



February 1, 2021

## LSI Software

### Long term opportunity in polish software company short term affected by COVID-19

**Our View:** We view LSI Software (WSE: LSI) as a great opportunity in Eastern Europe with high quality in their software as well as price competitiveness in the sector. Although their customer base is very affected by COVID-19 we believe they would have no problem to overcome the crisis due to the net cash position and recurrent revenues.

#### Key Points & Catalysts:

**Promising future for Polish IT companies.** We see Poland as one of the main software hubs in Europe. Their competitiveness in labour cost, the time zone for European countries and the highly educated society is the perfect combination for a software company to prosper and grow.

**Low valuation ratios with a very asymmetric return.** The current crisis has depressed the stock price, dropping more than 50% during some periods of 2020. Although LSI's customers are highly affected by COVID-19, the company has recurrent revenues to get over the current crisis, government grants, as well as a relevant net cash position. The company is profitable under this crisis and we believe there is a huge asymmetry in the investment.

**Polish and European grants.** Most of the possible risks for the company have disappeared with the active support of the Polish government. As well, the European Union has actively financed LSI new software by the Regional Development Fund (RDF).

**Expansion may get delayed and under high competition.** 2019 annual results showed that LSI international expansion was beginning but the current crisis has slowed down the expansion. As well, we see that high competition with Vista Group may result in lower margins and thus lower profits over the coming years in the cinema business.

**Insiders and institutional latest purchases.** The management believes that the stock price is very undervalued. The buyback programme in 2017 and 2018 reflects this perception as well as the latest insiders and institutional purchase transactions.

**Skin in the game with very well-prepared management.** Based on their history, the management has made the correct management decisions over time. The CEO is very well known in the business and, our opinion prepared to expand LSI's product worldwide.

**Recent contract awards in the cinema business could be a warmup for further expansion.** Although we don't feel very excited with the cinema business, the company has recently signed agreements in Saudi Arabia, Malaysia, Switzerland or New Zealand, demonstrating the potential of their POSitive Cinema product.

**The company is not followed by analysts.** LSI Software is not under the radar of any private fund or analyst. It is very small (9M\$) and it does even not appear in websites like Yahoo Finance. The company trades in Poland and goes unnoticed by the market. In our firm, we believe that the highest inefficiencies emerge in this type of companies.

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#### Ticker

WSE: LSI; PLN 14.00;

#### Price Target 2023: PLN 31.07

Down-side Scenario	Current Price	Price Target	Up-side Scenario
24.1 ▲ 72%	14.00	31.07 122%▲	33.56 ▲ 140%

\*Implied Total Returns

#### Key Statistics

Dil. Shares O/S (MM):	3.26	Market Cap (MM):	44.94
Enterprise Value (MM):	36.24	Insiders Ownership	32%
Dividend:	0	Yield:	0%
NAVPS:	12.27	P/NAVPS:	1.12x
Float (%):	32.26	Avg. Daily Volume (k):	5.0

#### New Vila Equity Research

##### Estimates

FY Dec	2021E	2022E	2023E
Revenues (MM)	46.0	52.3	54.9
FCF (MM)	4.0	4.8	5.1
Income (MM)	3.0	5.6	5.9

All values in PLN unless otherwise note.



This research has been written without any incentive and freely release to the financial community.

**Price target.** We believe the current crisis is giving a great opportunity to buy a cheap long-term company as LSI Software. We forecast a price target of 31.07 PLN for 2023.

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## Base/Up-side/Down-side Scenario

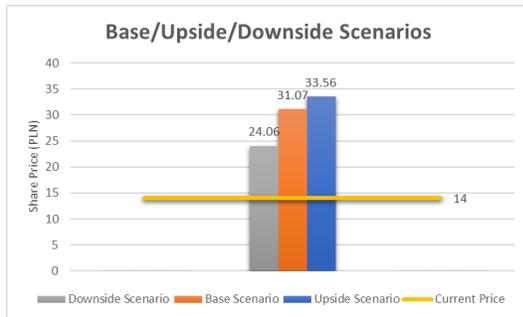


FIGURE 1. PRICE TARGET PER SCENARIO

### Base Scenario

The base scenario considers 5% annual revenue growth rate over the following years starting from 2022. The competitive price of their products will enable expansion to other countries. The company has put most of its focus on POSitive cinema, their ERP solution for cinemas, and recently they have gained many contracts for its implementation.

In the 3 scenarios, we have forecasted 2021 affected by COVID-19 with most of their customers probably closing or with limited capacity during most of the year.

### Up-side Scenario

The up-side scenario assumes a 10% annual revenue growth rate over the following years starting from 2022. The company has grown at a similar rate in previous years and we expect that the internationalization of POSitive Cinema is just about to come. Indeed, the internationalization of this product can enable other ERPs (hotels and restaurants) to expand worldwide.

### Down-side Scenario

The current crisis can bring many bankruptcies in the sectors that they operate. Their revenues could decrease to 46MPLN and remain flat if they cannot be able to expand their products to other countries.

## Investment summary

New Vila Equity Research views a very promising future for the company for the long-term and a tough 2021 if their customers continue to be closed. As well, 2020 has shown that even if they are exposed to sectors very affected by the COVID-19, they remained profitable and have only experienced a 17% decline in revenues, which is impressive. We have found the following key fundamental factors:

- **The vaccine** will permit LSI's customers to reopen their businesses progressively in Q2 and H2 2021.
- **LSI software can compete** in price and quality against bigger competitors due to their geography. We believe this moat will enable them to expand their products sooner or later.
- **The repurchase program** announced in 2017-2018 and the late insiders/institutional transactions reflects that they are optimistic with the company and that is, from their point of view, quite undervalued at current prices.
- **The recent announcements of new contracts for the ERP Cinema solution** show that their product can compete outside of Poland and potential expansion is very likely to occur.

**Key Risk Factors.** The current exposure to COVID-19 may slow down their potential but we believe that after the current crisis they will demonstrate their intrinsic value by increasing revenues outside Poland. The longer the crisis lasts, the longer the normalization of revenues and income.

# Company's background

## Introduction

LSI Software Group is a Polish producer of software for retail and hospitality sectors (HoReCa) as well as for cinema operators which is now their mainstream of growth. The company is specialized in ERP (Enterprise Resource Planning) systems and software for managing recreational and sports facilities. ERP is usually referred to as a category of business management software that an organization can use to collect, store, manage, and interpret data from many business activities. ERP systems track business resources, like cash, raw materials, production capacity, and the status of business commitments: orders, purchase orders, and payroll. The switching cost of these services is very high and, most of the time, very difficult to switch to another provider. All the data structure usually is established for a type of ERP and would also need to be redesigned in case of a switch, so customer retention is very high.

Some of their products are developed with their software and some others are from other providers and personalized by them. They integrate ERP software and, at the same time, add their one. The external software that they use is Jirasolutions and they currently offer 16 products with their software. They also provide hardware as Kiosks where they integrate their software solutions. For the hardware, they have 5 contractors with whom they collaborate. You can find more information about products and contractors in the Appendix.

The Group also offers consulting services, implementation services, technical support, and supply of specialized hardware solutions as Kiosks where they integrate their software. During the last years, they have been very focused on integrating Kiosks in the different sectors that they operate. LSI's key strength is over 25 years of experience in the market.

## Polish IT companies

Over the last year, our firm has actively been looking for Polish IT companies to analyze and invest. Why? We have seen many trends in the IT sector pointing to Poland. When we analyzed different companies in Europe and we have found out that most of the development teams of European companies, as Refinitiv or Volue AS, are based in Eastern Europe. More specifically in Estonia, Latvia, Lithuania or Poland. We consider there are 3 main reasons for this trend:

- Lower labour costs motivate companies to move or open their development department in these countries.
- High educated societies and easy to find developers. Eastern Europe has very good universities and it is easy for companies to access to higher education applicants. These development departments are fulfilled mostly with nationals. Language is also not a barrier and they speak more fluent than the Western European countries believe. This is due to the limited use of their native languages worldwide.
- These offshore departments appeared many years ago when American and British companies used to establish their support or development teams in countries like India. The advantage and moat of Eastern Europe is their schedule compared to India so they can give a better service.

Among other reasons, we believe that with the gradual disuse of the languages as a business barrier over the years will disappear, the offshore departments and offshore companies will grow. As for LSI Software, we believe they can compete in price with bigger competitors due to the reasons given above and, indeed, they have very new products that can fulfil much better customer needs.

## Management & Share Capital

- Grzegorz Siewiera – Founder, CEO and President of the Management Board. He owns 30.67% of the company and has 53.49% of the votes. His total remuneration for the financial year 2019 was 111,000 PLN (24,400€ or \$29,700). He studied his Bachelor of Economics in Poland and an MBA at Maryland Baltimore (USA). We believe he is the most important director. Last summer, he decided to step down as Chairman of the Supervisory Board so he could mostly focus on the international expansion of their new product POSitive Cinema.
- Michal Czwojdzinski – Member of the Management Board. He is also the President of one of the subsidiaries at LSI Software, called GiP Sp. z.o.o.. He owns 0.89% of the total shares. Over the last 2 years, he has bought 6,991 shares at an average price of 11.82 PLN which is 80% of his annual salary. The last purchase was on the 6<sup>th</sup> of November 2020. He has the same salary as Grzegorz, very modest.
- Piotr Kraska (Yavin Limited)– Member of the Supervisory Board. Piotr is the second major shareholders at LSI Software. At the end of the financial year 2019, he owned 14.72% of the total shares. During 2020, he has slightly increased his position up to 14.85%. Mr Kraska is the president of the venture capital called Yavin Limited.
- Inmuebles Polo SL – Third major shareholder in LSI. At the end of 2019 this Limited Partnership owned 7.67% of the total shares but during 2020 has increased its position up to 11.61% (Q3 2020).

Although polish salaries are lower than the rest of Europe, we believe management salary is very modest and shareholders' interests are very aligned with the CEO. Indeed, the recent insider and institution transactions could reflect that the share price is very undervalued. We view these transactions as a very good symptom.

In our opinion, the CEO is the most important asset in the board. Grzegorz has not only international experience and high knowledge but also a lot of reputation in the sector. He is the type of CEO we like to find in undervalued companies: humble, ambitious, and wise.

He is very active in events and conferences that enable him to get in touch with potential customers and show them LSI's products. Unfortunately, due to COVID-19, this channel has been moved online and the engagement with potential customer most probably reduced.

## Most important products & services

LSI Software revenues are very diversified. They do not disclose per product which makes it difficult to go deeper into the product analysis. Below, we have listed and briefly describe the most important products that the company offers:

- **Hardware:** The most important stream of revenues is the integration of hardware. Over the years, they have won several auctions for the integration of hardware in the polish public administration. As well, they are very focused on the integration of their ERP software which sometimes is installed in Kiosks which they also provide to the customer. The hardware is provided from an external partner. Lately, they are also distributing contactless hand sanitizer dispensers to their customers, product called CleanLine24.
- **POSitive Cinema:** ERP product with several modules for the cinema business. It includes Head Office modules (HR, CRM, etc) as well as Sales and Marketing modules or Data Analytics dashboard. The company is currently focused on the expansion of this product. They believe their product is not only cheaper than their competitors but also higher quality.

- POSitive Restaurant and Gastro: Products that optimizes all the processes inside a restaurant, from staffing processes or the bill of each table to the fast-food kiosk software.
- POSitive Hotel and 4 additional products: The products optimize, automate, and digitalize every process of a hotel, from the booking system to the staff. They also provide kiosk services.

# History & Financials

## Important events over the last 5 years

We have made deep research on the last 5 annual reports, starting from 2016. We have summarized the most important events below:

On 9 November 2015, the company concluded an agreement with HELIOS S.A. – operator of the largest cinemas network in Poland – for the implementation of POSitive Cinema in their network. Estimated value of PLN 2.7 Million.

In 2016, the company expanded by a new subsidiary, LSI Software s.r.o. in Prague.

On 1 February 2017, they acquired “GiP” Sp. z o.o. with its registered office in Warsaw, giving a strong basis to increase the revenue growth and profitability of the Group.

The 23 of October 2017, the company started a buyback program not exceeding 10% of the total shares and at a maximum price of PLN 19 per share. The company currently owns 1.55% of its shares which are in treasury.

In June 2017, the company expanded the POSitive Cinema product creating a new subsidiary in the USA, called POSitive Software USA LLC.

In 2018, the company reorganized its structure and merged with its subsidiary Softech Sp z.o.o.

In 2019, they paid PLN 0.50 per share as dividend and launch POSitive Cinema product in the United States of America, Malaysia and Saudi Arabia.

In 2020 LSI Software S.A. commenced the development of POSitive® MARKETING - an innovative product in the area of Marketing Automation, which will broaden the existing range of solutions offered by the Company and increase its competitiveness on the market. This project will be co-financed by the European Union as part of the Regional Operational Programme for Łódzkie Voivodeship 2014-2020.

Due to COVID-19 crisis, the company received PLN 4.6 million in grants from the Social Insurance Institution (ZUS).

## Recent contracts awarded

19<sup>th</sup> of February 2020, the company reported an agreement with Next Generation LLC in Riyadh, Arabia Saudi, for the implementation, maintenance and development of POSitive Cinema system in other 19 cinemas for an undefined period. Secured contract of 3.7MPLN over 2020. This is part of a second phase in the integration of LSI software.

June 2020, the company reported an agreement with KITAG Kino-Theater in Zurich, Switzerland, for the implementation, maintenance and development of POSitive Cinema system in KITAG’s cinema network for securing a contract of 9.2MPLN over 5 years.

September 2020, the company reported an agreement with Piekarnia Hert Sp z oo in Poland. The contract secures the delivery by LSI Software SA of computer hardware worth not less than PLN 2.2 million net. The contract will be performed following the schedule, which provides for the delivery of the last batch of equipment by March 31, 2021.

January 2021, the company reported an agreement with S&T Poland Sp z oo in Poland. The subject of the contract is the delivery by LSI Software SA of devices that are part of the tender settled by the Ministry of Finance, in the form of operating lease, direct workstation sets for

the SPOE KAS distribution network, with a value of 1.9MPLN. The contract will be implemented following the schedule, which provides for its completion in the first half of 2021.

Also, in January 2021, the company reported an agreement with Silky Otter Cinemas in New Zealand. Further details yet not disclosed. New Zealand is where its most important competitor is from (Vista Group).

## Financial History

The company has been growing over the past years organically and inorganically (Acquisition in 2017). The variety of products has also increased giving more opportunities for future growth and diversification.

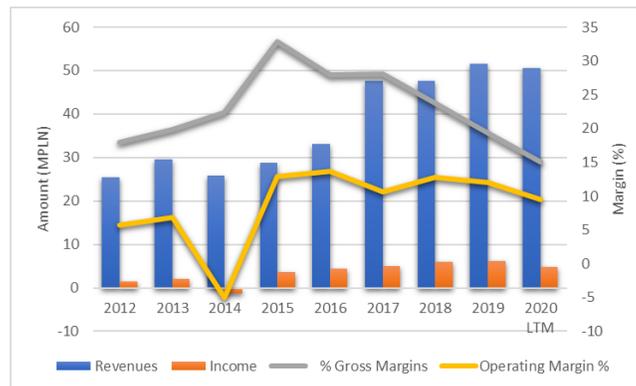
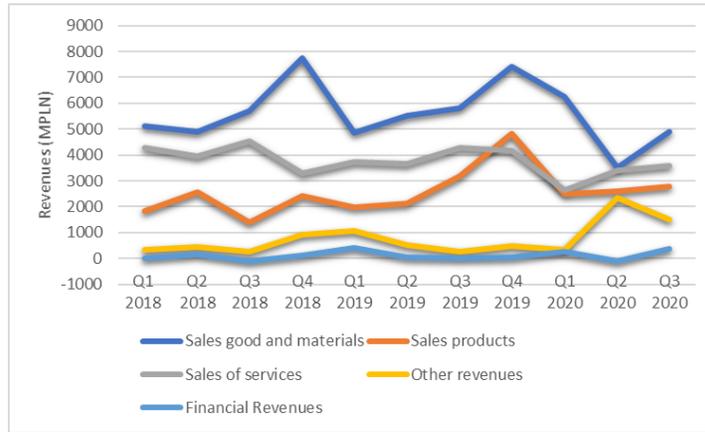


FIGURE 2. SUMMARY OF LSI FINANCIAL RESULTS

In the graph the lower gross margin in the last 3 years is obvious. This is mainly due to the change in revenues product mix and types of contracts. On the other hand, the operating margin fluctuates between 10% and 15%. According to the margins, we believe LSI Software business is of very high quality. The operating margin variation depends mostly on the type of projects that LSI is involved during that year. Bear in mind that LSI products are in an early stage (expansion) and, therefore, to gain customers they would have to lower the margins at the beginning of a contract and then, they could increase their margins since the switching cost is huge. In this sector and type of company, it is important to gain customers (long term benefit) than increasing margin (short term benefit).

The company has different streams of revenue:

- Sales of good and materials: In most of the cases they integrate the hardware to their customers when they sign an agreement.
- Sales of services: In this segment, they include the service of integrating hardware and/or a product. It also includes maintenance.
- Sales of products: In this segment, they include the sale of products/licenses that they own. They could be one pay license or monthly payment.
- Other revenues: Reversal of write-down of assets and government grants
- Financial Revenues



**FIGURE 3. STREAMS OF REVENUES**

We believe Q1-Q3 2020 do not reflect the real results of the company. As we have seen in the previous graph, the Other Revenues segment has increased over the last 2 quarters. This is due to a Reversal of a write-down of assets and the government grants coming from the European Union (European Union as part of the Regional Operational Programme for Łódzkie Voivodeship 2014-2020) and the Polish Government (Polish Development Fund under the PDF Financial Shield Program for COVID-19 crisis).

**Note 4. OTHER OPERATING REVENUES AND COSTS**

OTHER OPERATING REVENUES	01.01 – 30.09.2020	01.01 – 30.09.2019
Profit on disposal of fixed assets	97	63
Reversal of a write-down of assets	1 003	798
Penalties, fines and damages received	131	302
Government grants	2 894	699
Unsettled liabilities	22	0
Reimbursement of legal costs	26	7
Other	15	8
<b>TOTAL</b>	<b>4 188</b>	<b>1 877</b>

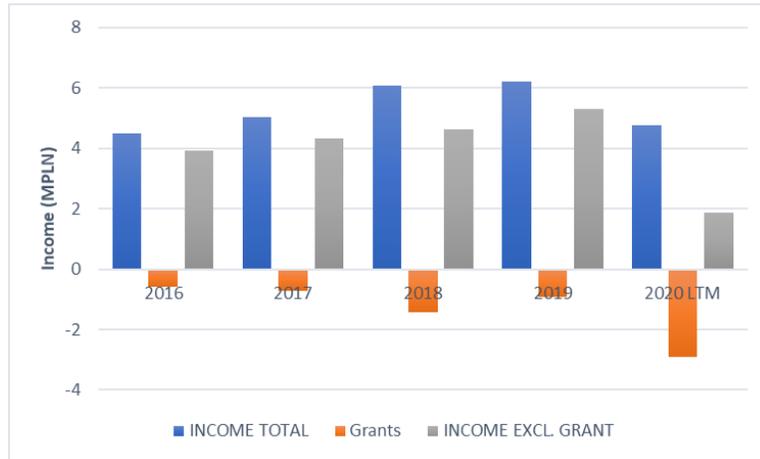
**FIGURE 4. OTHER OPERATING REVENUES FROM Q3 2020 RESULTS**

Furthermore, grants are not new for the company. The European Union has been co-financing LSI’s new software in the last 5 years. An adjustment should be done for the previous years as shown below. It is quite uncertain that the grants will remain in the future and we have substracted them from the valuation. Although we see that it is probable that European grants will continue in the future.

How the company gets grants from the European Union? The Union has been invested in East European countries with a lower development so they can build their own companies and start adding value to the national economy. The European Union created the European Regional Development Fund which aims to strengthen economic and social cohesion in the European Union by correcting imbalances between its regions. The thematic is mostly related to:

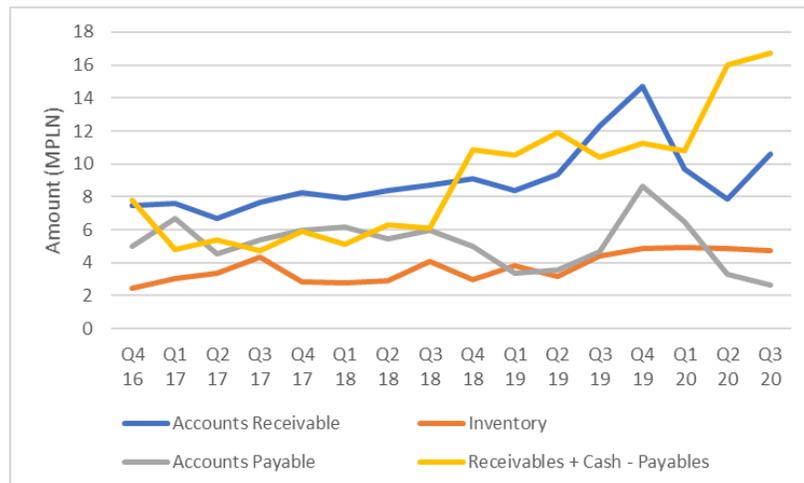
- Innovation and research
- Digital agenda
- Support for small and medium-sized enterprises
- Low-carbon economy

Indeed, LSI Software business fits perfectly in the thematic. The programme lasts until 2020 and we have not found any news about a possible extension of the programme.



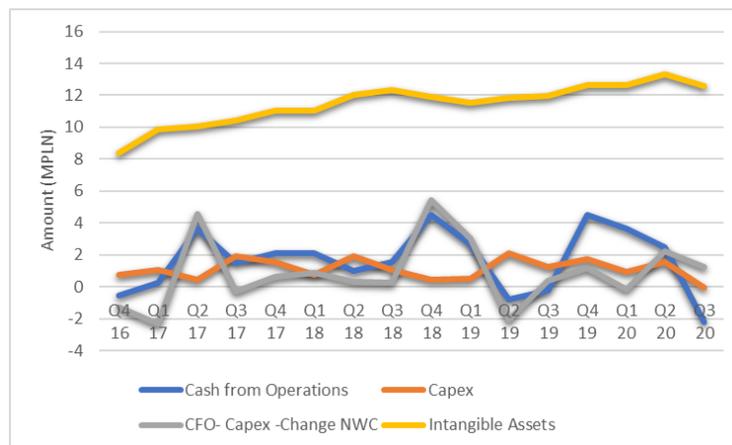
**FIGURE 5. GRANTS EFFECT ON INCOME RESULTS**

On the other hand, the company has lately worked on improving Working Capital Cycle. If we look at the Cash (11M PLN) + Receivables – Payables line, the company accumulates 16 MPLN which is almost 40% of its current market cap. Important liquidity to face the COVID-19 crisis.



**FIGURE 6. WORKING CAPITAL ITEMS FROM 2016-2020**

Another aspect to highlight is the high level of Capital Expenditure (Capex) that LSI Software business requires for the development of new software and modules but also the acquisition of new licenses that they lease to customers. They are not interested in taking profits and prefer to continue expanding their business by reinvesting in their company and products.

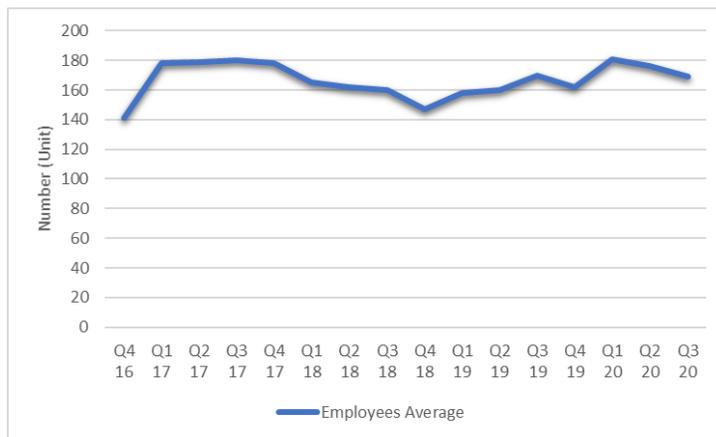


**FIGURE 7. CAPEX FROM 2016-2020**

The Capex is more-less equal to the amortization of the intangibles, so the intangible asset has slightly increased over the years (although their product portfolio has increased). LSI Software Free Cash Flow is not as “clean” as other integrators due to its required Capex since they own software and licenses and their decision to reinvest in new modules and products.

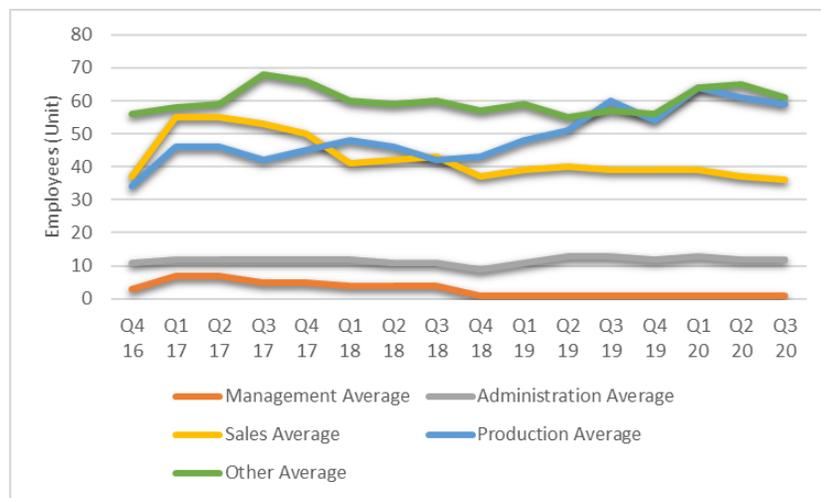
When we invest in contrarian companies affected by short term reasons, we like to check the internal movements of the company. One of these movements is the number of employees. A red flag would be a dramatic decrease in the number of employees which has not been the case. The value of software specialists in these companies is crucial. We are aware that they have been hiring during the last 2 years in advance to develop their new products for Cinema and Marketing.

As well, thy company has been working on the development and expansion of their product POSitive Cinema over the last years and many layoffs would have meant a battle for loss in their expansion.



**FIGURE 8. NUMBER OF EMPLOYEES 2016-2020**

The new hires come from the Production Department (Software department). Sales role has been decreasing over the last 3 years. We view that they are focused on the quality, update and development of new modules as POSitive Marketing.



**FIGURE 9. EMPLOYEE ROLES 2016-2020**

## Customers

### Geography

As previously explained, most of their customers are engaged in the HoReCa industry: Hotels, Restaurants and Cafeterias. This sector is heavily affected by COVID-19.

Core customer base is from Poland, they work for most of the cinemas, hotels and restaurants among others. 2019 can be considered as an inflection point, they truly expanded outside Europe, especially in Asia. On the other hand, slower expansion in the USA. In 2017, the company created a subsidiary in the USA but did not bring any revenue for 2018.

The international expansion could be the reason why the share price doubles up in a few months at the beginning of 2020.

#### Sales revenues - detailed geographic structure

	01.01 -31.12.2019		01.01 -31.12.2018	
	PLN	Share %	PLN	Share %
<b>Poland</b>	<b>44 711</b>	<b>87%</b>	<b>44 949</b>	<b>94%</b>
<b>Export, including:</b>	<b>6 900</b>	<b>13%</b>	<b>2 718</b>	<b>6%</b>
European Union	877	2%	2 144	4%
Countries of the former USSR	99	0%		0%
USA	1 114	2%		0%
Asia	3 983	8%	515	1%
Other	827	2%	59	0%
<b>Total</b>	<b>51 611</b>	<b>100%</b>	<b>47 667</b>	<b>100%</b>

FIGURE 10. SALES REVENUES PER GEOGRAPHY

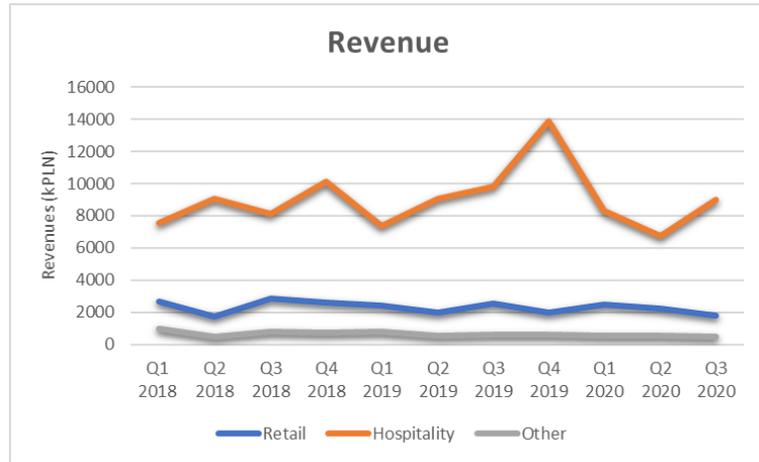
As previously stated, the recent contract awards outside Poland reflect a real inflection point and the strong software for cinemas that the company has developed. The software is new, and more adapted to customer's needs than competitors (Vista group from New Zealand). As well, they can compete with a better software solution but also at a lower price (geography as a moat). For this reason, we believe POSitive Cinema has been awarded by several contracts over the last 2 years and this is just the beginning. On the other hand, the cinema business has struggled over the last years and COVID-19 crisis has worsened their situation. In New Vila Research we are aware of this situation and we are not bullish with the cinema industry. Although, after COVID-19 crisis we believe demand will normalize and it will not be the industry.

International expansion, most probably, will be slower due to a weaker financial position of the cinemas after COVID-19 that would demotivate them to invest in new products. Nevertheless, are aware that LSI products are cheaper than competitor so it could also be possible to experience more companies to reduce costs and switch of ERP provider.

### Segments

The company divides revenues into 3 segments:

- Hospitality: Cinema market, catering market, accommodation and spa market, sport, recreational and fair facilities market
- Retail: Covers retail sales network, manufacturing, trading and service companies, and public and local administration authorities
- Other



**FIGURE 11. REVENUES PER TYPE OF CUSTOMER**

As shown in the previous graph, the hospitality segment covers most of the revenues. This segment has dropped significantly due to COVID-19. Whereas the retail segment remains stable.

Regarding the gross margin, we have noticed that Q1 2020 gross margin for Hospitality was negative. We believe this is rare and we do have our own hypothesis about what could have happened but that we cannot disclose it publicly.



**FIGURE 12. GROSS MARGIN PER TYPE OF CUSTOMER**

The retail segment has remained stable. The “other” segment is unimportant for our analysis.

**Retail**

The retail revenues come mostly from the Sale of Goods. Regarding the sale of software, the revenues come mostly from the Services and Fixed Fees rather than Licenses. In this segment, most of the customers are from the public administration. We believe the projects are most likely based on hardware integration and the setup of the hardware into the current system rather than a sale of their own software.

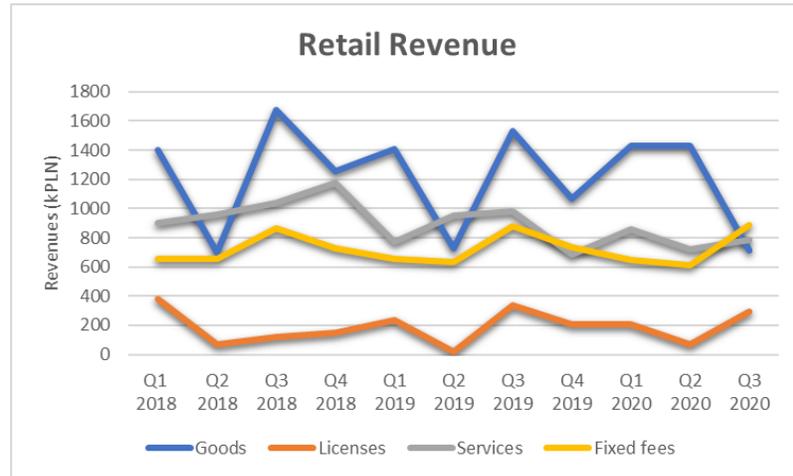


FIGURE 13. RETAIL REVENUES

### Hospitality

The hospitality is more dependable on the sales of software than retail. Although they provide customers with hardware and goods, the licenses, goods and services revenues are higher than in retail.

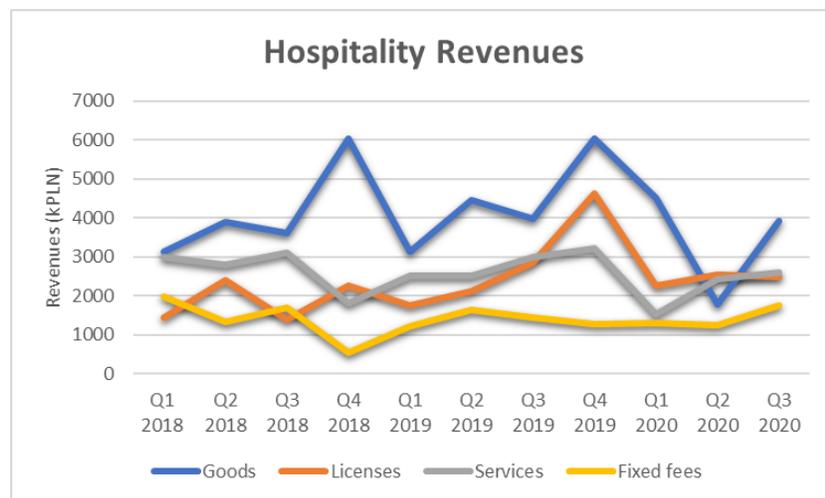


FIGURE 14. HOSPITALITY REVENUES

### Vista Group, cinema competitor

Vista Group (NZX: VGL) is a company from New Zealand that provides technology for studios, exhibitors, distributors, exhibitors, and moviegoers globally in the film industry.

In contrast with LSI Software, Vista Group is only focused on the film industry. Its market cap is 213M€, twenty times more than LSI. They have done well over the last 4 years, growing at rates between 5-10% in revenues YoY. They have been in the cinema business since 1996. Although they have more experience in the sector and they are bigger than LSI, their software is older. As well, there are based in Auckland, where the labour cost is way higher than in Poland.

In New Vila, we expect a tough battle between Vista Group and LSI Software. Recently, LSI Software gained a new customer in New Zealand, as previously stated, and a test of LSI’s intentions. On the other hand, Vista Group gained a polish customer from LSI Software, CINEMA3D. The story of this award is very interesting. In 2019 CINEMA3D got acquired by Vue

International which is Vista Group’s customer. In November 2020, they decided to switch to Vista Group software and use only one ERP provider.

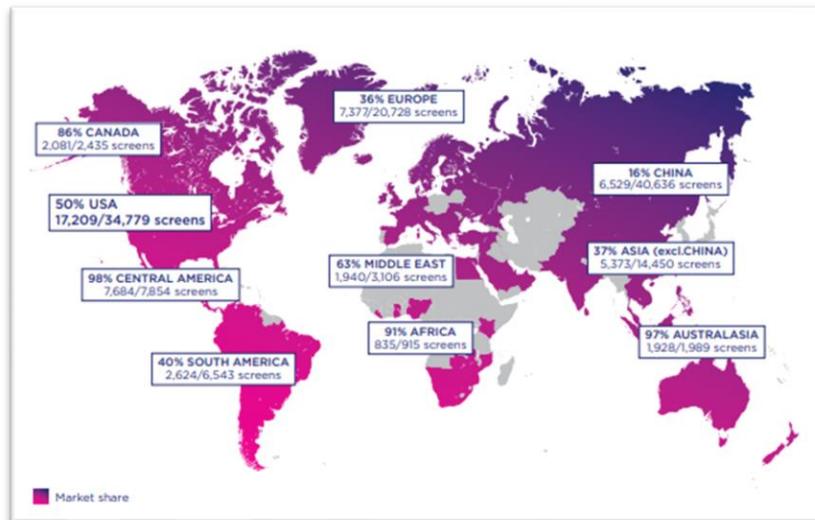


FIGURE 15. VISTA GROUP MARKET SHARE WORLDWIDE

Vista Group is present all over the world and is currently focused on its China expansion.

## Valuation

We have made 3 different scenarios for the valuation: Base, Up-side and Down-side scenario.

We have selected different metrics for the valuation, but we believe the EV/FCF shows more accurately the real value of the company. Other interesting metrics are EV/EBIT, EV/Sales and PER that we also have considered.

In the 3 scenarios, we have left 2021 as a transition year assuming an Income of 4MPLN, 46MPLN sales. Most of their customer base is highly affected with COVID-19 crisis.

Important data assumed:

- Net cash: 8.7 MPLN
- Number of shares: 3.21M (Discounts the 1.55% of the shares the company owns)
- Share Price: 14PLN
- Enterprise value (EV) fixed over the years at the current EV and annual profit added after using the valuation ratio.

The valuation ratios assumed are summarized below:

Valuation multiple	Multiple Selected
EV/Sales	x1
EV/EBIT	x9
PER	x14
EV/FCF	x12

Table 1. Valuation Multiples

## Base Scenario

In the base scenario, we believe that the company can organically grow in sales 5% Year over Year (YoY), 6% YoY in EBIT and Income ( assuming higher margins), and 7% growth YoY in FCF due to a lower expected Capex required due to the new software.

We view LSI Software as a company with a base of customers in Poland that it is really difficult to break and at the same time the company has reflected by the latest awards that their business expansion is just the beginning.

Units (MPLN)	2017	2018	2019	2020 Est.	2021	2022	2023
<b>Sales (5% YoY)</b>	47.57	47.67	51.61	43.1	46	52.26	54.87
<b>EBIT (6% YoY)</b>	5.85	6.73	6.65	3.33	3.8	7.05	7.47
<b>Income (6% YoY)</b>	4.32	4.64	5.29	3.47	3.0	5.6	5.94
<b>FCF (7% YoY)</b>	2.47	6.92	2.55	4.49	4.0	4.80	5.15

TABLE 2. FINANCIAL FORECAST AND RESULTS

LSI ratios	2020 Est.	2021	2022	2023
<b>EV/Sales</b>	0.84	0.79	0.69	0.66
<b>EV/EBIT</b>	10.88	9.54	5.14	4.85
<b>EV/FCF</b>	8.07	9.06	7.54	7.05
<b>PER</b>	11.1	12.83	6.87	6.48

TABLE 3. LSI RATIOS

Price target (MPLN)	2021	2022	2023
<b>Price (EV/Sales)</b>	14.33	16.28	17.09
<b>Price (EV/EBIT)</b>	21.91	29.90	33.22
<b>Price (EV/FCF)</b>	22.5	27.66	31.07
<b>Price (PER)</b>	16.73	29.83	30.44

TABLE 4. PRICE TARGET

The valuation gives a price target of 31.07PLN, based on EV/FCF multiples. This is more than doubling the price in 3 years, giving an Annualized return of 30.4% at current prices.

## Up-side Scenario

The up-side scenario reflects a higher expansion of LSI business. We believe this rapid growth can come from the POSitive Cinema expansion in Asia and North America as well as other modules.

Units (MPLN)	2017	2018	2019	2020 Est.	2021	2022	2023
<b>Sales (10% YoY)</b>	47.57	47.67	51.61	43.1	46	56.77	62.45
<b>EBIT (10% YoY)</b>	5.85	6.73	6.65	3.33	3.8	7.32	8.05
<b>Income (10% YoY)</b>	4.32	4.64	5.29	3.47	3.00	5.82	6.40
<b>FCF (12% YoY)</b>	2.47	6.92	2.55	4.49	4.00	5.03	5.63

TABLE 5. FINANCIAL FORECAST AND RESULTS

LSI ratios	2020 Est.	2021	2022	2023
<b>EV/Sales</b>	0.84	0.79	0.64	0.58
<b>EV/EBIT</b>	10.88	9.54	4.95	4.50
<b>EV/FCF</b>	8.07	9.06	7.54	7.05
<b>PER</b>	11.1	12.83	6.62	6.02

TABLE 6. LSI RATIOS

Price target (MPLN)	2021	2022	2023
Price (EV/Sales)	14.33	17.69	19.45
Price (EV/EBIT)	21.91	30.89	35.83
Price (EV/FCF)	22.5	28.77	33.56
Price (PER)	16.73	30.82	32.64

**TABLE 7. PRICE TARGET**

The valuation gives a price target of 33.56PLN, based on EV/FCF multiples, giving an Annualized Return of 33.8% at current prices.

## Down-side Scenario

In this scenario, we wanted to evaluate the value of the company in case they could not be able to expand their business and keep their core customers and integrations in Poland and a few other countries.

We believe this is hard to occur based on the historic and management decision, but it should be considered and modelled.

Units (MPLN)	2017	2018	2019	2020 Est.	2021	2022	2023
Sales (0% YoY)	47.57	47.67	51.61	46.00	46.00	46.00	46.00
EBIT (0% YoY)	5.85	6.73	6.65	3.33	3.80	3.80	3.80
Income (0% YoY)	4.32	4.64	5.29	3.47	3.00	3.00	3.00
FCF (0% YoY)	2.47	6.92	2.55	4.49	4.00	4.00	4.00

**TABLE 8. FINANCIAL FORECAST AND RESULTS**

LSI ratios	2020 Est.	2021	2022	2023
EV/Sales	0.84	0.79	0.79	0.79
EV/EBIT	10.88	9.54	9.54	9.54
EV/FCF	8.07	9.06	9.06	9.06
PER	11.1	12.83	12.83	12.83

**TABLE 9. LSI RATIOS**

Price target (MPLN)	2021	2022	2023
Price (EV/Sales)	14.33	14.33	14.33
Price (EV/EBIT)	16.86	17.79	18.73
Price (EV/FCF)	22.50	23.12	24.06
Price (PER)	16.73	17.66	18.60

**TABLE 10. PRICE TARGET**

The valuation gives a price target of 24.06 for 2023, based on EV/FCF multiples, giving an Annualized Return of 19.8% at current prices.

## Risks

- Our firm is very concerned about the current pressure over the cinema business where the company is putting most of its resources for growth. It is a business that has been decreasing over the last years and this trend will, most probably, continue. We don't see many great opportunities in the long run, but we trust the management and their decision to focus on the cinema product.
- The COVID-19 has affected most of their customers that have closed their business during 2020 and they will reopen with a weaker financial position, demotivating in the short term new updates of LSI's software and new investments.
- M&As in the cinema business could be a risk for LSI's interests. As they experienced with CINEMA3D, the M&A's will motive switch ERP provider which usually is positive for the biggest their ERP provider.
- Bankruptcies in the Hotels and Restaurants would reduce their customer base. Although other potential customers will emerge, it is not clear that they will select LSI as ERP provider.
- LSI Software depends on the Polish economy. Any recession in their economy may affect LSI performance since most of their business is national. Although the Esloti has remained very strong and stable in the last 10 years, there is also currency risk.

# Appendix

## Products

PRODUCT LINES IN GROUP'S OFFER: LSI Software S.A.:

- POSitive® Cinema –system for sales and customer service in cinemas and for cinema networks management
- POSitive® Hospitality - system for sales and customer service in restaurants and for restaurant networks management (POSitive Restaurant brand) and integrated booking, sales and guest management systems in hotel facilities, and systems for the management of the network of such facilities (InteliHotel brand)
- POSitive® ESOK – electronic customer service, integrates innovative IT software and technical infrastructure, provides managers with full control of key areas of the facility's operations; integrated with POSitive Hospitality
- POSitive® Beauty – system for comprehensive management of beauty salons, hairdressing salons or spa facilities
- POSitive® Retail – sales systems and customer service systems for retail industry
- Bastion® ERP – ERP- class systems for accounting, stock management, distribution and HR and payroll intended for SMEs
- Jirasolutions – platform for project management and information flow in the enterprise
- Qiki – application for restaurant's clients for online ordering before the scheduled visit - for client's and restaurant service's time saving
- Szeryf24 – an application for supervising the sales processes and thus allowing detection of abuse by the staff, e.g. by linking the recordings from the cameras to the operations performed in the sales system
- Roomio – an easy-to-use mobile application for hotel facilities, designed for interactive and comprehensive service of hotel guests
- Staff Helper - mobile application for registration of personnel activities, work control and communication between hotel employees, designed to improve the operation of hotel administration and speed up the preparation of rooms for hotel guests
- GASTRO – system addressed to catering facilities intended for supporting the sales, customer service, warehouse management and cost analyses and control
- mojeGASTRO – digital cloud system addressed to catering facilities, intended for supporting online order picking from customers and remote ongoing control of the premises
- CHART – system for small and medium-sized hotel facilities intended for supporting the sales, customer service, and overall facility management
- LMS (Loyalty Management System) - system for managing loyalty programs and noncash payments
- POSIFLEX – high quality devices for points of sale (POS touch-screen terminals, touch monitors, peripheral devices). LSI Software is the exclusive Posiflex distributor in Poland
- LRS (Long Range Systems) – LRS paging devices used in many industries - including in catering, hospitality, healthcare, logistics and trade. LSI Software is a general distributor of LRS in Poland
- Bixelon - high quality printers (stationary and portable) that are a perfect complement to the offered systems
- Sunmi - modern PDA devices designed for demanding usage conditions

- Self-service kiosk - a device enabling the self-service of customers in all supplied industries, helps to speed up the service and minimizes customer waiting time
- EKM (Electronic Check-in Card) - a solution designed for hotels, facilitating check-in and enabling to meet the requirements of GDPR
- Management dashboards - a tool independent of the platform, dedicated to managers and allowing for ongoing analysis of key indicators (KPIs)
- Cleanline24 – line of professional, contactless hand disinfection machines, designed for all areas with heavy traffic, including restaurants, hotels, cinemas, large-format shops, gas stations, hospitals
- RH2 – a system to support reception and booking, management and marketing in large hotels and their chains
- Posline24 – line of professional equipment for business, including self-service kiosks, touch screens, PDAs, paging systems, printers and terminals, proprietary hardware solutions and distribution of global brands
- BLUE POCKET - platform with a mobile smartphone application that allows running and managing many types of loyalty, marketing and promotional programs.

## Required Disclosures

New Vila Equity Research does not represent an investment service in the terms provided in Article Royal Decree-Law 14/2018, of September 28, Royal Decree 1464/2018, of December 21, as it is a personal opinion from the author on the subject Stock analysis of a generic nature and not personalized to the client's circumstances.

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