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ENTERSOFT

Double digit earnings momentum sustained

M&A mode 'ON' further expanding the client base... – Entersoft recently announced the acquisition of 75% in Romanian BIT Software. This is expected to broaden Entersoft's addressable market by some €200m, while adding a client base of c270 ERP installations in Romania, with minimal penetration in niche products. With some €3m of sales, BIT Software, will initially add some 7-9% on our group sales estimates, expanding to c12% by 2025. In the meantime, the announced acquisition of Greek LogOn (early January), should add another c€1.5m on our 2022 sales and a base of more than 150 clients that will be handled directly.

Mild changes to our forecasts; still eyeing robust growth in 2022 – We have recalibrated our current year forecasts, fine tuning our sales estimates by activity for higher services and maintenance recurring revenues plus the addition of new licenses and SaaS from the expanding client base driven by acquisitions, albeit assuming a slower pace for new projects on the back of a challenging environment in the near term. These translate into a c2% sale upgrade to our 2022e (€31.4m, +31% yoy). On the profitability front, we have adjusted for elevated costs, driven by the add-on personnel and inflationary pressures. With these in mind, we anticipate a margin erosion in 2022 EBIT (-2.6pps yoy) but still envisage quite robust EBIT growth (+19% at €8.2m), some €1m below our earlier forecast.

Organic and inorganic growth feed in; profitability to double by 2025 – Looking ahead, we believe the increasing operational leverage owing to both organic and M&A driven growth will gradually feed in the numbers. Following c17% sales CAGR over 2015-21 (mostly organic), we model c23% CAGR through to 2025e, which looks more than feasible in our view given the digitization push, new products (e.g. HR/payroll), an increase in the addressable market and the solid track record. The growth in revenues will filter through to c24% EBIT CAGR in the same period, quite a compelling growth profile among EU peers, despite the tough comparative (55% EBIT growth in 2021).

Strong cash generation ability and balance sheet optionality – Entersoft is highly cash generative thanks to its solid organic growth and high margins (at the high-end within the global software space). Given its strong financial position (€9m net cash in end-2021) it is well-placed to fund new potential acquisitions while, at the same time, capturing the growth spree coming from RRF in Greece and Romania (digitization for businesses funds at c€1.1-1.3bn in both countries). Overall, we see plenty of balance sheet optionality which could be manifested through new M&A or potentially heftier returns to shareholders.

Valuation – We see Entersoft as an attractive way to gain exposure to the digitization theme, especially given attractive valuation relative to EU tech companies. Our DCF-based valuation (predicated at a higher 8.7% WACC) yields a valuation range between €6.1 and €8.4 per share on our updated forecasts and a baseline intrinsic value of €7.0/share (from €7.4 previously). Our valuation indicates a 2023e EV/EBITDA multiple of c16x, warranted in our view by the merits of the thesis and the ample scope for sustainable growth.

Estimates					
€m unless otherwise stated	2020	2021	2022e	2023e	2024e
Revenues	16.6	24.0	31.4	39.2	46.3
EBITDA	5.8	8.9	10.4	12.5	15.6
EBIT	4.4	6.9	8.2	10.0	13.0
Net profit	3.5	5.7	6.2	7.7	10.1
EPS (€)	0.12	0.19	0.21	0.26	0.34
DPS (€)	0.06	0.09	0.09	0.10	0.13
Valuation					
Year to end December	2020	2021	2022e	2023e	2024e
P/E	13.7x	20.6x	17.9x	14.4x	11.1x
EV/EBITDA	7.2x	12.2x	10.2x	8.2x	6.1x
EBIT/Interest Expense	30.6x	22.9x	55.4x	66.3x	100.6x
Dividend Yield	3.7%	2.3%	2.5%	2.6%	3.4%
ROE	21.2%	27.7%	25.6%	26.1%	27.3%

Market Cap (€ mn) €111.6
Closing Price (26/07) €3.72

Stock Data

Reuters RIC	ENTR.AT
Bloomberg Code	ENTER GA
52 Week High (adj.)	€6.04
52 Week Low (adj.)	€3.14
Abs. performance (1m)	-7.0%
Abs. performance (YTD)	-32.4%
Number of shares	30.0mn
Avg Daily Trading Volume (qrt)	€47k
Est. 3yr EPS CAGR	20.7%
Free Float	51%

ENTERSOFT Share Price



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See Appendix for Analyst Certification and important disclosures.

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Investment Case

Leading IT software company, positioned to capture c4.5% RRF funds towards businesses digitization, on our estimates

Entersoft is one of the leading Greek IT software companies involved in the development, distribution and aftersales service of own software on ERP, CRM, WMS, eMobility and eCommerce solutions. It is well positioned to gain through the digitization of businesses in Greece while having recently expanded further its presence in Romania through M&A. In the meantime, local demand for digitization is further supported by the low adoption levels of CRM/warehouse management systems (>40%), the fragmented enterprise population (>2% of Greek enterprises with >50 employees) and the need for upgrades and revamping of legacy systems (outdated ERP software), leaving ample room for growth, further underpinned by the significant anticipated boost from projects to be financed by the Recovery Fund through to 2026. We believe the RRF funds could expand Entersoft’s addressable market by c€0.7-0.8bn in Greece, namely by more than 2x the current level of €0.3bn, and by some €0.4-0.5bn in Romania (€0.2bn market), with our estimates conservatively assuming Entersoft captures just a small part (c4.5%) of the RRF-related growth spree.

Revenues to double by 2025, starting from a robust 2021 top line of €24m

We have revisited our estimates mainly recalibrating for the M&A completed within 2022 as well as the sustained inflationary environment. In specific, Entersoft has acquired Greek software development company LogOn (Jan’22 for €1.3m) and 75% stake in Romanian BIT Software (May’22 for €3m). These are estimated to contribute some €3.5m on our 2022 revenues, raising Entersoft’s market reach in Greece and Romania and adding >250 ERP installations in the current year (targeting c400). As such, we estimate 2022 revenues of €31.4m (up by 30.9% yoy), starting from a robust 2021 top line of €24m (+45% yoy). Looking ahead, we estimate that the aforementioned acquisitions will bolster the recurring revenue base, also topped by solid organic growth feeding in from market expansion. We estimate a 2021-25e sales CAGR of 23%, with 2025e revenues more than double vs 2021 levels on a significant recurring revenue base (c60% of group total).

... leading to 24% EBIT CAGR and c50% ROIC post 2025

As a software company, Entersoft is not directly affected by the raw material cost hikes, however the operational environment has definitely been negatively impacted by energy pressures and the increase in staff costs as a result of the add-on personnel (M&A) and payroll inflation. The above translate to a 2.6pps yoy EBIT margin erosion on our 2022 numbers, which is gradually flattened out by 2024e amid rising operational leverage. The combination of high recurring revenues and renewal rates (>90%) on a comparative lean cost model lead to EBIT CAGR of 24% in 2021-25e. Of note is that the integration of 5 acquired companies in the past two years (2020-22) has materialized on the back of expanding margins (15pps over 2017-21), with Entersoft enjoying the highest margin among its Greek peers and at the high-end within the global software space, despite its small size. Entersoft’s ROIC still screens out as best-in-class among its peers, having grown from c16% in 2017 to 44% in 2021 and >50% post 2025e.

Strong balance sheet continues offering scope for M&A-driven growth

Entersoft enjoys a strong balance sheet, and has been a consistent cash flow generator, even during recessionary periods. Given the strong financial position (c€8m net cash in Q1’22), the company is well placed to continue investing in growth, thereby extending its competitive advantage and product portfolio. Although our model does not assume any further M&A-driven growth post 2022, Entersoft’s strong balance sheet clearly offers scope for accretive transactions in the future, especially as the group’s multi-sector exposure presents it with a broad platform for M&A. Overall, optionality regarding balance sheet deployment is high and could be manifested – alternatively – in the face of heftier returns to shareholders than incorporated in our model (we assume 38% payout).

Compelling valuation given growth profile and nature of the industry

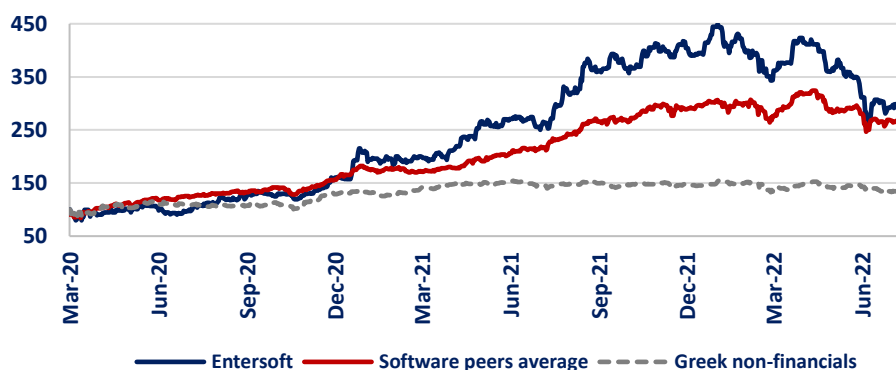
Entersoft shares are down YtD (-31%) following two years of solid performance (>250%), but still substantially outperforming both Greek non-financials and the ASE index (as well as international software peers). From a valuation perspective, the EU software sector has retreated to lower multiples (EV/EBITDA in the low teens), with Entersoft’s valuation screening out as quite compelling given the very attractive c21% EBITDA CAGR over 2022-2025, with scope for even stronger growth given the combination of secular/cyclical drivers. Our DCF-based valuation predicated on 8.7% WACC (vs 8% previously) yields a valuation range between €6.0 and €8.4 per share, still effectively valuing the group at c16x 2023e EV/EBITDA, warranted in our view by the merits of the thesis and the ample scope for sustainable growth.

Stock has risen c3x, since it started trading on the ATHEX main market, albeit it is down 31% YtD

Share price performance and valuation

Entersoft has posted stellar performance in the last 2 years, remaining c190% above its March 2020 price (when it initiated trading on the ATHEX main market - following a capital raising), despite the YtD drop (-31%). Overall, the company has outperformed the Greek non financials, but also the broad EM IT Services index and EU software peers, though the gap vs the latter has recently narrowed due to the share price drop since mid-January 2022 (-36%).

18m performance (rebased) – Entersoft vs Greek non-financials and EU software peers

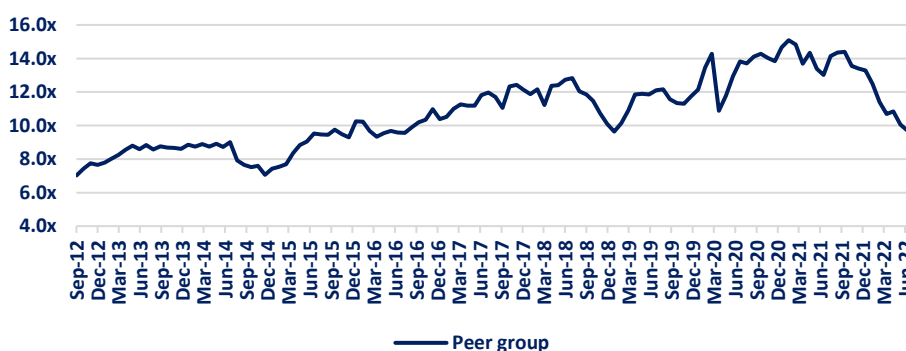


Source: Eurobank Equities Research, Bloomberg.

Attractive valuation given the solid cash flow profile and growth prospects

As far as the peer group is concerned, we look at EU companies with some degree of product affinity, namely SAP, Sage, Visiativ and Assecopol, along with Computacenter and Softwareone (as a reminder the last two are resellers, which naturally trade at lower valuation). The peer group has historically traded at an average of c11x EV/EBITDA over the last decade, with resellers valued at the low end of the spectrum (c10x) and bigger software companies valued at the high end. On our forecasts, Entersoft (c8x 2023e EV/EBITDA) is currently trading at a substantial discount vs its peers, certainly justified by its smaller size, albeit looking very attractive when taking into account its solid cash flow generation and earnings growth prospects.

12m forward EV/EBITDA valuation – European software peers



Source: Eurobank Equities Research, Bloomberg.

Current levels indicate quite significant discount to peers

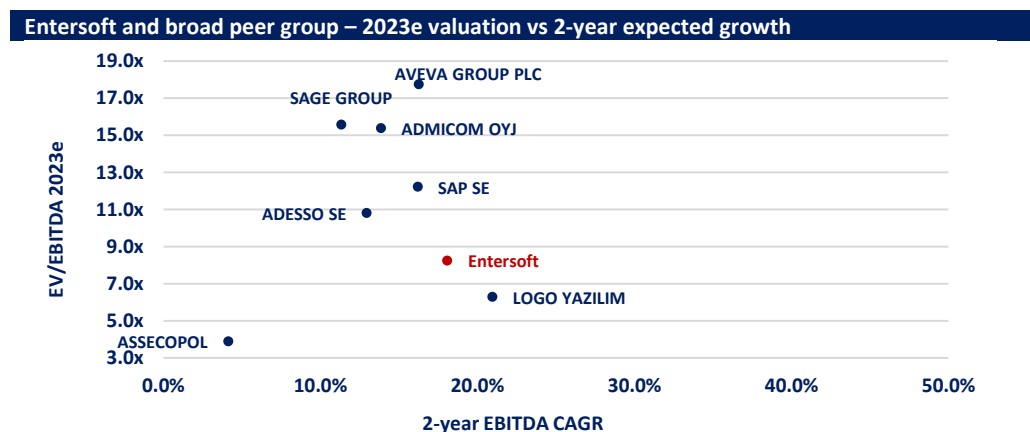
In the table below, we contrast Entersoft’s current valuation against the aforementioned select group of peers. As can be seen, Entersoft seems to be trading at quite significant 12mth forward EV/EBITDA discount despite enjoying one of the strongest balance sheets.

Peer group valuation								
Stock	Mkt Cap	PE		EV/EBITDA		DPS yield		Net debt/EBITDA
		2022e	2023e	2022e	2023e	2022e	2023e	2022e
AVEVA GROUP PLC	8,217	24.1x	21.9x	19.9x	17.8x	2%	2%	0.7x
SAP SE	109,607	18.4x	16.4x	13.8x	12.2x	2%	2%	0.6x
SAGE GROUP	8,255	26.3x	23.6x	17.2x	15.6x	3%	3%	1.1x
ADMICOM OYJ	280	26.3x	22.1x	17.9x	15.4x	2%	3%	-0.3x
ADESSO SE	1,032	28.9x	23.9x	12.4x	10.8x	0%	0%	0.8x
VISIATIV SA	158	12.1x	9.8x	7.4x	6.4x			1.4x
ASSECOPOL	1,270	12.3x	11.9x	4.0x	3.9x	4%	5%	0.4x
LOGO YAZILIM	247			8.7x	6.3x			-1.0x
EMEA peers		21.2x	18.5x	12.7x	11.0x	2%	2%	0.5x
Entersoft	112	17.9x	14.6x	10.2x	8.2x	2%	3%	-0.5x
Premium / (discount) vs peers		-16%	-21%	-19%	-25%	7%	6%	
COMPUTACENTER PL	3,349	14.9x	14.6x	7.6x	7.4x	3%	3%	-0.7x
SOFTWAREONE HOLD	2,035	15.4x	13.1x	6.7x	5.7x	3%	3%	-1.5x
Resellers		15.2x	13.9x	7.1x	6.6x	3%	3%	-1.1x

Source: Eurobank Equities Research, Bloomberg.

Compelling relative valuation on earnings growth-adjusted metrics

Given that the range of valuation multiples may also reflect differences in companies’ growth profile, we have also examined the current valuation of the broad peer group in conjunction with the 3-year profit outlook (incorporating only organic growth for Entersoft, namely growth in 2022-24e). As can be seen, Entersoft’s valuation looks even more compelling taking into account it also enjoys one of the strongest growth profiles among EU software companies.



Source: Eurobank Equities Research, Bloomberg.

Valuation: DCF-based yields a c€180-250m intrinsic value range

DCF-based valuation yields intrinsic value of €7.0 per share

We base our valuation on Entersoft on a DCF in order to capture the expected high earnings growth in the coming years, given the secular tailwinds for the industry, and the long-term earnings potential of the business.

Our base case DCF yields a €211m 12-month baseline market cap, translating to a €7.0 price per share (from €7.4 previously) given our updated forecasts. This is predicated on the following assumptions:

- Sales CAGR of c23% over 2021-2025e, driven by the digitization push, fading to c4% by 2031;
- Reported EBIT CAGR of c24% over the same period (i.e. post 55% growth in 2021), driven by the robust top line growth, implying flat margin vs. 2021 levels. We assume

that medium-term EBIT margins settle near the 30-31% area, up from c16% on average before 2019 and 28.6% in 2021. This would be in sync with best-in-class margins of bigger EU software companies, underpinned by the group's high productivity and increasing scale.

- We use a long-term growth rate of 0.5% based on a reinvestment rate of 10.5% and c5% incremental ROIC, as we expect returns to trend down in the long run, conservatively assuming that the group's competitive advantage will fade.
- The implied FCF conversion (FCF/EBITDA) in the medium term (2027-2030e) stands at c64%, a level we consider feasible.
- A higher 8.7% WACC, which we believe captures the relative risk profile of the business vis-à-vis the rest of our coverage universe in the light of the rising yield environment.

Entersoft DCF								
	2022	2023	2024	2025	2026	...	2030	2031
NOPAT	6.4	7.8	10.2	12.7	15.1	...	22.1	
Depreciation	2.2	2.5	2.6	2.7	2.9		2.7	
Working Capital	-2.2	-1.1	-0.3	-1.3	-0.4		-2.2	
Capex	-6.4	-1.5	-1.7	-2.5	-1.9		-2.8	
Unlevered free cash flow	0.0	7.7	10.8	11.6	15.7	...	19.9	19.3
PV	0.0	7.1	9.1	9.0	11.3		10.2	
PV of terminal value	112.3							
Enterprise Value	199.8							
- Net debt incl. leases / other claims (net)	6.8							
Expected dividend	-2.8							
Equity value (ex-div)	203.9							
no. of shares	30.0							
1-year fair value (ex div)	211.3							
12-month indicative value per share	€7.0							

Source: Eurobank Equities Research.

A basic sensitivity on a combination of WACC and terminal growth rates is presented in the table below. As can be seen, flexing our WACC and perpetuity growth inputs by 1% and 0.5% respectively yields a fair value range between c€181m and c€253m (€6.0 and €8.4 per share).

DCF Sensitivity of our calculated group fair value per share to the WACC and LT growth assumptions						
		WACC				
		9.7%	9.2%	8.7%	8.2%	7.7%
Terminal growth	1.5%	6.6	7.1	7.6	8.2	8.9
	1.0%	6.4	6.8	7.3	7.8	8.4
	0.5%	6.2	6.6	7.0	7.5	8.1
	0.0%	6.0	6.4	6.8	7.2	7.7
	-0.5%	5.9	6.2	6.6	7.0	7.4

Source: Eurobank Equities Research.

Strong earnings momentum maintained

Strong earnings momentum with 3-year EBIT CAGR at c24%

Entersoft’s strong earnings momentum is maintained, despite the challenging global backdrop, with mgt recently pledging for double sales and profitability in 3 years’ time, namely by 2025, which lies broadly in sync with our forecasts. This translates into revenues of c€48m and EBIT of c€13m by 2024 vs 2021 figures, near our estimates which indicate a c24% 3-year EBIT CAGR and will come as a result of both organic and inorganic growth. On the organic front, from a market perspective, we believe that the regional IT software and services sector (Greece and countries in EU) will be less affected by the economic implications of inflationary pressures. In the meantime, further underpinning is provided by the outdated software systems in Greece, along with low penetration in niche segments, both topped by the significant digitization push (through EU RRF funds of c€7bn).

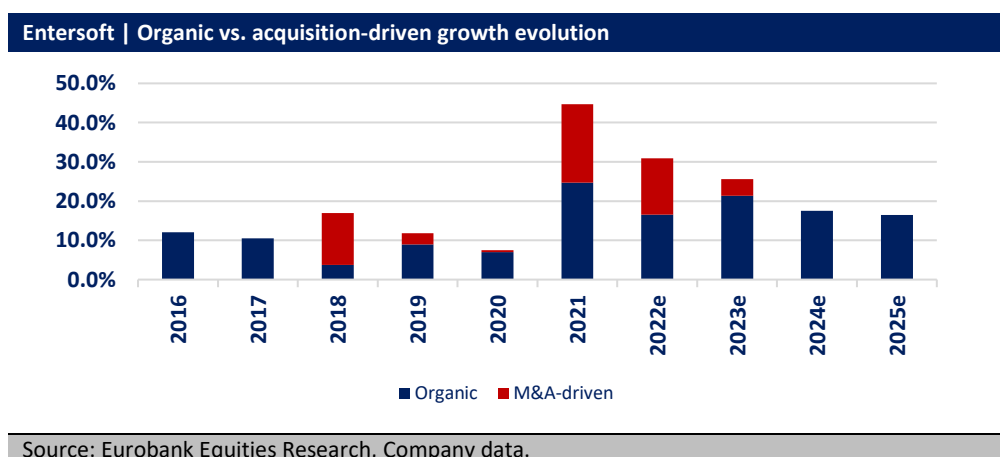
Top line growth catalysts sustained, topped by acquisitions

Catalysts sustained; c16-21% organic growth over 2022-2025e

We have lifted our top line forecasts by some 2-8% in 2022-24, as we have incorporated the announced acquisitions within the current year, namely LogOn in January 2022 and BIT Software Romania in May 2022. We calculate group sales CAGR of 24.6% over 2021-24e. Note that our estimates for 2022 include a significant boost (c€3.5m) from the recent acquisitions with another c€1m also feeding in 2023. Beyond 2023, we model organic revenue growth of c16-21% through to 2025e.

Acquisitions underpin further sales growth in 2022-23e

In specific, organic growth has been topped up by M&A, with Entersoft mostly targeting domestic competitors in niche segments, while recently turning its focus to Romania with the announced acquisition of BIT Software Romania aiming to expand its international presence and take advantage of the EU digitization push also outside Greece (RRF funds dedicated to Romania’s digital transition at c€6bn, some >€550m of which to businesses’ digitalization). M&A-driven growth has been evident in the recent past with: 1) the acquisition of the enterprise mobility activity of **Sieben** in 2018 (a company involved in CRM and enterprise mobility applications), 2) the purchase of **Computer Life’s ERP activity** in end 2020 (c€0.7m revenue contribution), 3) the acquisitions of **Optimum** (>€3m in sales, active in WMS and supply chain software applications) and **Wedia** (c€1m sales, an eCommerce applications development company) early in 2021, 4) the acquisition of **LogOn** (c€2m sales, an ERP, CRM, WMS and e-Invoicing software developer in Greece) early in the current year and 5) the latest acquisition of a majority stake (75%) in **BIT Software Romania** (>€3m sales) in May 2022. Below we show our organic revenue growth forecasts vs. add-on acquisition-driven revenue growth including the aforementioned M&A.



2022 revenues seen growing +31% yoy, re-rating at double pre-covid levels (2019)

As far as 2022 is concerned, in a quite turbulent year Entersoft’s top line is set to remain robust (c17% organic yoy sales growth), further enhanced by the announced acquisitions. Naturally in 2022 we caution that one should expect a decelerating pace given the base effect (2021 sales +45%, EBIT +55%), but we see quite a strong growth profile in the 3-year period (EBIT CAGR >20%) underpinned by the client base expansion, new acquisitions (LogOn, BIT software) and the rising recurring base. We have updated our estimates for the addition of LogOn (early in

2022) and BIT Romania (7 months in 2022), assuming the full benefit of the latter will filter into Entersoft's figures as of the second year of operations.

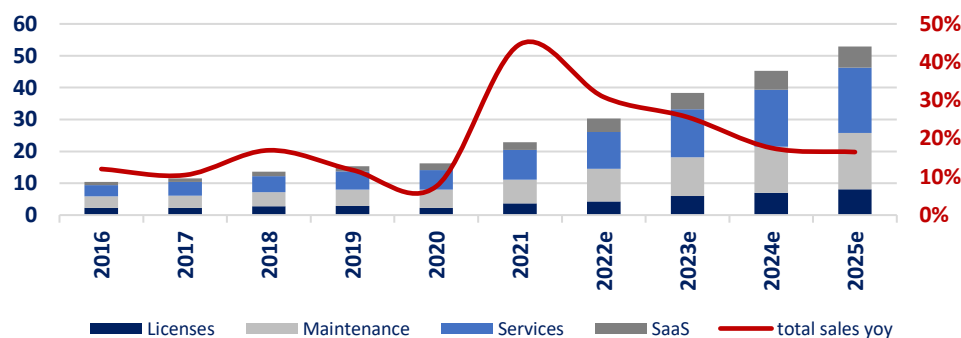
...with the recurring base estimated at 60% of total revenues in the current year

Entersoft's revenue streams can be divided into a recurring and a non-recurring component. Recurring revenues include annual releases (maintenance) and SaaS for existing clients plus support services for the installed base. Given the >90% retention ratio, Entersoft has quite a significant base of recurring sales, almost 60% of 2021 revenues and >50% since 2017.

Tapping the Romanian market enhances prospects, raising client base and employee pool

In the meantime, the expansion to Romania through a local player, provides a new client base to tap into (Romanian IT Software market c€180-200m). With some 40-50% of ERP serviced by multinationals, according to the company, this leaves some €90-120m to smaller players, namely targeted by BIT Software. As a reminder, Entersoft announced the acquisition of a 75% stake in the latter for €3m. BIT has c270 ERP installations and a portfolio of customized solutions (marketing campaigns and cloud-based solution), with sales of c€3m and EBITDA of €0.3m. At the time of the agreement, it had 71 employees with headquarters in Brasov and a branch in Bucharest. Under the agreement, Entersoft will initially acquire 75% while buying out the minority shareholder within a period of 3 years. Entersoft is targeting some 13K mid-large companies (revenues >€2m) in Romania, while it could also penetrate the smaller companies (calculated at c17K) with BIT's cloud-based ERP system.

Entersoft | Sales per division and group growth

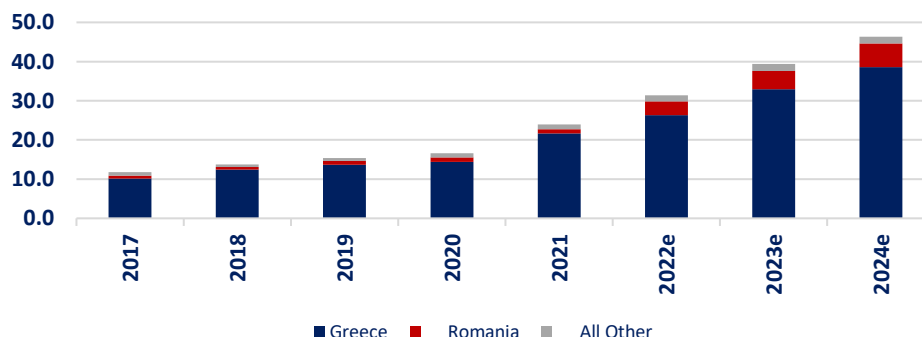


Source: Eurobank Equities Research, Company data.

BIT Romania acquisitions alters the geographical mix; Greece remains dominant (>80%), but international expansion is underway

Taking the aforementioned into account we have made changes in our geographic mix, with the domestic market, accounting for a lower 83% of group sales by 2024 (first 2½ years of BIT Software Romania). In terms of geographic mix, the domestic market remains the main focus of the group, with Romania constituting c11% of total post the acquisition in 2022, and the remaining markets, namely Bulgaria, UAE and others representing just c5%.

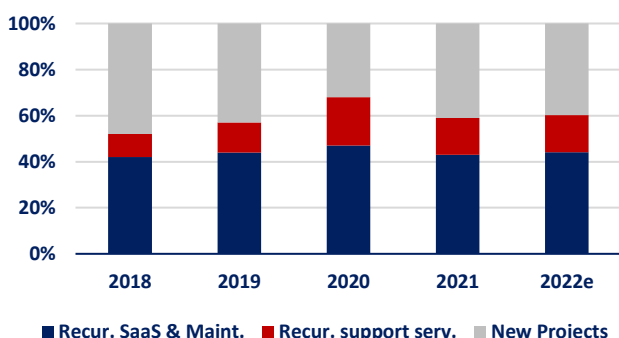
Entersoft | Geographic sales mix evolution



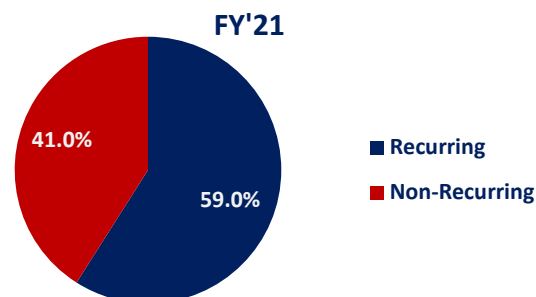
Source: Eurobank Equities Research, Company data.

Taking a closer look into Entersoft’s recurring and non-recurring revenues per activity below we see well balanced growth for both, with recurring revenues supported by the growing non-recurring part (new licenses and ERP installations and implementation service revenues).

Entersoft | Recurring / Non-recurring sales mix in sales



Entersoft | 2021 Recurring / Non-recurring sales



Source: Eurobank Equities Research, Company.

Overall, we see 3-year double digit sales CAGR through all activities. In specific:

1. Non-recurring activities and add on acquisitions

Product licenses and implementation services for the software installation serve as the foundation for Entersoft’s revenue structure and the core non-recurring revenue base. Licenses act as the starting point for Entersoft’s business model, reflecting the sale of software products to new clients, either coming through share expansion into the domestic and international landscape or through M&A. Implementation services follow with the actual installation of the product software, and Software-as-a-Service (SaaS) ERP solutions are also considered non-recurring to the extent they address new clients. In Entersoft’s case, the licenses’ segment has been posting quite healthy growth rates (+15% CAGR) in the 2015-21 period, despite the challenging macro backdrop, while first time implementation is directly linked to the new client additions.

License revenues and implementation services: solid non-recurring revenue base

Non-recurring sales 2021-24 CAGR +24%

Looking ahead, following exceptionally high sales growth in 2021 (almost double yoy), boosted by the consolidation of Optimum, Computer life ERP and Wedia plus solid ERP growth, we expect robust growth rates >20% in 2022 and 2023 and in the mid-to-low double digits thereafter amid new clients, products and upselling. As we have already mentioned, within 2022, Entersoft has added LogOn (Jan’22) and recently, a majority stake in BIT Software Romania (May’22), which we estimate will contribute additional €3.5m in 2022e revenues. We estimate half of the c25% non-recurring revenue CAGR will stem from the new acquisitions (inorganic growth) and half from clientele expansion per se.

2. Recurring growth boosted by new clientele and add-on services (25% CAGR in 2021-24e)

Recurring revenues +25% CAGR; base from annual releases, SaaS and services sales

Looking into Entersoft's core recurring activities these are centered around the maintenance and services for the installed base and the SaaS clientele. We anticipate that the spike in license revenues stemming from the new clientele and add-on services, as well as the gradual acceleration in niche products (such as eCommerce, enterprise mobility, HRM/payroll, e-Invoicing), will drive significant annual releases & SaaS and service revenues in the coming years, thus underpinning recurring sales generation.

Maintenance to continue underpinning recurring revenue generation

In specific, annual releases (maintenance) remain the single most significant source of recurring revenues (more than half of recurring sales), delivering consistent growth through to 2021 (+14% 6-yr CAGR). Our forecasts looking ahead eye a significant 25% 3-yr CAGR to 2024, considering the expected increases in license sales from the added acquisitions, while we maintain a client retention rate of c>90%.

SaaS to enjoy superior growth off a lower base, underpinned by niche market trends and secular growth

As far as the SaaS segment is concerned, we model >30% CAGR over 2021-2024e from SaaS ERP renewals and support and e-Invoicing, as the domestic market for niche solutions offers scope for growth, benefiting from proliferation of e-invoicing activities in Greece. Although it remains relatively small in the revenue mix, the mandatory implementation of digital book-keeping and electronic invoicing, in the context of the Recovery Fund, marks the initiation towards adoption of B2G e-Invoicing, thus underpinning accelerating demand for digitalization software from SMEs. On top of that, we project that SaaS support ERP sales (mainly cloud based ERP solution) will grow as businesses turn to cloud solutions to enhance their flexibility and competitiveness.

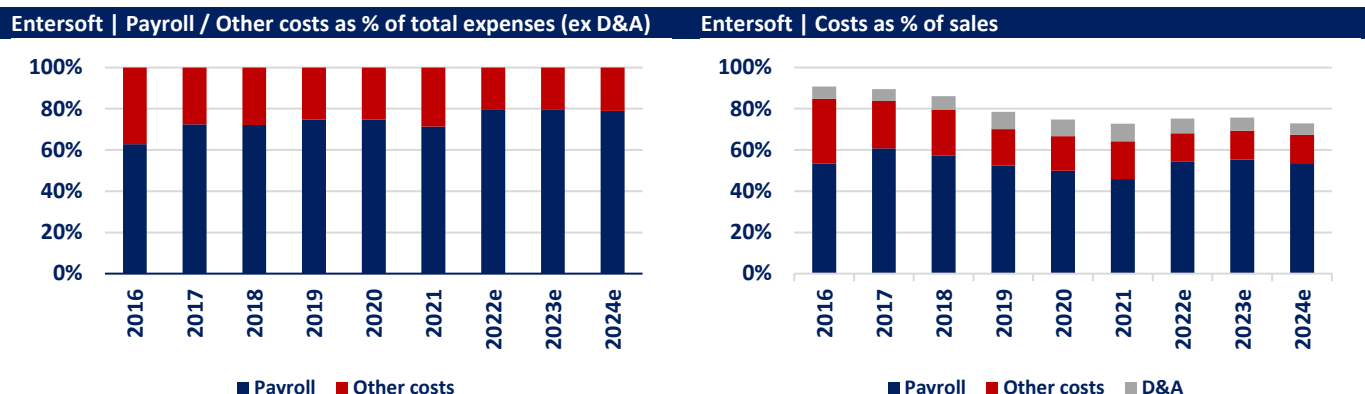
Support services to also grow in the low-to-mid 20%*s*

Last but not least, the recurring service revenues are also expected to grow at a similar pace (c23% CAGR) through to 2024e driven by Entersoft's reputation for high quality aftersales and positive developments for both of the segment's subcategories. Since 2015, the segment has been posting strong growth rates (22% 2015-2021 CAGR) as demand for product licenses has been increasing following Greece's economic rebound from the turbulent 2015. Looking ahead, we envisage c25% growth in 2022-23 and >15% growth through to 2025e on the expanded base.

Cost structure and margins

Industry labor-intensive ...

As we have argued in the past, Entersoft’s main cost component is payroll, accounting for c65% of total costs (or c50% of sales), driven by the labor-intensive nature of the industry. The remaining operating and R&D costs have been between 17% and 23% of sales benefitting from positive operating leverage on the group’s increasing scale, thus leaving room for an EBIT margin of >25%, looking ahead, owing to the higher revenue base.



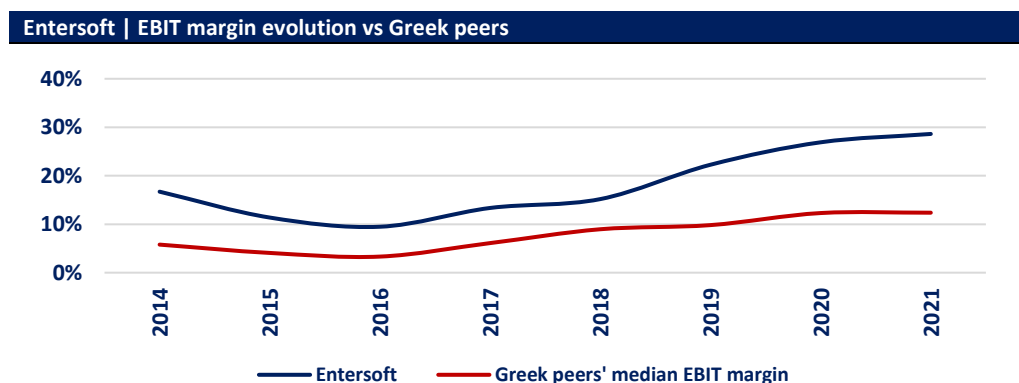
Source: Eurobank Equities Research, Company.

We expect Entersoft payroll costs CAGR +30% in 2021-24 but still come up with c24% EBIT CAGR; expect margin expansion from 2023e onwards

We have recalibrated our 2022 forecasts to include higher costs stemming from the new acquisitions and increased operating costs driven by the inflationary environment formed. In specific, our 2022 forecasts now return an EBIT margin of 26%, down by 2.6pps yoy, as the new investments have raised personnel and related costs above our forecast level, with the addition of some 130 employees now assumed in 2022 (vs c80 expected previously). This is topped by energy costs hikes, thus leading to a margin contraction in 2022, while the investments in high level employees hold back the EBIT margin expansion in 2023, with a gradual recovery seen thereafter. Looking ahead, the pendulum of operating leverage should feed into profitability margins, driving the EBIT margin near the 30-31% mark post 2025.

Entersoft trading at higher margins vs Greek peers

Looking into comparatives within the Greek universe, Entersoft’s margins are significantly higher than those of the median of its Greek listed peers, namely Epsilonet, Space, Byte, Performance and Profile, as can be seen in the chart below.



Source: Eurobank Equities Research, Company data, Bloomberg.

Forecasts changes

Summing up the changes in our forecasts we have:

- Upgraded our top line forecasts by 2-8% in 2022-24e to include the aforementioned acquisitions, adding c€5m in direct inorganic revenues by 2023 and also pumping the recurring base.
- Raised our total costs by c€2-4m, with the majority driven by payroll costs on the higher number of personnel.
- See EBITDA merely unchanged in the midterm, with the assumed inflationary pressures largely offset by the contribution from the announced M&A.

Forecast changes			
	2022e	2023e	2024e
New			
Sales	31.4	39.4	46.3
EBITDA	10.4	12.5	15.6
Net earnings	6.2	7.7	10.1
Old			
Sales	30.8	36.6	43.3
EBITDA	11.3	13.2	16.0
Net earnings	7.1	8.4	10.5
New vs. Old			
Sales	2%	8%	7%
EBITDA	-8%	-5%	-2%
Net earnings	-11%	-8%	-4%

Source: Eurobank Equities Research

We still argue that our near-term forecasts remain hardly overambitious, taking into account the following:

- The digitalization in Greece, which will accelerate demand for Entersoft's entire range of products
- The digitization projects related to the Recovery Fund in both Greece and Romania which will expand the addressable market by some €1.2-1.5bn through to 2026 on our estimates. Our numbers effectively assume that Entersoft will capture solely c€35m by 2025e, namely a mere 4.5% share.

The table below sets out our explicit P&L forecasts.

Profitability & margins evolution							
€m	2019	2020	2021	2022e	2023e	2024e	3-yr CAGR
Sales	15.4	16.6	24.0	31.4	39.4	46.3	25%
<i>growth</i>	12%	8%	45%	31%	26%	18%	
<i>- o/w organic</i>	9%	7%	25%	17%	21%	18%	
Gross profit	9.6	10.9	14.6	18.5	23.0	27.8	24%
margin	62.6%	65.5%	61.1%	59.1%	58.4%	60.0%	
Opex	-5.3	-5.1	-5.7	-8.1	-10.5	-12.2	
Opex/sales	34%	30%	24%	26%	27%	26%	
EBITDA	4.4	5.8	8.9	10.4	12.5	15.6	
<i>growth</i>	45%	33%	54%	16%	21%	25%	
margin	28.3%	35.0%	37.3%	33.1%	31.8%	33.7%	
EBIT	3.1	4.4	6.9	8.2	10.1	13.0	
<i>growth</i>	46%	45%	55%	19%	23%	30%	
margin	19.9%	26.8%	28.6%	26.0%	25.5%	28.2%	
Net profit	2.2	3.5	5.7	6.2	7.7	10.1	

Source: Eurobank Equities Research, Company data.

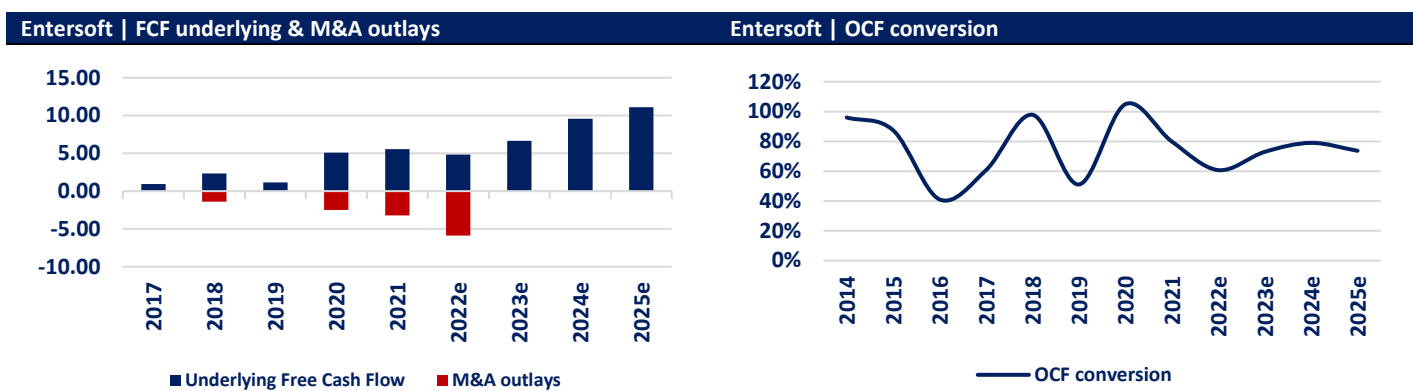
Cash flow generation and Balance sheet

Solid cash flow generation ability

Entersoft's cash flow generation ability remains robust with underlying FCF positive between c€1-6m in the 2017-21 period, allowing the company to easily fund its M&A targets and also return cash to shareholders. In the meantime, cash conversion (OCF/EBITDA) has consistently exceeded 50%, given the high margins and limited incremental working capital tied up. Looking ahead of 2022, we expect cash conversion to exceed 70%.

Organic capex required in the c€0.5-1m area; topped by M&A driven investments

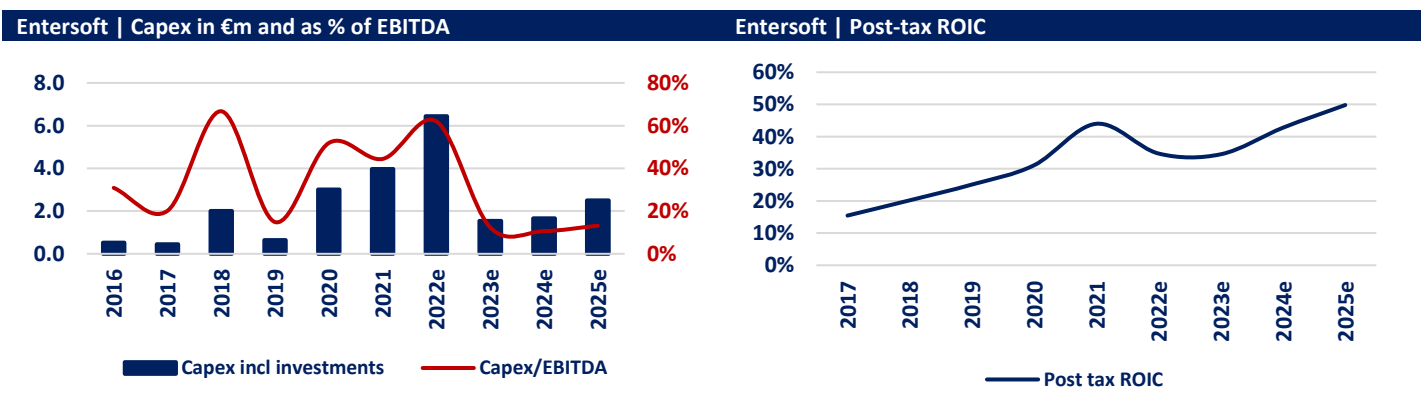
Entersoft's capex has ranged between €0.5m and €1m, occasionally augmented by M&A activity, which has in fact been substantial in 2020-22. In specific, in 2020, Entersoft proceeded with the acquisition of the ERP activity of Computer Life and of Optimum, thus leading group capex to €3m, namely c18% of revenues. Only half of the consideration related to Optimum was paid in 2020, with another 25% paid in 2021 and the remaining amount due by the end of 2022. In 2021 Entersoft also acquired WEDIA for a cash consideration of €0.5m, while early in 2022 it acquired LogOn for a total of €1.3m installed in 3 tranches, 75% of which is already paid. Finally, Entersoft recently announced the acquisition of a majority 75% stake in BIT software Romania for a €3m cash consideration.



Source: Eurobank Equities Research, Company data.

Expect accelerating returns on capital...

Incremental returns on investments continue at a c55% pace with the €9.6m investments between 2018 and 2021 translating into €5.3m EBIT over the same period. Looking ahead into the late M&A activity, with some €4.3m investments in 2022 alone, we expect this to be accompanied by significant increase in profitability, thereby leading to accelerating returns on invested capital in the 2022-25e period.



Source: Eurobank Equities Research, Company data.

... and continuing robust cash flow generation post 2022

Summarizing our cash flow forecasts, we contend that EBITDA will rise to c€16m in 2024e from €9m in 2021, underpinned by the digitization push and investments. In the current year, the extensive (>€5m) investment outlays (LogOn, BIT Software and last tranche of Optimum) eat in our 2022 FCF estimate, however looking ahead into 2023-24e, the profitability uplift will be

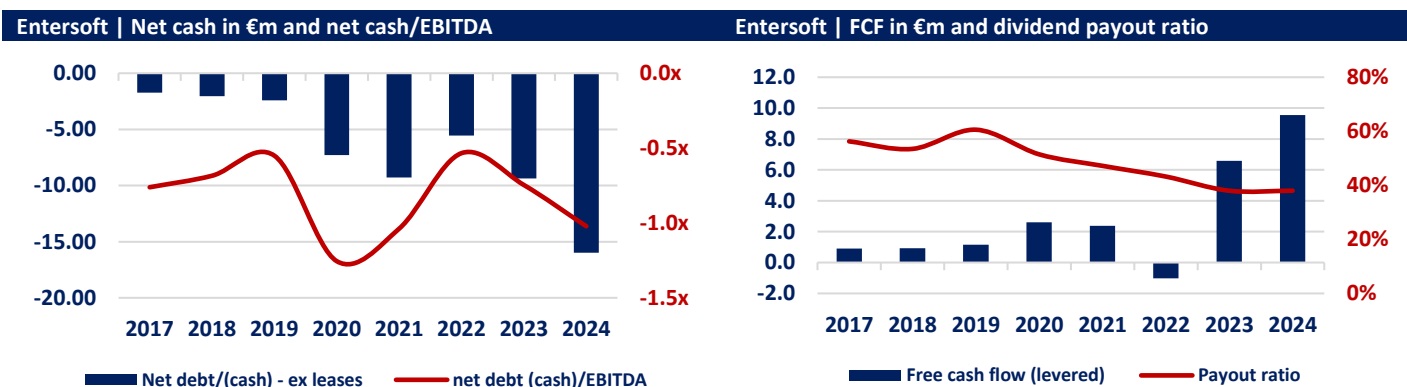
only partly absorbed by investments and working capital, thus leading to c€7-10m of annual Free Cash Flow.

Summary Cash Flow						
EUR mn	2019	2020	2021	2022e	2023e	2024e
EBITDA reported	4.4	5.8	8.9	10.4	12.5	15.6
Change in Working Capital	-1.8	0.8	-0.4	-2.2	-1.1	-0.3
Other	-0.3	-0.5	-1.4	-1.9	-2.3	-3.0
Operating Cash Flow	2.2	6.1	7.1	6.3	9.1	12.3
Capex	-0.6	-0.5	-0.8	-0.6	-1.5	-1.6
Other investing	0.0	-2.5	-3.2	-5.9	0.0	0.0
Net Investing Cash Flow	-0.6	-3.0	-4.0	-6.4	-1.5	-1.7
Dividends paid	-0.8	-1.4	-1.8	-2.7	-2.8	-2.9
Other (incl. lease obligations)	-0.4	3.2	0.6	-0.9	-1.0	-1.1
Free Cash Flow (levered)	1.2	2.6	2.4	-1.0	6.6	9.6
Net debt / (cash) – ex leases	-2.4	-7.3	-9.3	-5.6	-9.4	-16.0
Inflow / (Outflow)	0.3	4.9	2.0	-3.7	3.8	6.6

Source: Eurobank Equities Research, Company data.

Healthy financial position; balanced capital allocation policy indicates a c40% payout ahead

Entersoft enjoys a robust balance sheet, ending FY'21 with a net cash position of €9.3m, while the group has extra liquidity (e.g. available credit lines) and constitutes a notable war chest in case attractive M&A opportunities arise. Shareholder returns have been consistently high, with Entersoft distributing >60% of the cumulative FCF over 2017-21 as dividends (payout ratio of c50%). Our numbers assume a c40% payout ratio ahead, which we believe would balance Entersoft's willingness to continue investing in the business, the rewarding of shareholders and optionality for capital deployment on bolt-on acquisitions.



Source: Eurobank Equities Research, Company data.

H1'22 revenues continue growing double digits, albeit EBITDA margin at 32% amid a higher cost base

H1'22 performance

Looking into the current year, Entersoft has announced its H1'22 trading figures, where EBITDA shaped at €4.6m, up by 5% yoy vs. adjusted H1'21 figures, on revenue growth of +16% yoy to €14.6m, driven by a strong base of recurring revenues of €8.5m (58% of total). The EBITDA margin has dropped by 3pps yoy, mainly reflecting the cost's rise, as the company is already positioned for the gradual feed of the new EU-funded projects, having invested on a higher personnel base. Profit before taxes shaped at €3.4m, up from €3.3m a year ago. Please note that the company has restated H1'21 figures adjusting them to include payroll accruals of €0.8m.

Per activity, H1 revenues are driven by a 20% yoy rise in maintenance revenues (€4.4m) and a 46% yoy spike in SaaS sales (€1.9m), on high renewal rates and a positive impact from the acquisitions (LogOn and BIT). Services revenues also rose by 17% yoy (€5.5m), benefitting mainly from ERP, Mobile and WMS projects in existing clients and also the acquisition of LogOn. However, licence revenues were down by 9% yoy (€2.1m), cycling a strong Q2'21 base as well as delays in new projects implementation

Looking into quarterly performance, Q1 was strong with revenues (+22% yoy) and EBITDA (+15% yoy), while in Q2 we witnessed a decelerating pace in revenue growth (+10% yoy), weighed by a rising cost base, thus leading to an EBITDA drop (-10% yoy) in Q2.

On the cash flow front, Entersoft ended the first half with a net cash position of €4.3m (from €8.1m at end-Q1'22 or €9.3m in end-FY'21), indicating cash outflows of €5m in H1 (including some c€5m outflows for investment outlays and dividends).

FY'22 baseline guidance calls for EBITDA margin in mid-30%'s, still looking for solid organic and inorganic revenue growth in the low 30%'s.

Entersoft Results Overview									
EUR mn	Q1'21 *	Q2'21 *	H1'21 *	Q1'22	yoy %	Q2'22	yoy %	H1'22	yoy %
Sales	6.4	6.2	12.6	7.7	22%	6.8	10%	14.6	16%
o/w licenses	1.0	1.3	2.3	1.1	9%	1.1	-22%	2.1	-9%
o/w maintenance	2.0	1.6	3.7	2.5	21%	1.9	19%	4.4	20%
o/w services	2.5	2.2	4.7	2.9	16%	2.6	19%	5.5	17%
o/w SaaS	0.7	0.6	1.3	0.9	25%	1.0	71%	1.9	46%
EBITDA	2.6	1.8	4.4	3.0	15%	1.6	-10%	4.6	4%
EBITDA margin	40%	30%	35%	38%	-2.1 pps	24%	-5.6 pps	32%	-3.5 pps
EBT	2.0	1.3	3.3	2.4	16%	1.0	-22%	3.3	1%

Source: Eurobank Equities Research, Company data, * adjusted figures for payroll accruals

FY'21 short overview

Solid FY'21 set a higher base

Entersoft reported a very solid set of FY'21 results, with EBITDA spiking by an impressive 53% yoy, on sales growth of +45% yoy, driven by increased demand for almost all of the group's main products. Revenues were supported by recurring revenues of €14m (+24% yoy), as well as new clients and add-on acquisitions (Optimum and Wedia) revenues of €10m (doubling yoy). Gross margin was burdened by investment in personnel, down by 5.6pps yoy, however cost rationalization and operational leverage aided the EBITDA margin grow by +2.3pps yoy in FY'21, shaping at 37.3%. The EBITDA growth filtered through to a 63% yoy increase in net profit to €5.7m (up from €3.5m in FY'20).

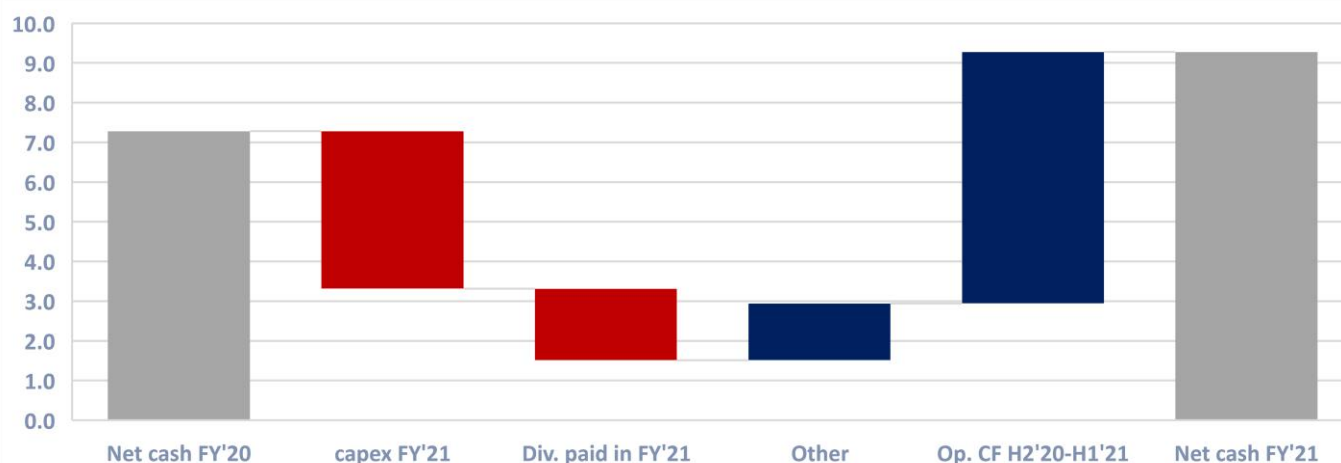
From a cash flow perspective, operating cash flow generation remained solid >€7m (vs. €6m a year ago), on increased FY'21 profitability, while capex stood at some €4m (including M&A related to Wedia and Optimum), thus leading to a healthy FCF generation of some €2.4m.

Entersoft results overview			
EUR mn	FY'20	FY'21	yoy %
Sales	16.6	24.0	45%
Gross Profit	10.9	14.6	35%
Gross margin	66%	61%	-5 pps
Operating expenses	-5.1	-5.7	13%
EBITDA	5.8	8.9	53%
EBITDA margin	35%	37%	2 pps
EBT	4.3	6.5	51%
- tax	-0.8	-0.8	
EAT	3.5	5.7	63%
Operating Cash Flow	6.1	7.1	
- capex	-3.0	-4.0	
Capital repayment of leases	-0.5	-0.8	
Free Cash Flow	2.6	2.4	
Net Cash / (debt) ex leases	7.3	9.3	2.0

Source: Eurobank Equities Research, Company data.

Of note is that the group's net cash position shaped higher at €9.3m, indicating €2m cash inflows yoy. This was notwithstanding increased capex (€4m in H2'20 and H1'21) as well as a dividend distribution of €1.8m (€0.06/share) within 2021.

Net cash bridge, FY'20 to FY'21 end (€m)



Source: Eurobank Equities Research, Company data.

Group Financial Statements

EUR mn	2020	2021	2022e	2023e	2024e
Group P&L					
Sales	16.6	24.0	31.4	39.4	46.3
Gross Profit	12.2	16.7	20.8	25.5	30.4
EBITDA	5.8	8.9	10.4	12.5	15.6
change	33%	54%	16%	21%	25%
EBITDA margin	35%	37%	33%	32%	34%
EBIT	4.4	6.9	8.2	10.1	13.0
Financial income (expense)	-0.1	-0.3	-0.1	-0.2	-0.1
Exceptionals / other income	0.0	0.0	0.0	0.0	0.0
PBT	4.3	6.6	8.0	9.9	12.9
Income tax	-0.8	-0.8	-1.8	-2.2	-2.8
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Net profit	3.5	5.7	6.2	7.7	10.1
EPS (EUR)	0.12	0.19	0.21	0.26	0.34
DPS (EUR)	0.06	0.09	0.09	0.10	0.13
Group Cash Flow Statement					
EBITDA	5.8	8.9	10.4	12.5	15.6
Change in Working Capital	0.8	-0.4	-2.2	-1.1	-0.3
Net interest	-0.2	-0.3	-0.1	-0.2	-0.1
Tax	-0.7	-1.1	-1.8	-2.2	-2.8
Other	0.3	0.0	0.0	0.0	0.0
Operating Cash Flow	6.1	7.1	6.3	9.1	12.3
Capex	-0.5	-0.8	-0.6	-1.5	-1.6
Other investing	-2.5	-3.2	-5.9	0.0	0.0
Net Investing Cash Flow	-3.0	-4.0	-6.4	-1.5	-1.7
Dividends	-1.4	-1.8	-2.7	-2.8	-2.9
Other (incl. payment of lease obligations)	3.2	0.6	-0.9	-1.0	-1.1
Net Debt (cash) (incl. leases)	-7.3	-9.3	-5.6	-9.4	-16.0
Free Cash Flow (adj.)	2.6	2.4	-1.0	6.6	9.6
Group Balance Sheet					
Tangible Assets	2.5	3.3	3.0	2.4	1.8
Intangible Assets	6.1	6.3	10.9	10.5	10.2
Other non-current Assets	2.3	2.7	2.8	2.8	2.8
Non-current Assets	10.9	12.4	16.6	15.7	14.8
Inventories	0.0	0.1	0.1	0.1	0.1
Trade Receivables	7.2	8.3	11.1	14.3	16.8
Other receivables	0.4	0.3	0.3	0.3	0.3
Cash & Equivalents	7.2	9.5	5.7	9.5	16.1
Current Assets	15.3	19.0	17.3	24.3	33.4
Total Assets	26.2	31.4	33.9	40.0	48.1
Shareholder funds	16.5	20.7	24.4	29.6	37.0
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Total Equity	16.5	20.7	24.4	29.6	37.0
Long-term debt	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	4.1	3.7	3.4	3.4	3.4
Long Term Liabilities	4.1	3.7	3.4	3.4	3.4
Short-term debt	0.4	1.0	0.2	0.2	0.2
Trade Payables	0.5	0.7	0.9	1.2	1.4
Other current liabilities	4.8	5.3	5.0	5.6	6.2
Current Liabilities	5.6	7.0	6.1	7.0	7.7
Equity & Liabilities	26.2	31.4	33.9	40.0	48.1
Key Financial Ratios					
P/E	13.7x	20.6x	17.9x	14.4x	11.1x
P/BV	2.9x	5.7x	4.6x	3.8x	3.0x
Adj. EV/EBITDA	7.2x	12.2x	10.2x	8.2x	6.1x
EBIT/Interest expense	30.6x	22.9x	55.4x	66.3x	100.6x
Net Debt (cash)/EBITDA	-1.3x	-1.0x	-0.5x	-0.7x	-1.0x
Dividend Yield	3.7%	2.3%	2.5%	2.6%	3.4%
ROE	21%	28%	26%	26%	27%
Free Cash Flow yield	5%	2%	-1%	6%	9%
Payout Ratio	51%	47%	43%	38%	38%

Source: Eurobank Equities Research.

Company description

Entersoft is a Greek IT software company involved in the development and distribution of its own software and the provision of aftersales services. The company has a broad product offering ranging from fully integrated ERP systems to niche standalone solutions, available for on-premise or on cloud installation, while can be used either as a licensed product or as Software as a Service.

Risks and sensitivities

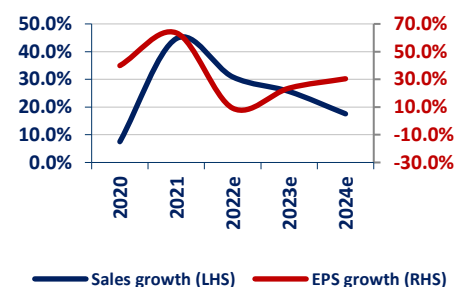
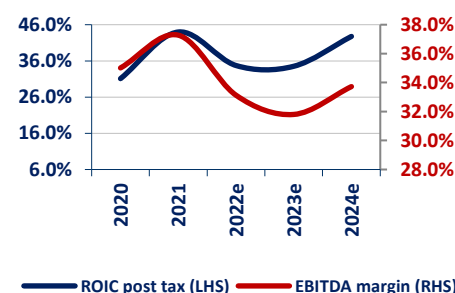
•**Macro:** Entersoft's top line largely hinges on companies' digitization push. In that regard, there is downside risk to our estimates if COVID-19 ends up having a lasting negative impact on IT spend or in case of a significant macroeconomic downturn.

•**Personnel costs:** Human capital is the overriding factor behind a software company's success, and the same is the case for Entersoft. In that regard, margins could be negatively affected if wage inflation accelerates further driving the need for the company to invest more in personnel in the future.

•**Competition risk:** The fast pace and constant evolution of the software industry means there is risk from intensifying competition which might weigh on Entersoft's growth increasing churn rates.

•**M&A integration risk:** Entersoft has at times resorted to M&A to tap new segments. In case of similar moves in the future, there is some integration risk (or risk of non-accretive M&A).

•**Sensitivity:** We estimate that flexing our revenue assumption by 5% would result in a c11% change in group EBITDA in 2022e.

Sales and EPS growth

Profitability and returns


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This report has been submitted to Entersoft for review prior to its publication. Some changes have been made by Eurobank Equities S.A. to this report as a result of the review from Entersoft.

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Analyst Certification:

This report has been written by Natalia Svyriadi (Equity Analyst).

Analyst Compensation:

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Natalia Svyriadi did not receive or purchase the shares of Entersoft prior to a public offering of such shares.

Natalia Svyriadi 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:

Eurobank Equities Investment Firm S.A. provides updates on Entersoft based on the terms of the agreement between the two parties and at least but not limited to bi-annually after the publication of financial statements of Entersoft.

12-month Rating History of Entersoft

Date	Rating	Stock price	Target price
27/07/2022	Not Rated	€ 3.72	-
25/01/2022	Not Rated	€ 5.42	-
25/10/2021	Not Rated	€ 4.90	-

Eurobank Equities Investment Firm S.A. Rating System:

Stock Ratings	Coverage Universe		Investment Banking Clients	
	Count	Total	Count	Total
Buy	15	56%	1	7%
Hold	4	15%	0	0%
Sell	0	0%	0	0%
Restricted	1	4%	0	0%
Under Review	2	7%	1	50%
Not Rated	5	19%	0	0%
Total	27	100%		

Analyst Stock Ratings:

Buy:	Based on a current 12-month view of total shareholder return (percentage change in share price to projected target price plus projected dividend yield), we recommend that investors buy the stock.
Hold:	We adopt a neutral view on the stock 12-months out and, on this time horizon, do not recommend either Buy or Sell.
Sell:	Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.
Restricted:	Under Eurobank Group policy and / or regulations which do not allow ratings
Under Review:	Our estimates, target price and recommendation are currently under review
Not Rated:	Refers to Sponsored Research reports