include vineyards module in Farm Accounting and FruitDiscovery from Inventivna rešenja d.o.o. to include Orchard module in Farm Accounting. Therefore the potential consumer base is expanding while the product is more comprehensive.



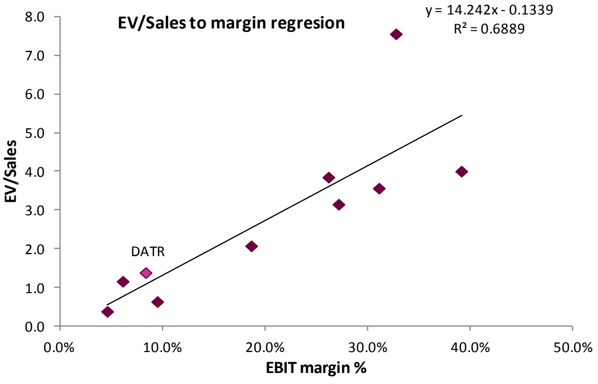
Target revenues presented by the management in capital raising regarding Farm Accounting were encouraging. Namely they saw 2017 revenue target at EUR 1.9m. This plan explains management optimistic guidance, as we should note sales revenues of Datalab Group amounted to EUR 5.3m while total revenues EUR 7.3m in business year 2014.

- **R&D orientated company:** Datalab d.d. is where R&D activities are located and roughly 68% of the unconsolidated revenues are consumed by R&D costs from 2007 onwards. For consolidated revenues the appropriate ratio is 27%. This shows how important R&D is for Datalab Group. We note new product generation is envisioned every four years with development cost of around EUR 3m. This means a CAPEX cycle of 4 years in the amount of EUR 3m with possible future trends shortening this cycle. But this also means Datalab is keeping pace with competition and is improving customer experience and satisfaction.



We also note that so far Slovenian government was more inclined to R&D tax benefits. Effective tax rate should therefore be around 0 in the following years, positively affecting net income.

- **Margin expansion possibility:** Currently the company is in a growth phase so the focus is on gaining user base. Due to high investments into solutions (CAPEX) on one hand and still relatively low user base on the other, operating margins remain low (high ratio of R&D expenses to sales). We believe that further on we can see an increase in EBIT margin as costs will distribute on wider user base (especially amortization costs as they are tied to R&D). Additionally some trends like move to cloud services are helping profitability as well (although hurting



revenue growth). We here especially emphasize the regression between sales multiple and margin (also given in relative valuation segment of this document) shows valuation upside if this thesis of increased future margin materializes.

- **Telekom Slovenije cooperation on cloud services:** The same as in other SEE countries, Datalab have sought and found a telecommunications operator in Slovenia to which its cloud services will be transferred and which will in turn help on marketing, infrastructure and collecting payments. All this will positively affect cost structure, as less will have to be allocated to marketing and collection in Slovenia, while improving the marketing potential to SME.

- **Regional Exposure:** The company is present in the whole West Balkan region, with a nice diversification of sales, which is actually increasing. Namely in 2014, Datalab achieved 42% of sales on the domestic market (38% in 2013; 45% in 2012), 19% in Croatia (19%; 16%), 11% in Bosnia and Herzegovina (14%; 12%), 13% in Serbia (14%; 16%), 5% in Montenegro and 10% in Macedonia. They exited Bulgarian market however expanded into Albania.

Regional segmentation on growth dynamics is seen in following table:

Licence value in EUR	2007	2008	2009	2010	2011	2012	2013	2014
Slovenia	1,236,390	1,213,770	1,117,194	577,508	889,680	803,032	1,008,606	940,644
Croatia	351,746	551,237	358,676	397,493	789,528	453,284	678,831	631,648
BiH	448,687	368,167	459,420	316,639	371,226	308,687	470,774	314,132
Serbia	477,522	522,489	446,551	441,427	453,091	407,948	532,563	333,140
Montenegro	24,837	100,201	90,922	55,414	113,675	110,477	121,099	165,214
Macedonia	25,359	26,325	172,855	189,930	147,727	232,359	290,171	293,997
Kosovo	5,720	0	11,114	29,405	41,928	27,004	7,786	22,144
Bulgaria	0	14,365	10,742	42,765	19,820	6,890	42,228	56,525
Total	2,570,261	2,796,554	2,667,474	2,050,581	2,826,675	2,349,681	3,152,058	2,757,444

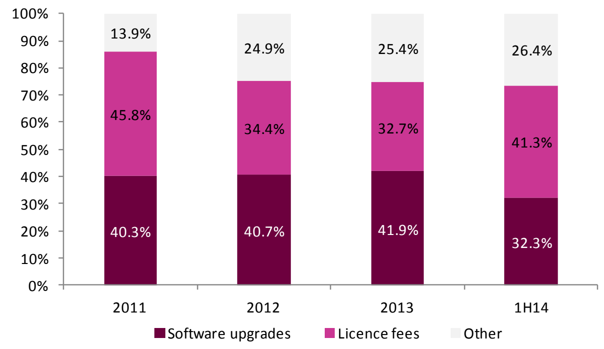
New clients	2007	2008	2009	2010	2011	2012	2013	2014
Slovenia	299	245	238	257	352	419	693	709
Croatia	109	138	116	140	116	132	308	211
BiH	200	144	194	165	429	425	198	238
Serbia	134	132	146	138	235	168	212	188
Montenegro	10	56	44	54	42	52	63	57
Macedonia	20	14	43	64	54	76	115	205
Kosovo	1	0	6	9	5	9	3	5
Bulgaria	0	1	9	17	10	4	6	10
Total	773	730	796	844	1,243	1,285	1,598	1,623

An interesting fact here provided by Datalab is that in order to cover cost of entering a new market they need about 2000 users that usually translates into 600 companies. This means there are normally 3 to 4 users per costumer (company) for their product. Also we must note the focus of the company is on medium, smaller and micro companies in the region.

- **Consumer retention easier due to switching problems**: Users don't like switching platforms or applications as this creates significant costs and takes time for training. Also they are unaccustomed to the new platform. Therefore as long as IT provider is providing sufficient support and provides proper and timely upgrades it will maintain most of its users (high barriers for switching). We note Datalab customer satisfaction dynamics over the years in Slovenian market has presented a relatively stable share of satisfied and very satisfied customers. More significantly from 2012 to 2014 the share of very satisfied customers increased on the expense of decreasing share of partly and completely dissatisfied customers. The same trend in the last three years persisted also in Croatia, Serbia and Bosnia and Herzegovina, while the results in Macedonia and Montenegro were also quite consistent with other market's trends as they show more fluctuations of very satisfied customers. Macedonian market was the only one to have a decreasing share of very satisfied customers in 2014. Two most common reasons for customer dissatisfaction in 2014 were complexity and problems with software upgrades. Here we note the number of most troublesome errors in PANTHEON after software upgrade has been more than halved in the last four years.

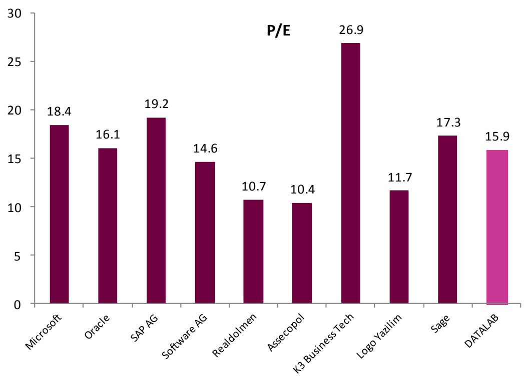
  On the other hand switching problems is problematic for Datalab in terms of gaining new customers. But here management believes that partly this can be resolved by acquiring smaller companies (so called "partner from competitor") and partly there will be switching due to smaller IT companies failing to provide sufficient support (as they will not have a cash flow for needed R&D to keep pace with IT and regulatory changes). Additionally their distribution also comes through accountants, as they are motivated to push for the same platform in all of their companies. This is a prudent strategy to generate new customers and then retaining them.

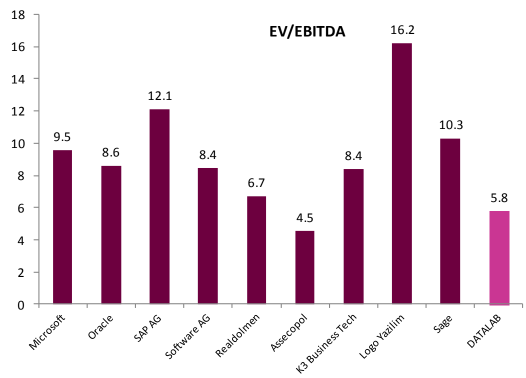
- **Improving revenue mix:** Since retention ratio of customers is high and company is maturing to some extent, the revenue mix is slowly rebalancing toward upgrade fees and other more stabile maintenance connected fees (already bigger share of fees is coming from upgrade fees than new user fees). This gives the company more visibility of revenues as well as more recession proof business model. Additionally margins could benefit as well (with increases in upgrade fees). In turn this lowers the risk profile of the company.



- **ESOP program:** The company has a program to pay employees a variable in a form of companies stock options (through transferal of its own shares or issuing new shares). This stock option plan is trying to tie employee's motivation with shareholding interests, providing better incentive (motivation) and is also favorably taxed. Overall we see this option plan as positive.

- **Valuation:** With current TTM P/E multiple of 15.9 and EV/EBITDA multiple of 5.7 we can hardly say this company is expensive, especially for IT company that plans high growth. Also P/B is at 1.9 and EV/Sales at 1.6. It is true however multiples expanded in recent year as stock price almost doubled. With it, relative attractiveness lowered.





- **Not focused on government contracts:** Their mix of customers practically excludes government and big state owned companies, so the revenues are less under threat due to different political lobbying and therefore healthier (and stabile), while this also proves their competitiveness. On the other hand part of their revenues (5.2% of revenues excluding capitalized own products in 2013 and only 3.7% in 2014) comes from »Subsidies, grants, allowances, compensations and other revenue« given by different governments. This source of revenues can be tricky and we deem these revenues as less healthy than regular business revenues.

Risks:

- **Timing of revenue growth acceleration unknown:** Although we see logic in the magement thesis for increase in future growth rates (to be above 30% per year), we see the problem in forecasting the exact timing. Namely users will swich to Datalab and other bigger IT providers in mass only when smaller IT companies will not be able to keep pace with R&D expenses. This could happen in 2015-2016 period or a couple of years later; in any case 2012-2014 period did not deliver this acceleration high growth and with it management optimistic expectations. This is recognised by managament and they will adapt to the dynamic with costs, hiring and R&D expenses. The same aplies to Farm Accounting where management recognizes its hard to pinpoint the exact dynamic of revenue and margin traction. Nevertheless this also means that management guidance, as well as our forecasts, could miss severely (in level and timing). Namely in scenario where current dynamic remains in place and without acquisition and industry consolidation growth, we can see only around 10% growth of revenues in future years. Although this is still a nice growth rate it lowers our valuation and it somewhat erodes growth story.

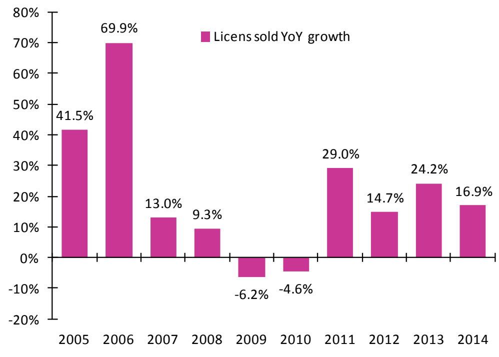
  Given the fact Farm Accounting is still in an initial phase and especially given the fact Datalab plans to enter on a completely new markets will additionally worsen the growth visibility in the next couple of years, so investors will have a tough time to gauge growth prospective and translation to bottom line. That in turn translates into higher risk.

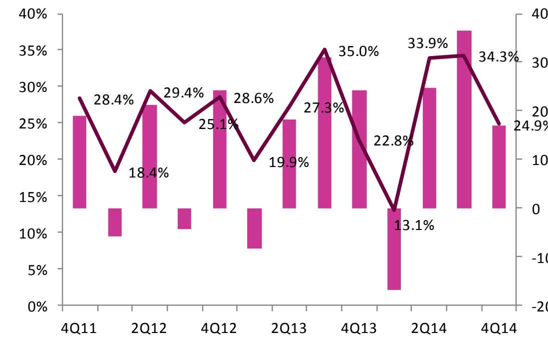
Additional risk factor that cannot be ignored is threat of big competitors (like SAP or Microsoft) in terms of revenue growth and margins of Datalab. Namely, these big players have substantial advantage in brand name and especially economies of scale, although they are less focused and flexible for providing services to smaller companies.

- **Intangibles risk:** There is EUR 6,423 thousand of intangibles in the company's balance sheet or 121% of equity. Although this is somewhat normal for an IT company having intellectual property etc. (Pantheon represents EUR 5,590 thousand; Farm Accounting EUR 712 thousand on 30.06.2014), this poses some risk for severe and quick balance sheet deterioration, a risk to equity capital value and a risk for one offs in income statement. Also acquisitions create goodwill that can be easily impaired if plans do not materialize. This will create impairment risk that would affect bottom line numbers.

  We must also note that in order to retain customers the Group needs to maintain high R&D expenses. CAPEX in intangibles in the last few years was in average around 27% of all net sales revenues (68% of Datalabs d.d. revenues). Significantly lower R&D expenses would probably lead to a loss of users with a couple of year lag.

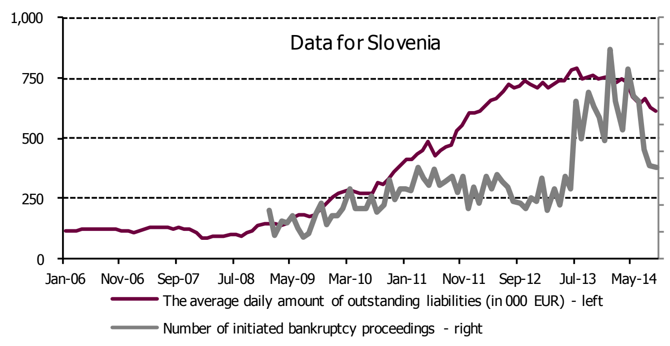
- **License sales growth volatility & volatile quarterly dynamic:** New license sold in a year varies significantly from a year to year. If we take into account years from 2007 onwards, the growth rate of new clients varied from -5.6% to 52.3%. Also new license sales varied from -10.8% to 30.7%. Although these ranges still point to a positive skew, this sales volatility is creating some level of unpredictability. For shares and results this creates a higher level of risk.





  The volatility is also seen when looking quarterly EBITDA margin dynamic and even more so when looking at bottom line dynamic. This is impacting result visibility during the year and additionally complicating guidance and forecast risk.

- **Weak macroeconomic situation:** Slovenia is recording a turnaround from the past negative GDP dynamic with 1.44% expected GDP increase in 2014 and 1.39% in 2015, according to IMF predictions. IMAD expects 2.0% and 1.6% growth and most institutions are improving its outlook. Inflation has already been steadied and is not expected to cause problems in the future. Nevertheless even if banking situation is stabilizing number of bankruptcies of companies is still elevated, which is and will affect Datalab operations. Outlook for Croatia is clearly not favourable as GDP is expected to decrease by 0.82% in 2014 and increase only by 0.50% in 2015 (with high downgrade risk). Falling GDP and increasing unemployment rates will provide negative pressures on purchasing power. IMF's expectation for GDP change in Serbia for 2014 is -0.54%, however an improvement to 1.04% in 2015 is expected. Bosnia and Herzegovina has a positive GDP growth outlook as it expected to reach 0.70% growth in 2014 and 3.50% in 2015. On the other hand economic risks in Bosnia and Herzegovina are high, because the political situation remains complex and difficult. Outlook for Montenegro and Macedonia are therefore the most favourable with additional pick up seen in



2015. All in all while economic environment is improving, it still quite weak and uncertain. Therefore we can expect continued pressures on pricing and transition to hosting.

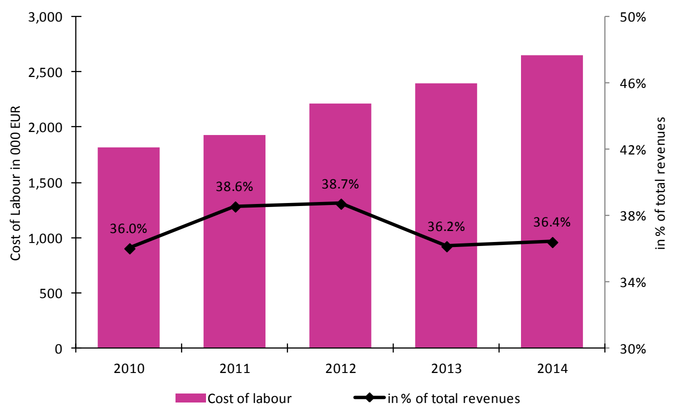
Country	2012	2013	2014	2015F	2016F	2017F	2018F	2019F
Albania	1.14	0.44	2.10	3.30	4.20	4.50	4.50	4.70
Bosnia and Herzegovina	-1.21	2.10	0.70	3.50	3.70	4.00	4.00	4.00
Bulgaria	0.59	0.86	1.40	2.00	2.50	3.00	3.00	3.00
Croatia	-2.19	-0.91	-0.82	0.50	1.40	2.14	2.20	2.00
Kosovo	2.81	3.39	2.74	3.35	4.00	4.00	4.00	4.00
FYR Macedonia	-0.39	2.91	3.40	3.60	3.90	4.00	4.00	4.00
Montenegro	-2.55	3.50	2.26	3.40	3.26	3.32	3.34	2.98
Serbia	-1.52	2.50	-0.54	1.04	1.50	2.20	2.50	3.00
Slovenia	-2.64	-1.00	1.44	1.39	1.53	1.82	1.89	1.92

Source: International Monetary Fund, World Economic Outlook Database, October 2014

- **Credit risk:** Datalab had EUR 720,688 receivables overdue on 30.6.2014 (gross) versus 522,056 on 30.6.2013. This represents 37.2% of all receivables versus 35.8% a year ago. We should note however Datalab already impaired EUR 264,328. Also we should note EUR 173,611 was written off in 2014 business year versus EUR 89,302 in 2013. All this data shows there is a risk of further receivables write-off that would affect net income (but not cash flow), however management is trying to cope with this risk through regular activation codes and pushing for payment discipline.

- **Complex relation with sales partners:** Their sales partners are not only selling Pantheon platform but additional applications for platform. Here Datalab must be carefull not to provide additional solutions that are in direct competition with its sales partner solution (CRM solutions, online shopping solutions etc.). This is somewhat limiting the range of sales products of Datalab. Also in can easily happen that their sales partners are pushing more on implementation of their own additional application and less of Datalabs solutions as this means more share of revenues for them.

- **Possible implementations bottleneck:** It is not enough just to gain new customers and with it users, but also their retention. In order to retain customers Datalab has to provide on time user training and maintenance. Without this the switch to competitor's solutions is more likely. Datalab is trying to widen this bottleneck through more user friendly solutions and solutions that need less maintenance. Nevertheless to prevent this bottleneck Datalabs cost of labor could increase (+21%, +13% and +13% in number of employees for 2012, 2013 and 2014 respectively). It is true however ratio toward total revenues decreased.



- **Dilution effect of ESOP:** ESOP plan can dilute EPS and valuation of the stock due to constant increase of shares. If Datalabs liquidity will sufice, ESOP program will be carried through buyback of its own shares. In this case we see less of a dilution and main issue will be the buyback price. If liquidity needs won't be good enough due to expansion and R&D activities, then additional shares will be issued for ESOP program. This will dilute the stock value and constant monitoring of this program is needed.

ALTA Invest

2014 Results and Recent news

Top line growth did not translate into bottom line growth.

thousand €	2013	2014	YoY	4Q13	3Q14	4Q14	QoQ	YoY
Sales	6,635.5	7,294.0	**9.9%**	1,809.4	1,985.4	1,921.1	**-3.2%**	**6.2%**
EBITDA	1,786.6	2,041.3	**14.3%**	412.3	680.8	477.5	**-29.9%**	**15.8%**
Margin	26.9%	28.0%		22.8%	34.3%	24.9%		
EBIT	609.1	619.5	**1.7%**	140.7	372.5	130.7		**-7.1%**
Margin	9.2%	8.5%		7.8%	18.8%	6.8%		
Net income	651.5	614.4	**-5.7%**	243.4	365.0	170.7		**-29.9%**
Margin	9.8%	8.4%		13.5%	18.4%	8.9%		

Revenues up 9.9%.

- Total consolidated revenues increased by 9.9% YoY to EUR 7.294m in FY14 of which EUR 2.013m were other revenues that include mostly capitalized own products (R&D; 87%). Other revenues grew by 2.6% YoY, which indicates that most of the contribution to revenue growth was from sales revenues that in fact grew by 13% YoY. Sales of sold licenses and software upgrades remain the firm's main sources of sales revenues. Additionally, sales revenues continue to shift from the sale of licenses towards software upgrades, as sales from software upgrades increased from EUR 2.316m to EUR 2.395m (a 3.4% YoY increase), while sales revenues from sold licenses dropped severely from EUR 3.152m to EUR 2.757m (a 12.5% YoY decrease) which in turn also provides a more stable revenue stream. In terms of geographical segmentation of the two largest sources of revenues, sold licenses have generated 34.1% on the domestic market and the remaining 65.9% on other markets in FY14, while in the segment of software upgrades 47.8% on domestic and 52.2% on other markets in the same year.

However operating cost followed.

- COGS displayed slower growth compared to sales revenues as they grew by 9.8% YoY to EUR 2.545m in FY14. The largest part of COGS is costs of services as they represented 97.3% of COGS. Work expenses amounted to EUR 2.656m in FY14, which is 10.7% YoY growth from FY13, again marginally lower compared to sales revenues growth. Headcount increased from 157 to 178.
- D&A costs amounted to EUR 1.422m in FY14, which represents a 12.2% YoY increase. This increase was mostly due to increase in working capital impairments (EUR 0.084m increase from FY13), while D&A costs excluding asset and working capital impairments totaled at EUR 1.247m, which represents an increase of 6% YoY versus the year before.

Therefore EBIT up by only 1.7%.

- EBIT increase was only marginal and amounted to 1.7% YoY. Total operating costs amounted to EUR 6.675m in FY14, which is a 10.8% YoY increase and low EBIT growth reflects that cost increases matched the revenue growth.
- We note capitalized revenues are R&D costs mostly connected with labor expenses (EUR 1.1m) and services and contracts (EUR 0.4m).

Net income below expectations and down 11.3% YoY.

- Financial revenues decreased in FY14 to EUR 0.05m or by 20.6% YoY, while financial expenses increased only marginally (1.7% YoY). Together, net financial expenses increased by 16.4% YoY versus FY13, lowering net profit. Interest expenses amounted to EUR 0.013m.
- Intangibles were up by 13% YoY to EUR 6.423m in FY14 compared to EUR 5.681m level in FY13 and are still the largest part of total assets (64.5% in FY14) and 121% of total equity.
- Current and non-current accounts receivables increased by 18% YoY to EUR 1.734m in FY14, which is unfavorable as this is a 5 p.p. higher increase compared to sales revenues growth.
- Net debt amounted to EUR 2.2m in FY14, an increase of EUR 0.1m versus FY13. We further note Datalab has EUR 0.4m of ST and LT financial investments and loans accounted for in its balance sheet, out of which EUR 82 thousand derives from recent investment in Swiss, Agro AG.

in EUR	Slovenia			Croatia			BiH			Serbia		
	2014	2013	YoY	2014	2013	YoY	2014	2013	YoY	2014	2013	YoY
Net sales	**2,251**	**1,890**	**19%**	**989**	**927**	**7%**	**609**	**706**	**-14%**	**707**	**674**	**5%**
Domestic market	**2,208**	**1,831**	**21%**	**940**	**826**	**14%**	**581**	**688**	**-16%**	**685**	**647**	**6%**
Licence fees	414	281	47%	452	416	9%	286	341	-16%	248	288	-14%
Software upgrades	1,102	1,045	5%	380	328	16%	202	245	-18%	333	290	15%
Membership fees	39	39	0%	17	16	6%	11	11	0%	17	17	0%
Services	290	195	49%	21	14	50%	65	61	7%	66	38	74%
Marketing	28	3	833%	25	23	9%	13	21	-38%	1	6	-83%
Training	34	45	-24%	20	9	122%	3	9	-67%	6	8	-25%
Hosting	302	205	47%	11	2	450%	0	0		12	0	
Other	0	0		14	18	-22%	1	0		0	0	
Rent	0	0		1	0		0	0		1	0	
Foreign market	**43**	**59**	**-27%**	**49**	**101**	**-51%**	**28**	**19**	**47%**	**22**	**27**	**-19%**
Licence fees	13	19	-32%	0	0		1	1	0%	2	0	
Software upgrades	18	16	13%	0	0		0	0		1	1	0%
Membership fees	0	0		0	0		0	0		0	0	
Services	1	2	-50%	0	0		0	0		0	0	
Marketing	5	6	-17%	0	0		0	0		0	0	
Training	6	15	-60%	0	0		0	0		0	0	
Work for corporation	0	0		43	101	-57%	27	18	50%	18	26	-31%
Other	0	0		6	0		0	0		2	5	-60%
Expenses	2,260	1,835	23%	979	932	5%	693	668	4%	729	711	3%
COGS	1,380	1,136	21%	699	680	3%	499	477	5%	481	520	-8%
Licence fees	179	85	111%	139	124	12%	113	94	20%	105	101	4%
Rent	42	46	-9%	16	14	14%	12	17	-29%	22	19	16%
Cost of services	354	343	3%	268	265	1%	195	188	4%	114	136	-16%
of that sales	100	84	19%	121	119	2%	93	88	6%	47	72	-35%
Labour costs	703	670	5%	220	243	-9%	172	168	2%	233	179	30%
Financial Revenues	12	6	100%	6	4	50%	0	0		3	7	-57%
Financial Expenses	7	11	-36%	6	4	50%	1	0		15	20	-25%
Net Profit	51	59	-14%	13	3	333%	-78	41		-38	-46	

in EUR	Montenegro			Macedonia			Bolgaria			Albania			Total		
	2014	2013	YoY	2014	2013	YoY	2014	2013	YoY	2014	2013	YoY	2014	2013	YoY
Net sales	**285**	**244**	**17%**	**513**	**453**	**13%**	**101**	**71**	**42%**				**5,354**	**4,894**	**9%**
Domestic market	**284**	**244**	**16%**	**404**	**333**	**21%**	**82**	**71**	**15%**	**26**			**5,102**	**4,569**	**12%**
Licence fees	124	102	22%	180	162	11%	24	26	-8%	14			1,704	1,590	7%
Software upgrades	86	79	9%	81	54	50%	13	15	-13%				2,184	2,041	7%
Membership fees	0	0		5	3	67%	1	1	0%				89	86	3%
Services	1	2	-50%	115	109	6%	40	28	43%	12			558	419	33%
Marketing	0	0		0	0		0	0					67	53	26%
Training	0	0		2	2	0%	3	0					65	73	-11%
Hosting	0	0		22	2	1000%	0	1	-100%				347	209	66%
Other	0	0		0	0		0	0					15	18	-17%
Rent	0	0		0	0		0	0					2	0	
Foreign market	**0**	**0**		**109**	**120**	**-9%**	**19**	**0**					**251**	**326**	**-23%**
Licence fees	0	0		9	10	-10%	0	0					25	30	-17%
Software upgrades	0	0		10	5	100%	0	0					29	22	32%
Membership fees	0	0		1	0		0	0					1	0	
Services	0	0		18	24	-25%	0	0					19	26	
Marketing	0	0		0	0		0	0					5	6	-17%
Training	0	0		0	0		0	0					6	15	-60%
Work for corporation	0	0		68	73	-7%	0	0					156	218	-28%
Other	0	0		2	0		0	0					10	5	100%
Expenses	233	200	17%	496	444	12%	52	74	-30%	56	10	460%	5,390	4,790	13%
COGS	120	106	13%	280	250	12%	19	15	27%		9	-100%	3,459	3,169	9%
Licence fees	77	68	13%	149	123	21%	11	8	38%	3	0		762	595	28%
Rent	10	7	43%	18	16	13%	6	0		2	2	0%	120	119	1%
Cost of services	32	30	7%	105	104	1%	1	7	-86%	24	6	300%	1,068	1,066	0%
of that sales	0	0		41	37	11%	0	5	-100%		1	-100%	402	400	0%
Labour costs	113	93	22%	203	187	9%	30	60	-50%	26			1,644	1,540	7%
Financial Revenues	0	0		0	0		0	0					21	17	
Financial Expenses	1	0		3	3	0%	0	0					33	38	-13%
Net Profit	50	44	14%	17	8	113%	29	-6		-29	-10		15	109	

Relative valuation:

Trades at significant discount…

Company name	EV/S TTM	EV/S 2015F	EV/S 2016F	EV/EBITDA TTM	EV/EBITDA 2015F	EV/EBITDA 2016F	EV/EBIT TTM	EV/EBIT 2015F	EV/EBIT 2016F
Microsoft	3.6	3.1	2.9	9.5	8.8	8.4	11.4	10.2	8.7
Oracle	4.0	3.7	3.7	8.6	7.1	7.2	10.2	7.8	7.3
SAP AG	3.9	3.5	3.3	12.1	10.0	9.1	14.7	10.9	10.1
Software AG	2.1	2.1	2.0	8.4	7.7	7.4	11.1	8.8	8.5
Realdolmen	0.4	n.a.	n.a.	6.7	n.a.	n.a.	8.2	n.a.	n.a.
Assecopol	0.6	0.6	0.6	4.5	4.2	4.1	6.7	5.9	5.8
K3 Business Tech	1.2	1.0	n.a.	8.4	6.2	n.a.	18.8	8.0	n.a.
Logo Yazilim	7.6	n.a.	n.a.	16.2	n.a.	n.a.	23.0	n.a.	n.a.
Sage	3.2	3.0	2.9	10.3	10.0	9.4	11.6	11.1	10.5
DATALAB	1.6	1.4	1.1	5.8	4.9	3.6	19.0	11.0	6.7
Average	2.9	2.4	2.6	9.4	7.7	7.6	12.9	9.0	8.5

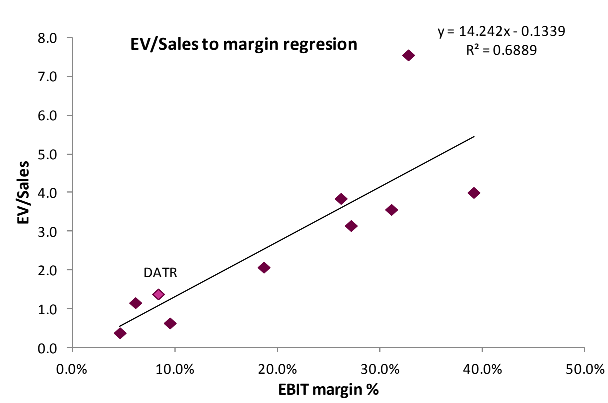
Company name	P/S TTM	P/S 2015F	P/S 2016F	P/E TTM	P/E 2015F	P/E 2016F	P/B TTM	P/B 2015F	P/B 2016F
Microsoft	4.3	3.8	3.5	18.4	14.8	13.8	4.4	3.8	3.5
Oracle	4.5	4.2	4.1	16.1	11.9	11.2	3.7	3.0	2.5
SAP AG	3.8	3.5	3.3	19.2	14.3	13.1	3.6	3.1	2.7
Software AG	2.0	2.0	1.9	14.6	10.9	10.4	1.6	1.5	1.4
Realdolmen	0.4	n.a.	n.a.	10.7	n.a.	n.a.	n.a.	n.a.	n.a.
Assecopol	0.7	0.7	0.6	10.4	11.9	11.5	0.8	0.7	0.7
K3 Business Tech	1.0	0.8	n.a.	26.9	8.9	n.a.	1.3	n.a.	n.a.
Logo Yazilim	7.6	n.a.	n.a.	11.7	n.a.	n.a.	9.6	n.a.	n.a.
Sage	2.9	2.8	2.7	17.3	15.1	13.8	4.8	4.1	3.8
DATALAB	1.3	1.2	0.9	15.9	11.1	6.5	1.5	1.3	1.1
Average	3.0	2.5	2.7	16.2	12.5	12.3	3.7	2.7	2.4

...but as a smaller IT company, also ROE is lagging.

Company name	EBITDA margin TTM	EBIT margin (%)	Profit margin (%)	ROE TTM	ROA TTM	Assets turnover	Div. yield (%)	Assets/ Equity	Net debt to EBITDA
Microsoft	37.4%	31.2%	23.4%	23.6%	12.6%	0.54	1.83	1.88	-1.91
Oracle	46.7%	39.2%	28.4%	22.8%	11.0%	0.39	0.92	2.11	-1.06
SAP AG	31.9%	26.3%	19.1%	18.7%	11.1%	0.58	1.88	1.67	0.16
Software AG	24.6%	18.7%	12.4%	11.0%	6.1%	0.49	2.31	1.84	0.47
Realdolmen	5.7%	4.7%	3.7%	n.a.	n.a.	n.a.	0.00	n.a.	0.00
Assecopol	14.0%	9.6%	6.6%	7.6%	4.0%	0.60	5.21	1.92	-0.33
K3 Business Tech	13.9%	6.2%	3.6%	4.9%	2.7%	0.74	0.45	1.84	1.37
Logo Yazilim	46.7%	32.8%	29.6%	82.3%	20.8%	0.70	0.00	1.79	-0.14
Sage	30.6%	27.2%	18.0%	28.0%	10.9%	0.60	7.88	2.57	0.81
DATALAB	28.0%	8.5%	8.4%	9.6%	6.2%	0.73	0.00	1.91	0.98
Average	27.9%	21.8%	16.1%	24.9%	9.9%	0.58	7.28	1.95	-0.07

ROE decomposition (company/peer average):

	Company	Peer average
EBITDA margin	28.0%	27.9%
EBIT/EBITDA	30.3%	77.9%
NI/EBIT	99.2%	73.9%
Profit margin	8.4%	16.1%
Sales to assets	0.73	0.58
Assets to Equity	1.91	1.95
ROA	6.2%	9.9%
ROE	**9.6%**	**24.9%**



The company states that their main competitors are big global IT players (Microsoft's Dynamic NAV, SAP All-in-one solutions) on one hand and small local IT players on the other. This creates difficulties using peer analysis. Namely, big IT players operate on different IT segments and their stock is very liquid, while small local players are a better peer alternative, but are mainly private companies, so gaining data is difficult and several are not listed. Therefore peer analysis has a limited value and DCF valuation is more appropriate. Nevertheless we included in the peer group a mix between big IT competitors and some smaller European IT software companies.

Peer valuation target: EUR 5.1

The peer data shows that Datalab is trading at a discount, but this is also likely due to lower liquidity and somewhat lower profitability (possibly due to lower bargaining power and economy of scale). Namely EV/Sales regression on operating margins implies a EUR 3.4 target price, below current market price. This has a 25% weighting. On the other hand other multiples used in valuation are EV/EBITDA, EV/EBIT and P/E and give 5.9 EUR. Overall peer comparison gives a target price EUR 5.1. We note peer target price dropped versus previous reports as multiples lowered.

Growth guidance very ambitious, but timing visibility low.

Farm accounting additional opportunity to achieve growth acceleration.

However our stance is prudent and conservative given past guidance materialization.

CAPEX will remain elevated.

Outlook:

- Management believes that in the next few years growth will accelerate as fragmented market will consolidate, but the structure of revenues will change. Organic and non-organic driven growth should together bring growth levels of 30% to 90%. We must note however that management stated the exact timing of growth acceleration is hard to predict, as it depends on market conditions and the traction of Farm Accounting. The lag in realization is therefore possible.
- Especially Farm Accounting could provide with a significant surge in growth. We have included the segment separately in our DCF model but only at 75% of guided level, as we remain cautious and the segment is still in beginning stages where visibility is low. Conceptually the Farm segment looks perspective and attractive. On the other hand we have also removed the assumption of capital injection (which was also tied to this project) as it materialized during summer months.
- Economic situation remains difficult. Estimates for Croatia are adverse while GDP growth rate in Slovenia will decelerate slightly. It is true however economic estimates should pick up in the following years given current forecasts by macro institutions. Given our estimates based on our GDP based model and management guidance we see growth at 14.6% in 2015 and around 32% growth in next three years. This is lower than management guidance (or on lower band of range) as we remain cautions due to low visibility of possible growth rate surge and due to past track record.
- We are also more conservative regarding margin expansion, although we also see operating leverage expanding. Margins should therefore increase in the following years as development costs will be applied to more users. As for competitive pressure on margins, it will be counterbalanced in full by industry consolidation.
- CAPEX should remain strong as well as capitalized own products revenues (which should be noted when reading income statement) as R&D is capitalized not expensed. Therefore intangibles are still seen to rise at relatively high pace.
- Favorable tax rate (environment) should persist due to high investment activity.

all data in EUR 000

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Sales	5,040.3	5,001.4	5,724.9	6,635.5	7,294.0	8,356.5	11,000.6	14,418.4	18,556.2	20,135.7
Sales growth		-0.8%	13.6%	15.9%	9.9%	14.6%	31.6%	31.1%	28.7%	8.5%
EBITDA	1,427.8	1,434.0	1,432.7	1,876.0	2,041.3	2,422.1	3,298.6	4,467.6	5,935.3	6,440.5
EBITDA margin	28.3%	28.7%	25.0%	28.3%	28.0%	29.0%	30.0%	31.0%	32.0%	32.0%
EBIT	682.5	563.4	342.6	609.1	619.5	1,069.5	1,744.9	2,781.7	4,065.8	4,400.1
EBIT margin	13.5%	11.3%	6.0%	9.2%	8.5%	12.8%	15.9%	19.3%	21.9%	21.9%
EBT	640.9	496.2	224.5	517.2	516.0	916.6	1,561.3	2,653.0	3,991.8	4,361.4
EBT margin	12.7%	9.9%	3.9%	7.8%	7.1%	11.0%	14.2%	18.4%	21.5%	21.7%
Net income	604.3	473.1	335.8	651.5	614.4	875.9	1,492.0	2,408.5	3,624.0	3,959.5
Net income growth		-21.7%	-44.4%	94.0%	-5.7%	42.6%	70.3%	61.4%	50.5%	9.3%

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Fixed assets	4,050.3	4,740.3	5,430.3	6,372.7	7,367.9	8,443.0	9,605.5	10,964.6	12,494.4	14,299.3
PPE	60.5	258.8	308.8	307.2	277.5	244.6	193.0	190.0	188.5	195.0
Intangible assets	3,913.6	4,369.6	4,911.2	5,681.5	6,422.8	7,318.2	8,234.8	9,180.2	10,128.3	11,110.1
LT-investments	1.2	1.2	1.2	6.2	136.2	136.2	136.2	136.2	136.2	136.2
Other fixed assets	74.9	110.6	209.0	377.8	531.4	744.0	1,041.5	1,458.2	2,041.4	2,858.0
Current assets	2,172.8	1,692.0	1,772.3	2,010.9	2,596.6	3,043.8	4,017.9	5,595.1	8,484.8	10,584.7
Inventories	7.3	8.2	44.8	7.2	4.6	5.3	7.0	9.2	11.8	12.8
Trade receivables	1,789.6	1,327.9	1,280.6	1,469.5	1,733.9	2,070.0	2,834.9	3,859.9	5,153.2	5,793.2
Cash	149.4	102.7	163.3	205.4	411.5	429.7	510.6	597.2	675.8	632.6
ST-investments	126.4	139.9	137.1	210.2	233.6	240.6	247.8	544.3	1,825.6	3,000.4
Other current assets	100.1	113.3	146.5	118.6	213.0	298.2	417.5	584.5	818.3	1,145.7
Total Assets	6,223.2	6,432.3	7,202.7	8,383.6	9,964.6	11,486.8	13,623.5	16,559.7	20,979.2	24,884.0
Debt	1,488.3	1,518.8	1,697.0	2,296.2	2,607.8	2,934.8	2,959.8	2,659.8	2,359.8	2,359.8
ST-debt	1,488.2	580.4	817.7	604.7	744.4	837.7	844.9	759.2	673.6	673.6
LT-debt	0.0	938.4	879.2	1,691.5	1,863.4	2,097.1	2,115.0	1,900.6	1,686.2	1,686.2
Provisions	12.5	14.6	40.5	47.8	39.0	45.0	53.3	64.8	82.1	97.4
Trade payables	915.5	694.8	841.3	856.0	1,054.8	1,208.4	1,590.8	2,085.1	2,683.5	2,911.9
Other liabilities	959.6	743.6	602.0	528.4	952.2	1,097.7	1,301.9	1,582.5	2,004.8	2,377.9
Minority intrest	70.7	87.4	72.4	113.5	86.2	100.7	125.3	165.0	224.8	278.2
Equity	2,776.6	3,373.0	3,949.5	4,541.7	5,224.5	6,100.4	7,592.4	10,000.9	13,624.9	16,859.6

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Net profit margin	12.0%	9.5%	5.9%	9.8%	8.4%	10.5%	13.6%	16.7%	19.5%	19.7%
Asset turnover	0.81	0.78	0.79	0.79	0.73	0.73	0.81	0.87	0.88	0.81
ROA	9.7%	7.4%	4.7%	7.8%	6.2%	7.6%	11.0%	14.5%	17.3%	15.9%
Equity multiplier	2.24	1.91	1.82	1.85	1.91	1.88	1.79	1.66	1.54	1.48
ROE	21.8%	14.0%	8.5%	14.3%	11.8%	14.4%	19.7%	24.1%	26.6%	23.5%
CAPEX/Depreciation	193.1%	180.3%	147.3%	151.3%	138.4%	163.8%	155.7%	155.9%	150.6%	148.4%
Financial debt/Equity	0.54	0.45	0.43	0.51	0.50	0.48	0.39	0.27	0.17	0.14
Financial debt/Assets	0.24	0.24	0.24	0.27	0.26	0.26	0.22	0.16	0.11	0.09
Net debt/EBITDA	0.85	0.89	0.97	1.00	0.89	1.01	0.63	0.18	-0.31	-0.39
Working capital/ Sales	20.5%	14.9%	11.3%	12.5%	15.0%	15.5%	16.0%	16.5%	17.0%	17.5%
ROIC	15.7%	11.2%	8.7%	11.7%	9.7%	11.7%	16.3%	20.6%	23.8%	21.4%

Discounted Cash Flow Valuation:

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	TV
NOPLAT	1,069.5	1,744.9	2,642.7	3,862.5	4,180.1	3,996.5	4,257.8	4,565.7	4,915.8	5,300.3	4,120.7
NOPLAT growth	38.5%	63.2%	51.5%	46.2%	8.2%	-4.4%	6.5%	7.2%	7.7%	7.8%	-22.3%
Depreciation	1,245.8	1,416.4	1,583.8	1,754.7	1,928.8	2,078.6	2,181.3	2,248.4	2,286.3	2,300.4	2,304.6
Depretiation/Sales	14.9%	12.9%	11.0%	9.5%	9.6%	9.6%	9.4%	9.0%	8.5%	8.0%	7.8%
CAPEX	2,215.2	2,418.6	2,628.3	2,816.0	3,028.7	2,907.2	2,791.4	2,681.0	2,576.0	2,476.0	2,470.2
CAPEX/Sales	26.5%	22.0%	18.2%	15.2%	15.0%	13.4%	12.0%	10.7%	9.6%	8.6%	8.3%
Change in net working capital	201.3	465.2	619.5	776.2	369.4	264.5	284.3	305.7	328.6	353.2	126.6
NWC/Sales	15.5%	16.0%	16.5%	17.0%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%
FCF to firm	**-101.2**	**277.4**	**978.8**	**2,025.0**	**2,710.8**	**2,903.5**	**3,363.4**	**3,827.4**	**4,297.4**	**4,771.5**	**3,828.5**

FCF valuation	
Value in forecasting period	10,400
Continuing value	10,294
Total enterprise value	**20,693**
Net debt	2,507
Equity value	**18,186**
No. of shares (in mio)	2.3
Equity value per share	**8.0**

WACC	2015	TV
Tax rate	0.0%	17.0%
Cost of debt	5.5%	5.5%
Beta	1.3	1.2
Cost of equity	15.9%	15.5%
Debt/Equity	27.4%	23.0%
WACC	**13.9%**	**13.2%**
Perpetuity growth rate		**2.5%**

DCF valuation implies EUR 8.0

Our DCF valuation long term growth is set at 2.5%, WACC at 13.1%. WACC includes a 5.0% country risk premium and a small cap premium of 2.5%. Implied long term EV/EBITDA multiple is at 5.0, however for own capitalized products adjusted figure is standing at 7.5. Main distinction versus previous report is more detailed inclusion of Farm Accounting project.

Several key factors have a low visibility although high potential.

Key determinants of value are:

- Overall materialization of management high expectations regarding future growth due to consolidation in industry and Farm Accounting segment. Here we must note that our estimates are below managements (especially in terms of margins) so further upside changes of estimates is very possible if management expectations begin to materialize. On the other hand if acceleration of growth fails, we would revise our estimates downward. Visibility is a problem.
- Capitalized revenues and bloated intangibles versus equity remain a key risk for investors.
- Additionally ESOP, MSOP program and possible needs for funding Farm Accounting project could encompass short term dilution effect although positively affect long term growth potential.

Sensitivity analysis:

When growth acceleration starts to materialize, upside can quickly be found.

EBITDA margin 2020-2024 \ Sales growth 2020-2024	4.5%	5.5%	6.5%	7.5%	8.5%	9.5%	10.5%
27.0%	6.3	6.6	7.0	7.5	7.9	8.3	8.8
28.0%	6.4	6.8	7.2	7.6	8.1	8.5	9.0
29.0%	6.6	7.0	7.4	7.8	8.3	8.7	9.2
30.0%	6.8	7.2	7.6	8.0	8.5	8.9	9.4
31.0%	6.9	7.3	7.8	8.2	8.6	9.1	9.6
32.0%	7.1	7.5	7.9	8.4	8.8	9.3	9.8
33.0%	7.3	7.7	8.1	8.6	9.0	9.5	10.0

Perpetuity EBITDA margin \ Perpetuity Growth	1.6%	1.9%	2.2%	2.5%	2.8%	3.1%	3.4%
22.0%	6.9	6.9	7.0	7.1	7.2	7.4	7.5
23.0%	7.1	7.2	7.3	7.4	7.5	7.7	7.8
24.0%	7.4	7.5	7.6	7.7	7.8	8.0	8.1
25.0%	7.6	7.8	7.9	8.0	8.1	8.3	8.4
26.0%	7.9	8.0	8.2	8.3	8.4	8.6	8.8
27.0%	8.2	8.3	8.4	8.6	8.7	8.9	9.1
28.0%	8.4	8.6	8.7	8.9	9.0	9.2	9.4

WACC \ Perpetuity Growth	1.6%	1.9%	2.2%	2.5%	2.8%	3.1%	3.4%
11.7%	8.3	8.4	8.6	8.8	8.9	9.1	9.3
12.2%	8.1	8.2	8.3	8.5	8.7	8.8	9.0
12.7%	7.8	8.0	8.1	8.2	8.4	8.5	8.7
13.2%	7.7	7.8	7.9	8.0	8.2	8.3	8.4
13.7%	7.5	7.6	7.7	7.8	7.9	8.1	8.2
14.2%	7.3	7.4	7.5	7.6	7.7	7.9	8.0
14.7%	7.2	7.3	7.4	7.5	7.6	7.7	7.8

Final target price calculation:

Illiquidity discount applied.

Target price at EUR 5.1.

Our valuation is based on a 20%:80% mix between peer and DCF valuation, as we believe relative valuation has limitations in terms of peer group comparability. We applied 30% discount due to illiquidity. Our target price is at EUR 5.1, only slightly higher than in previous report. This implies a target P/E ratio of 17.6 and EV/EBITDA of 6.3. We deem these multiples as appropriate given the current ROE of 11.8%, EBIT margin at 8.4% and its high growth potential. However we must note the upside narrowed due to share price surge while the comparison between target price multiples and profitability worsened due to operating profit stagnation. Nevertheless the target price still justifies a buy recommendation, although just barely.

Top5 shareholders:	
Mertelj Andrej	32.0%
Raiffeisen Bank Fid	15.3%
Nepremičnine Noviforum	7.9%
Alpen.Si	4.7%
NLB Skladi	4.6%

Brief Company profile

Datalab is a Slovenian software company. Their main product is the PANTHEON business IT system (based on MS SQL for Windows and Linux environment) for monitoring and optimization of business processes thereby increasing productivity and lowering operating costs. Datalab develops, sells and implements the software directly, through its Partner Channel and through accounting firms. It is orientated on small and midsized companies in Slovenia and SouthEast Europe. Its domestic market share is around 9% (2010 data).

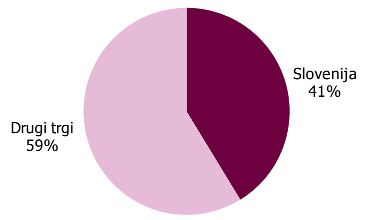
Sources of revenues:

- Licence fees and user fees for Pantheon IT system (declining segment).
- Upgrade contracts for Pantheon (main source of revenues).
- Leasing and subscription user fees (Pantheon Hosting, growing segment).
- Membership fees for support.
- Education and certification fees, advertisements etc.

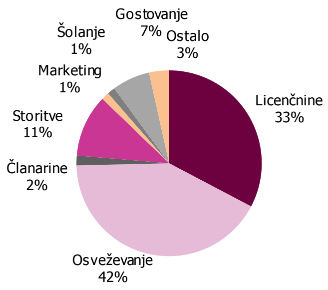
Datalab Group is organized into three levels. The controlling company is in charge of coordination of network, joint services and especially research and development. Second level consists of daughter companies, accountable for localization of PANTHEON, sales and support in respective country. On a third level there are partners or internal ServiceDesks for implementation of PANTHEON, support and activation of users.

Fiscal year for Datalab Group is from 1st July till 30th of June (difference to calendar year).

Group sales by region (2014)



Group sales by segment (2014)



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Sašo Stanovnik, Head of research. On the day of the public release, the author of the recommendation did not held securities of the relevant issuer.
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