Euroxx Investment Banking - Sponsored Research

Company Sponsored Research

April 19, 2022

Epsilon Net

Overweight

Appealing Combination of Value and Growth

Share Price: €7.38 (close of April 19, 2022)

Intrinsic Share Price: €11.27

Total Upside: 53%

Estimates

	2021h	2022e	2023e	2024e
Sales (€m)	50.51	75.77	98.50	118.20
Gross Profit	31.03	45.46	58.11	68.55
EBITDA (€m)	15.09	22.67	29.77	36.07
EBT (€m)	12.22	16.26	21.44	26.08
Net profit (€m)	10.78	15.13	19.95	24.28
EPS(€)	0.20	0.28	0.37	0.45
EPS Chg. (%.)	221.86	40.38	31.86	21.69
DPS (€)	0.05	0.04	0.05	0.06

Source: EPSIL, Euroxx Investment Banking

Ratios

	2021	2022e	2023e	2024e
P/E (x)	28.64	20.40	15.47	12.72
EV/EBITDA (x)	20.45	13.62	10.37	8.56
EV/Sales (x)	6.11	4.07	3.13	2.61
Div. Yield (%)	0.2%	0.6%	0.9%	1.0%
P/BV (x)	7.45	4.59	3.53	2.49
Net debt/EBITDA (x)	n/a	n/a	n/a	n/a
FCF Yield (%)	2.6%	1.9%	4.9%	6.5%

Source: EPSIL, Euroxx Investment Banking

Stock Performance

	3M	6M	9M	12M
% Change (%)	79.6%	82.8%	234.7%	528.1%
Net Change (€)	3.27	3.34	5.17	6.20

Stock Data:

Market Cap (€m)	395.57
Outstanding shares (#)	53,600,000
AVG 52 w volume (#)	58,064
Low / High 52 w (€)	1.1900 / 7.3800
Free float	34.3%
Bloomberg / Reuters	EPSIL GA / EPSr.AT

Aristotelis Ninios, CIIA
Vice Chairman
aninios@euroxx.gr
+30 210 68 79 507

Ioannis Psilopoulos
IB Analyst
ipsilopoulos@euroxx.gr
+30 210 68 79 452

Vassilis Tsopanas
IB Associate
vtsopanas@euroxx.gr
+30 210 68 79 505

Leading Industry Position: Epsilon Net is one of the largest providers of IT solutions in Greece, developing and delivering an array of readymade as well as customizable business software options for companies of all sizes. More than 105,000 professionals rely on the company's products and services, in departments such as Accounting, Finance, Payroll and Human Resources (HR). Leading software products include the PYLON and GALAXY ERP's, Hyper. Axion Accounting and Tax System 5. The company follows a decentralized licensing & maintenance model (L&M) where its experienced reseller network promotes its products on a local level and optimizes the software from client to client as required. Its focus on customer retention through its L&M model has led to a strong base of recurring revenues covering over half of sales.

Favorable Macro Environment: The Greek software industry is undergoing a period of rapid growth, as the COVID-19 pandemic has accelerated the ongoing process of digitization among Greek businesses. Unrealized potential market demand in Greece is high, given the historically low rates of investment in IT infrastructure and the fragmented nature of the market, owing to the predominance of small and medium-sized enterprises. The National Recovery and Resilience Plan (RRP) initiated by the Greek government is also expected to provide a significant boost to the industry, as more than 20% of the funds in question will be allotted toward financing the "digital transformation" of the Greek economy by 2026.

Tripling of Revenues over 2021-2026: Historically, the company has achieved a revenue CAGR of c15% for the period 2016-2020 and, following a solid 21% growth rate in 2020, increased its sales by a staggering 133% in 2021, resulting from the acquisition of SingularLogic. Considering the above, the company is expected to sustain consistent double-digit growth rates up to 2025e before settling back to single digits from 2026e onward, with a projected CAGR of c16% over 2022-2026e, nearly doubling its 2021 revenue figures as early as 2023. This trend is driven by the continuation of strong organic growth under increasingly favorable market conditions, combined with the potential for highly synergistic acquisitions of strategic competitors, though such explicit M&A activity is not included in the forecast. In addition, the company's EBITDA margin is also expected to continue its upward trajectory, which steadily grew from 10% in 2016 to nearly 30% in 2021, gradually reaching 30% and moving toward 31% for the period 2022-2026e.

Intrinsic Share Price of €11.27: Given positive market conditions and global trends, this intrinsic price estimate represents a realistic and achievable figure. Avenues for additional growth abound, from further strategic M&A activity to a prolonged industry boom resulting from the RRF and e-invoicing rush. Such possibilities highlight the significantly positive potential of the company and its solid chances of outperforming the forecasted figures.

Financial Statements

Particulars in €m		2020 H	2021 H	2022 E	2023 F	2024 F	2025 F	2026 F
Income Statement								
Revenues		**21.70**	**50.51**	**75.77**	**98.50**	**118.20**	**130.02**	**136.52**
	% change	*21%*	*133%*	*50%*	*30%*	*20%*	*10%*	*5%*
CoGs		(8.71)	(19.48)	(30.31)	(40.38)	(49.64)	(55.91)	(60.07)
	% change	*-12%*	*-124%*	*-56%*	*-33%*	*-23%*	*-13%*	*-7%*
	% margin	*-40.12%*	*-38.57%*	*-40.00%*	*-41.00%*	*-42.00%*	*-43.00%*	*-44.00%*
Gross Profit		**12.99**	**31.03**	**45.46**	**58.11**	**68.55**	**74.11**	**76.45**
	% change	*27%*	*139%*	*47%*	*28%*	*18%*	*8%*	*3%*
	% margin	*59.9%*	*61.4%*	*60.0%*	*59.0%*	*58.0%*	*57.0%*	*56.0%*
Other Income		0.17	0.34	0.47	0.61	0.73	0.81	0.85
	% change	202%	106%	37%	30%	20%	10%	5%
	% margin	0.77%	0.68%	0.62%	0.62%	0.62%	0.62%	0.62%
G&A Expenses		(0.34)	(1.29)	(1.21)	(1.48)	(1.65)	(1.69)	(1.64)
	% change	*-12.8%*	*-278.2%*	*5.8%*	*-21.9%*	*-12.0%*	*-2.1%*	*3.1%*
	% margin	*-1.6%*	*-2.5%*	*-1.6%*	*-1.5%*	*-1.4%*	*-1.3%*	*-1.2%*
Research & Development		(6.27)	(9.74)	(18.94)	(23.64)	(27.19)	(28.60)	(28.67)
	% change	*-12.6%*	*-55.3%*	*-94.5%*	*-24.8%*	*-15.0%*	*-5.2%*	*-0.2%*
	% margin	*-28.9%*	*-19.3%*	*-25.0%*	*-24.0%*	*-23.0%*	*-22.0%*	*-21.0%*
Selling Expenses		(2.51)	(6.01)	(7.58)	(9.65)	(11.35)	(12.22)	(12.56)
	% change	*-7.0%*	*-139.8%*	*-26.0%*	*-27.4%*	*-17.6%*	*-7.7%*	*-2.8%*
	% margin	*-11.6%*	*-11.9%*	*-10.0%*	*-9.8%*	*-9.6%*	*-9.4%*	*-9.2%*
Other Expenses		(0.31)	(1.99)	(0.76)	(0.98)	(1.18)	(1.30)	(1.37)
	% change	*-6.0%*	*-545.5%*	*62.0%*	*-30.0%*	*-20.0%*	*-10.0%*	*-5.0%*
	% margin	*-1.4%*	*-3.9%*	*-1.0%*	*-1.0%*	*-1.0%*	*-1.0%*	*-1.0%*
Total Costs (incl. CoGs)		(18.13)	(38.51)	(58.80)	(76.14)	(91.01)	(99.72)	(104.30)
	% margin	*-83.6%*	*-76.3%*	*-77.6%*	*-77.3%*	*-77.0%*	*-76.7%*	*-76.4%*
EBIT (a)		**3.73**	**12.34**	**17.44**	**22.97**	**27.92**	**31.10**	**33.06**
	% change	*113%*	*231%*	*41%*	*32%*	*22%*	*11%*	*6%*
	% margin	*17%*	*24%*	*23%*	*23%*	*24%*	*24%*	*24%*
Depreciation (b)		1.50	2.75	5.23	6.80	8.16	8.97	9.42
EBITDA (a+b)		**5.23**	**15.09**	**22.67**	**29.77**	**36.07**	**40.07**	**42.48**
	% margin	*24%*	*30%*	*30%*	*30%*	*31%*	*31%*	*31%*
Net financial results (c)		(0.34)	(0.12)	(1.18)	(1.53)	(1.84)	(2.02)	(2.12)
	% change	13%	63%	-856%	-30%	-20%	-10%	-5%
	% margin	*-1.6%*	*-0.2%*	*-1.6%*	*-1.6%*	*-1.6%*	*-1.6%*	*-1.6%*
EBT (a+c)		**3.40**	**12.22**	**16.26**	**21.44**	**26.08**	**29.08**	**30.94**
	Effective Tax Rate	1%	10%	5%	5%	5%	5%	5%
	Nominal Tax Rate	24%	24%	24%	24%	24%	24%	24%
Tax		(0.05)	(1.44)	(1.13)	(1.49)	(1.80)	(2.00)	(2.12)
Net Profit		**3.35**	**10.78**	**15.13**	**19.95**	**24.28**	**27.08**	**28.82**
	% margin	15%	21%	20%	20%	21%	21%	21%
EPS		0.06	0.20	0.28	0.37	0.45	0.51	0.54

Particulars in €m	2020 H	2021 H	2022 E	2023 F	2024 F	2025 F	2026 F
Balance Sheet							
Non-Current Assets							
Tangible Assets	4.81	4.67	12.88	15.76	17.73	18.20	17.75
Intangible Assets	6.23	14.87	21.97	29.55	36.64	41.61	45.05
Goodwill	4.11	8.26	0.00	0.00	0.00	0.00	0.00
Investments in Subsidiaries	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Investments in AE's	1.04	4.84	10.00	1.10	1.10	1.10	1.10
Other Holdings	0.00	0.03	0.00	0.00	0.00	0.00	0.00
LT Lease Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other LT Receivables	0.18	0.62	0.39	0.53	0.67	0.65	0.72
% change	*150%*	*241%*	*-38%*	*36%*	*27%*	*-3%*	*11%*
% margin	*0.84%*	*1.23%*	*0.51%*	*0.54%*	*0.57%*	*0.50%*	*0.53%*
Deferred Tax Receivable	0.00	2.19	0.76	0.98	1.18	1.30	1.37
% margin	0.00%	4.33%	1.0%	1.0%	1.0%	1.0%	1.0%
% change	*-100%*	-	*-65%*	*30%*	*20%*	*10%*	*5%*
Total	**16.38**	**35.48**	**46.00**	**47.92**	**57.32**	**62.86**	**65.99**
Current Assets							
Inventory	0.04	0.13	0.08	0.11	0.14	0.15	0.16
Trade Receivables	10.15	18.94	35.29	45.88	55.05	60.56	63.58
% margin	47%	38%	47%	47%	47%	47%	47%
Securities	0.31	0.30	0.37	0.40	0.43	0.46	0.49
ST Lease Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other ST Receivables	1.90	2.61	6.67	9.65	12.77	15.34	17.47
% margin	8.8%	5.2%	8.8%	9.8%	10.8%	11.8%	12.8%
% change	*256%*	*37%*	*155%*	*45%*	*32%*	*20%*	*14%*
Cash and cash equivalents	20.79	23.35	38.13	60.36	89.96	121.18	156.52
% margin	96%	46%	50%	61%	76%	93%	115%
Total	**33.19**	**45.34**	**80.54**	**116.40**	**158.34**	**197.69**	**238.23**
Total Assets	**49.58**	**80.82**	**126.54**	**164.32**	**215.66**	**260.55**	**304.21**
Shareholders' Equity	**23.58**	**41.45**	**72.50**	**99.50**	**144.00**	**183.50**	**224.10**
% margin	109%	82%	96%	101%	122%	141%	164%
Total Shareholder's Equity	**23.58**	**41.45**	**72.50**	**99.50**	**144.00**	**183.50**	**224.10**
LT Liabilities							
LT Debt	10.87	8.91	12.00	13.00	12.00	11.00	10.00
Lease Payable	1.97	1.56	1.71	1.80	1.74	1.75	1.76
Deferred Tax Payable	0.03	0.00	0.00	0.00	0.00	0.00	0.00
Personnel Liabilities	0.37	1.15	2.48	2.68	2.88	3.08	3.28
Other LT Liabilities	0.14	0.14	0.14	0.14	0.14	0.14	0.14
Total	**13.38**	**11.77**	**16.32**	**17.61**	**16.75**	**15.96**	**15.18**
ST Liabilities							
Suppliers Payable	2.69	5.29	9.55	13.06	16.32	18.84	20.74
% margin	12%	10%	13%	13%	14%	14%	15%
ST Debt	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Current Portion of LT Debt	4.19	6.80	6.99	7.58	6.94	6.89	5.93
% of LT Debt	39%	76%	58%	58%	58%	63%	59%
Current Portion of Lease	0.58	0.61	0.61	0.61	0.61	0.61	0.61
Current Tax Liabilities	2.45	6.73	7.73	8.73	9.73	10.73	11.73
Other ST Liabilities	2.72	8.18	12.88	17.24	21.28	24.05	25.94
% margin	13%	16%	17%	18%	18%	19%	19%
Total	**12.62**	**27.60**	**37.76**	**47.21**	**54.88**	**61.13**	**64.94**
Total Liabilities	**26.00**	**39.37**	**54.08**	**64.82**	**71.63**	**77.09**	**80.12**
Grand total	**49.58**	**80.82**	**126.54**	**164.32**	**215.66**	**260.55**	**304.21**

Particulars in €m	2020 H	2021 H	2022 E	2023 F	2024 F	2025 F	2026 F
Cash Flow Statement							
EBT	3.40	12.22	16.26	21.44	26.08	29.08	30.94
Adjustments for:							
Depreciation	1.50	2.75	5.23	6.80	8.16	8.97	9.42
Forecasts	0.37	2.53	2.63	2.73	2.83	2.93	3.03
Exchange Differences	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Financial Results	(0.17)	(0.65)	(1.18)	(1.53)	(1.84)	(2.02)	(2.12)
Interest	0.51	0.88	0.98	1.08	1.18	1.28	1.38
Total	**5.60**	**17.73**	**23.93**	**30.52**	**36.41**	**40.24**	**42.65**
Increase/(Decrease) Inventory	(0.01)	0.03	0.05	(0.03)	(0.03)	(0.02)	(0.01)
Increase/(Decrease) Receivables	0.82	(11.35)	(16.34)	(10.59)	(9.18)	(5.51)	(3.03)
Increase/(Decrease) Trade Payables	0.29	6.29	8.96	7.86	7.30	5.30	3.78
Total	**1.10**	**(5.04)**	**(7.33)**	**(2.75)**	**(1.90)**	**(0.23)**	**0.74**
Minus:							
Interest Paid	(0.47)	(0.90)	(1.00)	(1.10)	(1.20)	(1.30)	(1.40)
Tax Paid	(0.16)	(0.25)	(1.13)	(1.49)	(1.80)	(2.00)	(2.12)
Cash flow from Operating Activities (i)	6.07	11.53	14.46	25.18	31.51	36.71	39.87
Cash Conversion	116%	76%	64%	85%	87%	92%	94%
OCF/Sales	28.0%	22.8%	19.1%	25.6%	26.7%	28.2%	29.2%
Investments in Subsidiaries	(5.30)	(14.55)	(1.00)	(1.00)	(1.00)	(1.00)	(1.00)
CapEx	(0.73)	(1.73)	(2.50)	(3.00)	(3.50)	(4.00)	(4.50)
Subsidiary Sale Income	0.00	4.31	0.00	0.00	0.00	0.00	0.00
Asset Sale Income	0.00	0.01	0.01	0.01	0.01	0.01	0.01
Leasing Income	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Income	0.04	0.08	0.09	0.11	0.13	0.14	0.16
Dividend Income	0.05	0.06	0.03	0.03	0.03	0.03	0.03
Other Investment Activities	(0.00)	(0.00)	0.01	0.00	0.00	0.00	0.01
Cash flow from Investing Activities (ii)	**(5.93)**	**(11.83)**	**(3.36)**	**(3.86)**	**(4.34)**	**(4.82)**	**(5.30)**
Income from Increase in Share Capital	5.28	2.10	0.00	0.00	0.00	0.00	0.00
Income from Sale of Treasury Stock	0.07	0.00	0.00	0.00	0.00	0.00	0.00
Share Capital Reduction Payments	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Treasury Stock	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Income from Issued Debt	7.70	2.72	8.40	6.50	8.40	5.50	7.00
% of Debt	71%	31%	70%	50%	70%	50%	70%
Debt Repayments	(0.32)	(2.90)	(2.40)	(2.60)	(2.40)	(2.20)	(2.00)
% of Debt	-3%	-33%	-20%	-20%	-20%	-20%	-20%
Lease Repayments	(0.34)	(0.73)	(0.34)	(0.36)	(0.35)	(0.35)	(0.35)
% of Lease	-17%	-47%	-20%	-20%	-20%	-20%	-20%
Dividends Paid	(0.35)	(0.63)	(1.98)	(2.63)	(3.22)	(3.62)	(3.88)
DPS	0.01	0.01	0.04	0.05	0.06	0.07	0.07
Other Financing Activities	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash flow from Financing Activities (iii)	**12.05**	**0.56**	**3.68**	**0.91**	**2.43**	**(0.67)**	**0.77**
Total (i)+(ii)+(iii)	**12.19**	**0.26**	**14.78**	**22.23**	**29.60**	**31.22**	**35.34**
Cash at the beginning	8.59	20.79	23.35	38.13	60.36	89.96	121.18
FX changes	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash Available Cont. Sector	0.00	2.30	0.00	0.00	0.00	0.00	0.00
Cash at the end	**20.79**	**23.35**	**38.13**	**60.36**	**89.96**	**121.18**	**156.52**

Table of Contents

Company Overview

Products and Services

Two main business segments consist of IT and Education

Epsilon Net's core activities can be distinguished into the Information Technology segment, which focuses on the development and distribution of business software, and the Education segment, which provides a variety of specialized training programs and online education solutions.

The Information Technology segment includes the:

A. development and sale of business software ranging from integrated ERP platforms to sector-focused packages.
B. provision of specialized support and maintenance services to business software users
C. design and implementation of private IT projects
D. development of databases and data mining tools
E. provision of journalism services through platforms such as the "e-forologia" portal

The Education segment includes the:

A. development of online and asynchronous education solutions
B. professional training of business executives and professionals
C. provision of undergraduate and postgraduate programs in economics through academic (University of London, N.K.U.A.) and professional bodies (A.I.A., S.O.E.L.)

Development and distribution of business software comprises the significant majority of annual revenues

Expansive reseller network

The most important component of the sales mix are activities relating to the distribution of business software, comprising the bulk of annual revenues (>90%). The key revenue driver of this activity is licensing, which involves the selling of perpetual access to software products to clients through monthly or annual fees. Up to 30% of software sales, as well as matters relating to the installation and configuration of the products, are attributed to the company's reseller network, comprising of small to medium-sized enterprises which are granted the right to sell the company's products and act as the interlocutor between the company and its clients. The company also offers software-as-a-service (SaaS) products such as Epsilon Smart, which are centrally hosted and accessed by customers through a monthly or annual subscription.

Wide-ranging client base spanning multiple industries

The company has developed a well-diversified client base, spanning enterprises of all sizes and across multiple industries, from individual accountants to large conglomerates. Among others, the company offers solutions and is active in industries ranging from financial services to hospitality and consumer retail. Such client diversification, combined with its wide array of products, has allowed the company to record steady growth while insulating itself from adverse market conditions. Its geographic mix is similarly diversified, with operations covering both northern and southern Greece.

Expansion in both northern and southern Greece

Foothold into EU markets

From its origins in the city of Thessaloniki in northern Greece, the company has quickly expanded into the southern portion of the country through its offices in Athens, with revenues from southern Greece growing at a c36% CAGR compared to c33% for northern Greece during the period 2017-2021. In 2021, sales from northern and southern Greece represented 35% and 64% of total sales, respectively. The remaining 1% originates from an international subsidiary, Hoteliga International, a Polish hospitality software developer which the company acquired in 2020 as part of its efforts to expand in the EU market. It is the first foreign subsidiary to have recorded revenues from abroad, a trend that is expected to continue in the future.

Plethora of subsidiaries specializing in different subfields within Greece and abroad

In total, the Epsilon Net group is comprised of seventeen companies spanning four countries, thirteen of which are in Greece. Of the company's directly controlled subsidiaries, six are the products of a series of acquisitions from 2019 onward (Data Communication, Technolife, Epsilon SingularLogic, System Soft, IQOM, Professional Computer Services), aiming to achieve further market consolidation and expand the company's outreach. Another three (Epsilon Hospitality, Epsilon HR, and Epsilon Support Center) were locally founded and specialize in specific segments (business suites, HR solutions and customer support, respectively). The remaining three (HIT Hospitality, SingularLogic and InfoSupport) are only partly controlled by the company (34%, 39.93% and 34% respectively). The company's international subsidiaries (Epsilon Europe, EvolutionsNT PLC, EvolutionsNT LTD and Hoteliga International, based in Cyprus, the United Kingdom and Poland respectively) serve as a foothold to establish the company's operations in foreign markets and are all fully consolidated. The group's organizational structure can be seen below:

Greece - Full Consolidation	Greece - Equity Method
EPSILON NET S.A.	**HIT HOSPITALITY S.A.**
Parent	*Equity Method 34%*
EPSILON HOSPITALITY S.A.	**INFOSUPPORT S.A.**
Full Consolidation 99.983%	*Equity Method 34%*
EPSILON HR S.A.	**SINGULARLOGIC S.A.**
Full Consolidation 65%	*Equity Method 39.93%*
EPSILON SUPPORT CENTER S.A.	**United Kingdom**
Full Consolidation 51%	**EVOLUTIONSNT L.T.D.**
DATA COMMUNICATION S.A.	*Full Consolidation 100%*
Full Consolidation 100,00%	**EVOLUTIONSNT P.L.C.**
EPSILON SINGULARLOGIC S.A.	*Full Consolidation 99.956%*
Full Consolidation 60%	**Cyprus**
TECHNOLIFE L.T.D	**EPSILON EUROPE P.L.C.**
Full Consolidation 60%	*Full Consolidation 99.97%*
SYSTEM SOFT S.A.	**Poland**
Full Consolidation 100%	**HOTELIGA INTERNATIONAL L.L.C.**
IQOM S.A.	*Full Consolidation 51%*
Full Consolidation 80%	
PROFESSIONAL COMPUTER SERVICES S.A.	
Full Consolidation 88%	

Source: Euroxx Investment Banking, Company Data

Strategy

Decentralized strategy vis-à-vis competitors

Epsilon Net follows an all-encompassing, decentralized business model, fielding a wide assortment of software solutions for clients of all sizes and belonging to diverse industries. A defining characteristic of the company is that, unlike other domestic competitors which handle distribution and after-sales services mostly on an internal basis, Epsilon Net relies to a greater extent on its network of resellers.

Particular attention on selecting and ensuring quality of reseller partners

Increasing share of sales originating from resellers

These resellers are typically small or medium-sized enterprises that are responsible for the sale, implementation, and continued customer support of the company's products and constitute an important part of Epsilon Net's public image. The company has organized their monitoring and development through a special directorate that is responsible for their selection, the training of their staff, informing them about the company's products and services and providing support in terms of sales, technical know-how and proper installation and configuration of the products. Specifically, the percentage of sales coming from resellers amounted to 26.9% of the company's total revenues for the year 2019 and respectively to 21.8% for the year 2018 and is set to further increase in the coming years.

Solid base of recurring revenues through focusing on customer support

Conservative growth philosophy

A key part of the company's strategy lies in securing a steady stream of recurring revenues through its licensing contracts. To achieve this, the company focuses on maintaining a strong customer retention rate of over 90%, owing to its focus on providing extensive customer support and maintenance services for its entire product range. This allows for a strong base of recurring revenues at around 60% of annual sales. This trend is expected to continue in the coming years, with forecasted sales for 2022-2026e assuming this percentage. In all, the company espouses a conservative growth philosophy, choosing to execute few capitalizations and favoring the reinvestment of its profits back into the business. As an illustration, recent acquisitions, as in the case of SingularLogic, were financed entirely through the company's profitability.

Additional foray into Cloud services

The company also plans to boost its Cloud services moving forward, through its flagship product in the segment, Epsilon Smart. Following the compulsory imposition of e-invoicing on private businesses by the Greek government beginning from January 2022, Epsilon Smart was developed as an electronic invoicing solution to capture as much of this market opening as possible. Epsilon Smart gained a significant number of new subscribers in the closing months of 2021 and is expected to maintain solid growth moving forward despite a slowdown in adoption. As a pure cloud application built on the Microsoft Azure platform, Epsilon Smart is expected to run high gross margins of over 90% and contribute significantly to future revenue growth.

Penetration of vertical markets and expansion into the Fintech space

Another growth stream the company seeks to tap into in the near future is the further penetration of vertical markets, particularly fintech. Through its recent acquisition of Professional Computer Services (PCS), a provider of investment management software solutions, in November 2021, Epsilon Net established a bridgehead into the rapidly expanding fintech sector, domestically and internationally, and initiated its plan to enter special vertical markets and provide innovative products and services aiming at the expansion of its customer base.

Diversified long-term growth plans to create multiple streams of potential future growth

The company aims to contribute comprehensively to the transformation of PCS into an Innovation Hub for the development of solutions in the field of Digital Services, with an initial emphasis on Asset and Investment Management. At the same time, the company is considering the development of additional solutions in the fields of financial products and transactions aiming at the integrated provision of specialized services in this field.

The company's future growth plans include:

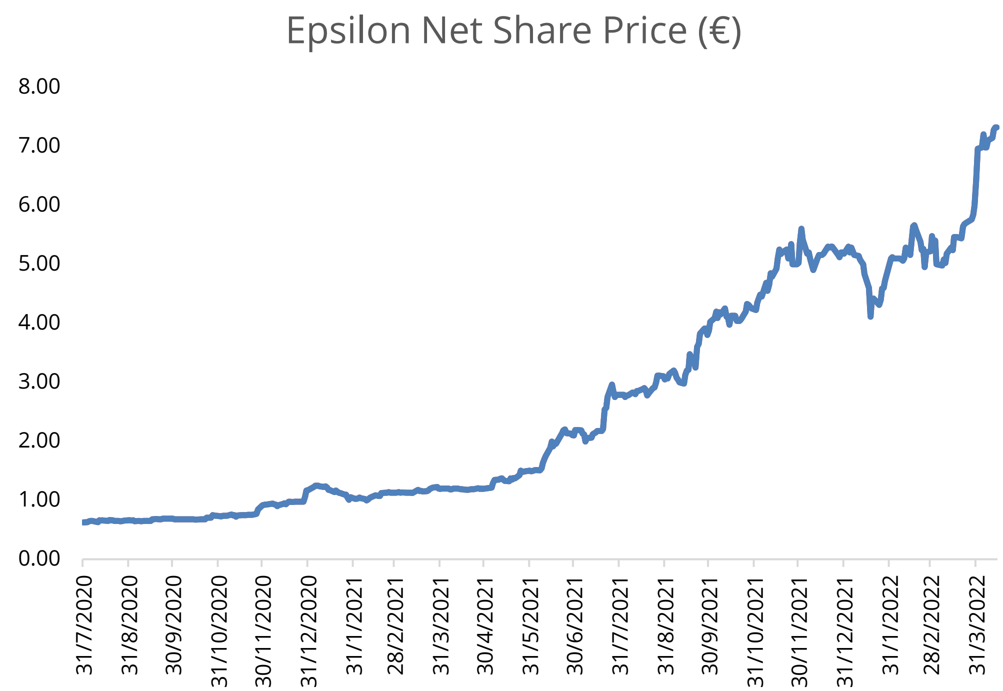
A. Additional investment in the development and expansion of the PYLON ERP platform, aiming to move in tandem with the ongoing rollout of 5G bandwidth to capture a large share of the excess demand caused by the expansion of work-from-home policies
B. Expansion of the market share in accounting offices and tax consultancies through the continuous provision of support services and innovative solutions
C. Sales boost in the fields of Human Resources (HR) and Payroll systems through the provision of additional specialized solutions regarding the monitoring, training, and evaluation of staff
D. An integrated approach in addressing the needs of "micro", "small" and "individual" enterprises of the Greek market which, due to the new "Digital Transformation" framework unrolled by the Greek government, will be required to proceed with the digitization and monitoring of their financial activities, something that is estimated to contribute significantly to the acceleration of the implementation of investments in new information systems.
E. Utilization of the company's enhanced know-how in business software for medium and large enterprises (ERP, CRM, WMS, MOBILE, MIS, in combination with the solutions of a certified Provider of electronic invoicing and myDATA) as well as the specialized applications for vertical markets (Retail, Gas Stations, Hospitality, Pharmacies & Pharmaceutical Warehouses).

Financial Overview

Price

Almost constant price growth

Since its entry into the ATHEX main market in July 2020 following a capital raise, the company's share price has performed exceptionally well, growing steadily from a closing price of €0.6250 on July 31st, 2020, to €7.3800 on April 19th, 2022, and currently remains on an upward trajectory. In the past year alone, its share price has recorded a c528% growth, increasing by a net €6.20. This has been the case despite a stock split in late 2021 that increased the number of shares from 13.4m to 53.6m.



Source: Euroxx Investment Banking, Bloomberg

Cost Structure

COGS makes up majority of total costs

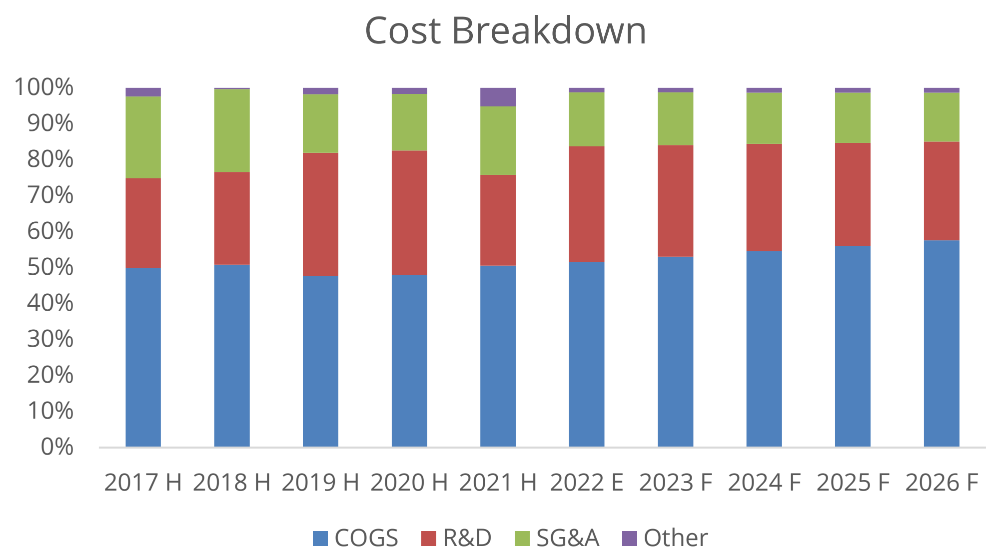
The company's total costs amounted to c95% of sales in 2017, with this percentage steadily dropping to 76% in 2021. COGS makes up most total costs, as would be expected for a product-centric company such as Epsilon Net, moving from 50% to 51% over the period 2017-2021, with its share as a percentage of sales steadily decreasing, going from 47% of sales in 2017 to 39% in 2021.

Significant research and development spending

The second largest expense category is R&D, making up 25% of total costs in 2017 and going up to 34% in 2020 before dropping back to 25% in 2021. This trend largely matches sales revenue as well, with R&D moving from 24% of sales in 2017 to 29% in 2020, before dropping to 19% in 2021. In general, R&D is the only expense category to have increased its margins over time, reflecting the company's commitment to innovation and setting solid foundations for future growth. However, its current downward move as a percentage of sales is expected to continue as the company focuses on expanding its personnel.

Falling SG&A costs as a share of sales

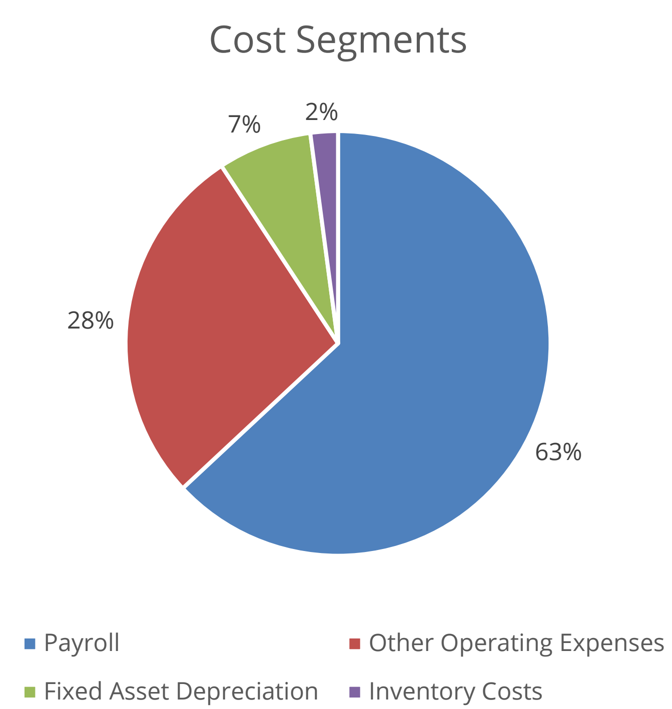
Finally, SG&A costs make up the third major expense category and follow a downward trajectory much like COGS (23% to 19% of total costs from 2017 to 2021 and 22% to 15% of sales for the same period).



Source: Euroxx Investment Banking, Company Data

Payroll expenses comprise majority of outflows as part of COGS

Regarding the specific cost segments, by far the largest are payroll expenses, making up 63% of total costs in 2021. Other operating expenses follow at 28%, with the rest made up of fixed asset depreciation costs and inventory costs (7% and 2% in 2021, respectively).



Source: Euroxx Investment Banking, Company Data

COGS projected to increase in the following years as market demand spikes

Overall, the company presents a healthy picture. The numbers seen above indicate that, relative to revenue figures, the company scaled down spending on employee intake as it covered existing market demand, while at the same time pivoting toward higher R&D spending, reflecting efficiency and benefits resulting from economies of scale. They simultaneously underline its significant investment in human capital and the entrenchment of future revenue drivers in the form of innovation via new products and services. These factors place it in an ideal position to thrive in the Greek software market and capture a large share of future demand. As the market expands, this trend is expected to reverse, with COGS and payroll expenses increasing vis-à-vis R&D.

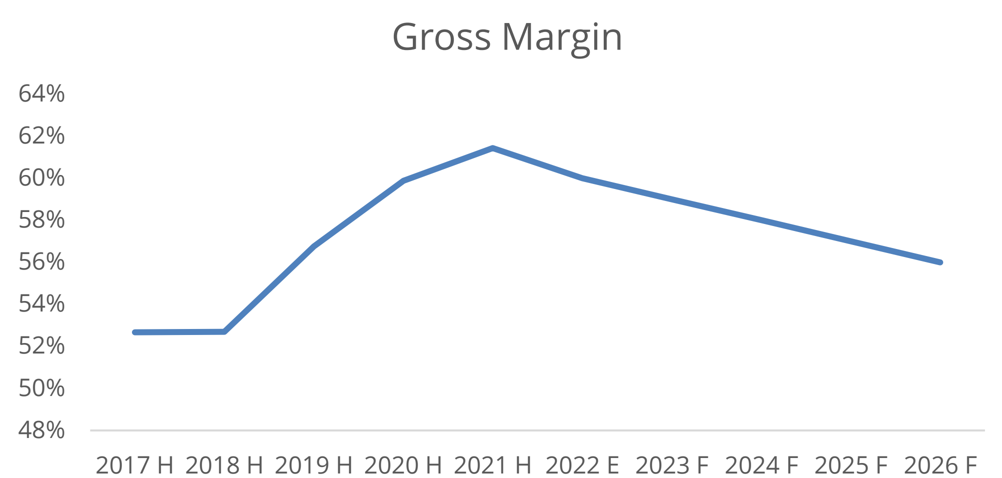
Margins

Growing efficiency and profitability margins

The strong fundamentals implied by the company's cost structure are reflected in its solid margins. Its gross margin remained steady at around 53% for 2017 and 2018 before increasing to c57% in 2019 and c61% in 2021 as the company increased its efficiency in tandem with accelerating revenue growth. Its EBITDA margin followed a steadily upward trajectory, starting at 14% and 15% in 2017 and 2018 before moving to 18% and 24% in 2019 and 2020, respectively, indicating a clear boost in profitability. 2021, in turn, marked a new record at c30%, a milestone figure for the company.

Efficiency expected to take a hit as market demand instigates hiring spree

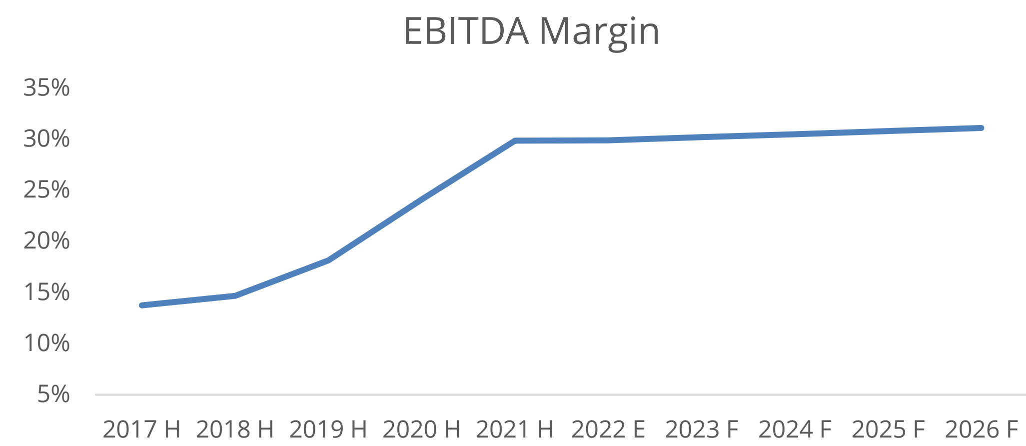
In the future, the digitization push brought about both by the impact of the COVID-19 pandemic and government-sponsored programs will likely trigger a need for new hires, thus increasing COGS spending and simultaneously decreasing R&D, as the newly generated demand will be mostly covered by existing products. This is forecasted to lead to a slight decrease in the gross margin over the period 2022-2026, after peaking in 2021 at a value around c61%, signifying a dilution in efficiency.



Source: Euroxx Investment Banking, Company Data

Profitability to remain on course

Profitability, on the other hand, is projected to keep rising, and the EBITDA margin is forecasted to continue increasing within the 30-31% range from 2022 onward.

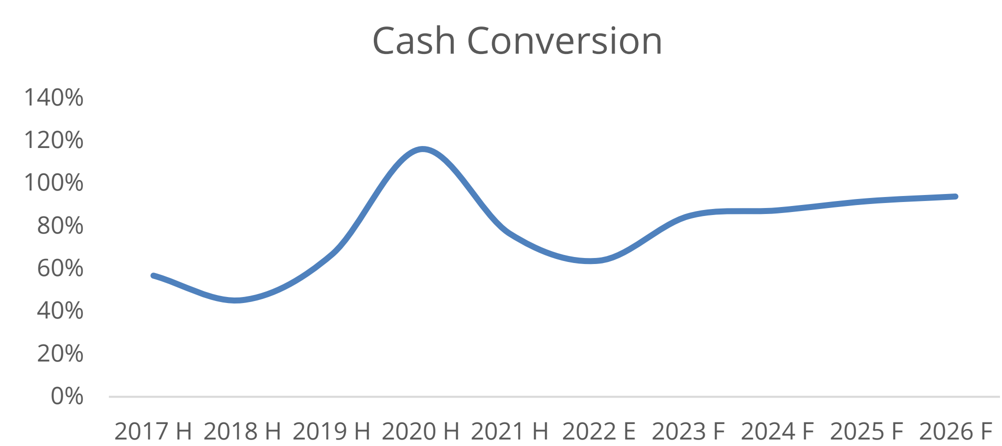


Source: Euroxx Investment Banking, Company Data

Cash Flow Generation

Healthy cash generation with rising operating cash flows and high cash conversion ratios

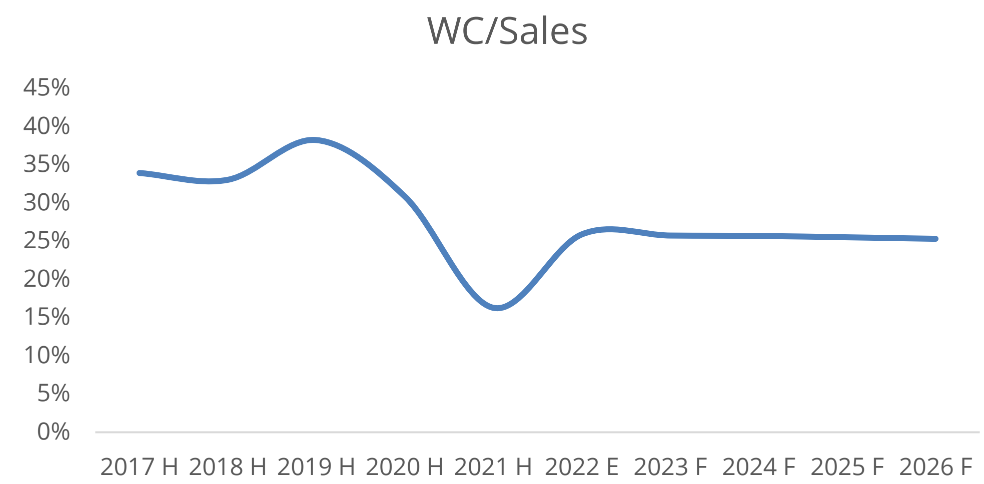
Epsilon Net has exhibited a steady increase in cash flow generation and constantly growing returns. From 2017 to 2021, its operating cash flow has risen almost ninefold from €1.30 million to €11.53 million while EBITDA has risen sevenfold from €2.06 million to €15.09 million in the same period. At the same time, cash conversion (OCF/Adj. EBITDA) has remained consistently healthy, with its lowest point for the period 2017-2021 being as high as 45% in 2018 before reaching an impressive 116% in 2020 and moving back to 76% in 2021, highlighting the company's cash generating abilities, the variability being mostly attributable to shifts in payables and receivables. After a slight dip in 2022 due to balance sheet pressures caused by recent acquisitions, it is projected to remain in the 84-94% range.



Source: Euroxx Investment Banking, Company Data

The company has also managed to convert an increasing share of its revenues into cash flows, as can be seen from examining operating cash flows as a percentage of sales, a ratio which has steadily increased from 8,7% in 2017 to 23% in 2021. Its operating cycle has hovered at about 170 days, with the forecasts assuming it will largely remain as such. Working Capital as a percentage of sales has historically remained in the 30-38% range, and is expected to hover around 25% moving forward.

Stable working capital needs as a share of revenues



Source: Euroxx Investment Banking, Company Data

M&A activity acts as the key driver for capital expenditure and investment figures

Flurry of M&A activity in 2019-2021

Concerning the company's capital expenditures and external investments, total figures are primarily driven by M&A activity, which is positively correlated with significant increases in spending, while organic expenditures generally remain at low levels. After a peak in 2017 of c€2.1 million as the company expanded its infrastructure and capabilities, CapEx spending in tangible and intangible fixed assets has remained at around €0.5-€1.0 million, with this range exhibited as a steady upward trend over 2018-2020 following growing sales. The key driver of investment expenditures, however, has been M&A activity, typically outnumbering CapEx by a wide margin whenever is occurs. In 2019, a c€0.5m CapEx figure was topped by a €1.0m acquisition related to HIT Hospitality. 2020 saw even starker differences, where a flurry of M&A activity saw external investment expenditures increase to €5,3m, with major acquisitions featuring Data Communication and Hoteliga International. CapEx, on the other hand, rose to €0.73m. This M&A momentum continued into 2021, with investment expenditures skyrocketing to €14.5m as a result of transactions related to SingularLogic, IQOM, Professional Computer Services, System Soft and InfoSupport, and CapEx increasing to €1.73m. M&A activity has evidently resulted in solid returns despite its imposing price tag, with EBITDA increasing by almost €13m over 2018-2021, marking a return approaching 62% over the investment outflows of c€21m during the same period.

CapEx to increase, external investments at baseline

Looking ahead, CapEx is expected to continue its steady ascent in the years to come. As of April 2022, Epsilon Net has completed the purchase of an autonomous building complex in Thessaloniki, at a total price of €2.25m, to serve as the site of its new headquarters and a base for its Digital Technology Center and Incubator facilities. In addition, further M&A activity is a very real possibility for the period 2022-2026, given the robust market conditions expected. 2022 already features the €0.5m acquisition of a 51% stake in DIGITAL4U, as part of the company's efforts to expand into the e-commerce space. Further M&A activity, however, is not accounted for in the forecasts to ensure continuity. Instead, external expenditures in the form of investments in subsidiaries are expected to remain at their historical baseline of around €1m.

Balance Sheet

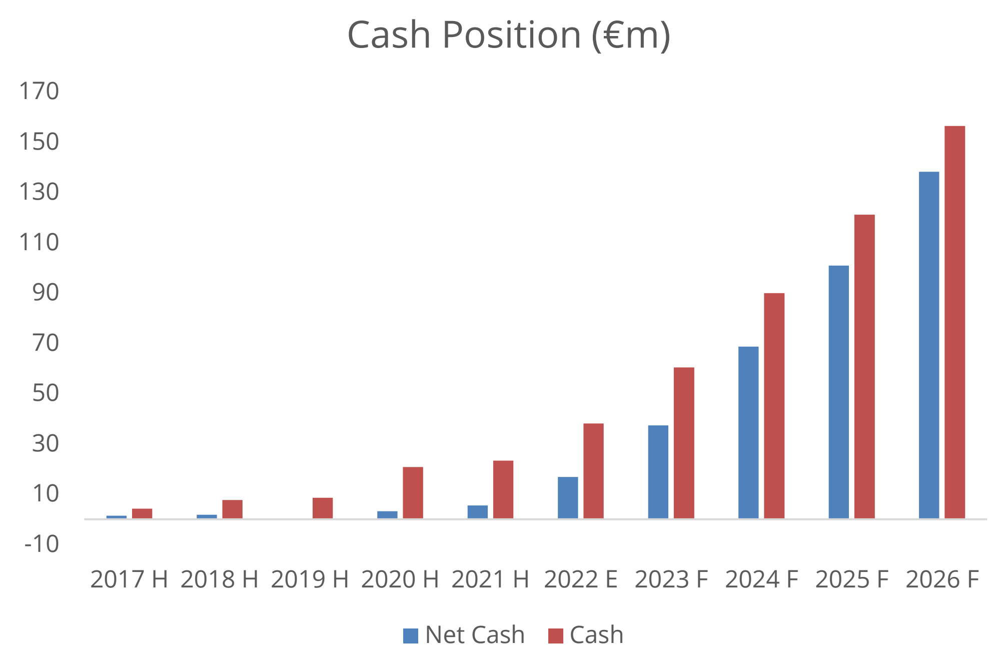
Very solid current ratio indicating comfortable cash cushion

Low D/E ratio despite increase in debt financing

Epsilon Net possesses an overall healthy balance sheet, with a strong current ratio in the range of 2.9 to 1.6 over 2017-2021, indicating that the company is more than capable of meeting its short-term obligations effectively, and, despite increasing levels of debt financing as the company has sought to rapidly expand its operations, a debt-to-equity ratio that has remained well below 1, trending from 0.26 in 2017 to 0.64 in 2020 and even dropping to 0.38 in 2021. The company has also maintained a solid cash cushion, with its cash position steadily rising from c€4.3m in 2017 to c€8.6m in 2019, before reaching over €20m in 2020 resulting from a successful capital raising. Despite a near constant stream of M&A activity, 2021 also saw a further cash balance increase to c€23.4m.

Positive net cash position provides important layer of safety and a platform for future expenditures

After accounting for debt obligations, net cash has also remained steadily positive throughout 2017-2021, standing at c€5.5m as of 2021, illustrating how the company could cover its obligations with its cash buffer alone, without relying on other inflows such as receivables. Such healthy cash balances are expected to continue moving forward, highlighting the inherently cash-generative nature of the industry and the prudent management of the company's finances, while also providing a solid launching pad for potential M&A activity.



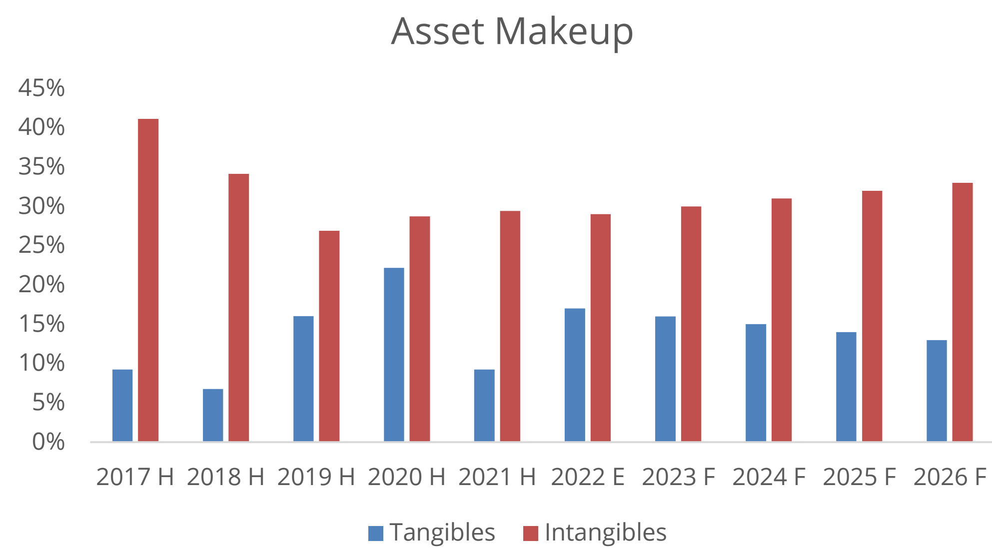
Source: Euroxx Investment Banking, Company Data

Growing investment in tangible assets following rapid expansion closes gap

Regarding its asset makeup, intangibles understandably make up the largest non-current asset class, given how Epsilon Net belongs in the software industry. Tangible assets follow closely behind, and the gap between the two has gradually shrank. Whereas in 2017, tangible assets amounted to a mere 9.2% of sales, by 2020 this percentage had grown to 22.2%, as the company expanded its physical footprint across the country. Intangible assets shifted from 41.1% to 28.7% of sales in the same period.

Digitization to push intangible assets to the fore once again

This trend reversed in 2021, however, with tangibles dropping to 9% of sales and intangibles rising to 29%, as a result of the digitization push that spurred greater investment in intangible assets and reduced the need for tangibles, as existing physical infrastructure satisfied demand. This is expected to continue in the period 2022-2026, with intangible assets moving close to the EU median of 35% of sales, while the share of tangible assets falls in return to about 13% by 2026.

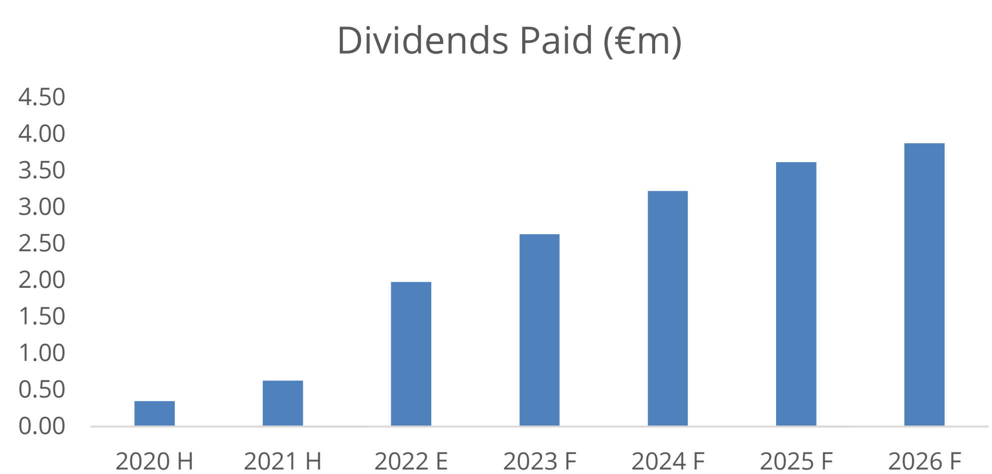


Source: Euroxx Investment Banking, Company Data

First dividend payout in 2020 since the breakout of the financial crisis

Positive net profits allowing for future payouts

Epsilon Net paid no dividends to shareholders for the period 2017 to 2019, given how the company wished to direct funds toward investing in new opportunities. Positive market conditions in 2020 allowed for the first dividend payout since the outbreak of the Greek financial crisis amounting to €348,694.80 or €0.026022 per share, representing c10% of net income. 2021 saw another dividend payout of €629,800 or €0.04465 per share, representing a lower 8% of net income. Throughout the period 2022-2026, the company is expected to allocate 13-14% of its net income to dividend payouts, as increasingly positive market conditions will allow the company to continue diverting more profit to its shareholders.



Source: Euroxx Investment Banking, Company Data

Valuation

Main Assumptions

DCF chosen as optimal valuation method given strong expected cash flows

The valuation method chosen is the Discounted Cash Flow (DCF) analysis, given the company's strong forecasted growth in the coming years and the rapidly improving macroeconomic conditions within the industry and Greece at large, both of which are expected to produce strong cash flows that will define the value of the company. The key assumptions upon which the model is based are the following:

Booming growth to settle in the long term

Regarding revenues, the explosive growth recorded following the acquisition of Singular Logic in 2021 is expected to settle at a new organic record of 50% in 2022, and then gradually recede to 5% by 2026, as the market settles and the excess demand generated by the COVID-19 pandemic and the government digitization scheme is covered. Another key factor in the above assumptions is the ongoing rollout and near-term evolution of Epsilon Smart, the company's electronic invoicing solution. As mentioned earlier, Epsilon Smart's cloud-based design allows for revenue margins in excess of 90%, virtually turning each new subscriber into pure profit. Subscriber growth is expected to peak in late 2022, however, with a sustained slowdown from 2023 onward, leading to reduced profit growth. Despite this, the result is a revenue CAGR of c16%, slightly higher than the respective historical figure of 15%.

Increase in COGS and simultaneous decrease in R&D spending relative to revenues

Regarding profitability, pressing staffing needs caused by growing market demand are expected to lead to a steady increase in COGS as a percentage of revenue, followed by a simultaneous decrease in R&D spending, as additional demand will chiefly concern existing products and services. The result, combined with a historical trend of reducing the share of SG&A costs through increased efficiency, is a growing EBITDA margin, moving from c30% in 2021 to c31% in 2026, with EBITDA growing at a CAGR of c17% for the forecasted period, slightly outperforming sales growth as a result of costing efficiency.

Increasing free cash flows over the forecasted period

Regarding cash flows, the company is expected to continue increasing both its cash and net cash balances moving forward. Due to balance sheet pressures caused by recent acquisitions, operating cash flows and the cash conversion ratio are both expected to slightly drop in 2022 before rebounding to historical levels from 2023 onward. Overall, free cash flows are expected to steadily increase during the forecasted period, rising from 10% of sales in 2022 to 25% in 2026. Cash conversion will return to the c84%-94% range in 2023-2026, after dropping to 64% in 2022.

Overall achievable estimates highlighting positive potential and momentum

The above assumptions present a realistic and achievable scenario for the company, given positive market conditions and global trends. Avenues for additional growth abound, from further strategic M&A activity to a prolonged industry boom resulting from the RRF and e-invoicing rush, highlighting the significantly positive potential of the company and possibility of outperforming the current estimates.

Key Figures and Results

Intrinsic price of €11.27 per share

The DCF valuation performed resulted in a c€596m enterprise value, with the terminal value of the company amounting to c84% of that figure. In light of the company's high cash cushion and low levels of indebtedness, shareholder equity value reaches c€604m. After accounting for shares outstanding, this leads to an intrinsic share price of €11.27 per share, an amount more than 50% above the current price of €7.38 as of April 19th, 2022. These results are based on the following key figures:

- Revenue CAGR of c16% over 2022-2026, with growth gradually decreasing over time to settle at 5% in 2026
- Terminal growth rate of 1.5%, mirroring the forecasted long-term growth of the Greek economy in light of current developments
- 5-year monthly beta of 0.31, indicating the company's volatility in the stock market
- 17.1% risk premium on the cost of equity, resulting from country-specific equity risks as well as small-cap and liquidity related premia.
- WACC of 6.71% which is believed to accurately capture the relative risk profile of the company within its sector

The sensitivity analysis table below presents the shift in the company's stock price with 0.25% incremental changes in the key drivers of WACC and terminal revenue growth. As can be seen, a 0.5% increase in growth and a simultaneous decrease in WACC by the same amount would result in a stock price of about €12.6, while the opposite scenario would bring the company's share to about €10.2, still significantly higher than its present level. This underscores the company's future potential and highlights how undervalued its stock price currently is in relation to its fundamentals.

Sensitivity Analysis

WACC \ Growth	1.00%	1.25%	1.50%	1.75%	2.00%
6.21%	10.62	11.05	11.52	12.04	12.62
6.46%	10.50	10.93	11.39	11.91	12.48
6.71%	10.39	10.81	11.27	11.78	12.34
6.96%	10.28	10.69	11.15	11.65	12.20
7.21%	10.16	10.57	11.02	11.52	12.07

Source: Euroxx Investment Banking

Current geopolitical developments, notably the crisis in Ukraine, might have negative implications for industries linked to the company's activities, such as the tourism and hospitality industry, which relies on a strong IT backbone to support its operations. Even if such a scenario unfolds, however, its effects will likely be short-lasting and will not significantly affect the company's results, which are far more tied to domestic developments and policy directives.

Industry and Macroeconomic Environment

The IT Sector

Major sector of the Greek economy due to digitization pressures

One of the most important and growing sectors of the Greek economy is the IT sector. The growing demand for automation and digitization observed in recent years in both the private and public sectors makes digital transformation necessary. Highlighting the importance attributed to the digital transformation of the State is the mission of the Ministry of Digital Governance (which replaced the Ministry of Digital Policy, Telecommunications and Information in July 2019) as the Ministry's website emphasizes that it "is a new public administration unit which for the first time brings together all the critical IT and telecommunications structures related to the provision of electronic services to citizens and the wider digital transformation of the country".

Dedicated Ministry

The ministry's objective is to strengthen the country's digital strategy, upgrade horizontal and sectoral systems, promote the modernization and quality of public services, strengthen telecommunications, support infrastructure projects of national importance and enhance digital skills.

EU-wide focus on the sector

In line with the multiannual financial framework (MFF) 2021-2027, i.e. the long-term budget of the European Union, to fill the current gap in digital investments, a new program called Digital Europe will be created, aiming to promote the digitization of public services and businesses by stimulating frontline investment in high-performance computing and data, artificial intelligence, cybersecurity and advanced digital skills, as well as the large-scale deployment of digital technologies in different sectors of the European economy.

Lack of digital infrastructure hampering growth

In a report, the European Commission stresses that digital capacities are essential to tackle global competition and analyze the critical mass of big data for AI innovation. Europe's international competitiveness is constrained by the low degree of digitization of its small and medium-sized enterprises. This is a problem that requires improved access to finance, technology, and skills. The focus is on the digital competences and advanced skills necessary to address global competition and societal challenges, as well as to deliver the benefits of the digital transformation to every citizen and business.

Future demand depends largely on digitization needs of small to medium-sized enterprises

Revenues also depend on trends undergoing within other sectors which currently lean toward digitization

It should therefore be noted that the demand for IT services and software now depends, to a large extent, on the need of the business-customers of the sector to be digitally transformed, as quickly as possible, to be able to remain competitive. In any case, the amount of revenues of IT companies depends indirectly on the course and trends prevailing in each sector where their customers operate. For example, a significant part of the expenditure in the financial sector now involves improving and enriching online and mobile banking services, in the face of the accelerating shrinkage of the network of physical banking branches. In addition, according to industry stakeholders, there is an increased demand for services related to process automation to improve overall efficiency and reduce costs.

Quality of services is also an important factor in shaping demand, an area where Epsilon Net excels

The quality of the services provided in combination with the completion time of the undertaken projects is another important factor that shapes demand in the industry. Also, another important criterion for the choice of an IT company is the reputation that follows it in the market. Some of the leading companies operating in the domestic market have a global presence and a strong brand name, which is an important component for maintaining and increasing their customer base. On the other hand, smaller companies sometimes develop a network of partnerships/alliances to become better known to the market but also to increase the overall range of their services offered. Furthermore, small, and medium-sized enterprises make price reductions, discounts, etc., thus trying to obtain a larger share of the "elastic" part of demand, i.e., from the customer companies that appear more sensitive to price changes (price sensitive).

Importance of reseller network

National Strategic Reference Framework (NSRF – ESPA) 2021-2027

Digitization-focused NSRF

The new NSRF titled "Regional Development Partnership Agreement 2021-2027" reflects the country's new development priorities and newfound focus on promoting digitization. On July 12, 2021, the official submission of the text of the new NSRF 2021-2027 took place through the SFC2021 platform of the European Commission.

Significant funding to shape market demand

Every seven years the European Union decides on its future long-term budget (the multiannual financial framework). At the extraordinary summit on 21 July 2020 in Brussels, EU leaders agreed on a total budget of €1,824.3 billion. Combining the multiannual financial framework (€1,074.3 billion) with an unprecedented recovery effort, known as “Next Generation EU” (€750 billion), the package will help the EU regroup after the COVID-19 pandemic and support investment in digital transitions, a development which will prove decisive in shaping market demand for the next five years.

Program has been green-lit, with the framework initiating in early 2022

Greece was the first country to receive the Commission's "green light" for the NSRF 2021-2027 and has already begun sending the sectoral and regional programs to the committee, to accelerate their approval and avoid a market funding gap between the two programming periods 2014-2020 and 2021-2027. In early 2022, the first calls for programs of the new NSRF 2021-2027 are expected to start to be published, according to the Deputy Minister of Development and Investments. The total budget for the period 2021-2027 is expected to amount to €26.2 billion as regards Greece, of which €20.9 billion comes from the EU (EU contribution) and the remaining €5.3 billion from within the country (national participation). The central objective for the Greek economy, in the coming years, is the systematic increase of productivity and extroversion as well as the closer interconnection of production with research and innovation through greater investment in the digitization of the economy.

Recovery and Resilience Facility (RRF)

Pandemic-induced opportunity

In the context of addressing the socio-economic impact of the COVID-19 pandemic and to boost the European economy toward recovery from the pandemic, the Heads of The Member States and recently the European Parliament have agreed based on the relevant Proposal of the Commission, on a very important recovery package for the period 2021-2027, which combines the Multiannual Financial Framework (MFF) with the new recovery instrument 'Next Generation EU'.

23.3% of RRF funds directed toward digitization efforts

The resulting Recovery and Resilience Facility (RRF) was set up to tackle the COVID-19 crisis and support the transition to a green and digital economy. Greece's recovery and resilience plan responds to the urgent need of fostering a strong recovery and making Greece ready for the future. The reforms and investments in the plan will help Greece become more sustainable, resilient, and better prepared for the challenges and opportunities of the green and digital transitions. To this end, the plan consists of 106 investment measures and 68 reforms. They will be supported by €17.77 billion in grants and €12.73 billion in loans. 23.3% of the plan will foster the digital transition.

Reforms and investments to be completed by the end of the forecasted period in 2026

The transformative impact of Greece's plan is the result of a strong combination of reforms and investments, which address the specific challenges of Greece. The reforms address bottlenecks to lasting and sustainable growth, while investments accelerate the transition towards a low-carbon, digital and more inclusive economy. In particular, the plan intends to facilitate the decarbonization of the Greek economy, modernize and digitalize public administration including by improving the tax administration and justice systems, promote the innovation capacity, digital uptake and resilience of key economic sectors, and upgrade health care, education, and active labor market policies. All reforms and investments must be implemented within a tight time frame, as the Regulation on the Recovery and Resilience Facility indicates that they must be completed by August 2026.

Major boost to Greek GDP

The plan will foster economic growth and create jobs. These estimates do not include the possible positive impact of structural reforms, which can be substantial. The plan will lift Greece's gross domestic product by 2.1% to 3.3% by 2026. This boost to the economy will bring up to 62,000 citizens into employment. Greece will benefit significantly from the Recovery and Resilience Plans of other Member States, for instance through exports. These spill-over effects account for 0.3 percentage points of gross domestic product in 2026.

Plethora of digital challenges within the Greek market present an opportunity for Epsilon Net

Digital challenges in Greece to be tackled through the RRF include a shortfall in connectivity, a lack of digital skills, a slow uptake of digital technologies by SMEs, and a low level of digital public sector services. Greece's recovery and resilience plan supports the digital transition with investments and reforms in the digitalization of public administration and private sector companies, in connectivity, and in digital skills. It will invest €160 million for the development of 5G networks, €1.3 billion in the digital transformation of the public sector and another €375 million for the digitalization of businesses, promoting the integration of digital technologies in SMEs. Established software companies such as Epsilon Net stand to benefit significantly from such developments.

Voucher program for IT equipment already in progress

Furthermore, the plan will invest more than €500 million to promote the digital transformation of the education and health system, while nearly €750 million will be invested in digital upskilling, where Epsilon Net is active. To illustrate, more than 500,000 school pupils and students all over Greece have already received vouchers for the purchase of IT equipment (tablets, laptops, desktops) facilitating the digital transformation of the education system and the development of digital skills. Furthermore, by 31 December 2025, Greece will have installed at least 36,000 interactive learning systems in classrooms of primary and secondary schools in all over the country.

Competitive Landscape

Concentration of competitors in Attica

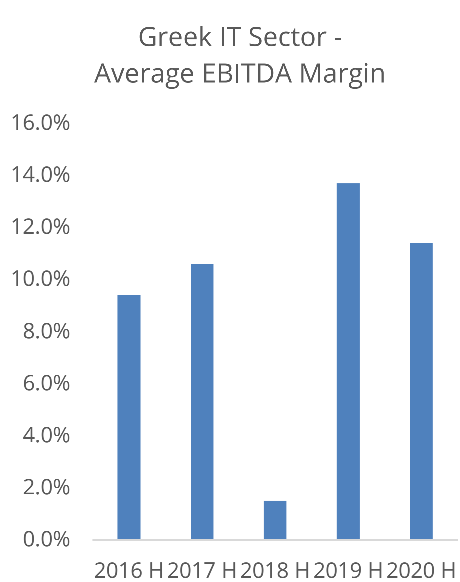
The concentration of software and IT services companies in the prefecture of Attica is very large, with about 96% of Greek IT companies based in Attica and only 4% in the prefecture of Thessaloniki. In addition, 93% of these are sociétés anonymes (S.A.'s), 5% are limited liability companies (LLC's) and 2% are branches of foreign companies.

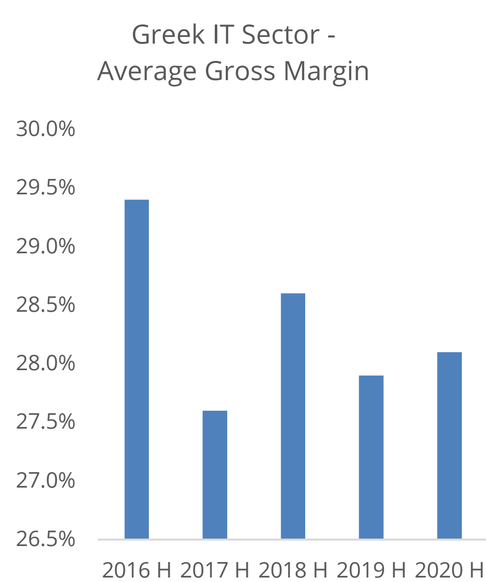
Competition across large, medium and small clients

Given its expansive and all-encompassing business model, Epsilon Net faces a variety of competitors within Greece in the market segments in which it is active. For the small to medium-sized enterprises that comprise the bulk of its clients, prominent competitors include Entersoft and Soft One, the latter of which is involved primarily with small clients and is not listed in the Athens Stock Exchange. In the realm of larger businesses, competition largely comes from the ERP/CRM segments of large multinationals, such as SAP and Microsoft.

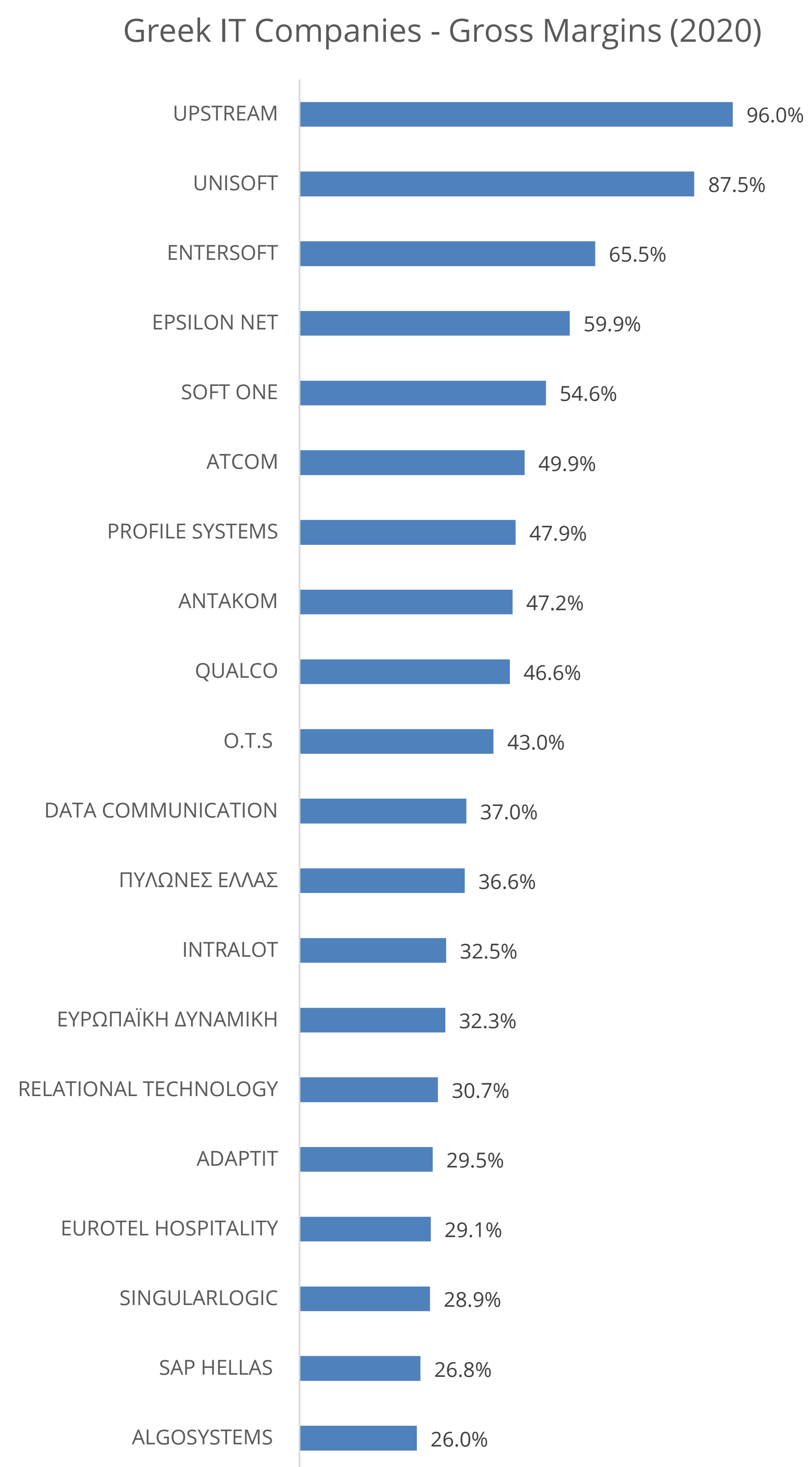
Consistently at the higher end of the spectrum

An overview of the two key margins within the industry (Gross Margin, EBITDA) over time and between Epsilon Net and the top industry participants of each metric for 2020 can be seen below. As is evident, Epsilon Net consistently ranks at the higher end of the spectrum across both margins.

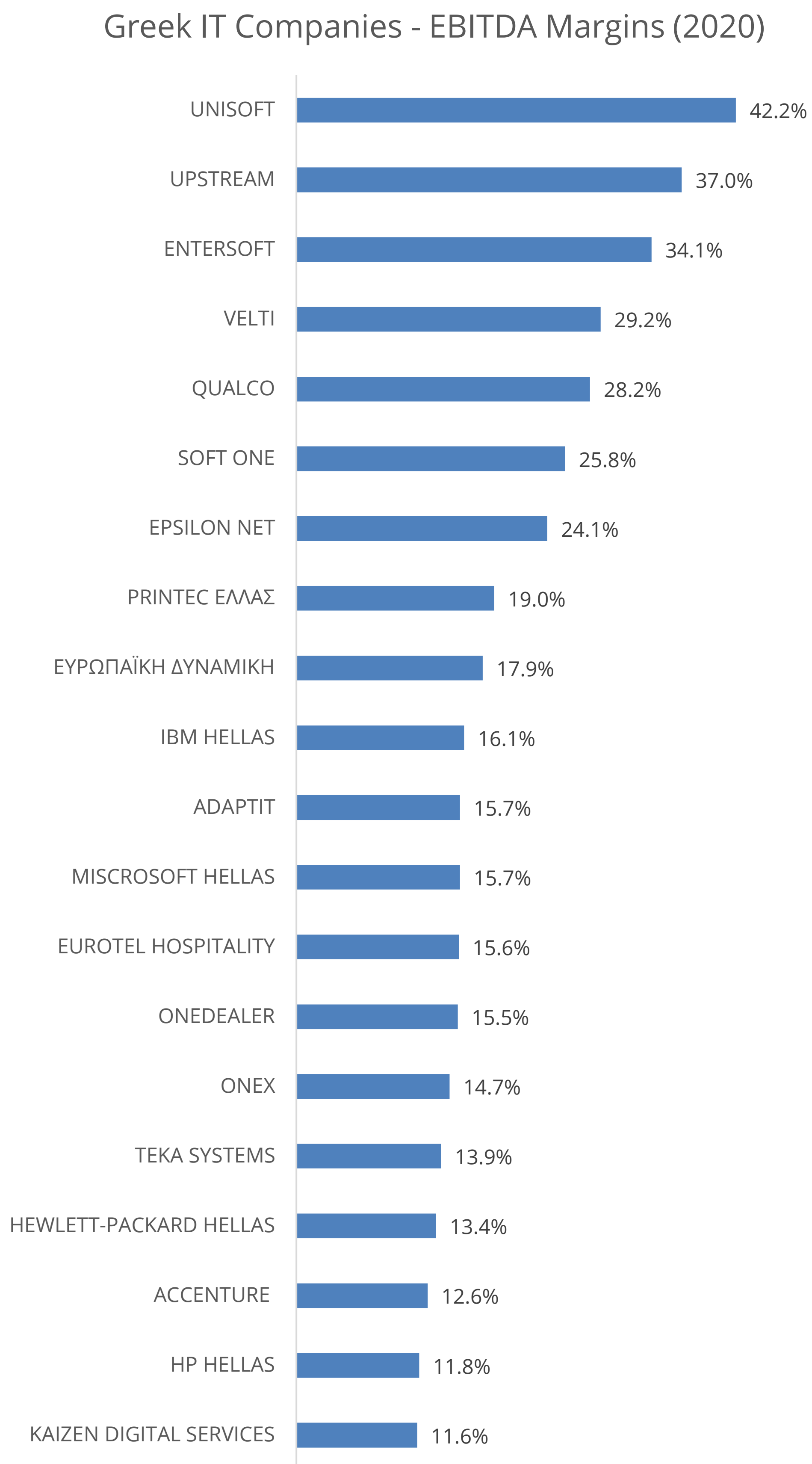




Source: Euroxx Investment Banking, ICAP CRIF



Source: Euroxx Investment Banking, ICAP CRIF



Source: Euroxx Investment Banking, ICAP CRIF

Macroeconomic Environment

Macroeconomic conditions significantly affect profits

The macroeconomic environment in which IT companies operate significantly affects the evolution of their total revenues, as their customers come from the entire range of sectors of the Greek economy. The following table illustrates the evolution of Greek GDP from 2009 to 2021:

Source: Euroxx Investment Banking, European Central Bank (ECB)

Solid growth forecasted for the years following the COVID-19 pandemic

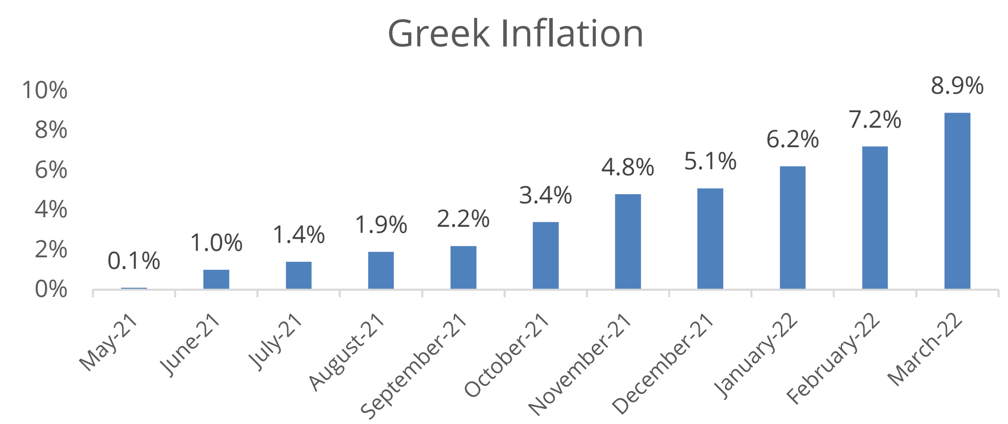
Based on the data presented, gross domestic product showed (in real terms) a continuous decline from 2010 to 2013, while in 2014 it increased slightly by 0.7%. In 2015 and 2016 it declined again by 0.4% and 0.2% respectively. Since 2017, the Greek economy has returned to positive rates of change in its GDP. More specifically, in 2017 it showed an increase of 1.28% and in 2018 the increase reached 1.56%. 2019 marked another increase of 1.86% before the COVID-19 pandemic struck in 2020, which triggered a recession that lowered Greek GDP by 8.25%. The Greek economy, however, swiftly recovered and is on the path toward burgeoning economic growth in the following years. The European Central Bank, in a report published in November 2021, estimated that Greece in 2021 will achieve record growth of 8.5%, which will gradually recede to 4.9% in 2022 and 3.5% for 2023.

Gross Capital Formation and Foreign Direct Investment point to increasingly positive macro environment

The Greek financial crisis that begun in 2009 has also had a very large impact on total gross investment (Gross Capital Formation). Investments decreased from €39.7 billion in 2010 to €20.5 billion in 2015, recording a cumulative decrease of 48.4%. However, in 2016 and 2017 they increased by 3.9% and 9.2% respectively and exceeded €23 billion. In 2018, however, they moved again downwards to €20.5 billion, further decreasing in 2019 and 2020 before picking up again in 2021 and expected to grow alongside the economy in the following years. Another very important economic indicator that reflects a country's actual performance in attracting investment is Foreign Direct Investment. On the basis of the available data, FDI dropped to precarious levels during the crisis, but, since 2016, has risen sharply, reaching €3.4 billion in 2018. COVID-19 saw levels drop below €3 billion but are projected to climb close to €5 billion in 2022 and beyond.

Increasing inflation

Regarding inflation, the forecasts for its evolution have been revised significantly upwards compared to fall estimates. This increase is due to the impact of high energy prices, but also to the widening of inflationary pressures on other product categories. According to ELSTAT data, inflation increased by 8.9% in March of this year, recording the highest increase since 1997.



Source: Euroxx Investment Banking, ELSTAT

Increasing energy costs mitigated by access to LNG

The explosion in the cost of energy is also reinforced by the geopolitical crisis in Europe caused by the situation in Ukraine. It should be noted that more than 40% of Greece's gas imports come from Russia with the majority going to power generation. However, the Revithoussa LNG terminal and easier access to other suppliers from North Africa are moderating, to some extent, the risks of the sharp rise in energy prices in the country.

Conclusion

Opportunities for IT companies

Foreign exposure reduces domestic risk

In conclusion, the wider sector of information technology and software has been constantly growing in recent years in Greece. However, it should be emphasized that the domestic IT market remains small compared to other European countries and economies. This, combined with the increase in IT investments on the part of potential customers, creates new opportunities for the industry. Many Greek IT companies also provide their services to foreign companies, a fact that reduces, to some extent, their dependence on the course of the Greek economy. According to estimates, an amount of about €250 million (approximately 20%) of the total sales from IT and software services of Greek companies came from activities abroad in 2020.

Epsilon Net expected to remain resilient in the face of present challenges

Despite the positive forecasts for the course of the domestic economy in 2022, the particular and difficult conditions that continue to prevail at an international level create problems and contribute to the creation of a climate of uncertainty. The increase in price levels as early as the end of 2021, the energy crisis, and the unexpected geopolitical turmoil are upsetting the balances in the Greek economy, which is expected to affect all its sectors. Epsilon Net, however, thanks to its diversified clientele and array of products, as well as the pressing need of Greek businesses to digitize that will outlast present conditions, is not expected to be affected significantly by current short-term trends.

Shareholder Structure, ESG & Corporate Governance, Remuneration Policy

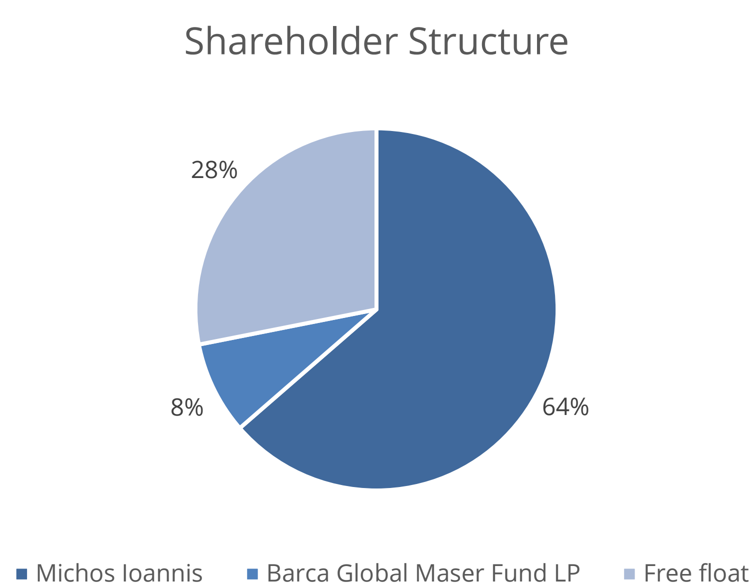
Shareholder Structure

Epsilon Net has a secure shareholder structure with the founder and CEO holding a 64% stake.

Mr. Ioannis Michos is the founder, President, and CEO of Epsilon Net's Group of companies. He graduated from the University of Macedonia and holds a graduate degree in Finance. He is a Member of The Association of International Accountants (A.I.A.). After his graduation he worked as an economist- financial and tax advisor in numerous enterprises. He has worked as an advisor and financial analyst and is specialized in the area of business administration. Since 1997 he is the publisher and director of the financial paper EPSILON 7.

Furthermore, he has written 5 books related to economics, as well as various financial articles. Additionally, he was in the BoD of the Federation of Industries in Greece, and the Vice president of the SA & Ltd Association. Currently he is the President of the Development Association of residents in Chalkidiki.

Since 1997 he has achieved more than 2000 hours of teaching in seminars regarding tax and financial issues. He has also served as partner to the Technological Educational Institute of Serres. Finally, he was awarded with the title of "Innovative Businessman of Greece" by Ernst & Young.:



Source: Euroxx Investment Banking, Company Data

ESG & Corporate Governance - Remuneration Policy

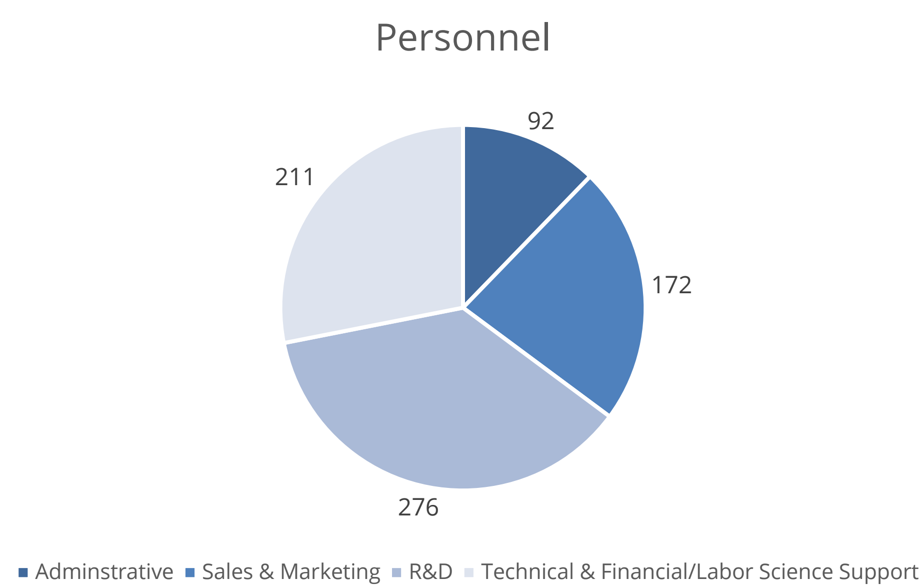
The Corporate Governance system and principles adopted by Epsilon Net has been designed with the aim of harmonizing and adapting it to the applicable laws and regulations, through principles, criteria and policies, adopting recognized practices, aiming at transparency and responsible operation of all its areas of activity.

It safeguards the interests of all those associated with the company (staff, directors, Board of Directors, shareholders, suppliers, customers, credit institutions, government agencies, etc.) focusing on transparency.

The company recognizes that the correct application of the principles of Corporate Governance is a "key" for its sustainable development, strengthening the dialogue with its investors and ensuring their trust.

Personnel Overview

Epsilon Net's total personnel stands at 751 FTEs out of which 46% are women and 54% are men.



Source: Euroxx Investment Banking, Company Data

In addition, 62% of employees have higher education degrees, while 87% are under 50 years totalling to more than 20 years of experience in information systems technology.

IMPORTANT DISCLOSURES

This report has been issued by Euroxx Securities S.A., a member of the Athens Exchange and the Cyprus Stock Exchange.

Euroxx Securities S.A. is regulated by the Hellenic Capital Markets Commission (HCMC) with authorization No 45/23.06.95/item 3rd. This report may not be in any manner reproduced or copied or provided to any other persons without prior permission. Each person that receives a copy by acceptance thereof represents and agrees that it will not distribute or provide it to any other person. This report is for informative purposes only and is not an offer to buy or sell or a solicitation of an offer to buy or sell securities or other financial instruments mentioned herein. The investments discussed in this report may be unsuitable for investors, depending on their specific investment objectives and financial position. The investments discussed in this report are subject to risks and in respect of some investments there is risk for multiplied losses to be caused in respect of the capital invested.

The information on this research report is only intended to be available to non U.S. investors and/or residents outside of the United States, Australia, Canada, Japan and South Africa. In certain jurisdictions, including but not limited to the United States, Australia, Canada, Japan and South Africa, the furnishing of such information may be restricted or prohibited by applicable laws. Potential users of the information are requested to inform themselves about and observe any such restrictions, and if you are not permitted to view material on this report or are in any doubt as to whether you are permitted to view these material, please discard/ignore this report.

By reading this research report, you warrant that you are not located in the United States or in any other jurisdiction in which the furnishing of such information may be restricted or prohibited and you agree that you will not transmit or otherwise send any information contained in this report to any person in the United States or to publications with a general circulation in the United States or any other restricted jurisdiction.

Any information provided on this report does not constitute or implicitly substitutes a recommendation for the purchase, sale, subscription, redemption, exchange, retention of a specific financial instrument or the exercise of any right a specific financial instrument grants for the purchase, sale, subscription, exchange or redemption of a financial instrument and thus, it cannot be considered as provision of investment advice or as any solicitation whatsoever.

The information contained herein has been obtained from sources believed to be reliable, including market research by ICAP CRIF, but it has not been verified by Euroxx Securities S.A. No representation or warranty (express or implied) is made as to the accuracy, completeness, correctness, timeliness or fairness of the information or opinions herein, all of which are subject to change without notice. Neither Euroxx Securities S.A. nor any of its directors, officers, employees or agents accepts or shall have any liability whatsoever or howsoever arising for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report. Euroxx Securities S.A. does not represent or warrant that any investments will increase in value or generate profits. Any responsibility or liability for any information contained herein or related to this report is expressly disclaimed.
This research report has not been prepared with regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive it. Investors should seek financial advice regarding the appropriateness of any investment recommendations referred in this report and should understand that past performance is no guarantee of future results.

Euroxx Securities S.A. follows procedures under its policies that set up Chinese Walls, restricting communication between Investment Banking and other departments inside the Company so that Euroxx Securities S.A. complies with regulations on confidential information and market abuse.

As of the date mentioned on the first page of this report, Euroxx Securities S.A., holds shareholdings exceeding 5% of the total issued share capital in the following companies mentioned in this report: None

As of the date mentioned on the first page of this report, the following companies mentioned in this report hold shareholdings exceeding 5% of the total issued share capital of Euroxx Securities S.A.: None

Euroxx Securities S.A. is a market maker of the following companies mentioned in this report: None

Euroxx Securities S.A. is a party to an agreement relating to the production of this report with the following companies mentioned herein: Epsilon Net

Euroxx Securities S.A. has received compensation for investment services provided within the last twelve months from the following companies mentioned in this report and/or any of their shareholders: Epsilon Net

Euroxx Securities S.A. occasionally trades for own account on investment instruments related to the following companies mentioned in this report: Epsilon Net

This report was sent to the following companies mentioned in this report for factual verification prior to publication: None

Analyst Certification
This report has been written by the following analysts: Ioannis Psilopoulos, Vassilis Tsopanas, Aristotelis Ninios

The analysts mentioned above hereby certify that (a) the views about the companies and securities contained in this report accurately reflect their personal views, were given in good faith but are subject to change without notice, (b) no part of their compensation was or will be directly or indirectly related to the specific recommendations or views in this report.

Analyst Compensation
The remuneration of the analysts mentioned above is not tied to the investment services performed by Euroxx Securities S.A.

The analysts mentioned above did not receive or purchase the shares of the companies mentioned in this report prior to a private or public offering of such shares.

The analysts mentioned above do not have a significant financial interest in one or more of the financial instruments which are the subject of this report or a significant conflict of interest with respect to the subject companies mentioned in this report a) that are accessible or reasonably expected to be accessible to the persons involved in the preparation of this report or b) known to persons who, although not involved in the preparation of this report, had or could reasonably be expected to have access to this report prior to its dissemination to customers or the public.

Planned Frequency of Updates:
Euroxx Securities S.A. provides daily and monthly updates as well as updates on companies based on company-specific developments or quarterly financial results announcements or any other publicly available information

Risks and sensitivity
Our estimates for each company we cover are affected by various factors such as interest rates, inflation, local economic environment, market volatility, currency, management continuity or other company specific events. Investors should be informed that the investment strategies discussed or recommended in these reports may not be realised and each company may fail to reach its targets or the analyst's targets.

Recommendation System
Our recommendation system is based on the unbiased personal views of our analysts. The target prices have a time horizon of one year. Euroxx Securities S.A. aims in updating the covered companies on any new future material that may lead to a different recommendation but does not have a regular policy to update reports.

	Rating Explanation	Coverage Universe (#) in the last quarter	Coverage Universe (%)	% Companies covered that are investment banking clients
Overweight	Expected total return >10%	20	87%	0%
Equalweight	Expected total return between -10% and +10%	0	0%	0%
Underweight	Expected total return < -10%	0	0%	0%
Under Review	Recommendation and Target Price are subject to revision	3	13%	0%
*The target price and rating have a time horizon of one year				

Investment recommendations are determined by the ranges described above at the time of initiation or review of coverage. Furthermore, the aforementioned ratings and target prices are subject to constant changes. Any unauthorised use, disclosure, copying, distribution, or taking of any action in reliance on these reports is strictly prohibited. Euroxx Securities S.A. and its employees are neither liable for the proper and complete transmission of these reports nor for any delay in their receipt.

In producing its research reports, Euroxx Securities SA analysts may have received assistance from the subject company such as access to the company's sites, visits to certain operations of the subject company, meetings with management or employees and the handing by them of historical data regarding the subject company, as well as of all the publicly available information regarding strategy and financial target.

Euroxx Securities S.A.
Member of Athens Exchange and Cyprus Stock Exchange.
Reg. by the Hellenic Capital Markets Commission
Authorization No: 45/23.06.95/item 3rd
T.I.N.: 094475921,
General Commercial Registry (GEMI) No 002043501000

7 Paleologou Str.
152 32 Chalandri,
Athens, Greece
Tel: 210 6879400
Fax: 210 6879401
www.euroxx.gr
info@euroxx.gr

Investment Banking
Aristotelis Ninios +30-210-6879507 aninios@euroxx.gr
Ioannis Psilopoulos +30-210-6879452 ipsilopoulos@euroxx.gr
Vassilis Tsopanas +30-210-6879505 vtsopanas@euroxx.gr