

**36/2023/GPW (81)** September 25, 2023

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Program 4.0.

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# Cloud Technologies

2Q23 financial results review .....	2
Recent events .....	2
Upcoming events .....	2
Disposal of a 100% stake in Audience Network .....	3
Financial forecasts, valuation and recommendation .....	3
Catalysts .....	3
Risk factors .....	3
Disclaimer .....	4

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**Analyst:** Tomasz Rodak, CFA

**Sector:** TMT – IT software & services

**Market Cap:** US\$ 102 m

**Fundamental rating:** Hold (→)

**Bloomberg code:** CLD PW

**Market relative:** Neutral (→)

**Av. daily turnover:** US\$ 0.03 m

**Price:** PLN 88.60

**12M range:** PLN 26.20-106.00

**12M EFV:** PLN 88.00 (→)

**Free float:** 33%

# Cloud Technologies

## 2Q23 financial results review

The Group's 2Q23 revenues reached PLN 14.5 million (up 23% yoy) and proved to be 4% lower than we expected mainly due to lower revenues from the other activities (the Company's not so important segment), though revenues from data sales (the key segment) at PLN 11.8 million were in line with our expectations.

The Group's quarterly costs at PLN 11.7 million were close to our forecasts. They included the cost of media and data purchases at PLN 3.5 million which fell behind our forecast at PLN 4.2 million by 20%. This difference, however, was offset by higher than we expected other costs (mainly of other external services). The margin in the data sales segment stood at 67% and was almost in line with our expectations (66%).

Adj EBIT and EBITDA reached PLN 4.0 million (up 41% yoy) and PLN 7.0 million (up 42% yoy), respectively, which was in line with our forecasts. The Company reported slightly higher than we assumed financial costs (due to FX differences) simultaneously with a negative tax (expected positive), hence reported NI was close to our expectations.

Despite a yoy higher EBITDA, the Group's operating cash flows fell yoy to PLN 3.7 million, mainly due to FX differences and less favorable changes of receivables than in 2Q22.

All in all, 2Q23 operating figures were very strong with the EBITDA rising 42% yoy, albeit the results were in line with our expectations, therefore we view them as neutral.

### Guide to adjusted profits

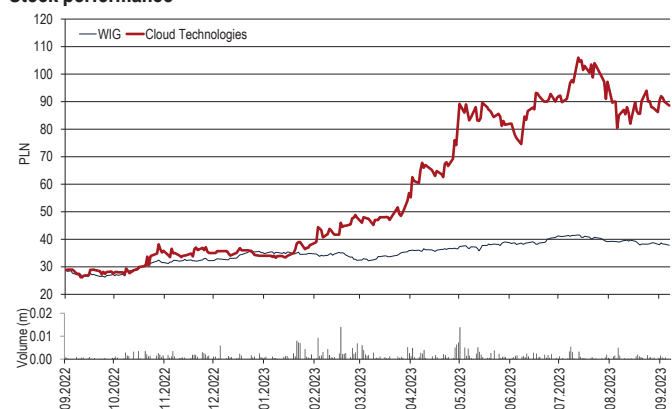
Adj profits (EBITDA, EBIT, NI) exclude costs of the incentive program valuation (c. PLN 0.6 million per quarter).

### Key data

IFRS consolidated		2022	2023E	2024E	2025E
Sales	PLN m	50.4	64.7	76.4	85.7
EBITDA	PLN m	22.1	28.9	36.1	42.1
Adj EBITDA	PLN m	23.3	31.2	38.4	44.4
EBIT	PLN m	13.2	16.7	23.6	30.0
Adj EBIT	PLN m	14.4	19.1	26.0	32.4
Net income	PLN m	12.8	12.8	21.3	27.0
Adj net income	PLN m	14.0	15.1	23.7	29.3
Adj EPS	PLN	2.80	3.03	4.74	5.87
Adj EPS yoy chg	%	54	8	57	24
Net debt	PLN m	-40.8	-26.8	-47.4	-70.8
EV/Sales	x	8.0	6.4	5.2	4.3
Adj P/E	x	31.6	29.3	18.7	15.1
EV/Adj EBITDA	x	17.3	13.3	10.3	8.4
EV/Adj EBIT	x	27.9	21.8	15.2	11.5
Gross dividend yield	%	0.0	1.1	1.5	1.9
DPS	PLN	0.00	1.00	1.36	1.68
Number of shares (eop)	m	5.0	5.0	5.0	5.0

Source: Company, DM BOŚ SA estimates

### Stock performance



Source: Bloomberg

### Recent events

1. Release of 1H23 financial results: September 25, 2023
2. Disposal of a stake in Audience Network: September 25, 2023
3. Estimated sales to key clients in July: September 18, 2023

### Upcoming events

1. 3Q23 financial results release: November 27, 2023

### Disposal of a 100% stake in Audience Network

Yesterday, during the WSE trading hours, Cloud Technologies informed that it sold a 100% stake in the subsidiary Audience Network LLC for PLN 2.5 million to the management members of Audience Network (MBO). The transaction price will be paid in tranches by December 31, 2026.

Audience Network is an advertising agency providing Internet marketing services and focused on the Polish market. Following the change of a business model by the Company, Audience Network belonged to the segment Other sales and generated no meaningful profits. The Company informed that this disposal of a subsidiary would translate into lower revenues in this segment though with no material impact on the Group's EBITDA. In

our first research report on Cloud Technologies (35/2023/GPW (79) from September 11, 2023 we highlighted the possibility of a gradual withdrawal of the Company from Other sales segment, therefore we view this transaction as neutral.

### Financial forecasts, valuation and recommendation

2Q23 financial results turned to be in line with our expectations, hence we do not modify our forecasts for the coming periods. Our current forecasts do not account for a disposal of Audience Network, albeit according to the Company's declaration (ESPI statement) this disposal will have some marginal impact on the EBITDA generation. In consequence, our 12M EFV at PLN 88 per share and recommendations: LT Hold and ST Neutral, stay intact.

#### Catalysts

1. Rising importance of Internet advertising
2. Dynamic growth of the programmatic segment
3. More and more frequent implementation of AI (more precise users profiling, growing demand for data)
4. Active dividend policy
5. Strong cash generation
6. Dynamic improvement of financial results
7. Slower than expected growth pace of the data sales segment's revenues
8. Positive impact of potential acquisitions
9. Strong USD in relation to PLN

#### Risk factors

1. Economic slowdown
2. Rise in competitive pressures
3. Changes in personal data protection laws
4. IT systems malfunction
5. Loss of key data sources
6. Key data distributor loss
7. Internet advertising business model change
8. FX risk (USD weakening vs PLN)
9. Negative impact of potential acquisitions
10. Low liquidity on the WSE.

## 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** =  $\text{EBIT}/\text{sales}$   
**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	38	32	9	9	0	4
Percentage	41%	35%	10%	10%	0%	4%

### Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	33	31	15	9	0	4
Percentage	36%	34%	16%	10%	0%	4%

## Banks

**Net Interest Margin (NIM)** =  $\text{net interest income}/\text{average assets}$   
**Non interest income** =  $\text{fees}\&\text{commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$   
**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	5	7	1	1	0	3
Percentage	29%	41%	6%	6%	0%	18%

### 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	7	3	3	1	0	3
Percentage	41%	18%	18%	6%	0%	18%

**LT fundamental recommendation tracker**

Analyst	Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Performance	Relative performance	Price at issue/ reiteration*	EFV (12 months)		
<b>Cloud</b>											
Tomasz Rodak	Hold	–	11.09.2023	-	11.09.2023	Not later than 11.09.2024	-6%	-5%	94.00	88.00	–
Tomasz Rodak	-	→	-	25.09.2023	26.09.2023	-	-	-	88.60	88.00	→

\* 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	
<b>Cloud</b>								
Tomasz Rodak	Neutral	–	11.09.2023	-	11.09.2023	Not later than 11.09.2024	94.00	-5%
Tomasz Rodak	-	→	-	25.09.2023	26.09.2023	-	88.60	-

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

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The report was distributed on September 26, 2023 at 7.50 a.m.

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

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