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This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Program. 3.0. This is an excerpt from the Polish version of DM BOŚ SA's research report.

Analyst: Tomasz Rodak, CFA

Sector: TMT – IT software & services
Fundamental rating: Buy (-)
Market relative: Overweight (-)
Price: PLN 203.00
12M EFV: PLN 280.0 (-)

Market Cap: US\$ 261 m
Bloomberg code: DAT PW
Av. daily turnover: US\$ 0.12 m
12M range: PLN 158.40-211.00
Free float: 76%

DataWalk

DataWalk is a high-tech company at an early stage of development operating in the segment of new technologies and Big Data. DataWalk's software is a complete, integrated and open platform for the link analytics. Currently DataWalk aims its offer at the insurance industry (fraud detection) and public sector (law enforcement and intelligence) both on the American and EMEA markets. DataWalk is a model example of a market disruptor that can act as a game changer on the global link analytics market. Not only has DataWalk proposed a platform that is many-fold cheaper than rivaling platforms on the market, but also DataWalk's system is way more effective. Essentially, according to our estimates, by choosing DataWalk's platform over other systems the client may come out 5-10 times better off.

At the moment the key focus of the Company is to acquire reference contracts for its product as well as a dynamic growth of revenues which are the most important parameter affecting the valuation. We are impressed with the recent contracts signed by the Company with the Federal Departments of the United States, including the Department of Justice, Homeland Security, Labor or Defense and with commercial clients such as Ally Financial bank and Motion Picture. As far as the contract with DoJ is concerned, DataWalk's platform is supposed to replace the system of its chief rival, Palantir.

We believe that a growing base of prestigious clients paired with brisk increase of sales force should boost a further growth of contracts acquired (and, in consequence, of revenues) in the foreseeable future. We expect more interest from foreign investors thanks to the Company's base of recognizable international clients.

We value DataWalk via the peer-relative valuation based on the EV/Sales multiples of the peer group encompassing American software companies with similar business model and growth profile. Our 12M EFV rests at PLN 280 per share which implies

Guide to adjusted profits

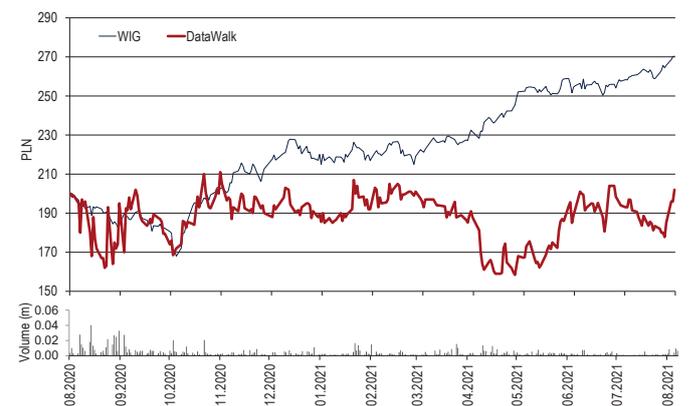
No factors necessitating adjustments.

Key data

IFRS consolidated		2020	2021E	2022E	2023E
Sales	PLN m	15.7	26.7	43.4	68.7
Sales yoy chg	%	348	70	62	58
EBITDA	PLN m	-5.0	-12.0	-9.4	-1.6
EBIT	PLN m	-6.2	-13.6	-11.2	-3.6
Net profit	PLN m	-6.3	-13.2	-11.2	-3.6
EPS	PLN	-1.39	-2.70	-2.30	-0.73
Net debt	PLN m	-73.2	-54.5	-37.8	-25.3
EV/Sales	x	54.0	35.0	22.0	14.1
No. of shares (eop)	m	4.5	4.9	4.9	4.9

Source: Company, DM BOŚ SA estimates

Stock performance



Source: Bloomberg

Upcoming events

1. Release of the 1H21 financial results: September 30, 2021
2. Release of the 3Q21 financial results: November 29, 2021

almost 40% upside. Interestingly, if we adjust the multiple by forecast sales dynamics (DataWalk is one of the two companies in the peer group experiencing the fastest growth), a discount to peer companies will reach 50-70%. Therefore, we initiate the coverage of DataWalk with the LT fundamental Buy recommendation and ST market relative Overweight rating.

The Company's shareholders should acknowledge the extended period (that may last even another 3-8 years) of negative profitability and subsequent funding rounds (present funding should suffice for 2-3 years)

which constitute an inherent element of the business model. However a prize such as a takeover bid offered by some global IT company, integrator or consulting company should wait at the end of this path. We expect a potential buyer to surface at the 4th or 5th stage of the company development (2023-26) when DataWalk should reach full business stability having accumulated a global reference base of 100 clients.

The key risk factor for DataWalk is – in our view – the funding risk. Other risks include: skilled staff recruitment in the US, long sales cycles, still protracted timeline to reach BEP, unequal competitive footing and key staff losses.

Catalysts

1. Dynamic growth of the link-based analysis segment in the foreseeable future
2. High revenue dynamics expected in the upcoming years
3. Higher than expected revenue growth rate in the upcoming years
4. Increasing number of contracts signed
5. Signing another contract within the framework of the agreement with the American DoJ
6. Dynamic growth of sales funnel value
7. Growing interest of foreign financial investors
8. Engagement of experts experienced in the development of the Silicon Valley start-ups
9. Huge cost and efficiency advantage of DataWalk’s platform over rivaling solutions
10. High gross margins on sales of Enterprise IT products.

Risk factors

1. Slower than expected revenue growth rate in the upcoming years
2. Faster cash burning than expected without the following revenue growth
3. **Funding risk.** We see it as the biggest source of risk. Due to the early development stage and its lack of positive operating profitability DataWalk’s opportunities to raise external capital for funding its operations are limited.
4. **Sale cycle risk.** Selling process of new technology (especially in the government sector) is burdened by the risk related to long lasting negotiation talks exceeding even 4 or more years.
5. **Early stage of development risk.** DataWalk is a company at the early stage of development, with all the risks typical for every start-up in place. The Company estimates that – due to complexity of planned activities – time needed for a break-even may take 10-15 years starting from Jan. 2014. Over this long period the Company will bear a risk of unforeseen events and other risks which may lead to collapse of strategic projects and thus negatively affect the future financial and economic condition of the Company (including excessive growth of costs, technical or organizational problems, lack of the clients’ interest in the Company’s offer, lack of financial means for further development, etc.).
6. **Competition risk.** DataWalk operates in the market niche where it competes with much bigger companies with an established market position (Palantir Technologies, IBM). Due to the relative immaturity of the sector where DataWalk operates, products may be subject to substantial and dynamic changes, so may the competition; new entities can enter the market offering products with better technology or more attractive prices.
7. **Risk related to the loss of the management.** DataWalk’s activities depend to a large extent on the know-how, skills, and market and business experience of key managers and senior officers and top specialists in programming, IT, logic, and applied math. Potential loss of key managers or senior officers, especially Mr Krystian Piećko who is the main creator of DataWalk platform, could adversely affect efficiency and agility of the Company’s activity or its selected segments as well as the quality of services provided.
8. **Liquidity loss risk.** Currently DataWalk does not generate revenues at the level sufficient to be able to cover operating costs; in consequence there seems to be a liquidity loss risk seen as a lack of sufficient financial means enabling the on-going operations. Until DataWalk reaches positive cash profitability, the Company will depend on external funding, including a share issuance.

BASIC DEFINITIONS

A/R turnover (in days) = $365/(\text{sales}/\text{average A/R})$
Inventory turnover (in days) = $365/(\text{COGS}/\text{average inventory})$
A/P turnover (in days) = $365/(\text{COGS}/\text{average A/P})$
Current ratio = $(\text{current assets} - \text{ST deferred assets})/\text{current liabilities}$
Quick ratio = $(\text{current assets} - \text{ST deferred assets} - \text{inventory})/\text{current liabilities}$
Interest coverage = $(\text{pre-tax profit before extraordinary items} + \text{interest payable})/\text{interest payable}$
Gross margin = $\text{gross profit on sales}/\text{sales}$
EBITDA margin = $\text{EBITDA}/\text{sales}$
EBIT margin = EBIT/sales
Pre-tax margin = $\text{pre-tax profit}/\text{sales}$
Net margin = $\text{net profit}/\text{sales}$
ROE = $\text{net profit}/\text{average equity}$
ROA = $(\text{net income} + \text{interest payable})/\text{average assets}$
EV = $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$
EPS = $\text{net profit}/\text{no. of shares outstanding}$
CE = $\text{net profit} + \text{depreciation}$
Dividend yield (gross) = $\text{pre-tax DPS}/\text{stock market price}$
Cash sales = $\text{accrual sales corrected for the change in A/R}$
Cash operating expenses = $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$

DM BOŠ S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:

Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;
Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;
Sell – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms
Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms
Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM BOŠ S.A.'s recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first.

Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

Distribution of DM BOŠ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	50	22	5	10	0	1
Percentage	57%	25%	6%	11%	0%	1%

Distribution of DM BOŠ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	40	28	9	10	0	1
Percentage	45%	32%	10%	11%	0%	1%

Banks

Net Interest Margin (NIM) = $\text{net interest income}/\text{average assets}$
Non interest income = $\text{fees\&commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$
Interest Spread = $(\text{interest income}/\text{average interest earning assets})/(\text{interest cost}/\text{average interest bearing liabilities})$
Cost/Income = $(\text{general costs} + \text{depreciation})/(\text{profit on banking activity} + \text{other net operating income})$
ROE = $\text{net profit}/\text{average equity}$
ROA = $\text{net income}/\text{average assets}$
Non performing loans (NPL) = loans in 'basket 3' category
NPL coverage ratio = $\text{loan loss provisions}/\text{NPL}$
Net provision charge = $\text{provisions created} - \text{provisions released}$

DM BOŠ S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc. Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

Distribution of DM BOŠ's current recommendations for the companies which DM BOŠ has supplied with material investment services within the last 12 months

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	11	4	0	1	0	1
Percentage	65%	24%	0%	6%	0%	6%

Distribution of DM BOŠ's current market relative recommended weightings for the companies which DM BOŠ has supplied with material investment services within the last 12 months

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	7	6	2	1	0	1
Percentage	41%	35%	12%	6%	0%	6%

LT fundamental recommendation tracker

Analyst	Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Performance	Relative performance	Price at issue/ reiteration*	EFV (12 months)	
DataWalk										
Tomasz Rodak	Buy	–	05.09.2021	-	06.09.2021	Not later than 05.09.2022	-	-	203.00	280.00 –

* prices at issue/reiteration are the closing prices at the report or reiteration date

Market-relative recommendation tracker

Analyst	Relative Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Price at issue/ reiteration*	Relative performance
DataWalk							
Tomasz Rodak	Overweight	–	05.09.2021	-	06.09.2021	Not later than 05.09.2022	203.00 –

* prices at issue/reiteration are the closing prices at the report or reiteration date

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The report was not shown to the analyzed company before the distribution of the report.

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