

30/2022/GPW (90) September 20, 2022

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Program 3.0.

DataWalk

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Analyst: Tomasz Rodak, CFA

DataWalk

Sector: TMT – IT software & services

Market Cap: US\$ 156 m

Fundamental rating: Hold (↓)

Bloomberg code: DAT PW

Market relative: Neutral (→)

Av. daily turnover: US\$ 0.6 m

Price: PLN 148.00

12M range: PLN 124.00-259.00

12M EFV: PLN 158.00 (↓)

Free float: 74%

Investment summary

2Q22 revenues reached PLN 14.0 million (up 32% yoy) and beat our tentative forecast by over PLN 1 million. DataWalk informed that 1H22 financials growth dynamic was impeded by insufficient training and size of teams handling the pre-sale and post-sale services, and concluded that only after these problems have been solved, the 70% target yoy growth dynamic can be reached.

In 1H22 DataWalk's growth dynamic stood at 29% yoy vs our expectations of 72% for FY22, which, in the light of current problems with pre-sale and post-sale processes, may be a big challenge for the Company this year, we believe, as 2H22 revenues should increase over 100% yoy to achieve this 72% growth. Therefore, we lower our forecast of the Company's revenues in FY22 by 13% to PLN 46.2 million (up 50% yoy). We assume as well that, after the bottleneck problems are solved, from 2023 onwards, the Company's revenues will resume a growth dynamic at a c. 70% level.

Since June when we issued our last report, the Company informed about 8 contracts signed, including 5 which are the extensions/ expansions of existing contracts (Ally Financial, PKN Orlen, National Police Headquarters, the US Defense Department, the US Labor Department) and 3 new contracts (Total Energies, US Army Criminal Investigation Division, and Polaris Wireless). Until today, the Company informed about 14 new contracts acquired this year, which implies a 75% increase vs the analogical period of 2021 when it obtained 8 new contracts.

Since June when we issued our last report, the median of EV/Sales multiples for 2022-24 of the Company's peers has fallen by 6% on average, which coupled with lowering of our revenue forecasts for 2022E-24E by 13-16% leads to a 21% decline of our

Guide to adjusted profits

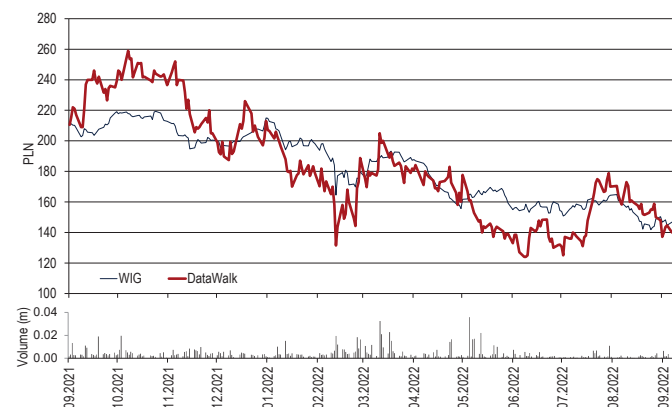
Adj EBIT excludes costs of the incentive program (PLN 106.2 million in 2Q22).

Key data

IFRS consolidated		2021	2022E	2023E	2024E
Sales	PLN m	30.8	46.2	78.5	133.4
Sales yoy chg	%	96	50	70	70
EBITDA	PLN m	-3.1	-114.3	-10.4	3.8
EBIT	PLN m	-5.7	-117.7	-14.0	0.0
Adj EBIT	PLN m	-5.7	-11.5	-14.0	0.0
Net profit	PLN m	-1.6	-81.7	-14.0	0.0
EPS	PLN	-0.34	-15.92	-2.72	0.01
Net debt	PLN m	-51.0	-74.3	-39.6	-17.4
EV/Sales	x	21.8	14.8	9.2	5.6
No. of shares (eop)	m	4.9	5.1	5.1	5.1

Source: Company, DM BOŚ SA estimates

Stock performance



Source: Bloomberg

Recent events

1. PLN 38.3 million acquired from the shares issue: August 22
2. 1H22 preliminary financial results release: September 8
3. 1H22 financial results release: September 14

Upcoming events

1. Release of 3Q22 financial results: November 22

12M EFV that currently yields PLN 158 per share (previously PLN 201 per share).

As we estimate the current upside for the Company's share price at below 10%, we downgrade our LT fundamental recommendation to Hold (from Buy). At the same time our ST relative Neutral recommendation stays intact.

Increasing number of revealed contracts

Since June when we issued our last report, the Company informed about 8 contracts acquired, including 5 which are the extensions/ expansions of existing contracts (Ally Financial, PKN Orlen, National Police Headquarters, the US Defense Department, the US Labor Department) and 3 new contracts (Total Energies, US Army Criminal Investigation Division, and Polaris Wireless). Until today, the Company informed about 14 new contracts signed this year, which implies a 75% increase vs the analogical period of 2021 when it acquired 8 new contracts.

Growth of sales funnel value

DataWalk informed that as of September 14 a sales funnel value stood at c. PLN 25.1 million (including c. PLN 14.3 million in the US market and PLN 10.8 million in other markets) which implies a 12% growth of sales funnel value as compared to April. It seems that in spite of the above mentioned bottleneck problems of pre-sale services, a sales funnel value is back on a rising path after a year of flat performance.

2Q22 financial results review

In 1H22 the Company's revenues reached PLN 18.2 million (up 29% yoy) which implies PLN 14.0 million for 2Q22 (up 32% yoy). On the other hand, 2Q22 operating loss stood at PLN 106.2 million; the result was burdened by a non-cash cost of the incentive program (at PLN 106.2 million). 2Q22 adj EBIT (excluding the impact of the incentive program cost) amounted to 0. Operating costs in 2Q22 (excluding costs of the incentive program) reached PLN 14.0 million (up 110% yoy; up 20% qoq). 2Q22 reported revenues beat our preliminary expectations by PLN 1 million (and c. 10%).

Summary of the 3rd stage of development – the conference key issues

On September 15 the Company held a conference to discuss 1H22 financial results and address other matters. Below we present the key issues:

- According to one DataWalk's client, the Company's software enables to reach a 93% accuracy in fraud detection as compared to standard 20-30%;

- One client managed to shorten time of investigation to minutes from weeks;
- The Company's clients conversion from the sales funnel reached c. 80%;
- There is large interest and the Company has no problem with client acquisition – the pre- and post-sale services pose the problem;
- The Company was forced to dismiss 50%/ 70% potential clients from US/ Europe due to a lack of employees qualified in pre- and post-sale support;
- Bottlenecks exerted negative impact on the pace of sales funnel building (pre-sales limitation); these processes had to be slowed;
- Chris Westphal is no longer a member of the team, as he completed his tasks (analytic competence building related to cooperation with US State agencies), but remains a significant shareholder;
- The management lists, among the Company's weaknesses, immature system engineering processes and late start of works related to the SAAS implementation;
- A rise in the price list by >10% is planned from January next year (vs c. 7% rise in January 2022);
- The management indicated targets of the 4th stage of development: (i) acquisition of >100 clients, (ii) implementation of a partner sales model and of a SAAS model (in 3 years starting from today), and (iii) revenue growth at >70%;
- Full funding of the 4th development stage on the turn of 2023 and 2024 (shares issue).

Financial forecasts

In 1H22 DataWalk's growth dynamic stood at 29% yoy vs our expectations of 72% for FY22, which, in the light of current problems with pre- and post-sale processes, may be a big challenge for the Company, we believe, as 2H22 revenues should increase over 100% yoy to achieve this 72% growth. Therefore, we lower our FY22 forecast of the Company's revenues by 13% to PLN 46.2 million (up 50% yoy). We assume as well that, after the bottleneck problems

are solved, from 2023 onwards, the Company's revenues will resume a growth dynamic at a c. 70% level.

EV/Sales multiples for 2022-24 of the Company's peers has fallen by 6% on average, which coupled with lowering of our revenue forecasts for 2022E-24E by 13-16% results in a 21% decline of our 12M EFV to PLN 158 per share (from PLN 201 per share).

Valuation and recommendations

We value DataWalk via the peer-relative valuation based on the EV/Sales multiples against the peer group encompassing American software companies with similar business model and growth profile. Since June when we issued our last report, the median of

Due to the fact that we estimate the current upside for the Company's share price at c. 10%, we downgrade our LT fundamental recommendation to Hold (from Buy). At the same time our ST relative Neutral recommendation stays intact.

Catalysts

1. Dynamic growth of the link-based analysis segment
2. High revenue dynamics expected in the upcoming years
3. Increasing number of contracts signed
4. Increasing demand for software for intelligence purposes
5. Dynamic growth of sales funnel value
6. Growing interest of foreign financial investors
7. Strong USD vs PLN

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. Lacking access to funding and loss of liquidity
4. Long sale cycle
5. Early stage of the Company's development
6. Negative sentiment towards growth companies

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 BOŚ 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 BOŚ 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 BOŚ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	43	30	4	9	0	2
Percentage	49%	34%	5%	10%	0%	2%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	38	29	10	9	0	2
Percentage	43%	33%	11%	10%	0%	2%

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

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	9	5	0	1	0	2
Percentage	53%	29%	0%	6%	0%	12%

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

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	9	3	2	1	0	2
Percentage	53%	18%	12%	6%	0%	12%

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	16.08.2022	-16%	6%	203.00	280.00 -
Tomasz Rodak	-	→	-	07.10.2021	07.10.2021	-	-	-	234.50	280.00 →
Tomasz Rodak	-	→	-	04.11.2021	04.11.2021	-	-	-	246.00	280.00 →
Tomasz Rodak	-	→	-	05.12.2021	06.12.2021	-	-	-	211.00	259.00 ↓
Tomasz Rodak	-	→	-	16.01.2022	17.01.2022	-	-	-	206.50	259.00 →
Tomasz Rodak	-	→	-	07.02.2022	07.02.2022	-	-	-	184.00	259.00 →
Tomasz Rodak	-	→	-	28.02.2022	28.02.2022	-	-	-	158.00	259.00 →
Tomasz Rodak	-	→	-	14.04.2022	14.04.2022	-	-	-	184.20	259.00 →
Tomasz Rodak	-	→	-	26.05.2022	26.05.2022	-	-	-	144.00	259.00 →
Tomasz Rodak	-	→	-	06.06.2022	07.06.2022	-	-	-	141.48	201.00 ↓
Tomasz Rodak	-	→	-	15.07.2022	15.07.2022	-	-	-	137.08	201.00 →
Tomasz Rodak	Buy	→	16.08.2022	-	16.08.2022	20.09.2022	-13%	-1%	170.50	201.00 →
Tomasz Rodak	-	→	-	02.09.2022	02.09.2022	-	-	-	151.52	201.00 →
Tomasz Rodak	Hold	↓	20.09.2022	-	21.09.2022	Not later than 20.09.2023	-	-	148.00	158.00 ↓

* 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	06.06.2022	203.00	-14%
Tomasz Rodak	-	→	-	07.10.2021	07.10.2021	-	234.50	-
Tomasz Rodak	-	→	-	04.11.2021	04.11.2021	-	246.00	-
Tomasz Rodak	-	→	-	05.12.2021	06.12.2021	-	211.00	-
Tomasz Rodak	-	→	-	16.01.2022	17.01.2022	-	206.50	-
Tomasz Rodak	-	→	-	07.02.2022	07.02.2022	-	184.00	-
Tomasz Rodak	-	→	-	28.02.2022	28.02.2022	-	158.00	-
Tomasz Rodak	-	→	-	14.04.2022	14.04.2022	-	184.20	-
Tomasz Rodak	-	→	-	26.05.2022	26.05.2022	-	144.00	-
Tomasz Rodak	Neutral	↓	06.06.2022	-	07.06.2022	Not later than 06.06.2023	141.48	22%
Tomasz Rodak	-	→	-	15.07.2022	15.07.2022	-	137.08	-
Tomasz Rodak	-	→	-	16.08.2022	16.08.2022	-	170.50	-
Tomasz Rodak	-	→	-	02.09.2022	02.09.2022	-	151.52	-
Tomasz Rodak	-	→	-	20.09.2022	21.09.2022	-	148.00	-

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

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The production of the report was completed on September 21, 2022 at 7.25 a.m.
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The report is an investment research within the meaning of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organizational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

This report constitutes a recommendation within the meaning of Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest. This report is for information purposes only.

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

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