

AROBS Transilvania Software

Buy

Initiation of coverage

Price: RON 0.98

Price target: RON 1.43

Rolling up IT development in Romania

We initiate coverage of AROBS Transilvania Software (AROBS), a software development company headquartered in Cluj-Napoca, with a BUY rating and a 12M price target (PT) of RON 1.43/share. Over 75% of its revenue comes from services, including the development of embedded software. Products generate c.20%, mainly fleet management and enterprise software. The remainder is software integration and hardware resale. Embedded software for the automotive industry is a core competence, a typically high-margin business with sticky client relationships; and, through M&A, it has expanded this into the aerospace and life science sectors. The group should generate a c.20% EBITDA margin (including the cost of the ESOP), from a ROACE of c.18%. Since its IPO on the AeRO (start-up) market in late-2021, AROBS has executed nine deals to strengthen its talent pool. During September 2023, the stock will move to the Bucharest Stock Exchange's main market, where it should be one of the largest entrepreneur-founded listings. Moreover, the CEO and main shareholder has declared his intention publicly to launch an SPO in the coming months to fund further M&A.

Since listing in late-2021, AROBS has announced nine acquisitions, rolling up development teams (mainly) in Romania, wagering on the growing demand for ever-more intelligent and "autonomous" systems across multiple industries. AROBS's recent M&A has focused on development teams for embedded software in fields like life sciences and aerospace (adjacent to its core in automotive), but also the life sciences and robotic process automation. M&A has also expanded its fleet management business. Margins in both are typically above industry averages, and customer relationships are more sticky.

2023E revenues may grow c.49% yoy, to RON 447m, and by a 2023-25E CAGR of 14%. We see the 2023E net profit flat yoy, at c. RON 48m, but growing at a 2023-25E CAGR of 27%, as margins are expected to recover. Software services should drive AROBS's top line, although the largest part is from M&A in 2023E. We see the 2023E margins at around the 2022 levels, with some expansion from 2024E-onwards; however, being conservative, not back to the 2021 levels. From 2024E, we see EBITDA margins of c.21% (a 2023-25E CAGR of 19%) and growing net interest income, boosting growth in the bottom line further.

AROBS trades, on our forecasts, on a 2023E PER and EV/EBITDA of 18.1x and 8.1x, respectively, falling to a 2024-25E average PER of 12.2x and 5.4x EV/EBITDA. Compared to our median peer group EV/EBITDA, the stock is trading at a 27% discount on our 2023E numbers and a 20% discount on PER. On both our average 2024-25E EV/EBITDAs and PERs, the discount widens to c.40%. On our PT and 2023E numbers, the stock would trade at premiums of 9% and 17% on EV/EBITDA and PER, respectively. On our 2024-25E earnings, it would still trade at discounts to its peers of c.11%.

Expected events

Main market listing	September
2Q23 results	28 September
3Q23 results	28 November

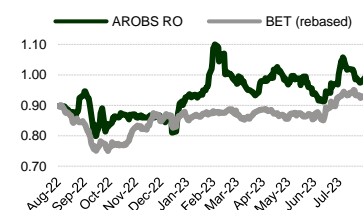
Key data

Market Cap	EUR 173m
Free float	33.8%
Shares outstanding	871m
ADTV (EUR k)	50.8
Major Shareholder	Oprean Voicu (66.2%)
Bloomberg Code	AROBS RO
BET Index	13,068

Price performance

52-w range	RON 0.8-1.1
52-w performance	10.2%
Relative performance	6.8%

AROBS 12M share price performance



Year	Sales RON m	EBITDA RON m	Net profit RON m	EPS RON	EPS % yoy	P/E (x)	EV/EBITDA (x)	FCF yield %	Div yield %
2021	186.6	56.8	45.8	0.10	n/a	9.2	5.9	9.7%	8.1%
2022	299.8	76.1	47.0	0.05	-49%	18.3	11.1	-6.4%	0.0%
2023E	446.5	104.5	48.5	0.05	5%	18.1	8.1	3.1%	0.0%
2024E	522.3	123.6	64.1	0.07	36%	13.3	6.1	7.8%	0.0%
2025E	579.7	140.7	78.2	0.09	22%	10.9	4.7	9.7%	0.0%

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Closing Prices as of 14 August 2023

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Company snapshot – BUY, PT RON 1.43

AROB5		COMPANY DESCRIPTION														
BUY		AROB5 is a software developer, with its core expertise in embedded software and a range of product suites (e.g., telematics and fleet management, enterprise software). Embedded software is the bespoke code that “animates” a huge range of industrial electronics. Historically, the company has focused on the automotive industry, but has expanded this into life sciences, as well as aerospace and marine electronic systems and new automotive contracts, through recent M&A. Since its listing, AROB5 has announced several acquisitions, rolling up development teams (mainly) in Romania, wagering on the growing demand for ever-more intelligent and “autonomous” systems across multiple industries. During September 2023, the stock will move to the Bucharest Stock Exchange’s main market, where it should be one of the largest entrepreneur-founded listings. Moreover, the CEO and main shareholder has declared his intention publicly to launch an SPO in the coming months to fund further M&A.														
Bloomberg ticker	AROB5 RO															
Closing price (RON)	0.98															
Price Target	1.43															
Upside to PT	46%															
Shares outstanding (m)	871															
MCAP (EUR m)	173															
Free float	33.8%															
ADTV (EUR k)	50.8															
52 W Range (RON)	0.8-1.1															
RATIOS																
PER SHARE RATIOS						VALUATION RATIOS										
Basic EPS	2020	2021	2022	2023E	2024E	2025E	P/E	2020	2021	2022	2023E	2024E	2025E			
CFPS	n.a.	0.10	0.05	0.05	0.07	0.09	n.a.	n.a.	9.2x	18.3x	18.1x	13.3x	10.9x			
BVPS	n.a.	0.16	0.09	0.07	0.11	0.13	n.a.	n.a.	5.9x	11.1x	8.1x	6.1x	4.7x			
DPS	n.a.	0.40	0.25	0.33	0.44	0.56	n.a.	n.a.	6.0x	10.8x	13.3x	8.8x	7.3x			
FINANCIAL RATIOS						EV/Sales										
Adj. EBITDA margin	n.a.	30.4%	25.4%	23.4%	23.7%	24.3%	n.a.	n.a.	1.8x	2.8x	1.9x	1.4x	1.1x			
EBIT margin	n.a.	24.8%	17.7%	12.9%	14.3%	15.4%	n.a.	n.a.	7.3x	15.9x	14.6x	10.1x	7.5x			
Net margin	n.a.	24.5%	15.7%	10.9%	12.3%	13.5%	n.a.	n.a.	336	846	841	751	666			
ROE	n.a.	25.3%	22.9%	18.5%	18.8%	17.9%	n.a.	n.a.	44.3	-58.4	28.0	67.9	84.4			
ROACE	n.a.	28.8%	20.9%	17.3%	18.8%	18.7%	n.a.	n.a.	9.7%	-6.4%	3.1%	7.8%	9.7%			
Dividend yield							n.a.					8.1%	0.0%	0.0%	0.0%	0.0%
COMPANY FINANCIALS																
INCOME STATEMENT, RON (m)						BALANCE SHEET, RON (m)										
Total revenues	n.a.	186.6	299.8	446.5	522.3	579.7	PP&E	n.a.	9.0	19.6	21.1	21.9	22.8			
Cost of sales from software services	n.a.	-84.7	-164.6	-234.9	-278.2	-306.3	Intangible assets	n.a.	28.5	93.3	95.9	98.8	102.1			
Cost of sales from software products	n.a.	-21.4	-28.0	-33.5	-35.9	-38.5	Other non-current assets	n.a.	28.4	78.4	89.4	89.4	89.4			
Cost of sales from integrated systems	n.a.	n.m.	n.m.	-29.4	-35.4	-39.7	Non-current assets	n.a.	65.9	191.4	206.4	210.2	214.4			
Cost of distribution of goods	n.a.	-7.3	-1.4	n.m.	n.m.	n.m.	Inventories	n.a.	4.0	8.9	12.2	14.3	15.9			
Cost of selling other services	n.a.	0.0	-0.2	-0.4	-0.4	-0.4	Trade receivables	n.a.	63.5	92.7	134.6	157.4	174.7			
Cost of goods sold	n.a.	-113.4	-194.3	-298.2	-349.9	-384.7	Other current assets	n.a.	1.8	2.5	2.5	2.5	2.5			
Sales and marketing expenses	n.a.	-7.5	-9.0	-19.1	-19.4	-21.3	Cash and cash equivalents	n.a.	102.2	101.4	106.8	161.0	232.0			
Admin and general expenses	n.a.	-18.6	-41.5	-71.6	-78.4	-84.7	Current assets	n.a.	171.6	205.4	256.1	335.3	425.1			
Other revenues / expenses	n.a.	-0.9	-1.9	0.0	0.0	0.0	Held for sale	n.a.	-2.9	0.0	0.0	0.0	0.0			
Operating profit	n.a.	46.2	53.2	57.7	74.6	89.0	Total Assets	n.a.	234.6	396.8	462.5	545.4	639.4			
Financial income / (expenses), net	n.a.	2.8	0.1	-1.1	0.5	2.9	Share capital, premium	n.a.	114.3	114.3	110.3	110.3	110.3			
Income from Associates	n.a.	2.9	0.0	0.0	0.0	0.0	Retained earnings, reserves	n.a.	72.2	114.0	162.1	226.3	304.5			
Profit before tax	n.a.	51.9	53.3	56.6	75.2	91.9	Minority interest, other	n.a.	-5.4	1.4	23.6	49.6	73.6			
Income tax	n.a.	-5.9	-6.1	-8.1	-11.0	-13.7	Total Equity	n.a.	181.1	229.7	296.0	386.2	488.4			
Net profit	n.a.	45.8	47.0	48.5	64.1	78.2	Non-current borrowings	n.a.	8.6	63.1	50.6	36.7	22.8			
Depreciation and Amortization	n.a.	-10.4	-16.9	-28.7	-31.0	-33.7	Other non-current liabilities	n.a.	9.1	14.1	13.1	12.1	11.1			
EBITDA	n.a.	56.5	70.1	86.5	105.6	122.7	Non-current liabilities	n.a.	17.7	77.1	63.6	48.7	33.8			
Employee share option plan	n.a.	0.2	6.0	18.0	18.0	18.0	Trade and other payables	n.a.	15.9	37.1	53.9	63.3	69.6			
Adjusted EBITDA (excl. ESOP)	n.a.	56.8	76.1	104.5	123.6	140.7	Current borrowings	n.a.	7.5	24.6	20.7	21.1	21.4			
CASH FLOW, RON (m)						Total current liabilities										
Cash generated from operations	n.a.	75.8	85.7	73.9	107.6	130.0	n.a.	n.a.	35.8	89.9	102.9	112.6	119.2			
Income tax paid	n.a.	-4.9	-6.3	-8.1	-11.0	-13.7	Total liabilities and equity	n.a.	234.6	396.8	462.5	547.4	641.4			
Net cash from operating activities	n.a.	70.9	79.5	65.8	96.6	116.3	Net debt	n.a.	-86.1	-13.7	-35.5	-103.3	-187.8			
Purchases of PP&E	n.a.	-15.1	-92.4	-26.8	-28.7	-31.9	Gearing (Adj. EBITDA)	n.a.	-1.5	-0.2	-0.3	-0.8	-1.3			
Other	n.a.	-15.0	-53.8	-17.2	0.0	0.0										
Net cash from investing activities	n.a.	-30.1	-146.1	-44.0	-28.7	-31.9										
Proceeds from borrowings	n.a.	-19.0	71.6	-17.1	-14.3	-14.3										
Other	n.a.	34.0	-5.8	0.7	0.7	0.8										
Net cash from financing activities	n.a.	15.0	65.8	-16.4	-13.6	-13.5										
REVENUES BY SEGMENT (RONm)						FCF yield and ROACE (lhs)										
Software services revenue	n.a.	128.5	240.1	342.0	407.0	455.9										
Software revenues	n.a.	48.9	58.7	69.0	74.5	78.2										
Integrated systems	n.a.	n.m.	n.m.	35.0	40.3	45.1										
Revenue from the distribution of goods	n.a.	8.3	0.8	n.m.	n.m.	n.m.										
Other services	n.a.	0.9	0.2	0.5	0.5	0.5										

Investment case

AROBS is a software developer, with its core expertise in embedded software and a range of product suites (e.g., telematics and fleet management, enterprise software). Embedded software, or firmware, is the specialised code that “animates” a huge range of industrial electronics. Historically, the company has focused on the automotive industry, but has expanded this into life sciences (e.g., medical devices or biomedical research), as well as aerospace and marine electronic systems and new automotive contracts, through recent M&A.

AROBS’ software services business is concentrated in: 1) embedded software; and 2) robotic process automation (RPA). The former is the development and maintenance of the code that “animates” hardware. The second is the automation of, for example, administrative tasks (by software “robots”). Both businesses, by their nature, create long-term relationships between developer and customer, but especially embedded hardware, as the developer remains involved for the whole lifecycle of the hardware product. AROBS’ RPA business is particularly applicable in view of Romania’s growing administrative outsourcing services industry (not only internationals, but also local players). Most of AROBS’ M&A activity has been to acquire specialised development teams, and their customers, to broaden and diversify its expertise in these fields.

The parent company is highly specialised in embedded software for the automotive sector, which is an order of magnitude more complex than what is found typically in consumer electronics. Specifically, it is able to produce complex systems, e.g., advanced driver assistance systems and gateway control units, which demand interoperability between multiple systems. Acquisitions have brought in new customers in the life sciences, aerospace and marine navigation segments. A recent deal in the RPA space brings in additional resources for AI and machine learning, expected to increase the potential applications for, and the usefulness of, software robots.

AROBS’s software products contribute above-average gross margins and, typically, generate a recurring revenues stream. Its products focus on: 1) telematics and fleet management; and 2) enterprise software, both areas well-suited to the needs of Romania’s still convergent economy. For example, Romania has experienced the rapid growth of both registered heavy commercial vehicles (HCVs) and automobiles, generally growing by CAGRs of 11.6% and 6.0%, respectively, vs. 3.3% and 3.5% for the CEE3 countries (Poland, Czechia and Hungary). AROBS’ enterprise software solutions are particularly applicable in view of Romania’s growing logistics and e-commerce industries, in our view. The segment also includes a digital, contactless point of sales (POS) payment system and a white label to integrate booking software with property management software in the hospitality industry.

The company is a consolidator on the fragmented Romania IT market. Since listing in late-2021, AROBS has announced seven acquisitions, rolling up development teams (mainly) in Romania, wagering on the growing demand for ever-more intelligent and ‘autonomous’ systems across multiple industries. AROBS’ recent M&A has focused on development teams for embedded software in fields like marine and aerospace (adjacent to its core in automotive), but also expanding teams for the life sciences or robotic process automation. M&A has also expanded its fleet management business. Margins in both are typically better than industry averages, and customer relationships more sticky.

We expect the 2023 margins to recover partially from their 2H22 trough, following the acquisition of the former Enea Services Romania and Nordlogic Group in 2H22, but we note that AROBS will still be absorbing several small acquisitions that were announced during 1H23 and is planning more, going forward (not, however, reflected in our modelling). Above all, its roll-up strategy is more about adding complementary businesses than optimising overhead costs, a process that can take several quarters. Software services should drive the top line in the mid-term, but it is also more labour intensive compared to software products; we expect the adjusted EBITDA margin to remain in the low-20% range, vs. the 30.4% level in 2021. Even so, AROBS should deliver a 2023-25E EBITDA CAGR of 19%, with EBITDA margins around 20% (and 24%, excluding the impact of the employee share options).

We forecast the 2023E revenues to grow c.49% yoy, to RON 447m, and by a 2023-25E a CAGR 14%, excluding further acquisitions. We see the 2023E net profit as flat yoy, at c. RON 48.5m, but growing at a 2023-25E CAGR of 27%, as margins recover. Driving the 2023E top line should be software services, with 42% yoy growth, to RON 342m. The largest share will be driven by M&A, in our view: our assumptions assume c.9% organic growth, with the balance from new businesses. We assume 2023E software product growth of 18% (including Centrul de Soft GPS), to RON 69m, and a 2024-25E CAGR of 6%. Again, we expect the 2023E EBITDA and operating margins to be around the 2022 levels and some expansion from 2024E-onwards; however, being conservative, not back to the 2021 levels.

We note that AROBS is not planning to pay dividends while, as is the case now, the focus is on growing the business. We understand that, once attractive M&A targets are no longer available, management will reconsider its approach to its use of cash.

AROBS trades, on our forecasts, on a 2023E PER and EV/EBITDA of 18.1x and 8.1x, respectively, falling to a 2024-25E average PER of 12.2x and 5.4x EV/EBITDA. Compared to our median peer group EV/EBITDA, the stock is trading at a 27% discount on our 2023E numbers and a 20% discount on PER. On both our average 2024-25E EV/EBITDAs and PERs, the discount widens to c.40%. On our PT and 2023E numbers, the stock would trade at premiums of 9% and 17% on EV/EBITDA and PER, respectively. On our 2024-25E earnings, however, on our PT, it would trade at discounts to its peers of c.11% on both EV/EBITDAs and PERs.

Romania's IT sector is one of the country's most dynamic, with a 2015-21 CAGR gross value added (GVA) of c.17% in EUR terms, equal to 4.6% of the GDP, according to Eurostat data. In terms of growth, it was surpassed only by the healthcare sector (c.18%) and more than double the national average of 7.6%. Romanian IT enjoys, in our view, the conditions for the sector to continue to thrive. Compared to our group of CEE/SEE peers (also including Portugal), the Romanian IT sector wages are competitive; at EUR 27.2k in 2020, nearly 20% below its regional peers (and 56% below the EU27 average). About 7% of Romanian college graduates studied ITC in 2021, the highest rate in the region, save Estonia. Also, at 78%, the level of young (15-34 years) ITC graduates present in the Romanian workforce is notably high, suggesting that they remain in their home country to work.

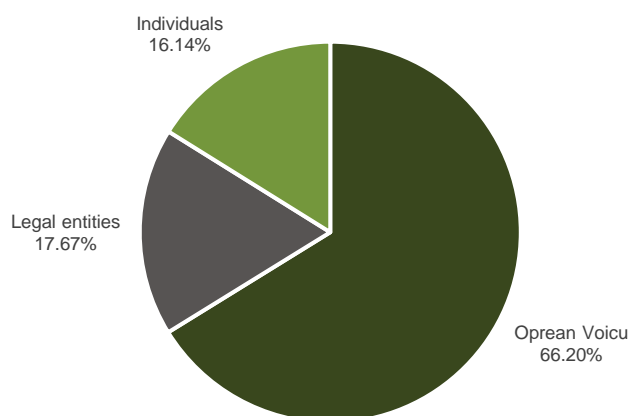
AROBS provides investors with exposure to the SEE/CEE software development sector. With 139k developers, Romania has the second-largest pool of talent in the region, according to a Polish Development Fund study, behind Poland (c.401k), but ahead of Czechia and Hungary (c.130k and c.105k, respectively). At the end of 2022, roughly three-quarters of AROBS' c.800 employees were in software design and development. Acquisitions will bring the headcount up to c.1,100 and increase the share of developers on staff (already 72% at end-2022).

Company overview

AROBS was founded in Cluj-Napoca in 1998. The company's first proprietary product was Optimal, a suite of automation and management systems launched 2003, which was followed by TrackGPS (telematics) in 2005. By 2016, it had branches in five other Romanian cities, including Bucharest. In the same year, it launched RateWizz (a booking systems interface) for the hospitality industry. Its first foreign acquisition was the Dutch company CoSo (robotic process automation) in 2018; later that year, it also acquired SAS Grup, a top local provider for fleet monitoring; and, a year later, the UCSMS (HR and payroll solutions, a carve out from TMF Group, itself acquired by CVC Partners).

In October 2021, the company raised RON 74.2m (EUR 15m) in a private placement on Romania's AeRO market, at RON 1.375/share (RON 0.6785/share, adjusted for a 1-for-1 issue of bonus shares in 2Q22) or a pre-money 2021 EV/EBITDA of c.9.6x and PER of 12.1x, on our calculations. We note that the company recently completed a buyback of 4.4% of its shares repurchased back in 2021, i.e., before the listing. These were cancelled as of 5 July.

Shareholders' structure as of 14 July 2023



Source: BVB data, WOOD Research

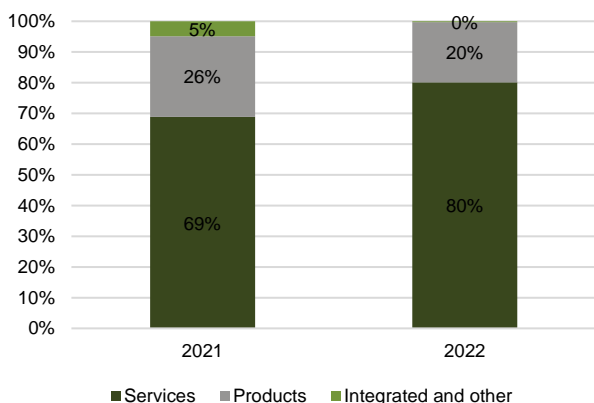
Since its listing, AROBS has announced seven acquisitions, rolling up development teams (mainly) in Romania, wagering on the growing demand for ever-more intelligent and “autonomous” systems across multiple industries. On top of this, it set up another two greenfield units. In late-2021 AROBS's added Berg Software Timisoara (December 2021), with expertise in enterprise solutions and a portfolio of clients in the DACH markets This was followed by its largest acquisition, to date, was announced in April 2022: Enea Software Development Services Romania, the Romanian subsidiary of Swedish Enea (Enea SS), for EUR 17.9m, with c.160 employees in Romania and the US. Enea brings AROBS a portfolio of software development customers (including embedded software) in the aerospace, and marine sectors. AROBS financed the Enea deal with cash and EUR 13.1m (c. RON 50m) of bank financing from Citi Bank.

Other deals from 2022 include: 1) Nordlogic, a Romania-based developer focused on enterprise software and ecosystem audit; and 2) Centrul de Soft GPS (fleet management and telematics). In 2023, AROBS has announced deals for: 1) SYDERAL Polska (forced on development for aerospace); and 2) Future WorkForce (also from Cluj-Napoca, Robotic Process Automation, Artificial Intelligence, and Machine Learning). In 1Q23, it acquired the full 100% in AROBS Software Moldova and, later, 100% of AROBS Pannonia.

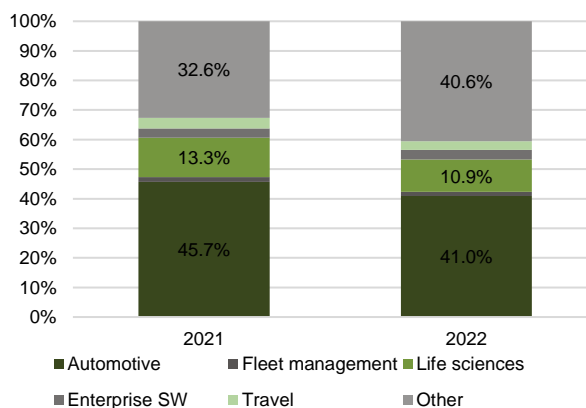
Starting this year, and going forward, AROBS reports three main revenues segment: 1) software services; 2) products; and 3) integrated systems. The first, software services, is the largest and includes most of the recently concluded deals, e.g., Former Enea Software Development, Berg Computer, Nordlogic and Future WorkForce (from 2Q23). Products are primarily telematics and fleet management, but also enterprise software (payrolls and HR, CRM, and bookings in the hospitality sector).

We note that AROBS's recent dealmaking, as well as boosting revenues, has also: 1) increased the share of the higher-margin services segment (to 80% last year vs. 69% in 2021); and 2) broadened the customer base. For example, revenues from AROBS's top-5 customers in its core automotive software services segment grew by 67% last year (to RON 98m), but their share in the total revenues mix fell by 4.8ppts, to 41%. Similarly revenues from the top-5 life sciences segment grew by 53% (to RON 26m), but 2.4ppts lower as a share of total revenues. Revenues from other, not top, clients doubled yoy (to RON 122m).

Revenues split by segment



Concentration of top clients by revenues segments



Source: Company data, WOOD Research

Software services

Software services generate the largest share of the group revenues and is structured on two pillars: 1) embedded software for hardware in automotive, life sciences, aerospace and marine applications; and 2) sector-specific software services for a range of industries (enterprise solutions, fintech, life sciences travel and hospitality, and the IoT).

The parent company (AROBS Transilvania Software) is highly specialised in embedded software for the automotive sector, which is an order of magnitude more complex than what is typically found in consumer electronics. Each electronic control unit (ECU) in a modern car – there can be upwards of 100 million lines of code, according to Automotive News – is part of a larger “ecosystem” and must interact as such. Simple examples start with locking the doors once the car is moving, or the parking sensors, for example, and go all the way to advanced driver-assistance systems (ADAS), which require coordination between braking, steering and the car’s powertrain (engine and transmission).

AROBS specifically develops software for many of these applications, including ADAS, infotainment systems and Gateway ECUs, which facilitate interoperability and the control of other ECUs, many of which “speak” in different programming protocols. Other applications range from head-up displays and engine control to so-called body control (various electronic accessories, like HVAC and central locking).

AROBS’ newly-acquired development teams – e.g., life sciences, aerospace, intelligent automation – provide AROBS with new or expanded exposure to industries with, arguably, equal or greater growth potential and comparable margins to its automotive sector work, as well as an additional degree of diversification. In life sciences, AROBS has developers and long-term customers in a few areas, including: 1) embedded software for medical devices (examples include drug infusion pumps, robotic surgery, and cancer detection); 2) the biomedical field (specifically in lab automation, automated liquid handling, and product improvement); and 3) software to optimise the running of clinical drug trials.

Teams acquired by AROBS have been active in the aerospace field for over 20 years and the company strengthened its team recently via the acquisition of SYDERAL Polska (in Gdansk, notable for its work for the European Space Agency). AROBS’ work in the field includes electronic control units (ECU), aircraft avionics, on-board data storage, and processing and test validation and automation. Marine is another related industry; here, the relevant applications are embedded software for navigation, e.g., including radars, sonars, instruments and autopilot functions.

In the field of intelligent robotic (i.e., software robot) process automation (RPA), AROBS has resources in the Netherlands and Belgium (CoSo) and recently announced a deal for Future WorkForce Global (Romania), which further strengthens the RPA business and adds artificial intelligence (AI) and machine learning (ML). RPA involves the automation of, typically, administrative tasks, to enable error-free execution and continuous operation. Advances in AI and ML are expected only to increase the potential applications for, and the usefulness of, software robots.

Group companies devoted to software services

- ✓ AROBS Transilvania Software – the main company in the group. Highly specialised in the automotive industry.
- ✓ AROBS Engineering – former Enea Software Development Services Romania. It has high-expertise in aerospace, medical and marine sectors.

- ✓ Berg Computers – established expertise in biomedical, manufacturing, Retail, office automation, IT storage and cloud.
- ✓ Nordlogic group – 70+ experts in software development and enterprise Software Ecosystem Audit.
- ✓ SYDERAL Polska (since June 2023 AROBS Polska) – expertise in aerospace, the company develops products and technologies for satellite applications for quantum and optical communication, data storage and processing, satellite mechanisms, and instrument control. Synergies with AROBS' engineering team.
- ✓ CoSo by AROBS in the Netherlands and Belgium – expertise in intelligent automation through robotic process automation (RPA).
- ✓ Future WorkForce Global (FwF) – expertise in intelligent automation through RPA, Artificial Intelligence (AI) and Machine Learning (ML). Synergies with CoSo by AROBS in the Netherlands and Belgium.
- ✓ AROBS Software Moldova – focused on automotive, delivers software services for international partners, along with teams at AROBS Transilvania Software.
- ✓ AROBS Pannonia – focused on automotive, delivers software services for international partners, along with teams in AROBS Transilvania Software.

Products

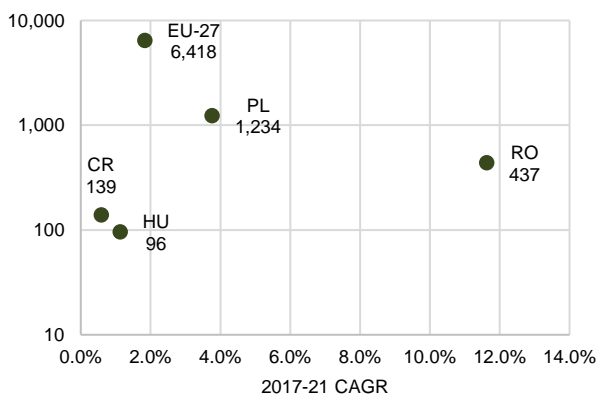
- ✓ AROBS TrackGPS – the delivered solutions are grouped into four major pillars: productivity (route planning, basic monitoring), optimisation (CAN data, fuel consumption, car sharing), safety (secured transport, asset tracking, driver behaviour) and compliance (Tacho Reader, e-toll, temperature monitoring, video telematics, snow removal). TrackGPS is one of the leaders in the industry in Romania, with a strong presence in the Republic of Moldova and Hungary.
- ✓ SASFleet Tracking – the second fleet management brand in the group. It offers complete monitoring solutions and fleet management tools.
- ✓ AROBS E-toll Solutions – new product/ software solution launched in 2022. It offers a complementary solution to fleet management, through which the international transport companies can pay the road tolls in Europe through an integrated system.
- ✓ CDS (Centrul de Soft GPS) – specialised in developing ERP apps and providing fleet management, monitoring, solutions and security and recovery of stolen cars solutions.
- ✓ UCMS by AROBS – specialised in providing HR and Payroll solutions through TrueHR and dp-Payroll.
- ✓ AROBS Optimall – a full optimisation suite through automation and management systems. From sales force automation, warehouse inventory management, TMS systems to business intelligence software, Optimall incorporates all the optimisation tools needed by any company in retail, production, and distribution. A business line at AROBS Transilvania Software.
- ✓ MonePOS – digital payments system used by companies active in industries, such as: passenger transportation, taxi, FMCG, delivery or any business that can be benefit through contactless and paperless payments. A business line at AROBS Transilvania Software.
- ✓ SoftManager CRM+ – a platform that improves the relationships and interactions of companies with their existing or potential clients. The developed functionalities facilitate production, services, finance, marketing, project management and analysis processes. A business line at AROBS Transilvania Software.
- ✓ AROBS Manuale Educaționale – solution for schoolbooks digitalisation. Since 2014, the company has contributed to the digitalisation of around three million digital schoolbooks.
- ✓ RateWizz Channel Manager – a white label solution that can be integrated with any property management software, such as a hotel PMS. It allows hotels to manage all the channels dedicated to bookings, ensuring the interface between the booking software and ADS solutions: Booking.com, Expedia, Sabre/SynXis, and Travelport. It is used by over 200 hotels in the Nordic countries.



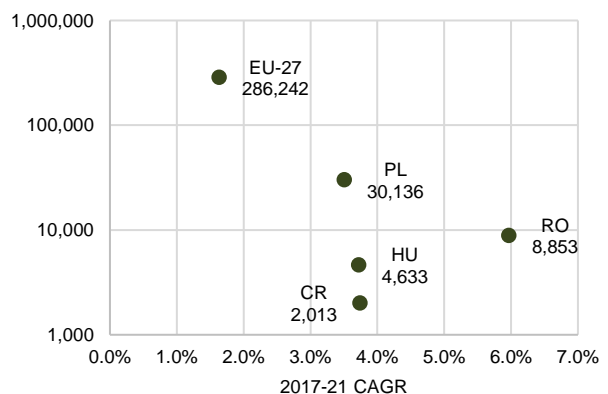
Source: Company data

Romanian registered vehicles numbers have grown significantly faster than its regional peers, particularly heavy commercial vehicles (HCVs), which grew by a 2017-21 CAGR of 11.6% vs. 3.3% in the CEE3, according to European Automobile Manufacturers' Association (ACEA) data. The picture is similar when looking at total registered vehicles (a 6% CAGR in Romania vs. 3.5% for the CEE3). AROBS is well-positioned to capitalise on this growth, we believe, with a suite of telematics and fleet management products, including Track GPS, SASFleet Tracking and its e-toll solution. It strengthened its team recently via the acquisition of CDS (Centrul de Soft GPS), which added an additional c.1k customers, on top of its own 10k customer base. Telematics and related mobility services – particularly for commercial vehicles – is, for the moment, still a locally focused and fragmented market, but rapidly consolidating. Therefore, in addition to the underlying growth of vehicles numbers, there are still opportunities for non-organic growth or, alternatively, monetising the value of its customer base through a trade sale.

Heavy commercial vehicles ('000s)



Total vehicles ('000s)



Source: European Automobile Manufacturers' Association (ACEA), WOOD Research; note: no data available for Bulgaria and Malta

The Romanian market for enterprise software grew by a 2016-22 CAGR of 9%, to USD 133m, according to Statista Market Insights, and is expected to grow by c.7.5% through to 2028E. AROBS' enterprise software solutions include Optimall (sales force automation, warehouse inventory management), SoftManager CRM+ and UCSMS (HR). AROBS has developed six different Optimall solutions dedicated to manufacturing and distribution companies across 10 industries and serves more than 300 clients. UCSMS serves a wider range of industries (e.g., finance, healthcare, construction) and has over 500 clients. The company has also developed a mobile, contactless point of sales (POS) payment system (MonePOS, aimed mobility industries, e.g., taxi, courier and food delivery services) and

a white label to integrate booking software with property management software in the hospitality industry (RateWizz, with over 200 clients in Scandinavia).

Integrated systems (AROBS Systems)

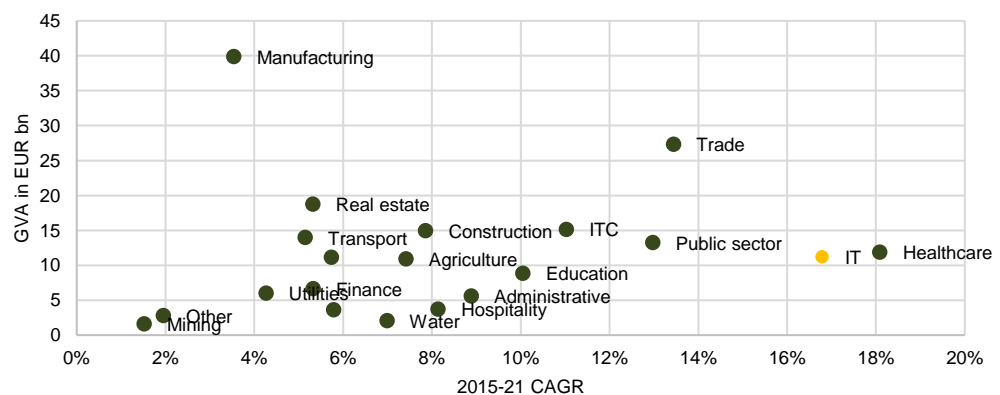
This was carved out as a new company and reporting segment, starting from 1Q23. AROBS Systems implements hardware and software solutions for public authorities. In 1Q23, the business completed a hardware and software solutions acquisition project, consolidating the databases necessary for the operation of the Customs Integrated Information System.

Industry overview

Romania's information technology (IT) sector is one of the country's most dynamic, with a 2015-21 CAGR gross value added (GVA) of c.17% in EUR terms (EUR 11.2bn), equal to 4.6% of the GDP, according to Eurostat data. In terms of 2015-21 GVA growth, it was surpassed only by the healthcare sector (c.18%) and more than double the average of 7.6% for the country. Romanian IT enjoys, in our view, the conditions for the sector to continue to thrive. Compared to our group of similar CEE/SEE peers (also including Portugal), c.7% of Romanian college graduates studied ITC, a (high) level that has remained remarkably stable; only in Estonia do a higher share of students (c.10%) flock to this field. Also, the level of young (15-34 years) ITC graduates in the Romanian workforce is notably high – 79% vs. the peer median of c.72% – suggesting that graduates remain in their home country to work.

With the second-biggest workforce in the region (7.7m at end-2022, only Poland is bigger, with 16.3m), the market has a natural critical mass; IT employed 121k workers in 2020, which means, at c.1.5% of the total employed (regional median: 1.85%), the industry is still relatively underrepresented. Finally, Romanian IT sector wages are competitive; at EUR 27.2k in 2020, they were nearly 20% below the regional peers (and 56% below the EU27 average). This is likely one factor explaining the sector's high relative profitability and wage-adjusted labour productivity, both at the very top in regional terms.

Romanian industry gross value added (2021)

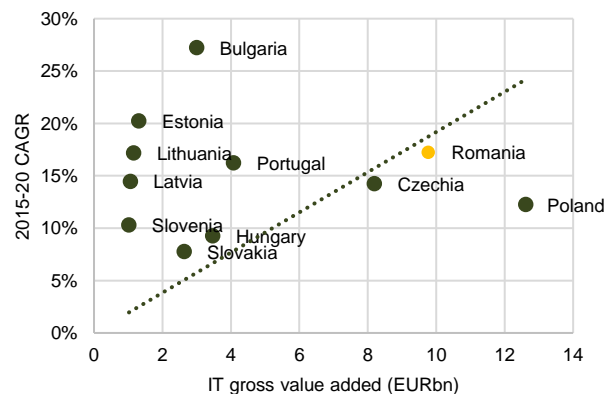
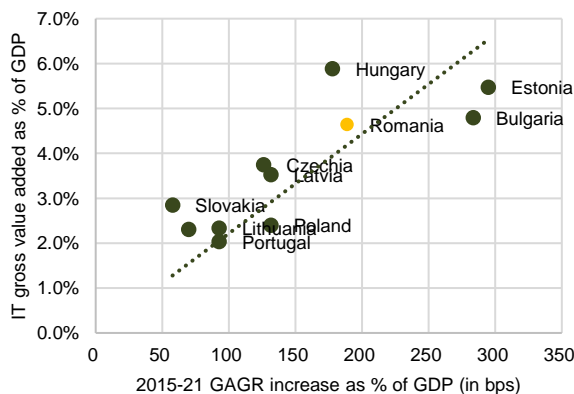


Source: Eurostat data, WOOD Research; note: we use NACE J62 and J63 (computer programming, consultancy, and information service activities) as a proxy for IT (vs NACE J for ITC)

Romanian IT accounted for c.4.6% of the national GDP, the fourth-highest among its regional peers (on the more commonly cited ITC figure – including telecommunication – it was 5.5% of the 2021 GDP). The gross value-added CAGR in the sector outperformed the GDP as a whole by 9.7ppts (2015-20 CAGR 7.1%), the third in the region, only behind the smaller Bulgaria and Estonia (21% and 14%, respectively). In terms of GDP, the sector increased its share of GDP by 168bps (2015-20), again trailing only Bulgaria and Estonia (increase in IT as a share of GRP by 290bps and 225bps, respectively).

IT gross value added (GVA) as % of GDP

IT gross value added in EUR bn



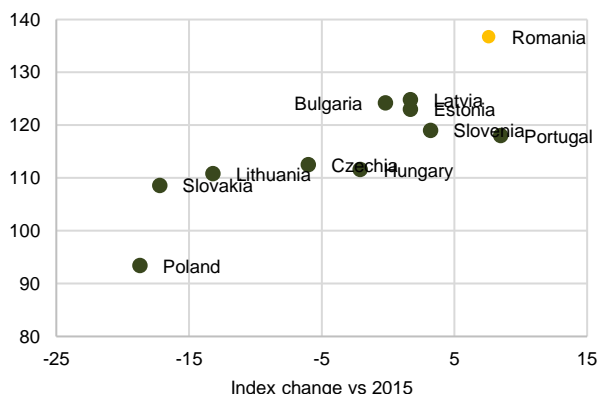
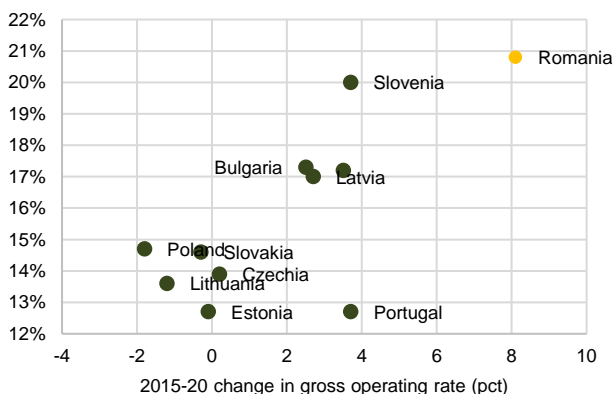
Source: Eurostat data for computer programming, consultancy, and information service activities (NACE J62 and J63) gross value added, WOOD Research

As well as output growth, the Romanian IT sector is notably more profitable compared to its regional peers. The gross operating rate – gross value added, less labour costs, divided by turnover –

was nearly 21% in 2020, an increase of 8 percentage points versus 2015. Wage adjusted labour productivity – gross value added per employee, adjusted for labour costs – was similarly the highest among our Baltics/CEE/SEE peers, while demonstrating the highest increase relative to 2015.

2020 gross operating rate (GVA less labour/turnover)

Wage adjusted labour productivity (2020)

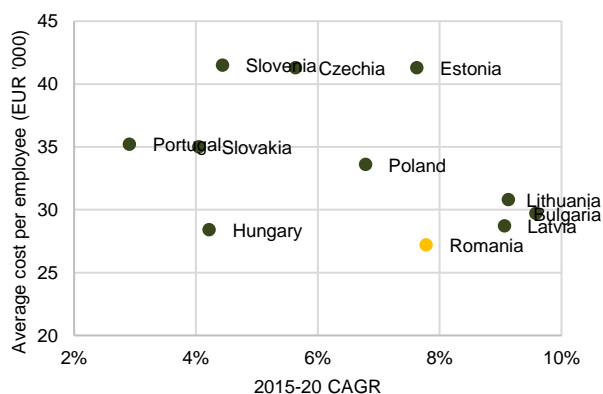
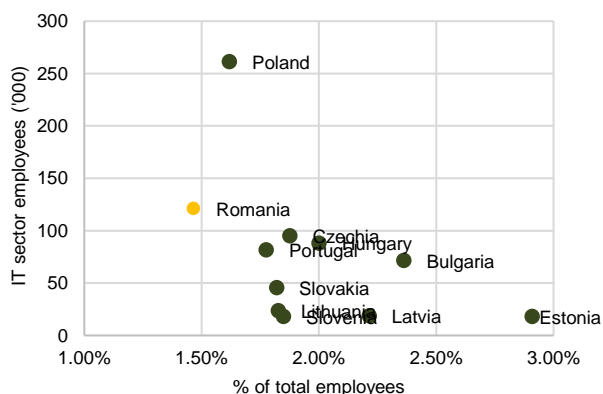


Source: Eurostat data for computer programming, consultancy, and information service activities (NACE J62), WOOD Research

The Romanian IT sector employed 121.1k people in 2020, according to Eurostat data, the second-largest population in our region. Nevertheless, IT sector workers are relatively underrepresented as a share of the total workforce: only 1.47% in 2020 versus a median 1.85% in our 10 sample countries (1.87% in the whole EU). This said, wages, reflected by average cost for IT employees, was the lowest in our peer group, at EUR 27.5k annually, or 20% below the median of our peer group (EUR 33.6k).

2020 IT sector employees ('000s)

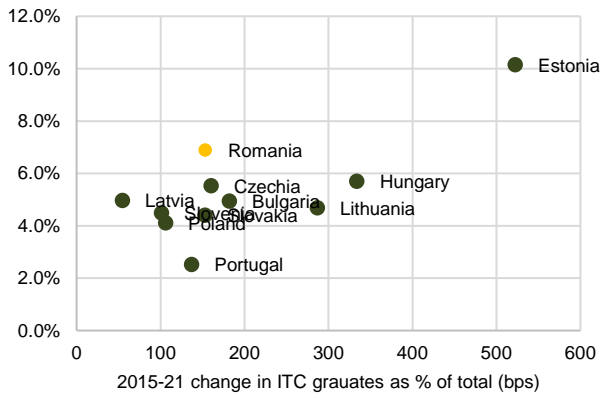
2020 average annual IT employee cost (EUR '000s)



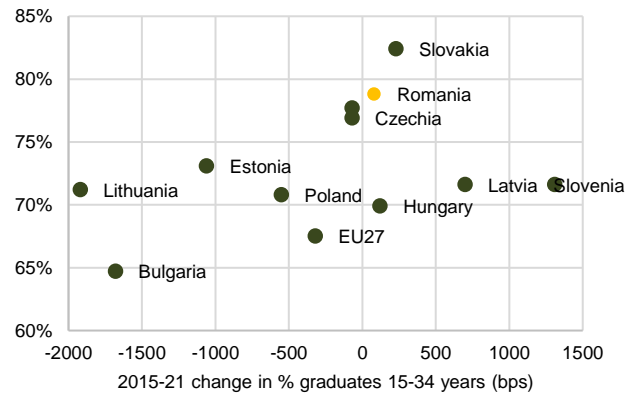
Source: Eurostat data for computer programming, consultancy, and information service activities (NACE J62 and J63), WOOD Research

Nearly 7% of Romanian college graduates in 2021 studied in the ITC field, a higher share than all our peer countries – the median was 4.9%, and 4.2% in the EU as a whole. The rate of increase was only average for the region, but we note that, in 2015, the figure was at 5.4%; again, materially higher than the regional average. This has contributed to a notably high percentage of younger ITC graduates in the workforce: in 2020, nearly 80% were aged between 15 and 34 years, and this proportion has increased slightly vs. 2015. In contrast, in Bulgaria, Estonia and Poland, the ITC workforce is notably aging.

ITC college graduates as a % of total graduates



% of ITC graduates aged 15-34 in the workforce



Source: Eurostat data, WOOD Research

Financial forecasts

We expect the 2023 margins to recover partially from their 2H22 trough, following the acquisition of the former Enea Services Romania and Nordlogic Group in 2H22, but we note that AROBS will still be absorbing several small acquisitions that were announced during 1H23 and is planning more, going forward (not, however, reflected in our modelling). Above all, its roll-up strategy is more about adding complementary businesses than optimising overhead costs, a process that can take several quarters. Software services should drive the top line in the mid-term; we assume a 2022-25E CAGR of 24% (c.78% of total revenues vs. 69% in 2021). It is also more labour intensive compared to software products; we expect the adjusted EBITDA margin to remain in the low-20% range, vs. the 30.4% level in 2021. Even so, AROBS should deliver a 2023-25E EBITDA CAGR of 19% and a 27% CAGR in the bottom line, we estimate.

We forecast the 2023E revenues to grow c.49% yoy, to RON 447m, and by a 2023-25E a CAGR 14%, excluding further acquisitions. We see the 2023E net profit as flat yoy, at c. RON 48m, but growing at a 2023-25E CAGR of 27%, as margins recover. Driving the 2023E top line should be software services, with 42% yoy growth, to RON 342m. The largest share will be driven by M&A, in our view: our assumptions assume c.9% organic growth, with the balance from new businesses. We assume 2023E software product growth of 18% (including Centrul de Soft GPS), to RON 69m, and a 2024-25E CAGR of 6%. In 2023, AROBS's integrated systems unit has completed one large project for the Romanian customs agency, booking 1Q23 revenues of RON 26.9m; no other significant projects are expected and we assume a total of RON 35m for FY23E and a 2023-26E CAGR of 12% thereafter.

Revenues forecasts

RON m	2020	2021	2022	2023E	2024E	2025E	2026E
Software services revenue	n.a.	128.5	240.1	342.0	407.0	455.9	501.4
Software revenues	n.a.	48.9	58.7	69.0	74.5	78.2	86.1
Integrated systems	n.a.	n.m.	n.m.	35.0	40.3	45.1	49.6
Revenue from the distribution of goods	n.a.	8.3	0.8	n.m.	n.m.	n.m.	n.m.
Other services	n.a.	0.9	0.2	0.5	0.5	0.5	0.5
Total revenues	n.a.	186.6	299.8	446.5	522.3	579.7	637.6

Source: Company data, WOOD Research

We note that the IT market in Europe in 2023 is not in the best shape (and, last year, Europe accounted for nearly 80% of AROBS's revenues). Based on the latest IT spending forecasts from Gartner, Inc., a research and advisory firm, IT services spending in the EMEA region is expected grow by 6.6% (in USD) this year, but the rest of the world (global estimates less EMEA) by 9.7%. Similarly, spending growth on enterprise software is expected at 8.6% in EMEA vs. 15% in the rest of the world. Gartner notes that, after 2Q23, spending has held up, to date, but CIO spending decisions are being driven increasingly by cost optimisation and expectations of margin pressure in their own industries. Due to the strengthening USD, the growth rates in EUR will be even slower. On Gartner's forecasts and the spot EUR/USD, EMEA IT services and enterprise software growth in EUR would be 1.5% and 3.4%, respectively, vs. the sizzling, post-pandemic 2020-22 EUR CAGRs of 11.4% and 23.3%, respectively.

EMEA IT spending by segment

	Spending (USDm)					Growth (USD)				
	2019	2020	2021	2022	2023E	2019	2020	2021	2022	2023E
IT Services	306,031	311,600	359,927	356,833	380,472	1.0%	1.8%	15.5%	-0.9%	6.6%
Enterprise Software	128,688	138,624	194,999	194,738	211,572	7.3%	7.7%	40.7%	-0.1%	8.6%
Data Center Systems	54,003	36,194	44,393	45,212	45,665	-9.0%	-33.0%	22.7%	1.8%	1.0%
Devices	198,369	173,608	219,289	190,577	185,620	-1.9%	-12.5%	26.3%	-13.1%	-2.6%
Communications Services	431,625	433,647	484,902	467,267	477,865	-0.2%	0.5%	11.8%	-3.6%	2.3%
Overall IT	1,118,716	1,093,672	1,303,509	1,254,626	1,301,194	0.2%	-2.2%	19.2%	-3.8%	3.7%

Source: Gartner, Inc.

We expect the 2023E margins to be around the 2022 levels and some expansion from 2024-onwards; however, being conservative, not back to the 2021 levels. The IFRS accounts (published on 26 July) indicate a 2022 gross margin on software services of 31.4% (down 266bps from 34.1% in 2021) and a software products gross margin of 52.3% (down 392bps from 56.3%). AROBS started reporting integrated systems only from this year; we assume a gross margin of 12% this year (including the completion of one large government contract in 1Q23) and 15% thereafter.

In the case of software products, the biggest cost increase in 2022 vs. 2021 was in third-party services starting in mid-2Q22 (starting with the Berg Computers acquisition) and fully visible from 3Q22 (the former Enea and Nordlogic deals). As a percentage of services revenues, third-party costs jumped to c.34% in 2022, vs. 8% in the preceding year (in absolute terms, by RON 71m). The impact in software

products, without any big deals in 2022, was less dramatic, and the spread across personnel costs, third-party and selling costs.

Below the gross profit line, administrative costs grew to 13.8% of sales last year, from 10%, driven by personnel and third-party costs (sales and marketing costs, we note, fell to 3% of revenues, vs. 4% in 2021). The recent employee share option plan (ESOP) also contributed, primarily on the software services costs and administrative lines, and should grow further in 2023E (to RON 18m, we assume, from RON 6m last year).

While personnel and contract labour, i.e., programmers (third-party costs), will always represent the majority of AROBS's cost base, in our forecasts, we expect management to rationalise in both of the coming quarters, particularly in admin, but also external workers contracted in the software services segment. For 2023E, we still have to account for the new, albeit small, acquisitions that have been announced; as well as the fact that several deals brought in employees abroad and from higher-wage countries (the US the Netherlands; and, soon, Poland). From 2024E, however, we are looking for an expansion in the total gross margin, versus 2023E, of 62bps (to 33.8%) and another 53bps in 2025E. We also expect administrative costs to fall by 101bps (to 15% of sales) and by another 41bps in 2025E. Take together, we see the EBITDA margin expanding from 12.9% this year to 15.1% in 2024E (+220bps) and by another c.100bps in 2025E.

AROBS: margins

	2020	2021	2022	2023E	2024E	2025E	2026E
Gross Margin	n.a.	39.2%	35.2%	33.2%	33.0%	33.6%	34.3%
S&M as a % of sales	n.a.	-4.0%	-3.0%	-4.3%	-3.7%	-3.7%	-3.6%
A&G as a % of sales	n.a.	-10.0%	-13.8%	-16.0%	-15.0%	-14.6%	-14.3%
EBITDA margin	n.a.	30.3%	23.4%	19.4%	20.2%	21.2%	22.1%
Adjusted EBITDA margin (excl. ESOP)	n.a.	30.4%	25.4%	23.4%	23.7%	24.3%	24.9%
EBIT margin	n.a.	24.8%	17.7%	12.9%	14.3%	15.4%	16.4%
Net margin	n.a.	24.5%	15.7%	10.9%	12.3%	13.5%	14.7%

Source: WOOD Research

At end-2022, the bank debt increased to RON 73.9m (from RON 2.2m) because of loans to finance (mainly) the acquisitions of Berg Computers and the former Enea Services Romania, but also for the construction of a new headquarters and a working capital credit line. Two term loans from Citibank of EUR 2.14m (RON 10.6m) and EUR 11.0m (RON 54.6m), maturing at the of end February 2026 and the end of May 2027, respectively, represent c.90% of the total debt. The balance is a loan it assumed with the acquisition of UCMS (HR software), which stood at RON 5.9m at end-2022 and maturing in 2030. The main covenants are: 1) a debt service ratio of at least 1.2x (we estimate 5.3x for 2023E); 2) net debt/EBITDA below 3.5x (we estimate a RON 35m net cash position at end-2023E); and 3) the company should seek the bank's consent to spend in excess of EUR 2m (c.RON 10m) in a single calendar year to acquire new companies.

We assume 2023E net interest expenses of RON 1.1m (vs. a positive RON 0.1m in 2022), but net interest income from 2024E-onwards. Acquisition funding notwithstanding, AROBS has been a net cash company since its initial listing, and we expect it to remain so from 2023E-onwards. Net interest costs of an estimated RON 4.8m this year would represent a >4x increase vs. 2022, but we expect interest income "only" 1.9x higher (RON 3.7m in our model). By 2025E, we expect net interest income of c.RON 3m. Assuming a 2023E effective tax rate of 16%, we expect the 2023E net profit to be flat yoy, at RON 47.6m. From 2024E, however, expanding operating margins and higher net interest income should drive a 2023-25E net profit CAGR of 30%, we estimate.

Capex and FCF. We assume run-rate capex of c.5.5% of revenues for 2023E-onwards. As for acquisitions, the company spent RON 99.6m in 2022 (approximately half for the Enea business) vs. RON 18.6m in 2021. We assume that RON 15m will be spent on deals already announced for 2023. Disregarding any future M&A, we see the company generating FCF of c.RON 30m in 2023E (a FCF yield of 3.3%) and on the order of RON 90m annually (FCF of c.10%) for 2024-26E.

We note here that AROBS is not planning to pay dividends while, as is the case now, the focus is on growing the business. We understand that, once attractive M&A targets are no longer available, management will reconsider its approach to its use of cash.

The share capital and number of shares for the EPS has changed twice since the listing. The share capital stood at RON 45.57m, divided into 455.7m shares, at the end of 2021 and was doubled to RON 91.1m (911.4m shares) as the result of the issuance of bonus shares. On 14 July this year, AROBS cancelled 40.1m treasury shares (4.4% of the previous total) held for the purpose of its employee share option scheme, reducing the share capital to RON 87.13m (871.3m shares).

2023 budget vs. WOOD's estimates

RON m	Budget	WOOD	WOOD vs. budget
Revenues	421.3	446.5	6%
EBITDA	74.2	86.5	16%
Adjusted EBITDA	92.5	104.5	13%
Net profit	45.2	48.5	7%

Source: Company data, WOOD Research

WOOD vs. the 2023E budget. We note that, compared to the company's 2023E budgeted estimates (published on 6 April), we are 6% ahead on the top line and 7% on the net profit. We also note that the budgeted figures are under Romanian accounting standards vs. our forecasts based on IFRS (from 26 July). Under IFRS, AROBS's 2022 EBITDA was 6% ahead of the RAS figure, which explains, in part, the larger difference between our EBITDA estimates and the April figures, we believe.

Valuation

We value AROBS using a 10Y DCF and peer multiples, and set our PT using a simple average of the two. The result is a price target of RON 1.43/share, or upside of 46% from the current level.

AROBS: PT

Valuation method	DCF	Peer multiples
Valuation	1.54	1.31
Weight	50%	50%
12M price target (RON)	1.43	

Source: WOOD Research

DCF valuation

Our 10Y DCF yields 12M fair value of RON 1.54/share, offering 57% upside to the current price.

The key assumptions in our DCF model include:

- ✓ A WACC of 13.2% for discounting the 2023-25E cash flows, starting with a risk free rate of 7.5% for Romania and an equity risk premium of 5.0%. In line with our methodology for Romania, we drop our RFR for 2026E-onwards to 5.5% (with no other changes), yielding a WACC of 11.3%. AROBS, we note, should generate a 2023E ROACE of c.17% and almost 19% in 2024-25E.
- ✓ A levered beta of 1.27x, starting from the unlevered beta from the Damodaran sector database of 1.34x for Global Information Services businesses.
- ✓ Two methods for calculating the terminal value: 1) a terminal growth rate of 3%; and 2) an exit EV/EBITDA multiple of 7x.

DCF valuation

RON m	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	58	75	89	105	125	149	167	200	213	223
NOPLAT	50	64	76	89	106	126	141	169	179	188
Depreciation	29	31	34	36	39	42	45	48	53	58
Change in NWC	-29	-17	-14	-14	-15	-17	-17	-17	-14	-13
Capex	-42	-29	-32	-35	-39	-42	-47	-50	-54	-57
FCF	7	49	64	76	92	109	122	149	164	176
PV of FCF	7	42	48	53	57	61	61	67	67	64

	I. TV = 3%	II. Exit EV/EBITDA = 7x		2023-25	2026-32
Sum of PV	527	527	Risk-Free Rate	7.5%	5.5%
PV of Terminal value	631	718	Levered Beta	1.27	1.27
Total EV	1,158	1,245	Risk premium	5.0%	5.0%
Net cash (2023E)	35	35	Cost of Equity	13.9%	11.9%
Equity value	1,194	1,280	Cost of Debt	5.4%	5.4%
12M TP (RON)	1.31	1.40	Effective Cost of Debt	4.6%	4.6%
			Weight of Equity	92.6%	92.6%
Average	1.36		Weight of Debt	7.4%	7.4%
12M PT	1.55		WACC	13.2%	11.3%

Source: WOOD Research

DCF fair value sensitivity to WACC and terminal growth rate

WACC/terminal growth	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%
11.2%	1.77	1.82	1.88	1.94	2.01	2.09	2.18	2.28	2.40
11.7%	1.67	1.71	1.76	1.81	1.87	1.94	2.01	2.10	2.20
12.2%	1.57	1.61	1.65	1.70	1.75	1.81	1.87	1.94	2.02
12.7%	1.49	1.52	1.56	1.60	1.64	1.69	1.75	1.81	1.88
13.2%	1.41	1.44	1.47	1.51	1.54	1.59	1.63	1.69	1.74
13.7%	1.34	1.37	1.39	1.42	1.46	1.49	1.53	1.58	1.63
14.2%	1.27	1.30	1.32	1.35	1.38	1.41	1.45	1.48	1.53
14.7%	1.21	1.24	1.26	1.28	1.31	1.33	1.37	1.40	1.44
15.2%	1.16	1.18	1.20	1.22	1.24	1.27	1.29	1.32	1.35

Source: WOOD Research

Peer multiples valuation

Peer multiples

Company	Mkt cap (EURm)	ADTV (EURm)	EV/EBITDA			P/E			FCF yield			EBITDA margin		
			23E	24E	25E	23E	24E	25E	23E	24E	25E	23E	24E	25E
AROBS	173.8	0.1	8.1	6.1	4.7	18.1	13.3	10.9	3%	8%	9%	23%	24%	24%
National Instruments	7,194	68.4	20.1	18.0	16.3	25.7	22.1	20.4	4%	4%	5%	23%	24%	24%
L&T Technology Services	4,944	11.9	21.6	22.3	19.2	33.5	34.5	29.8	3%	1%	3%	21%	20%	20%
Advanced Info Service	17,071	25.8	8.4	7.8	7.3	23.0	21.0	19.0	6%	8%	9%	48%	48%	48%
Renesas	30,014	264.6	8.0	6.8	5.6	12.4	11.5	10.7	7%	8%	9%	40%	41%	42%
Emerson Electric	50,126	220.8	15.7	13.2	14.0	22.5	20.6	18.9	4%	5%	6%	26%	26%	27%
Siemens	110,688	212.5	11.0	9.9	9.0	13.9	13.4	12.1	7%	8%	9%	18%	18%	19%
Assystem	700.4	0.2	14.2	12.6	11.3	15.3	13.2	12.2	3%	4%	4%	9%	9%	10%
Asseco SEE	573.2	0.0	7.4	6.6	5.9	13.7	12.6	11.7	n.a.	n.a.	n.a.	19%	18%	18%
4IG	621.8	0.1	8.4	7.8	7.3	23.0	21.0	19.0	n.a.	n.a.	n.a.	48%	48%	48%
Median			11.0	9.9	9.0	22.5	20.6	18.9	4%	5%	6%	23%	24%	24%
<i>AROBS vs. median</i>			<i>-27%</i>	<i>-39%</i>	<i>-47%</i>	<i>-20%</i>	<i>-36%</i>	<i>-42%</i>	<i>-95bp</i>	<i>218bp</i>	<i>358bp</i>	<i>8bp</i>	<i>-32bp</i>	<i>12bp</i>

Source: Bloomberg, WOOD Research, WOOD Research

For our multiples valuation, we use the 2023-25E Bloomberg consensus PERs and EV/EBITDAs for its peers; we have selected both leaders in the embedded software industry, as well as a selection of CEE IT stocks. Based on the median of the 2023-25E peer PERs, at 20.7x, we would see a fair value of RON 1.45/share for AROBS, or fully in line with our price target (PT). On the median 2023-25 EV/EBITDAs of 9.9x, we would see a fair value of RON 1.18/share, or 17% below our PT. The average of the two is RON 1.31/share, 8% below our PT, but still upside of 34% to the current level.

Peer valuation

RON m	P/E	EV/EBITDA
Median 2023-25E peer group multiples	20.7	9.9
Average 2023-25E forecasted earnings	64	105
EV		1,043
Net cash (2023E)		35
Equity value	1,318	1,079
Fair value (RON/sh)	1.45	1.18
Weight	50%	50%
Fair value (RON/sh)		1.31

Source: Bloomberg, WOOD Research

Risks

- ✓ The government is considering ending the exception from the so-called “10% tax” on IT sector workers. The tax is paid by employees, not the company; however, if adopted, AROBS and its peers may be under pressure to increase wages to compensate employees for the hit to their after-tax earnings.
- ✓ Automotive manufacturers are increasingly looking to differentiate themselves through software, as opposed to hardware innovations. The industry has (slowly) moved towards bringing developers in house, and this trend may reduce the demand for external suppliers, including AROBS. On the upside, however, companies like AROBS might find themselves as M&A targets of automakers or large component manufacturers (e.g., Siemens, Bosch)
- ✓ The MSCI [announced](#) on 10 August that AROBS will be included in the MSCI Frontier Markets Small Cap Index and the MSCI Romania Small Cap index, effective as of 31 August. The inclusion may help to attract interest from international investors. We note that, of the new additions to the index, AROBS, with its market cap of c. RON 900m, will be among the largest.

Financials

Income statement

RON m	2020	2021	2022	2023E	2024E	2025E	2026E
Software services revenue	n.a.	128.5	240.1	342.0	407.0	455.9	501.4
Software revenues	n.a.	48.9	58.7	69.0	74.5	78.2	86.1
Integrated systems	n.a.	n.m.	n.m.	35.0	40.3	45.1	49.6
Revenue from the distribution of goods	n.a.	8.3	0.8	n.m.	n.m.	n.m.	n.m.
Other services	n.a.	0.9	0.2	0.5	0.5	0.5	0.5
Total revenues	n.a.	186.6	299.8	446.5	522.3	579.7	637.6
Cost of sales from software services	n.a.	-84.7	-164.6	-234.9	-278.2	-306.3	-333.2
Cost of sales from software products	n.a.	-21.4	-28.0	-33.5	-35.9	-38.5	-41.7
Cost of sales from integrated systems	n.a.	n.m.	n.m.	-29.4	-35.4	-39.7	-43.6
Cost of distribution of goods	n.a.	-7.3	-1.4	n.m.	n.m.	n.m.	n.m.
Cost of selling other services	n.a.	0.0	-0.2	-0.4	-0.4	-0.4	-0.4
Cost of goods sold	n.a.	-113.4	-194.3	-298.2	-349.9	-384.7	-418.9
Sales and marketing expenses	n.a.	-7.5	-9.0	-19.1	-19.4	-21.3	-23.2
Admin and general expenses	n.a.	-18.6	-41.5	-71.6	-78.4	-84.7	-91.1
Other revenues / expenses	n.a.	-0.9	-1.9	0.0	0.0	0.0	0.0
Operating profit	n.a.	46.2	53.2	57.7	74.6	89.0	104.5
Financial income / (expenses), net	n.a.	2.8	0.1	-1.1	0.5	2.9	5.9
<i>o/w net interest expense</i>		<i>1.1</i>	<i>0.9</i>	<i>-1.1</i>	<i>0.5</i>	<i>2.9</i>	<i>5.9</i>
Income from Associates	n.a.	2.9	0.0	0.0	0.0	0.0	0.0
Profit before tax	n.a.	51.9	53.3	56.6	75.2	91.9	110.5
Income tax	n.a.	-6.0	-6.2	-8.1	-11.0	-13.7	-16.7
Profit/(loss) on holdings held for sale	n.a.	-0.1	0.0	0.0	0.0	0.0	0.0
Minority interest	n.a.	0.1	0.1	0.0	0.0	0.0	0.0
Net profit	n.a.	45.8	47.0	48.5	64.1	78.2	93.8
Depreciation and Amortization	n.a.	-10.4	-16.9	-28.7	-31.0	-33.7	-36.4
EBITDA	n.a.	56.5	70.1	86.5	105.6	122.7	140.9
EBITDA margin	n.a.	30.3%	23.4%	19.4%	20.2%	21.2%	22.1%
Adjusted EBITDA (excl. ESOP)	n.a.	56.8	76.1	104.5	123.6	140.7	158.9
Adjusted EBITDA margin	n.a.	30.4%	25.4%	23.4%	23.7%	24.3%	24.9%

Source: Company data, WOOD Research

Balance sheet

RON m	2020	2021	2022	2023E	2024E	2025E	2026E
Goodwill	0.8	12.3	57.8	68.8	68.8	68.8	68.8
Other intangible assets	21.1	28.5	93.3	95.9	98.8	102.1	106.0
Property, plant and equipment	7.8	9.0	19.6	21.1	21.9	22.8	23.7
Rights of use assets for leased assets	15.8	12.1	12.2	12.2	12.2	12.2	12.2
Financial fixed assets	1.9	1.8	5.4	5.4	5.4	5.4	5.4
Deferred tax	1.9	2.2	3.1	3.1	3.1	3.1	3.1
Total non-current assets	49.2	65.9	191.4	206.4	210.2	214.4	219.1
Inventories	4.2	4.0	8.9	12.2	14.3	15.9	17.5
Trade and other receivables	64.7	63.5	92.7	134.6	157.4	174.7	192.2
Prepayments	1.2	1.8	1.9	2.0	2.0	2.0	2.0
Short-term investments	0.0	0.0	0.5	0.5	0.5	0.5	0.5
Cash and cash equivalents	46.4	102.2	101.4	106.8	161.0	232.0	317.7
Total current assets	116.5	171.6	205.4	256.1	335.3	425.1	529.8
Held for sale	-0.3	-2.9	0.0	0.0	0.0	0.0	0.0
Total assets	165.4	234.6	396.8	462.5	547.4	641.4	750.9
Share capital	0.1	45.6	91.1	87.1	87.1	87.1	87.1
Issue premiums	0.0	68.8	23.2	23.2	23.2	23.2	23.2
Legal reserves	0.4	2.8	5.1	5.1	5.1	5.1	5.1
Own shares	0.0	-4.0	-7.5	-8.0	-8.0	-8.0	-8.0
Retained earnings	102.4	73.4	116.5	165.0	229.2	307.4	401.2
Other	-3.6	-5.5	1.4	23.7	49.7	73.7	97.7
Equity attributable to shareholders	99.3	181.0	229.8	296.1	386.2	488.5	606.3
Minority interests	-0.3	0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Total equity	99.0	181.1	229.7	296.0	386.2	488.4	606.2
Trade and other payables	0.2	5.3	0.0	0.0	0.0	0.0	0.0
Lease debts	11.8	8.6	7.7	8.1	8.5	8.9	9.4
Bank loans	2.2	0.0	55.4	42.5	28.2	13.9	2.2
Deferred income tax liabilities	2.3	2.8	13.1	12.1	11.1	10.1	9.1
Advance income	0.6	0.7	0.8	0.8	0.8	0.8	0.8
Subsidies	0.8	0.4	0.2	0.2	0.2	0.2	0.2
Total long-term liabilities	17.9	17.7	78.4	63.6	48.7	33.8	21.6
Trade and other payables	12.2	15.9	37.1	53.9	63.3	69.6	75.7
Tax liabilities	1.2	0.2	0.2	0.2	0.2	0.2	0.2
Lease debts	5.2	5.2	6.1	6.4	6.8	7.1	7.5
Bank loans	19.1	2.2	18.5	14.3	14.3	14.3	11.7
Dividends payable	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Advance income	6.5	10.1	10.8	10.8	10.8	10.8	10.8
Subsidies	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Provisions	1.2	1.2	16.1	16.1	16.1	16.1	16.1
Total short-term liabilities	46.4	35.8	88.6	102.9	112.6	119.2	123.1
Held for sale	2.1	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	66.4	53.5	167.1	166.5	161.3	153.0	144.7
Total capital and liabilities	165.4	234.6	396.8	462.5	547.4	641.4	750.9
Net debt/(cash)	-8.1	-86.1	-13.7	-35.5	-103.3	-187.8	-287.0
<i>Net debt/(cash) / EBITDA</i>	<i>n.a.</i>	<i>-1.5</i>	<i>-0.2</i>	<i>-0.4</i>	<i>-1.0</i>	<i>-1.5</i>	<i>-2.0</i>
Capital employed	119.3	201.7	308.2	359.6	432.9	520.2	625.8
NOPAT	46.6	40.2	47.0	49.7	63.6	75.3	87.8
ROACE	n.a.	29%	21%	17%	19%	19%	18%
ROIC	50%	41%	21%	18%	22%	24%	27%

Source: Company data, WOOD Research

Cash flow statement

RON m	2020	2021	2022	2023E	2024E	2025E	2026E
Earnings before taxes	n.a.	51.8	53.3	56.6	75.2	91.9	110.5
Depreciation	n.a.	10.4	16.9	28.7	31.0	33.7	36.4
Benefits granted to SOP employees	n.a.	0.2	4.0	18.0	18.0	18.0	18.0
Impairments and provisions	n.a.	2.5	8.9	0.0	0.0	0.0	0.0
Interest charges and other financial costs	n.a.	0.5	1.1	4.8	3.6	2.8	2.0
Interest income and other financial income	n.a.	-1.6	-2.0	-3.6	-4.2	-5.7	-8.0
Other items	n.a.	-1.0	-0.7	0.0	0.0	0.0	0.0
Operating profit before changes in working capital	n.a.	62.8	81.4	104.5	123.6	140.7	158.9
Change in trade receivables and other receivables	n.a.	0.4	-37.1	-41.9	-22.8	-17.3	-17.5
Change in trade inventories	n.a.	0.5	-4.0	-3.3	-2.1	-1.6	-1.6
Change in trade and other payables	n.a.	9.5	42.2	15.8	8.3	5.3	5.2
Change in accrued expenses	n.a.	-0.6	-0.1	-0.1	0.0	0.0	0.0
Change in accrued income	n.a.	3.6	0.9	0.0	0.0	0.0	0.0
Interest paid	n.a.	-0.5	-1.1	-4.8	-3.6	-2.8	-2.0
Interest received	n.a.	0.1	3.6	3.6	4.2	5.7	8.0
Operating cash generated	n.a.	75.8	85.7	73.9	107.6	130.0	151.0
Income tax paid	n.a.	-4.9	-6.3	-8.1	-11.0	-13.7	-16.7
Net cash from operating activities	n.a.	70.9	79.5	65.8	96.6	116.3	134.3
Loans (granted)/repaid to affiliates	n.a.	0.1	-1.3	0.0	0.0	0.0	0.0
Acquisitions of goodwill	n.a.	-11.5	-45.5	-11.0	0.0	0.0	0.0
Acquisitions of tangible and intangible assets	n.a.	-15.1	-92.4	-26.8	-28.7	-31.9	-35.1
(Acquisition)/Sale of own shares	n.a.	-4.0	-3.5	-6.2	0.0	0.0	0.0
Other investments in financial assets	n.a.	0.0	-0.5	0.0	0.0	0.0	0.0
Proceeds from dividends/financial investments	n.a.	0.5	-2.9	0.0	0.0	0.0	0.0
Net cash from investment activities	n.a.	-30.1	-146.1	-44.0	-28.7	-31.9	-35.1
Proceeds from the share issue	n.a.	74.2	1.8	0.0	0.0	0.0	0.0
Collection/(Repayment) of bank loans	n.a.	-19.0	71.6	-17.1	-14.3	-14.3	-14.3
Payment of debts related to financial leasing	n.a.	-5.9	-7.6	0.7	0.7	0.8	0.8
Dividends paid / received	n.a.	-34.3	0.0	0.0	0.0	0.0	0.0
Net cash from financing activities	n.a.	15.0	65.8	-16.4	-13.6	-13.5	-13.5
Change in cash and cash equivalents	n.a.	55.8	-0.8	5.4	54.3	70.9	85.7
FCF		44.3	-58.4	28.0	67.9	84.4	99.3
<i>FCF yield</i>		5%	-7%	3%	8%	10%	12%

Source: Company data, WOOD Research

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Date	Rating	Date	PT
16/08/2023	BUY – initiation of coverage	16/08/2023	RON 1.43

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PGNiG	5
Philip Morris CR	5
PKN Orlen	5
PKO BP	4, 5
PZU	4, 5
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