GREECE | EQUITY RESEARCH | SOFTWARE
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INITIATION OF COVERAGE

ENTERSOFT

Unfettered secular momentum, multi-tiered exposure

Greek software leader with extensive offering, c60% recurring revenues and diversified exposure – Entersoft is a leading Greek software company involved in the development and distribution of business software and the provision of aftersales. The group boasts an extensive portfolio of solutions, ranging from fully integrated ERP systems to niche standalone modules, and a diversified pool of clients, with no significant exposure in any specific sector. It operates both a license & maintenance and SaaS model, combining the agility of SaaS with the superior margins initially enjoyed by on-premise solutions. This balanced contract portfolio is manifested in a significant recurring base, at c60% of group revenue.

Strong demand tailwinds and secular growth in Greek business software, reinforced by RRF/EU funding – The domestic business software market has shown no signs of slowdown since the onset of the pandemic, buoyed by widespread demand for digitization and c€3bn in available funding for such projects (i.e. RRF, EU structural funds). We expect strong domestic demand to persist in the mid-term, underpinned by idiosyncratic factors such as the need for upgrades of legacy ERP systems and the low adoption levels of cloud-based SaaS solutions. We anticipate top line growth to be supplemented by the Romanian market, where the recent acquisition of BIT Software provides exposure to a software industry estimated at c70% the size of that in Greece.

17% revenue CAGR over 2023-26e; profitability to almost double by 2026e vs 2022 levels – Entersoft saw its revenues get rebased to €29.6m in 2022, at levels >90% higher than 2019, mostly driven by organic growth (i.e. client base expansion, cross-selling/upselling). Looking ahead, we envisage c17% 3-year revenue CAGR through to 2026e (vs 2023e) reflecting our expectations for increased traction in newly acquired solutions, rising appetite for IT sophistication in Greece and continued positive momentum for niche solutions. We see this filtering through to c19% EBITDA CAGR over the same period, notably among the strongest growth profiles in the EU software space.

Balance sheet offers flexibility in capital allocation – Thanks to its strong cash generative capacity, the group remains comfortably cash positive and is projected to end 2023e with a net cash position of €2m, despite historically high M&A activity over the past 2 years. Although our model does not assume any further acquisition-driven growth, Entersoft's solid balance sheet provides ample room for accretive transactions, which could alternatively be manifested into heftier returns to shareholders than those embedded in our estimates (we assume 40-43% payout).

Valuation – Despite a +70% bounce in 2023, Entersoft shares have not re-rated markedly as the >30% EBITDA growth during the year (on our estimate) was accompanied by healthy cash generation, leaving the stock at c12x 2024e EV/EBITDA. We reckon the shares offer a compelling proposition as the current valuation remains below that of best-in-class peers (which are trading in the mid-to-high teens). Our valuation is based on a DCF (8.9% WACC) and yields a 12m PT of €8.20 per share, effectively valuing the group at c16x 2024e EV/EBITDA, still discount vs. higher valued peers in EU software. We place Entersoft in our top picks among Greek small caps, expecting it to benefit from the secular theme of digitization.

Estimates					
€m unless otherwise stated	**2021**	**2022**	**2023e**	**2024e**	**2025e**
Revenues	24.0	29.6	38.8	46.1	53.5
EBITDA	8.9	9.5	12.5	15.0	17.7
Net profit	5.7	6.0	7.0	8.9	10.9
EPS - adj. (€)	0.19	0.20	0.23	0.30	0.36
DPS (€)	0.09	0.10	0.13	0.16	0.20
Valuation					
Year to end December	**2021**	**2022**	**2023e**	**2024e**	**2025e**
P/E	20.6x	21.7x	21.9x	20.9x	17.0x
EV/EBITDA	12.3x	13.5x	12.3x	12.1x	10.1x
EBIT/Interest expense	22.9x	14.8x	11.0x	14.2x	17.6x
Dividend Yield	1.5%	2.1%	2.4%	2.5%	3.2%
ROE	30.8%	27.0%	27.2%	30.0%	31.7%

Source: Eurobank Equities Research.

Recommendation	**BUY**
Prior Recommendation	**N/A**
Target Price	**€ 8.20**
Prior Target Price	**N/A**
Closing Price (31/01)	€6.18
Market Cap (mn)	€185.4
Expected Return	32.7%
Expected Dividend	2.5%
Expected Total Return	35.2%

Entersoft Share Price

Stock Data

Reuters RIC	ENTr.AT
Bloomberg Code	ENTER GA
52 Week High (adj.)	€6.78
52 Week Low (adj.)	€3.61
Abs. performance (1m)	-2.8%
Abs. performance (YTD)	-2.8%
Number of shares	30.0mn
Avg Daily Trading Volume (qrt)	€137k
Est. 3yr EPS CAGR	21.9%
Free Float	38%

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See Appendix for Analyst Certification and important disclosures.

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Investment Summary

Leading Greek software company with broad product offering, c60% recurring revenue base and multisector exposure…

Entersoft is a leading Greek software company involved in the development and distribution of business software and the provision of aftersales services. The group has a broad product offering, ranging from fully integrated ERP systems to niche standalone solutions, and enjoys a diversified portfolio of active clients spanning various industries, with no significant exposure in any specific sector. Entersoft operates both a license & maintenance (L&M) and software-as-a-service (SaaS) model, thereby combining the agility of SaaS solutions with the superior margins initially enjoyed by on-premise installations. This balanced portfolio of contracts is manifested in a significant recurring base, at c60% of group revenue.

… facing a confluence of supportive trends and secular drivers which translate into 2-digit annual growth for the addressable market

Entersoft looks set to capitalize on the secular tailwinds enjoyed by Greek business software benefitting from its strong presence in mid-sized and large Greek corporates, its wide range of niche solutions covering the entire corporate value chain and the country-wide push for digitization supported by some c€3bn in funding from the RRF and EU structural funds (ESPA). This positive trajectory will likely be reinforced by an improving domestic business landscape and idiosyncratic factors such as the need for upgrades of legacy ERP systems (c40% of the core domestic market has outdated ERP software), the low adoption levels of CRM/warehouse mgt solutions (20-40% of enterprises), the positive developments around e-invoicing and the increased penetration of specialized cloud-delivered solutions in small/micro companies. We expect a further boost to group figures in the medium/long term from the relatively underserved Romanian market, which screens out as quite similar to the Greek market, albeit in a less mature stage.

17% revenue CAGR through to 2026e post >30% growth in 2023e; revenues set to double by 2028e on organic growth, with M&A presenting further optionality

The group has followed a robust growth trajectory in recent years, with revenues rebasing to c€29.6m in 2022, namely c1.9x the figures of 2019. Remarkably, most of this growth has been organic, as Entersoft has not only grown its customer base but has also been selling "more" to existing customers (upselling, cross-selling, services). Organic growth has been topped up by M&A, with Entersoft mostly targeting domestic competitors in niche segments. The high recurring base coupled with a >90% client retention rate (on our estimates) and diversified exposure to mid-sized/large clients place the company firmly at the top of the domestic software landscape for these client categories. Looking ahead, we expect the confluence of positive trends in Greek software to drive revenue CAGR of c17% over 2023e-26e (i.e. using 2023e as basis, a year of >30% growth), as: 1) license sales are boosted by newly acquired/developed solutions, 2) maintenance and services benefit from the increased appetite for IT sophistication among Greek companies, and 3) SaaS reaches new heights on positive momentum from e-invoicing and niche solutions. We underline that our model does not account for future M&A which could provide further optionality in the mid/long term.

19% EBITDA CAGR in the next 3 years and high returns on capital

Thanks to the solid recurring base, Entersoft's business model is quite cash generative, enabling the group to both fund M&A activities and return cash to shareholders. On the profit front, Entersoft has delivered a remarkable c33% EBITDA CAGR since 2019 (vs. a revenue CAGR of c21% over the same period) on a c9pps EBITDA margin expansion over 2019-21 (reaching c37% by the latter year) driven by mix improvements and upselling/cross-selling. Notably, despite a c5pps dilution to the EBITDA margin in 2022 due to elevated M&A activity, Entersoft continues to enjoy margins at the higher end compared to both Greek peers and the global business software space. We note that the same stands for group returns, with return on assets in the mid-teens compared to <10% for most EU software peers. Looking ahead, we anticipate the optimization/consolidation of both existing and newly acquired solutions to drive a c19% EBITDA CAGR through 2023-26e, among the strongest growth profiles within the EU software space (mid-teens growth envisaged for Entersoft's highest growth peers).

Strong balance sheet offers scope for balanced capital allocation, potential accretive transactions

The group maintains a healthy balance sheet, remaining comfortably cash positive in recent years despite historically high M&A activity. Looking back, Entersoft was on net cash of c€8.1m in 2021 and, following the streak of 7 acquisitions completed over 2022-23, is projected to end 2023e with a net cash position of €2.3m. Although our model does not assume any further acquisition-driven growth, Entersoft's solid balance sheet provides ample room for accretive transactions in the future, especially as its diverse exposure presents a broad platform for potential M&A. Overall, optionality regarding balance sheet deployment remains high and could be alternatively manifested into heftier returns to shareholders than those included in our estimates (we assume 40-43% payout).

Compelling valuation given growth profile and nature of the industry

After a stellar performance in 2021 (+96%), Entersoft shares retreated 29% in 2022 weighed down by rising rates (affecting most tech stocks), before bouncing in 2023 (+70%) propelled by strong operating momentum (and rates relief). From a valuation perspective, the shares did not re-rate markedly in 2023 as the >30% EBITDA growth (as per our estimate) was accompanied by healthy cash generation, leaving the stock trading at c12x 2024e EV/EBITDA. Although this may look punchy, we note that: 1) this is in sync with the long-term valuation of the broad EU software sector; 2) best-in-class peers are currently trading at multiples in the mid to high teens; 3) recent acquisition multiples have been sealed at higher levels (e.g. Intrasoft by Netcompany); 4) Entersoft enjoys higher returns than its peers while also offering a more compelling growth profile (19% EBITDA CAGR over 2023-2026e), with limited scope for disappointment in our view, given the combination of secular/cyclical drivers. With this in mind, we think Entersoft is an attractive play to gain exposure to the digitization theme, given the more palatable valuation vs its best-in-class EU software companies and the stronger growth profile. Our valuation is based on a DCF (8.9% WACC) and yields a baseline value of €8.2 per share, effectively valuing the group at c16x 2024e EV/EBITDA, still a discount vs. the higher valued peers in the EU software space. Flexing our WACC and perpetuity growth inputs yields a fair value range between €6.9 and €10.0 per share.

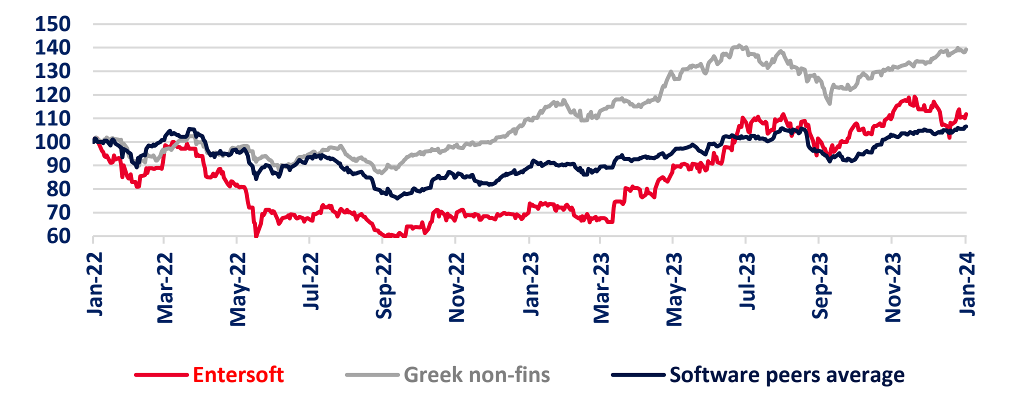
Share price performance and valuation

A. Price performance

Stock has outperformed the EM sector but has lagged somewhat other Greek non financials in the last 2 years; strong momentum has returned recently

Entersoft has posted quite a strong performance over the past 2 years, outperforming both the selected software peer group and the EM IT Services index, despite the headwind of rising rates since 2022 which weighed on the performance of tech stocks. That said, the group has lagged other Greek non-financials, as several domestic stocks bounced strongly in 2023 due to the low starting valuations. Entersoft has performed very well since Q2 2023, following a >1-yr period of consolidation, propelled by the strong operating momentum and the general re-rating of tech stocks. As a result, Entersoft is now not far from its recent all-time high.

2-yr performance (rebased) – Entersoft vs. Greek non-financials & EU software peers



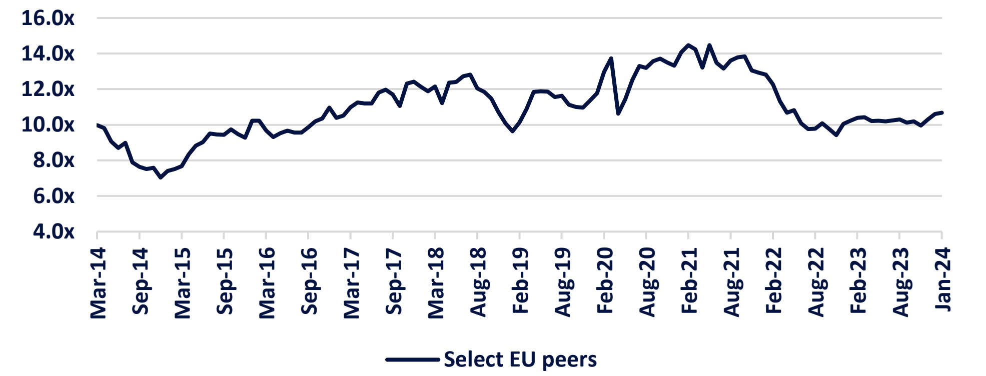
Source: Eurobank Equities Research, Bloomberg.

Valuation remains attractive given growth prospects, expected synergies and the healthy cash flow profile

As far as the broad 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 (the last two being resellers, which naturally trade at a lower valuation). The peer group has historically traded at an average of c11x EV/EBITDA over the past decade, with resellers valued at the lower end of the spectrum (c9x) and larger software developers valued at the high end. Per our estimates, even though Entersoft currently trades near 12x 2024e

EV/EBITDA, we believe the stock remains quite attractive when taking into account its solid cash flow generation, earnings growth prospects and the expected future synergies with recently acquired/developed solutions. We also note that contrary to several tech peers, Entersoft is by no means a long-duration stock, combining unique characteristics of current cash generation, 2-digit earnings growth, strong balance sheet and M&A optionality.

12m forward EV/EBITDA valuation – Select EU Software companies



Source: Eurobank Equities Research, Bloomberg.

… with Entersoft trading at much lower valuation than top quality foreign peers

In the table below, we contrast Entersoft’s current valuation against the aforementioned select group of peers in more detail. As can be seen, Entersoft seems to be trading at premium to many of its peers but at quite substantial discount to its top-quality foreign peers.

Peer group valuation

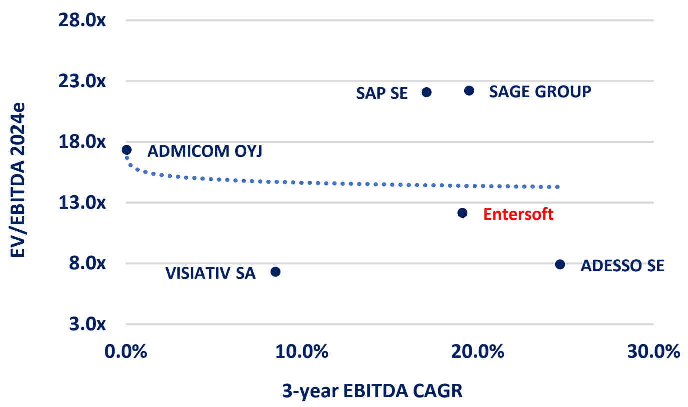
Stock	Mkt Cap	PE 2024e	2025e	EV/EBITDA 2024e	2025e	DPS yield 2024e	2025e	Net debt/EBITDA 1fy
SAP SE	197,273	30.3x	24.8x	22.1x	17.5x	1%	1%	-0.3x
SAGE GROUP	14,028	32.4x	28.4x	22.2x	19.8x	2%	2%	1.1x
ADMICOM OYJ	222	25.1x	21.7x	17.3x	15.5x	2%	2%	-0.9x
ADESSO SE	606	16.4x	12.0x	7.9x	6.6x	1%	1%	1.4x
VISIATIV SA	125	11.7x	9.9x	7.3x	6.7x	3%	3%	2.2x
ASSECOPOL	1,401	12.7x	11.1x	4.6x	4.4x	4%	4%	0.3x
LOGO YAZILIM	271	8.7x	6.1x	7.0x	4.7x	4%	6%	-1.0x
Entersoft	**185**	**20.9x**	**17.0x**	**12.1x**	**10.1x**	**2.5%**	**3.2%**	**-0.3x**
COMPUTACENTER PL	3,891	16.0x	15.0x	8.3x	7.8x	3%	3%	-0.7x
SOFTWAREONE HOLD	2,756	16.6x	14.5x	10.1x	8.7x	2%	3%	-0.9x
Resellers		**16.3x**	**14.8x**	**9.2x**	**8.3x**	**2%**	**3%**	**-0.8x**

Source: Eurobank Equities Research, Bloomberg.

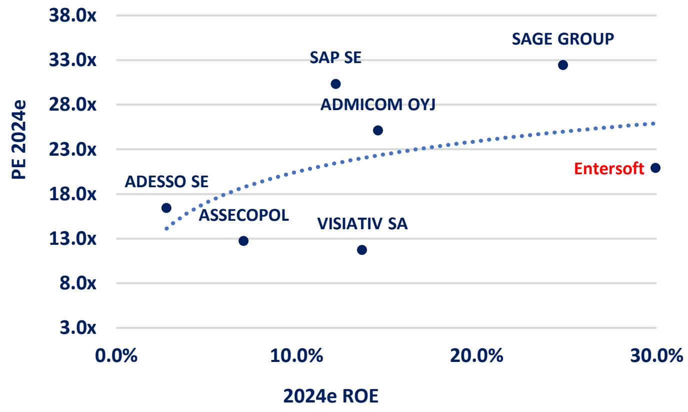
Valuation looking compelling on earnings growth-adjusted metrics

In our view, the range of valuation multiples should also reflect differences in companies' growth profile and prospective returns. We examine this in the charts below, where we contrast the valuation of the broad peer group in conjunction with the 3-year profit outlook and 2024e ROE. As can be seen, Entersoft's valuation looks quite compelling taking into account it also enjoys one of the strongest growth profiles among EU software companies while boasting much higher ROE.

Entersoft & broad peers – 2024e valuation vs. 3-yr fwd EBITDA CAGR



Entersoft & broad peers – 2024e PE valuation vs. ROE



Source: Eurobank Equities Research, Bloomberg.

B. Valuation: €8.2 12-month forward fair value

DCF-based valuation yields intrinsic value of €8.2 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 c€249m 12-month baseline market cap, translating to a €8.2 price per share. This is predicated on the following assumptions:

- Sales CAGR of c16% over 2023e-27e, driven by the digitization push, fading to c6% by 2031.
- Reported EBIT CAGR of c22% over the same period, driven by the robust top line growth, implying >2pps EBITDA margin expansion vs. 2023e levels on positive operating leverage. We assume that medium-term EBITDA margins settle in the 34% area, up from c29% on average over 2017-22. 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 1% based on c14% incremental ROIC, as we expect returns to trend down in the long run (assuming that the group's competitive advantage will gradually fade) but stay in the double-digits given the nature of the industry.
- The implied FCF conversion (FCF/EBITDA) in the medium term (2026-2030e) stands at c64%, a level we consider feasible.
- 8.9% WACC, which we believe captures the relative risk profile of the business vis-à-vis the rest of our coverage universe.

Entersoft DCF								
EURm unless otherwise stated	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
NOPAT	**9.6**	**11.6**	**14.2**	**16.9**	**18.9**	**20.9**	**22.9**	**24.4**
Depreciation	2.8	2.8	2.9	2.9	2.9	2.8	2.8	2.8
Working Capital	-2.8	-1.4	-1.6	-1.7	-1.9	-2.1	-2.3	-1.7
Capex	-1.6	-2.9	-2.2	-2.8	-2.4	-2.6	-2.8	-2.8
Unlevered Free Cash Flow	**7.9**	**10.1**	**13.3**	**15.3**	**17.5**	**19.0**	**20.6**	**22.7**
PV	7.9	9.3	11.2	11.8	12.4	12.4	12.3	12.5
PV of terminal value	159.3							
Enterprise Value	**249.2**							
Net (debt) incl. leases / other claims	-1.3							
Expected dividend	-3.8							
Equity value (ex-div)	**244.1**							
no. of shares	30.0							
Per share	**€8.1**							
1-year fair value (ex div)	**245.8**							
12-month indicative value per share	**€8.2**							

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€6.9 and c€10.0 per share.

DCF Sensitivity of our calculated group fair value per share to the WACC and LT growth assumptions						
		WACC				
		9.9%	9.4%	8.9%	8.4%	7.9%
Terminal growth	2.0%	7.8	8.4	9.0	9.8	10.6
	1.5%	7.5	8.0	8.6	9.2	**10.0**
	1.0%	7.2	7.7	8.2	8.8	9.5
	0.5%	**6.9**	7.4	7.8	8.4	9.0
	0.0%	6.7	7.1	7.5	8.0	8.6

Source: Eurobank Equities Research.

Strategy and Business model

A. Segments and geographic overview

Software developer with a broad product offering

Entersoft is one of the leading software development and distribution companies in Greece, sporting a variety of solutions including fully integrated ERP systems, standalone applications (CRM, WMS) and cloud-delivered solutions (SaaS ERP, e-invoicing, HRMS, SmartPharma, among others). The company not only boasts a wide range of own-developed software solutions, but also acts as the primary distributor and aftersales provider for its products. Entersoft was founded in Athens in 2002 and was listed on the alternative market of the ASE in 2008, transitioning to the main market in 2020.

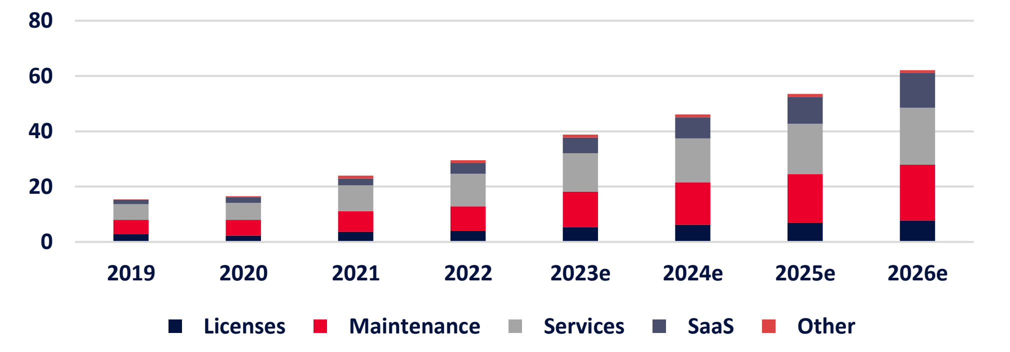
Diversified across verticals

Entersoft has maintained a diversified portfolio of clients through the years spanning multiple industries, with a primary focus on Greece. This diversification has been instrumental in allowing the company to accumulate crucial data for the development of its business modules, enabling it to create products tailored to the specific needs of each end market. The group has consistently expanded its customer base, managing solid top line growth even when faced with challenging macro conditions (e.g. pandemic outbreak, extended inflationary period, Greek recession).

Contract mix skewed to L&M, very positive momentum in SaaS

From a business standpoint, the company originates most of its revenue from 4 sources, namely fees from product license sales, maintenance fees, aftersales services and Software-as-a-Service (SaaS) subscriptions. The current contract mix is predominantly driven by licenses & maintenance (L&M) given the significant contribution of legacy solutions (primarily ERP, CRM, WMS) to the revenue base, though management has clearly shifted its focus to expanding activities in SaaS, as indicated by recent product launches (HRMS, SmartCV, SmartPharma among others).

Revenue mix evolution, in €m



Source: Eurobank Equities Research, Company data.

We describe the main components of the mix in more detail below:

1) **Licenses:** This segment involves the sale of software products to new clients, covering the entire range of Entersoft's business solutions – namely ERP, CRM, WMS (warehouse management systems) and enterprise mobility applications – except for those offered on a SaaS-based model (outlined below). It acts as the starting point for Entersoft's business model, creating grounds for developing new client relationships. Products are installed on-premise and usually need to be overseen by the clients' IT department. License revenue corresponded to c14% of total revenue in 2022.

2) **Maintenance:** Maintenance refers to the annual fees paid by clients for the available software updates. These do not include any inflows from services. The fees are usually paid on a per annum basis and only apply to clients with on-premise software installations. In a sense, maintenance fees are optional in their nature, as clients are licensed to use the software and are not obliged to pay for software updates. However, in practice, they

represent a recurring fee that customers are keen to pay to ensure proper functionality (i.e. fully updated software) over the license lifecycle. Revenue from this activity accounted for c29% of the group mix in 2022.

3) **Services:** This segment is split into two categories depending on the length of the client relationship, namely implementation and support services. Implementation services cover the initial phase of the relationship and include software implementation, customization and employee training, while support services, such as product optimization and general assistance, span along the entire duration of the license. Services contributed c40% of the revenue base in 2022.

4) **Software-as-a-Service (SaaS):** The company's SaaS activity consists of two product lines, namely SaaS ERP and e-invoicing. SaaS revenues made up c13% of the sales mix in 2022. We note that Entersoft enacts almost all SaaS ERP sales via 3rd party software resellers who are responsible for providing the corresponding services. This means that Entersoft benefits mainly from the actual sale, as additional services in this case are provided by re-sellers. In more detail:

    a. **SaaS ERP/CRM:** This is a typical cloud-delivered product based on a subscription (SaaS ERP/CRM), allowing customers some degree of flexibility and agility compared to an on-premise solution via a license and maintenance contract. From the client's perspective, a cloud solution is cheaper to deploy initially, though this tends to be made up for in the outer years (given a SaaS annual fee tends to be higher than the annual maintenance fees under a license contract).

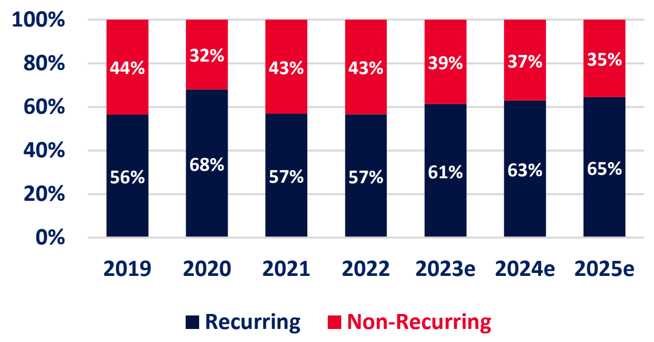
    b. **e-invoicing**: This is a pay-per-use model and, in that regard, is highly scalable as transaction volume increases. The main catalysts for the accelerated adoption of e-invoicing among Greek businesses are the eventual mandatory implementation of e-invoicing announced by the Ministry of Finance in September 2023 (ETA: H2'24, pending EC approval) and the extension of the ongoing incentive plan for new adopters well into 2024.

5) **Other:** These typically account for just 1-3% of total sales and primarily include sales of Microsoft/Google products incorporated within Entersoft's software.

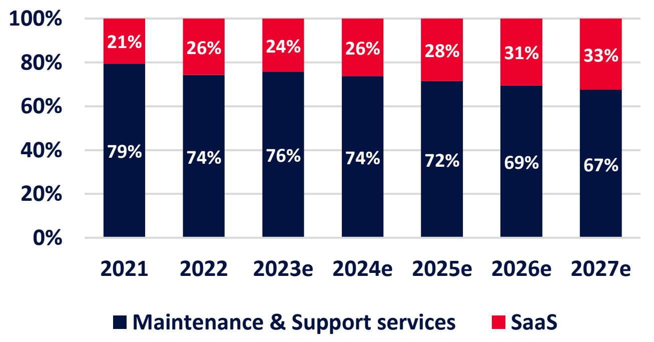
Recurring revenues have contributed >55% of the total since 2019

As is the case for most business software companies, Entersoft's revenue streams can be divided into a recurring and a non-recurring component. The group has built a quite substantial ARR base through the years, consistently exceeding >55% of revenues. The recurring base is comprised of revenues from maintenance and support services – pertaining to fees generated over the course of an L&M agreement – as well as inflows from SaaS contracts. Considering the limited churn (client retention rate estimated at >90%) and the focus shift to SaaS, we peg the ARR base at c60-65% of group revenue going forward and expect SaaS to contribute c33% of the ARR mix by 2027e (rising from c26% in 2022).

Recurring vs. non-recurring revenue



Recurring revenue mix evolution

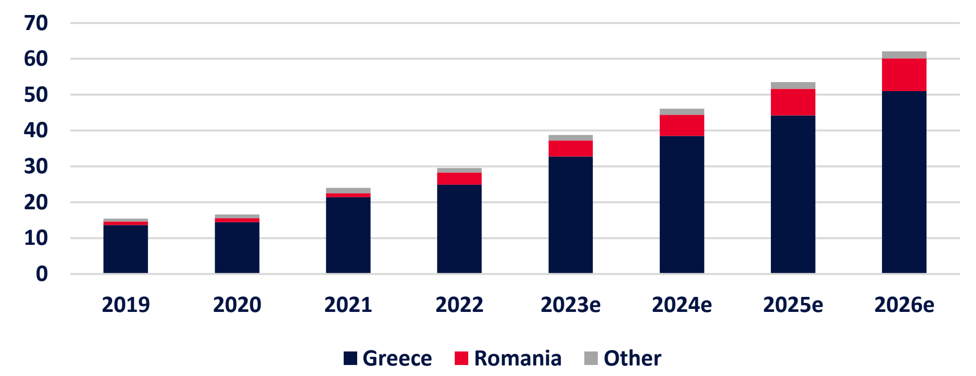


Source: Eurobank Equities Research, Company data.

Greece dominant in the sales mix (c84%), but international is ramping up (3-year fwd CAGR c22%)

In terms of geographic mix, the domestic market remains the primary focus, with Greece accounting for 84% of revenue in 2022. Entersoft has escalated its efforts to expand into the emerging software market of Romania, a country with low ERP adoption rates and low niche software penetration (ranking near the bottom of the EU for both in 2021, per the EU Digital Economy and Society Index). Romania represented 11% of the mix in 2022, driven by the majority acquisition of Romania-based BIT Software during the year. The remaining c4% of revenues are derived from other foreign markets, notably Bulgaria and the UAE, among others.

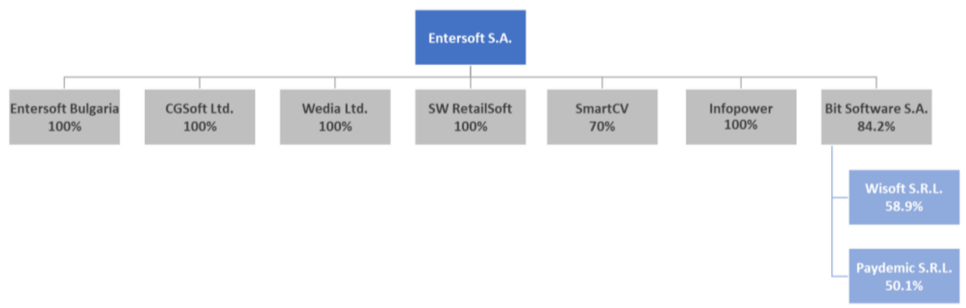
Geographic sales mix evolution, in €m



Source: Eurobank Equities Research, Company data.

The group is comprised of 9 companies, covering 3 countries in total. Entersoft's subsidiaries in Greece specialize in property/real estate management (CGSoft), retail software (SW RetailSoft), HR/payroll software (SmartCV) and e-commerce/digital marketing (Wedia), while its foreign subsidiaries primarily act as hubs for conducting business involving ERP in and around their respective countries. The parent company owns 100% of 4 of the subsidiaries, while it is the majority shareholder in the remaining ones. We note that there are imminent plans to consolidate the activities of Wedia, RetailSoft and Infopower (all wholly owned) into the parent company. Entersoft's organizational structure is as follows:

Corporate structure



Source: Eurobank Equities Research, Company data.

B. Strategy

Software developer and distributor with aftersales capabilities

Entersoft's operating model is structured around its triple role as a software developer, distributor, and aftersales provider. The company boasts an extensive portfolio of in-house developed software solutions that cover the entire spectrum of the business process, ranging from the front end (e.g. enterprise mobility applications) to the back end (e.g. warehouse management systems). The product offering is thus quite holistic, encompassing various categories within the business ecosystem including ERP, CRM, supply/retail chain management, e-invoicing and niche solutions (enterprise mobility, e-commerce, intensive retail software, HR management).

Predominantly direct sales distribution

On the distribution front, c80% of sales take place through direct channels, allowing Entersoft to have direct access to customers and engage with them for aftersales support. The remaining c20% of sales are completed through resellers, namely value-added intermediaries. We note that the latter are primarily focused on reselling software to small/micro companies, giving Entersoft access to a diverse range of sectors and allowing it to expand its outreach more efficiently. Resellers are typically paid through a mark-up on the software sold to the end client.

Long-term client relations, high retention

Entersoft currently serves c4.4k clients in Greece and c4.9k in total. The group's strategy is based on generating recurring revenue through client retention. Indeed, renewal rates appear to be quite high (>90%, on our estimates) and were among the factors underpinning the EBIT margin expansion by c15.5pps over 2018-21. Margins notably took a hit in 2022 (down c5pps) due to the natural dilutive effect from new business and are expected to be flattish in FY'23 given the number of acquisitions completed during the year. We do, however, anticipate these acquisitions to drive higher profitability going forward, as positive margin effects from new clients and renewals are realized. We highlight that Entersoft's ability to maintain retention rates high relies heavily on the capabilities of its products (e.g. extended product functionality, module connectivity) and its cross-selling capacity.

Strong presence in mid-sized/large clients; evenly spread in other client pools

In terms of market positioning, **Entersoft primarily targets mid-sized/large companies with >50 employees.** Exposure to this healthy part of the Greek business universe is central to Entersoft's approach, as larger clients typically commit to software products long-term and tend to allocate more capital for maintenance and supporting services. This tendency creates opportunities for recurring base expansion through aftersales/cross-selling and aids in maintaining client retention rates high. We highlight that mid-sized/large companies account for most of the demand for ERP products among Entersoft clients.

Entersoft is also present in smaller entities with 6-50 employees, which have by far the most diverse demand characteristics among other groups of the business landscape. This client category offers fertile ground for the entire range of Entersoft's products, covering ERP, CRM, e-invoicing, e-commerce, and retail software, among others.

Additionally, the group is present in large enterprises (>500 employees) mainly through niche software products, as this segment is consolidated in conventional software categories (e.g. ERP, CRM). Entersoft also entered the micro enterprise segment (entities with 1-5 employees) through the acquisition of Smartware, which boasts proprietary retail management software for pharmacies, small grocers and mini markets, in November 2022. Of note is that the group plans to penetrate the small/micro category further through the launch of a cloud-based mini ERP (ETA: within 2024).

Greek companies by no. of employees, 2022

Company Size	No. of Employees	No. of Companies
Enterprise	>500	334
Mid / Large	50-500	4,738
Small	11-50	29,691
Very Small	6-10	42,778
Micro	1-5	217,351

Source: Eurobank Equities Research, Greek Ministry of Labor.

The organic growth opportunity for Entersoft is quite sizeable if one considers:

- the addressable market in Greece from a customer perspective (>35k mid-sized/large companies and c31k entities with 6-10 employees, of which c10k are pharmacies and c9k small grocers),
- the market share gain potential (c40% of the addressable market has outdated ERP software / ERP software from non-competitive local vendors),
- the low adoption of CRM (<40%) and e-invoicing (c10-15%) in Greece – the latter of which is expected to reach >90% in the medium term boosted by govt initiatives,
- the variety of funding programs available to Greek (until 2029) and Romanian (until 2026) enterprises for digitization.

From an industry perspective, Entersoft enjoys quite broad exposure, having clients in a wide range of industries with both cyclical (Furniture, Fashion, Financial Institution, Construction) and defensive (Pharma, Logistics, FMCG, Retail) characteristics.

B2B focus critical for module development

Entersoft has a B2B focus, having withdrawn from B2G (business-to-government) projects since 2017. This decision has allowed the group to avoid the working capital strain usually associated with public sector projects and to direct more focus towards expanding its product range through R&D and acquisitions, developing new solutions and improving on existing ones to create a portfolio capable of end-to-end coverage of the business process.

Adding mid-sized/large clients; further penetrating SMEs & micro

The group's growth algorithm revolves around the ongoing expansion of its mid-sized/large customer base, leveraging its differentiated offering (quality of services, full-spectrum ERP etc.). Entersoft also aims to further penetrate the wide tail of smaller customers in Greece through SaaS and niche sector-focused products (retail, pharma, property mgt software). The group's approach also extends to gaining market share in Greek enterprises with >500 employees via niche software solutions such as enterprise mobility applications, WMS and e-commerce.

Tapping the Romanian market to enhance growth prospects

The expansion into the Romanian business software market, estimated at c70% the size of the respective market in Greece in 2022, through BIT Software provides a new underserved client base for Entersoft to tap into. With some 40-50% of ERP installations in the country served by multinationals, this leaves a quite significant portion of the market for BIT Software. As a reminder, Entersoft announced the acquisition of a majority stake in the latter for €3m in May 2022. Under the agreement, Entersoft acquired 75% of the company initially, with the intent to buy the remaining minority interest within a 3-year period. BIT has c270 active ERP installations and a portfolio of customizable solutions (marketing campaigns and cloud-based solutions) with sales of c€3m and EBITDA of €0.3m. Entersoft's core target markets in Romania consist of some c13k mid-sized/large enterprises (with >€2m revenues, intended for the sale of on-premise ERP solutions) and c17k smaller companies (to be penetrated through cloud-based ERP and niche solutions).

Past acquisitions complementing organic growth

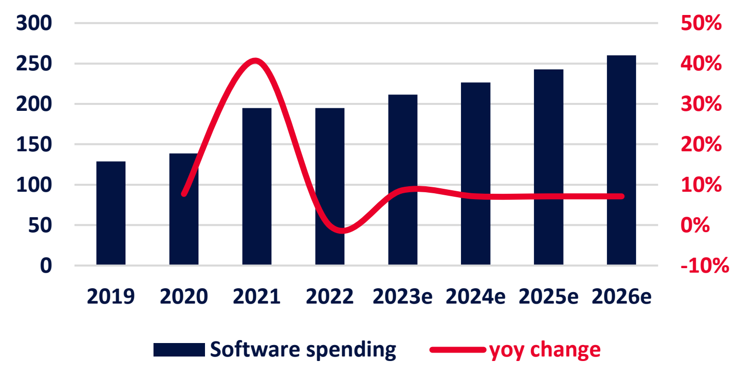
Acquisitions have been at the forefront of group strategy over the past years, playing a vital role in entering new vertical markets/geographies, expanding the existing client base, and offering technical synergies for the development of new modules. Going forward, we expect mgt to shift its focus to consolidating the 7 new acquisitions completed in the last 2 years. We present a brief summary of Entersoft's recent M&A activity below:

- Purchased 100% of LogOn (Jan 2022) for €1.3m
- Acquired a majority stake (75%) in BIT Software (May 2022) for €3m
- Bought out the retail-focused products of Smartware (Nov 2022) for €1.8m
- Bought CGSoft (Jan 2023) for €3.5m
- Purchased a 62% stake in SmartCV (Jun 2023) for €528k
- Acquired SW RetailSoft (Jul 2023) for €1.2m
- Acquired Infopower HR Solutions (Dec 2023) for €900k.

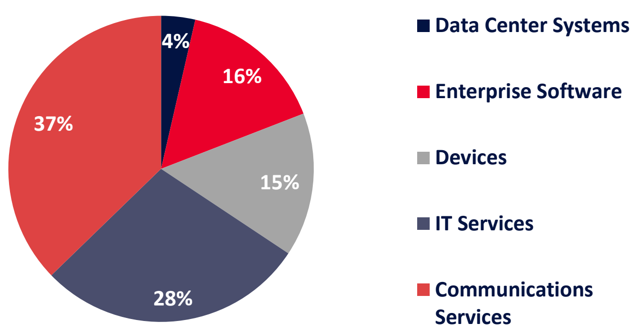
Market and Competitive landscape

According to Gartner, the EMEA enterprise software market reached an estimated c€195bn in 2022, constituting c16% of EMEA IT spending. The software market has grown remarkably in recent years, expanding by c7% and c15% in 2020 and 2021, respectively, driven by increased demand for digital infrastructure from the onset of the pandemic. Growth stagnated in 2022, affected by inflationary pressures and heightened comps from the previous year, but is expected to have rebounded in 2023 as enterprises resumed spending on core applications and platforms (ERP, CRM among others) to drive operational efficiency. These trends are also projected to be the main growth drivers for enterprise software in the coming years, with the market forecasted to grow at a CAGR of c7% through to 2026e, per Statista.

EMEA Software spending (in $bn) and yoy change



EMEA IT spending per category (2022)

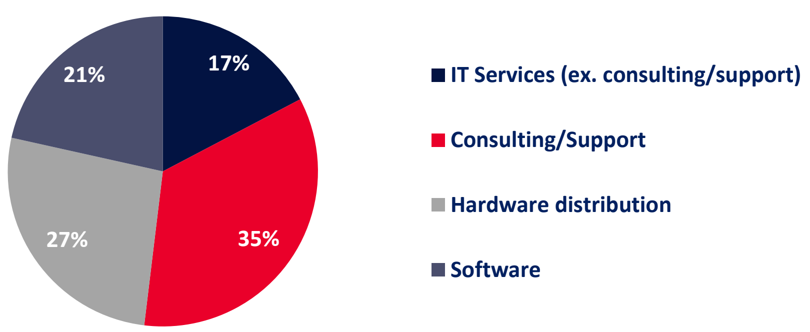


Source: Eurobank Equities Research, Gartner, Statista.

Greek IT spending focused on IT services

In regard to Greece, IT spending stood at c€2.2bn in 2021, making up roughly 34% of the country's ICT expenditure. Enterprise software (e.g. ERP, CRM, big data) accounted for c21% of IT spending, while consulting services (a subset of IT services, listed separately below) contributed c35% of total expenditure for the year. We note that these two IT categories represent the main addressable markets for Entersoft in the country and caveat that, in this context, they may appear inflated given they also include investment from the public sector, where Entersoft is not active.

Greek IT spending breakdown (2021)



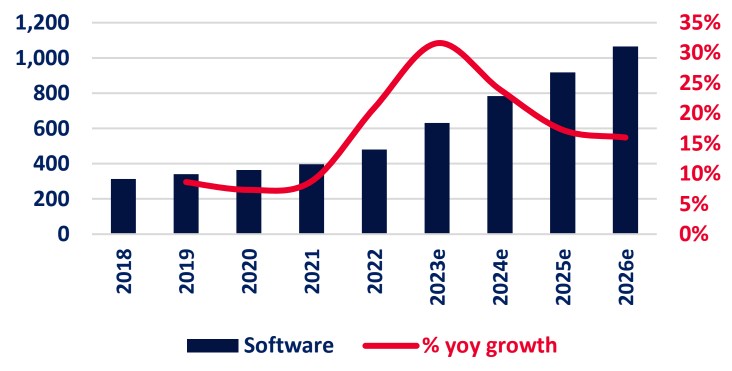
Source: Eurobank Equities Research, SEPE, Deloitte.

Greek IT market to double in size in the next 4 years

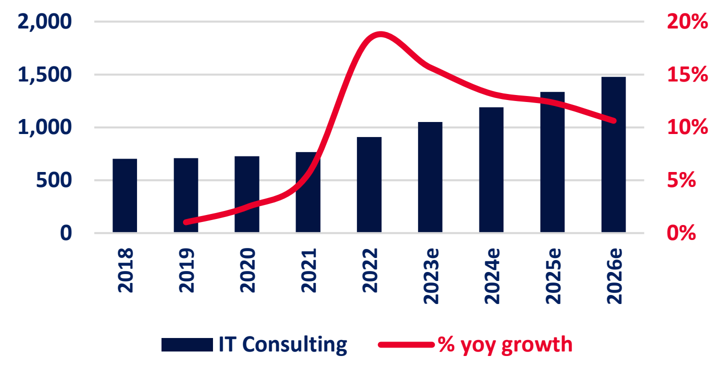
According to data from the Federation of Hellenic ICT Enterprises (SEPE), the domestic software market grew by c6% in 2018 and c9% in 2019, as enterprises looked to cut down on operating costs and narrow the tech gap vs. foreign peers. The market grew a further c7% and c9% in 2020 and 2021, respectively, as spending was boosted by increased demand for digitization and IT scalability stemming from the pandemic, especially among the country's large enterprises. Remarkably, this trend persisted in 2022, with spending on software demonstrating considerable resilience even when faced with rampant inflation, which disrupted spending in many other IT categories. Greek software is expected to develop at a CAGR of c22% over 2023-26e, supported by widespread demand for digitization among domestic companies, the variety of financing options available for such projects (RRF, ESPA) and the improving Greek business landscape.

Looking at IT consulting services in Greece, SEPE data indicates the market displayed solid growth rates over 2018-2019 (c3%-4%) on the back of increased demand as the country emerged from a multi-year recession. The market saw a slight dip in performance in 2020, as pandemic-induced budget cuts trimmed demand, but managed a solid return over 2021-22 as spending rationalized. IT consulting services in Greece are set to grow at a CAGR of c13% through 2026e, driven by the ongoing digital transformation push in both the private and public sector, the increasing digital workloads that require corresponding consulting/support and the subsiding liquidity concerns for domestic enterprises.

Greek Software market (in €m) and yoy change



Greek IT Consulting services market (in €m) and yoy change



Source: Eurobank Equities Research, SEPE, Deloitte.

Of note is that the Greek enterprise population is highly fragmented, with just 2% of enterprises employing >50 individuals. Smaller enterprises tend to only hire staff with skills directly related to their offered services/products. As such, these enterprises often lack the capacity to manage other aspects of the business (i.e. resource allocation, customer relations, bookkeeping) instead electing to outsource these activities to third parties. To this end, increasingly more Greek software companies have developed solutions to meet this emerging trend, investing in solutions focused on very small and micro companies.

Greek enterprise population (2022)

Company size	No. of employees	No. of companies
Enterprise	>500	334
Mid / Large	50-500	4,738
Small	11-50	29,691
Very Small	6-10	42,778
Micro	1-5	217,351

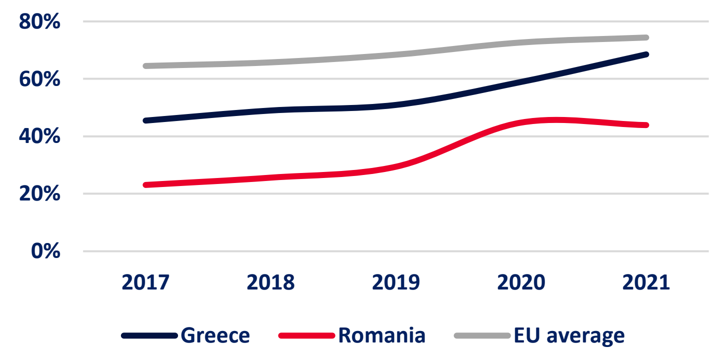
Source: Hellenic Ministry of Labor.

We believe it is important to highlight some general phenomena prevalent in the domestic business landscape which we anticipate will be central to the development of Greek software. More specifically, we observe the following:

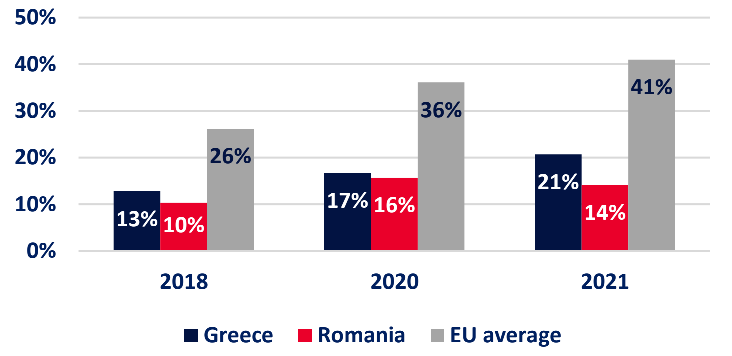
- A nationwide push for digitization is currently underway, encompassing both the public (state agencies and public institutions) and the private sector. This push is largely financed through RRF funding to the tune of c€2bn, along with govt funding, namely ESPA, with c€913m allocated for this purpose. While Greek software firms are also facing competition from Intl peers, we consider the revenue potential quite substantial, particularly in the digital transformation of mid-sized/large companies and e-invoicing.

- Persistent appetite for IT upgrades and the modernization of legacy systems. This is especially prevalent among Entersoft's primary target group in ERP solutions, namely large enterprises, of which c40% have outdated ERP software.
- Low adoption levels for CRM, warehouse management systems (WMS) and enterprise mobility ranging between 20% (for WMS/enterprise mobility) and 40% (for CRM).
- Planned govt initiatives for the mandatory implementation of e-delivery notes, B2G/B2B e-invoicing and POS terminals in Greece by H2'26, which are expected to drive e-invoicing adoption rates to >90% in the medium term.
- Channel shifts to e-commerce, which raise the need for more agility through cloud solutions and niche applications (mobile CRM, EDI, e-invoicing etc.).
- Cloud adoption among Greek enterprises remains low, at just c21% in 2021 (vs. the EU average of c41% the same year). Despite its limited size, the market for cloud/SaaS-based solutions has exhibited robust growth in recent years, significantly outpacing comparable on-premise solutions. We expect cloud adoption to trend towards the EU average in the coming years, driven by the need to reduce complexity and costs.

e-commerce adoption, % of enterprises



Cloud adoption, % of enterprises



Source: Eurostat, Eurobank Equities Research.

- Hardware remains relevant, given most existing systems have become outdated due to years of missed investments from enterprises and public institutions, which prioritized spending on other categories over IT.

We highlight that the Romanian market, where Entersoft has recently expanded its activities through the acquisition of BIT Software, screens out as quite similar to the Greek market (though in a less mature stage) considering it has: 1) an underserved group of larger enterprises looking to upgrade their legacy ERP solutions, 2) a fragmented enterprise population majority-weighed by smaller enterprises, 3) a low rate of adoption for cloud-based solutions and e-commerce. Mgt estimates that the country adds some €200m to Entersoft's addressable market.

From a competitive standpoint, international peers – in a broad sense – include ERP companies (e.g. SAP, Sage, Oracle), software companies with expertise in supply chain management (e.g. SAP) as well as other local/regional players (e.g. Asseco). The software landscape also includes companies with expertise in specific B2B verticals (e.g. Temenos in Financial, Dassault in Industrials/Healthcare), but we do not consider them part of the closest peer group given their specific segment focus. Similarly, some other software developers are more heavily tilted towards services/consulting companies (e.g. Atos, Capgemini, Cognizant).

As for Greece, Entersoft's main competitors include several domestic software companies, of which some are public (e.g. Epsilon Net) and some are private (SoftOne). We note that we do not consider Profile part of the closest peer group as the majority of its offerings are focused on Financials. Notably, domestic competitors also include the relevant enterprise ERP/CRM units of multinational companies (e.g. SAP, Microsoft).

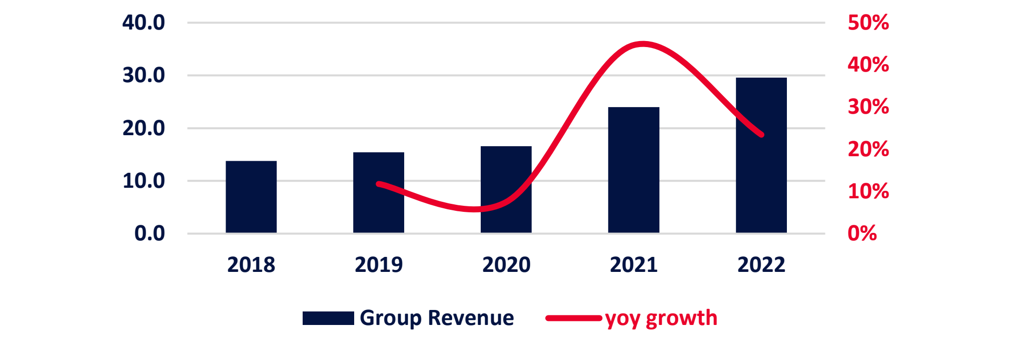
Top line overview

1. Historical performance: solid double-digit growth track record

Strong track record of 2-digit top line growth…

Entersoft has delivered strong top line performance over the past 4 years, sustaining growth comfortably in double digits every year except for the pandemic-affected 2020, when it fell just shy of the 2-digit mark. Remarkably, the company has achieved this through growth in all 4 core segments, namely licenses, maintenance, services and SaaS – a testament to its multipurpose operating structure built around securing sustainable revenue through long-term client retention and synergy creation.

Group top line growth, in €m



Source: Eurobank Equities Research, Company data.

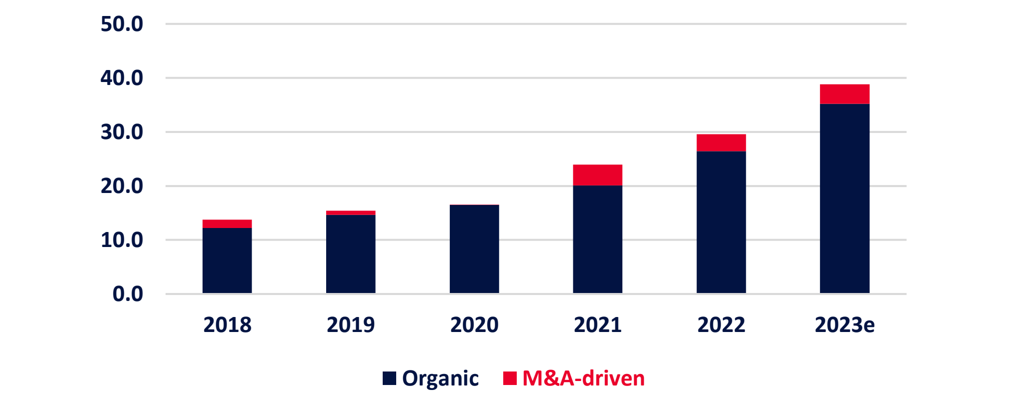
…mostly organic-driven …

Top line growth has been majority-driven by organic acceleration, underpinned by customer base expansion (c27% growth in ERP installations since 2019, on our estimates) and upselling/cross-selling to existing customers. The recurring nature of c60% of the revenue base has also been a key factor in maintaining Entersoft's high organic growth profile.

…with acquisition-driven growth providing further boost

Organic growth has been topped up by M&A in recent years, with the group primarily targeting domestic competitors in niche segments. Acquisition-driven activity was intense in 2020-21, when the additions of Computer Life and Optimum in the former year and Wedia in the latter combined for a c€3.9m contribution to the FY'21 top line. This trend continued in 2022 with the acquisitions of LogOn, BIT Software and Smartware, which accounted for c€3.1m of FY'22 revenue. More recently, we estimate that the acquisitions of CGSoft, SmartCV, RetailSoft and Infopower will generate a c€3.6m revenue add-on for FY'23e.

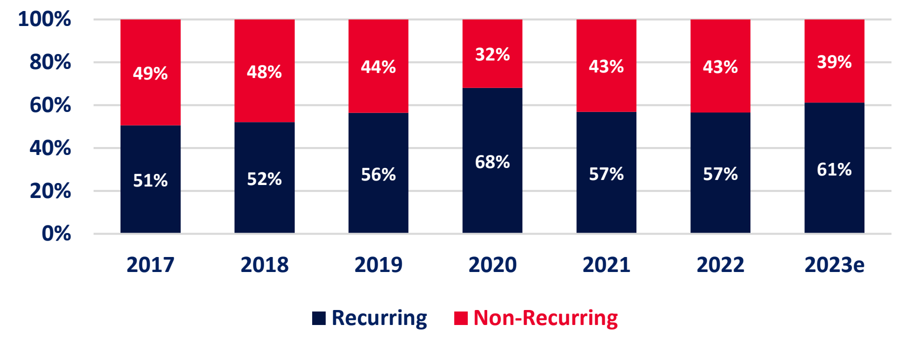
Organic vs. M&A-driven revenue, in €m



Source: Eurobank Equities Research, Company data.

As mentioned in previous sections, Entersoft's recurring component stood at c57% of sales in 2022 and has remained above the 55% mark for the past 5+ years. At the current juncture, the recurring base includes maintenance fees, revenue from support services for existing clients and SaaS revenues.

Recurring vs. non-recurring as a % of sales



Source: Eurobank Equities Research, Company data.

In what follows, we detail the dynamics and historical performance of each business segment:

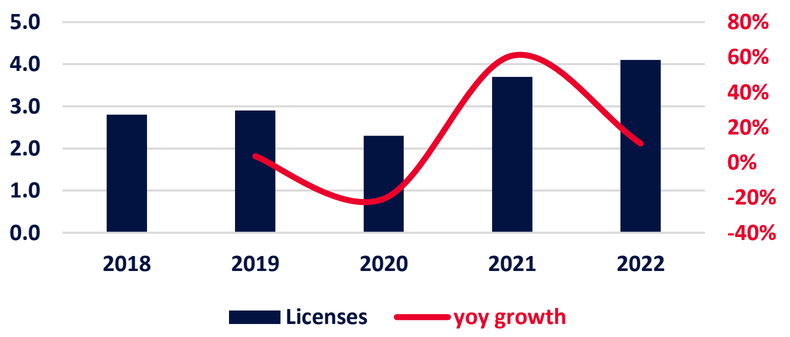
Licenses quite strong post-pandemic; priming client base expansion

1) **Licenses:** Product licenses serve as the foundation for Entersoft's revenue structure, acting as a first step in establishing a relationship with clients upon which the company can work in the future (e.g. cross-selling/upselling). Notwithstanding their structural importance, license sales are not among the company's main growth drivers. This is the norm for business software companies, as revenue generation is mainly driven by maintenance and other services. In any case, license revenues tend to be seen in conjunction with revenues generated from the maintenance attached to the licensed software.

   License sales have seen quite healthy growth over 2018-22, essentially reflecting Entersoft's expanding client base. Sales were solid in both 2018 and 2019, propelled by an influx of demand for the group's core products (ERP, CRM, WMS) and boosted by the purchase of Sieben's enterprise mobility activity in the former year. Sales were somewhat hindered in early 2020, as liquidity concerns persisted among most prospective clients, but nevertheless managed a sound recovery in H2'20, as Greek enterprises looked to adapt to the circumstances of the late and post-pandemic era.

   Licenses saw exceptionally high growth in 2021, more than compensating for the underperformance of 2020 (partly boosted by the consolidation of Computer Life and Optimum). Robust growth continued into 2022 (in the low teens) on the back of new niche product launches and the acquisitions of BIT Software, Smartware and CGSoft.

Licenses revenue evolution, in €m



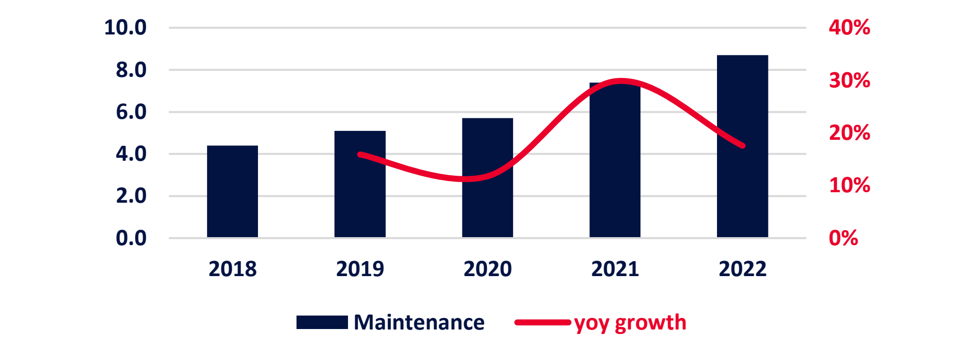
Source: Eurobank Equities Research, Company data.

Maintenance the top revenue contributor; offering defensive characteristics

2) **Maintenance:** Maintenance fees are crucial for clients holding a software license, as they are the sole means to guarantee the software remains current and up to date. In this context, they ought to be seen as recurring revenue provided over the lifecycle of a license contract. Maintenance revenues constitute the most significant single source of recurring revenue for Entersoft (historically contributing >50% of the recurring base annually, on our estimates).

Maintenance services have been the largest contributor of revenue historically, accounting for >29% of the group top line over the past 5 years. They have delivered consistent top line growth since 2018, namely near 18% CAGR through to 2022. Inflows for maintenance were remarkably resilient in the pandemic-stricken 2020 (displaying growth in the low teens), indicating that existing clients were keen to make payments for upkeep even when faced with challenging conditions. The strong growth trajectory for maintenance fees has continued post-pandemic, with the segment seeing a +30% and +18% top line boom in 2021 and 2022, respectively.

Maintenance revenue evolution, in €m



Source: Eurobank Equities Research, Company data.

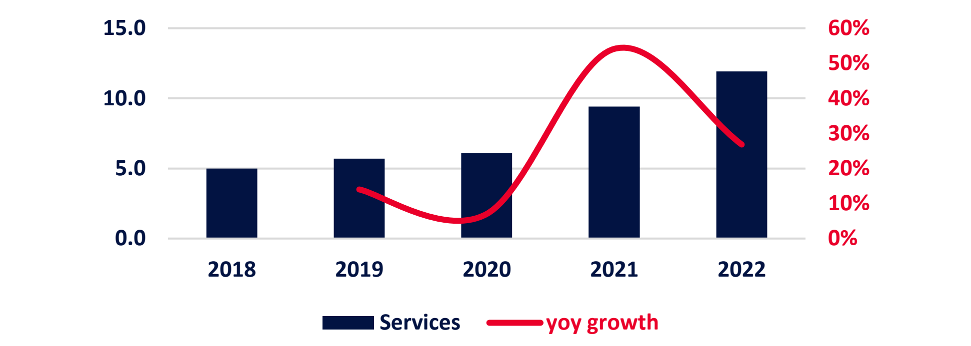
Service fees the primary driver of growth

3) **Services:** Aftersales serve as the primary growth driver in Entersoft's revenue model, owing to the long-lasting and consistent returns they generate from clients. Performance in this segment is tied to two service subcategories, namely implementation and support services. The former is closely linked to product license sales, while the latter depends mostly on macroeconomic trends and client retention.

Revenue from aftersales has displayed quite solid growth rates (comfortably in double digits) for the better part of the past 5 years, essentially mirroring the trend of license sales. This service category experienced notable growth in 2018 and 2019, when Entersoft was able to successfully leverage a tech gap within its primary target market (mid-sized/large companies) to become the leading provider of ERP/CRM for the particular market in Greece.

Despite COVID-induced headwinds, Entersoft also managed to increase service fees in 2020, achieving growth in the mid-to-high single digits. The segment saw impressive growth in 2021, resulting from a surge in installations of ERP and warehouse management software (WMS) stemming from both organically acquired clients and the acquisitions of Optimum and Wedia. This positive momentum continued in 2022, supported by increased demand from existing clients (in support services) and the expansion of the client base from the acquisition of LogOn.

Services revenue evolution, in €m

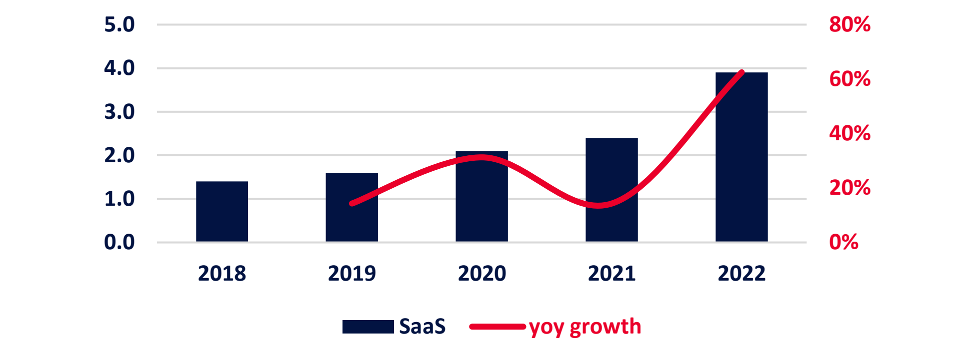


Source: Eurobank Equities Research, Company data.

4) **SaaS:** Software-as-a-Service (SaaS) has been Entersoft's fastest growing segment in past years, boasting growth rates in mid-to-high double digits since 2018, underpinned both by the increasing appetite for cloud-delivered products and the proliferation of e-invoicing activities (which are included in this segment). This segment has contributed a relatively small part of the revenue mix historically, comprising c13% of group sales in 2022.

SaaS revenues were the least affected by the woes of 2020, delivering yoy growth >20% (off of a low base, though). Both activities within SaaS have gained increased traction over the past years, with SaaS ERP solutions being sought after as a lower-cost alternative to traditional integrated ERP (given the lower upfront investment relative to a license & maintenance contract) and e-invoicing enjoying increased demand after the Hellenic Independent Authority for Public Revenue (AADE) pushed the agenda towards the mandatory integration of e-invoicing in B2G transactions further.

SaaS revenue evolution, in €m



Source: Eurobank Equities Research, Company data.

2. Looking ahead: envisaging c17% group sales CAGR over 2023e-26e

Licenses to continue providing basis for growth

Entersoft's strategic focus on M&A, combined with organic growth in existing activities, has expanded its active license pool to >4.9k clients as of end 2023. Looking ahead, we anticipate license sales to grow at c14% CAGR through to 2026e. Our expectations are based on the gradual realization of the top line effects from recent acquisitions and the opportunities presented by the new products added – both in new geographies (Romania primarily) and industries (pharma, property mgt and retail). We note that despite their structural importance, license sales will constitute the minority in terms of top line contribution in the coming years.

Maintenance underpinning recurring revenue generation

On to maintenance fees, we expect tailwinds from increased ERP/CRM license sales in Greece and Romania, along with growing traction for niche products to underpin a robust c16% 3-year top line CAGR. We stress that, as with licenses, the effect from recent acquisitions has yet to imprint itself fully on maintenance revenues. In terms of group mix, we anticipate maintenance will remain the single most significant source of recurring revenues (>50% of the recurring base) through 2026e, in light of persistent demand for enhanced functionality/ access to new modules among active clients. Our model assumes a client retention rate of >90%.

Service fee growth in the low-to-mid teens

Service revenues are expected to grow at c14% CAGR through 2026e, driven by positive developments in both core service categories and Entersoft's reputation for high-quality aftersales provision. Regarding implementation services, we expect gradual effects from the new licenses acquired through M&A, organic growth from new clients and cross-selling to existing clients to drive a CAGR of c12% over 2023-26e. As for support services, we anticipate the plethora of newly developed/added modules, particularly those focused on larger enterprises, to increase the scope for optimization of the current installed base, and envisage 3-year CAGR of c18% until 2026e.

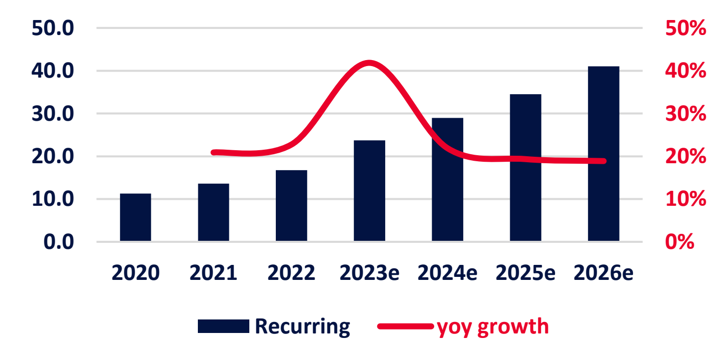
SaaS to enjoy superior growth off a lower base, underpinned by niche market trends and secular growth

As far as SaaS sales are concerned, we model c30% CAGR over 2023-26e from SaaS contracts and e-Invoicing, as the SaaS market in Greece becomes more mature, new solutions centered on micro and very small enterprises (i.e. small grocers, pharmacies) gain traction and e-invoicing benefits from legislative tailwinds. We emphasize that SaaS-delivered solutions are the main focus in Entersoft's strategy for the micro/very small enterprise market and that the opportunity at hand seems quite significant considering there are c11k pharmacies and c9k small grocers in Greece. Looking at the prospects for e-invoicing, we expect the extension of the tax incentive scheme for early adopters into 2024 to continue driving growth and see further upside if e-invoicing is implemented as mandatory for all B2G and B2B transactions by end 2026 (as initially planned).

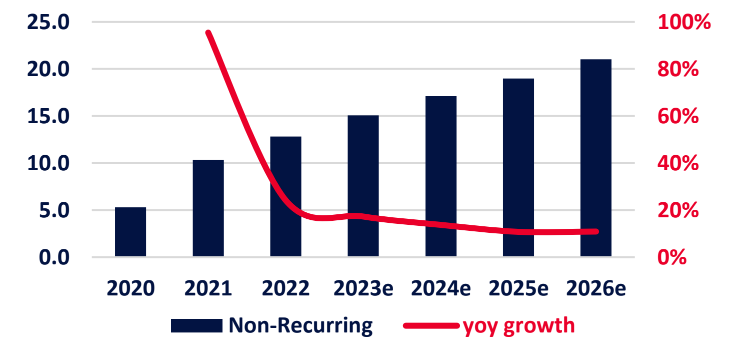
According to our categorization of the revenue base as recurring and non-recurring, the former encompasses all revenue from maintenance, support services and SaaS-based solutions, while the latter pertains to fees for licenses and implementation services.

Naturally, we anticipate the recurring revenue base to continue dominating the sales mix going forward, growing at CAGR of c20% through 2026e. In terms of the non-recurring component, we expect solid growth in licenses (organic only, as our model does not account for future M&A) to drive a CAGR of c12% over 2023-26e.

Recurring top line evolution, in €m



Non-recurring top line evolution, in €m



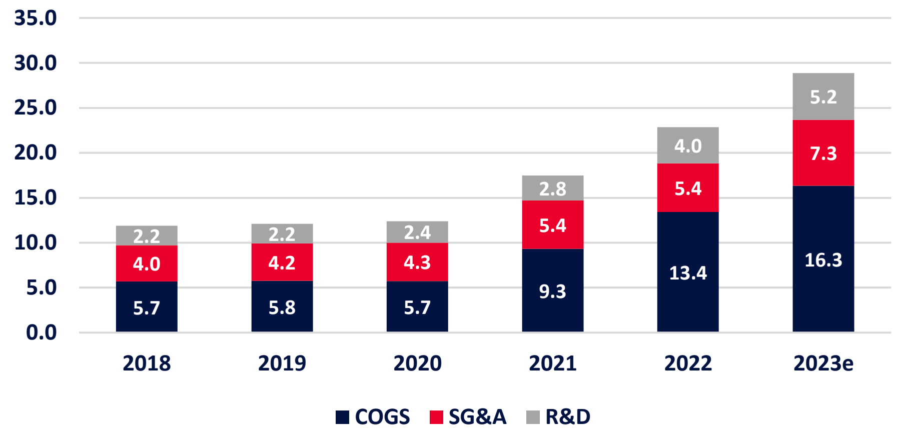
Source: Eurobank Equities Research, Company data.

Costs and margins

Very efficient cost structure + high productivity = industry leading operating margins

Entersoft's cost base totaled c€23m in 2022, equivalent to 77% of group revenue, leaving room for a class-leading EBITDA margin of c32%. Costs are predominantly weighed by COGS, which stood at c€13.4m in 2022 and incorporates a significant portion of personnel costs associated with labor-intensive industries such as Software. SG&A expenses constitute the second-largest cost contributor, amounting to c€5.4m (or c24% of total costs) in 2022. The third major cost component is R&D, which totalled c€4m in 2022, corresponding to c14% of sales, in alignment with group strategy for product development and early technology adoption.

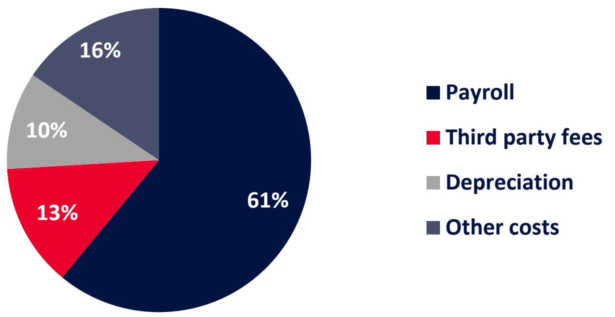
Cost base evolution, in €m



Source: Eurobank Equities Research, Company data.

As far as the cost categories are concerned, clearly the main component is payroll, which accounts for c61% of total costs. D&A makes up c10%, while another c13% is attributed to third party fees. The remaining c16% includes various other expenses (e.g. utilities, provisions, among others).

Cost base per category (2022)



Source: Eurobank Equities Research, Company data.

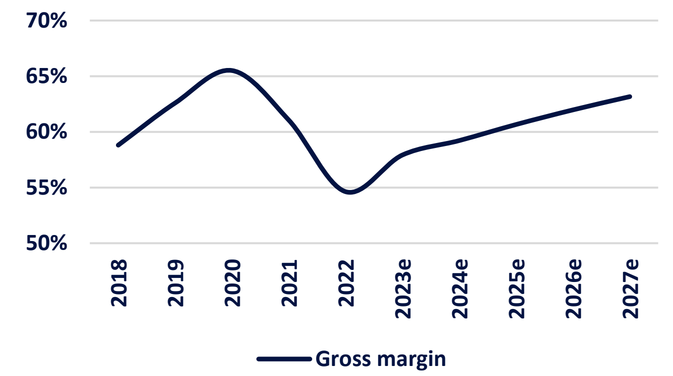
Margins comparable to prominent software peers...

Taking a closer look at margins, we see that group gross margins have ranged in the 55-65% area over the past 5 years. Gross margin peaked at c63-65% in 2019-20, as the group scaled down on new hires in response to the pandemic, following years of growth-focused recruitment. It then dipped to 61% in 2021 as Entersoft shifted focus back to scaling (either through growing existing developer teams or through M&A) to meet the increased demand for software in the late pandemic era. Gross margins were further diluted in 2022, falling to c55% on account of continued expansion through acquisitions and, presumably, necessary salary increases to battle the hot job market for developers.

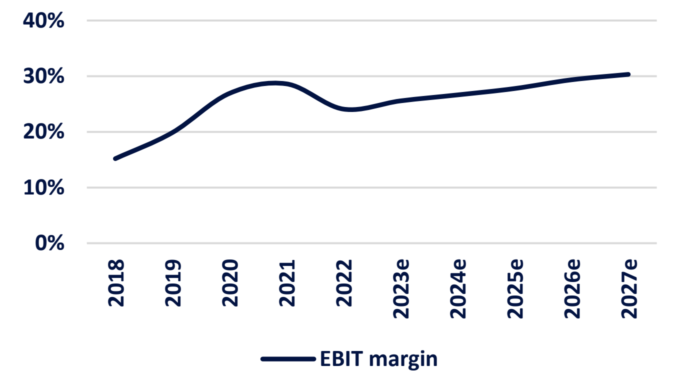
Excluding potential future acquisitions, we expect a gradual re-acceleration of gross margins going forward, as the group consolidates following its recent M&A spree and demand for wage increases cools off. We envisage gross margins building up to c62-63% over a 4-year horizon as newly acquired/developed solutions are optimized to the standards of the current software portfolio.

Opex have historically been low, as common in most software companies given the labor-intensive nature of the sector and the classification of most payroll costs as COGS. As a result, group EBIT margins have largely followed the trajectory of gross margins, ranging between c20% and c28% in 2019-22. Looking ahead, we anticipate the aforementioned consolidation of the software portfolio will create room for EBIT margin expansion to the tune of c6pps through 2027e (reaching levels comparable to those of TeamViewer).

Gross margin evolution



EBIT margin evolution



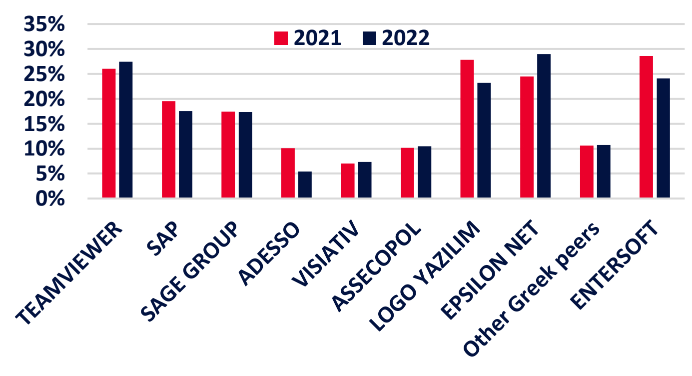
Source: Eurobank Equities Research, Company data.

… with sustained high productivity despite acquisitions

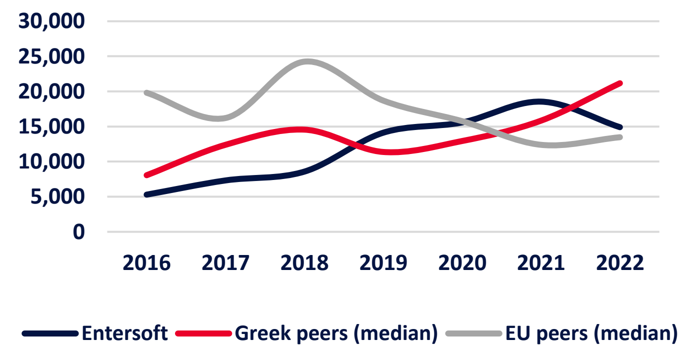
In the charts below, we compare Entersoft's profitability – in terms of margins and efficiency (EBIT per employee) – against that of a broad group of EU software peers. As can be seen, despite a slight dip in margins in 2022, Entersoft still ranks quite high among peers, with margins comfortably within the range of leading multinational software companies (e.g. SAP, TeamViewer). We again note that this retreat was primarily a result of the natural dilutive effect from the acquisitions completed during the year and that we expect margins to re-accelerate, as newly added solutions are optimized in accordance with Entersoft standards.

Looking at productivity, Entersoft seems to have managed to grow EBIT per employee consistently over 2016-21, outperforming both EU and domestic peers by the latter year, before experiencing a drop-off in 2022 due to increased M&A activity, as mentioned above. We also note that, despite a hot job market for software developers and payroll inflation in Greece, both Entersoft and Greek IT companies at large have caught up to (or even surpassed) EU peers in terms of EBIT per employee.

EBIT margin vs. peers (2021, 2022)



EBIT per employee vs. EU and Greek peers, in €



Source: Eurobank Equities Research, Company data. EU software peers mentioned above include TeamViewer, SAP, Sage, Adesso, Visiativ and Asseco.

The table below outlines our forecasts for Entersoft's profitability going forward. In 2023e, we anticipate gross profit (reported) to settle at c€22m, with the respective margin nearing 58% (+3.3pps yoy) on account of easier comps vs. last year arising from mix discrepancies between the companies acquired in 2023 vs. those in 2022. We see mild opex inflation (+33% yoy vs. a revenue rise of c31%) with opex/sales shaping at c32% (+0.5pps yoy). This translates to an FY'23e EBITDA of €12.5m (up +31% yoy) and a flat EBITDA margin of c32%.

Profitability & margins evolution

EURm	2020	2021	2022	2023e	2024e	2025e	2026e	4-yr CAGR
Gross profit rep.	**10.9**	**14.6**	**16.2**	**22.5**	**27.3**	**32.5**	**38.5**	**24.2%**
margin	*65.5%*	*61.1%*	*54.6%*	*57.9%*	*59.2%*	*60.7%*	*62.0%*	
Opex	-6.7	-8.1	-9.4	-12.6	-15.0	-17.6	-20.3	
Opex/sales	*40.3%*	*33.9%*	*31.9%*	*32.4%*	*32.6%*	*32.9%*	*32.6%*	
EBITDA	**5.8**	**8.9**	**9.5**	**12.5**	**15.0**	**17.7**	**21.1**	**22.1%**
margin	*35.1%*	*37.3%*	*32.1%*	*32.1%*	*32.6%*	*33.0%*	*34.0%*	
EBIT	**4.5**	**6.9**	**7.1**	**9.9**	**12.3**	**14.9**	**18.2**	**26.5%**
margin	*26.9%*	*28.6%*	*24.1%*	*25.6%*	*26.6%*	*27.8%*	*29.3%*	

Source: Eurobank Equities Research, Company data.

Cash flow generation and returns

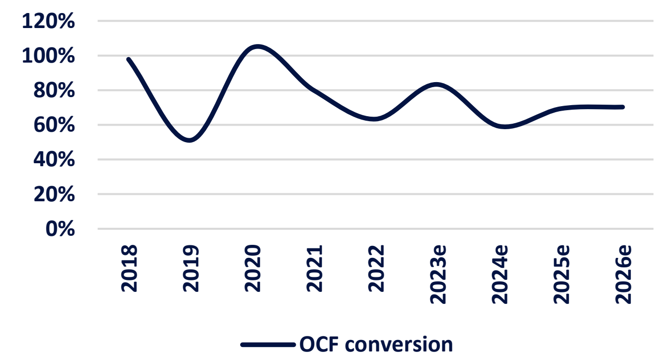
Solid cash conversion track record likely to continue in our view

Entersoft has delivered solid cash flow generation over the years, with positive underlying FCF ranging from €1m to €4m between 2019-22, enabling the group to both fund M&A activities and return cash to shareholders. Meanwhile, cash conversion (OCF/EBITDA) has consistently exceeded 60% in most years since 2017, reflecting high margins and minimal incremental working capital requirements. We estimate cash conversion in the c60-70% area through to 2027e, expecting modest working capital investment for growth/consolidation.

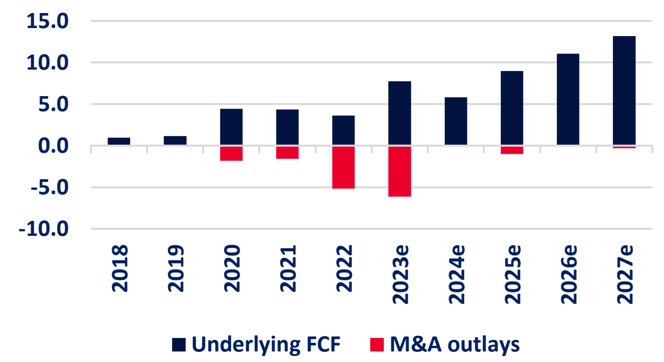
Organic capex required in the €1-2m area; occasional M&A leading to extra outlays

Entersoft has historically maintained Capex outlays relatively low, in the €1-2m range, with occasional increases dependent on M&A activities, which have been substantial in 2021-23. In 2021, Entersoft acquired Wedia for a cash consideration of €500k, and in early 2022, LogOn was added for a total of €1.3m, paid in 3 tranches. The group further expanded its portfolio through the acquisition of a 75% stake in BIT Software for a €3m cash consideration in May 2022, with an agreement to take on the remaining 25% by 2025. By the end of the same year, Entersoft completed the purchase of Smartware's pharmacy and retail management software for €1.8m. The M&A momentum continued into 2023, with notable acquisitions including CGSoft (acquired for a €3.5m cash consideration), SmartCV (where the group purchased a 62% stake for approximately €530k with an agreement to acquire the remaining shares after 4 years), RetailSoft (bought out for a consideration of €1.2m) and Infopower (purchased for €900k).

OCF conversion (OCF/EBITDA)



Underlying FCF vs. M&A outlays, in €m

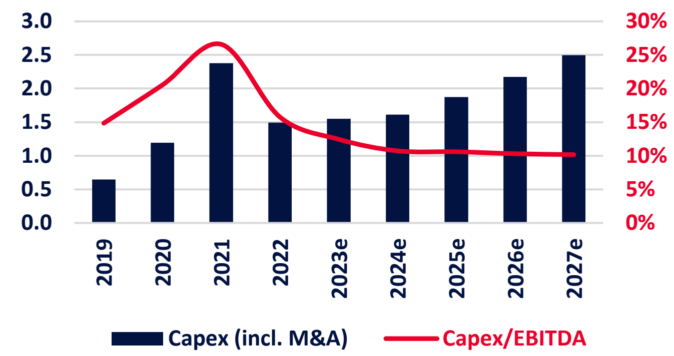


Source: Eurobank Equities Research, Company data.

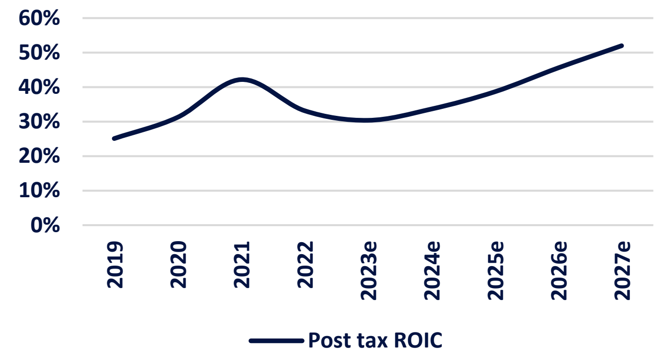
Expecting accelerating returns on capital

Looking at the returns brought about by these investments, we note that they have consistently generated quite solid incremental yields, particularly in years where M&A activity is slower. To illustrate this, we highlight that EBIT increased by €5m over 2018-22, translating to a c30% return (pre-tax) on the €16m aggregate investment over the same period. This meant that group ROIC, on a post-tax basis, has exceeded 30% since 2020. We anticipate ROIC to remain at these levels in 2023e but expect to see a boost to returns in later years as operational leverage from the consolidation of new activities (4 recent acquisitions of CGSoft, Smartware, RetailSoft, Infopower) kicks in.

Capex in €m and as % of EBITDA



Post-tax ROIC



Source: Eurobank Equities Research, Company data.

…and robust cash flow generation

Below we summarize the main cash flow pillars for the group since 2020 and present our overall FCF forecast over 2023-25e. As can be seen, we estimate EBITDA will rise to c€12.5m in 2023e and >€15-18m in 2024-25e, underpinned by improvements in newly acquired solutions to bring them up to par with the existing portfolio. We see this feeding into an annual Free Cash Flow of €1.6m in 2023e and €6-8m in 2024-25e, as the profitability uptick will be only partly absorbed by working capital in the latter years.

Summary Cash Flow Statement

EURm	2020	2021	2022	2023e	2024e	2025e
EBITDA (reported)	5.8	8.9	9.5	12.5	15.0	17.7
Change in working capital	0.8	-0.4	-1.8	0.8	-2.8	-1.4
Tax	-0.7	-1.1	-1.2	-2.0	-2.5	-3.1
Net interest paid	-0.2	-0.3	-0.5	-0.9	-0.9	-0.8
Other	0.3	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	**6.1**	**7.1**	**6.0**	**10.4**	**8.9**	**12.3**
Capex	-1.2	-2.0	-1.5	-1.6	-1.6	-1.9
Other Investing cash flow	-1.8	-2.0	-5.2	-6.1	0.0	-1.0
Net Investing Cash Flow	**-3.0**	**-4.0**	**-6.7**	**-7.7**	**-1.6**	**-2.9**
Capital repayment of lease obligations	-0.5	-0.8	-0.9	-1.1	-1.2	-1.4
Free Cash Flow (Levered)	**2.6**	**2.4**	**-1.6**	**1.6**	**6.0**	**8.1**
Underlying FCF (excl. M&A)	4.4	4.4	3.6	7.7	6.0	9.1
Dividends paid	-1.4	-1.8	-2.7	-3.0	-3.8	-4.7
Other	3.6	0.3	-0.1	0.0	0.0	0.0
Net debt / (cash) (excl. leases)	**-7.3**	**-8.1**	**-3.7**	**-2.3**	**-4.6**	**-8.0**
Inflow / (Outflow)	4.9	0.8	-4.4	-1.4	2.3	3.4

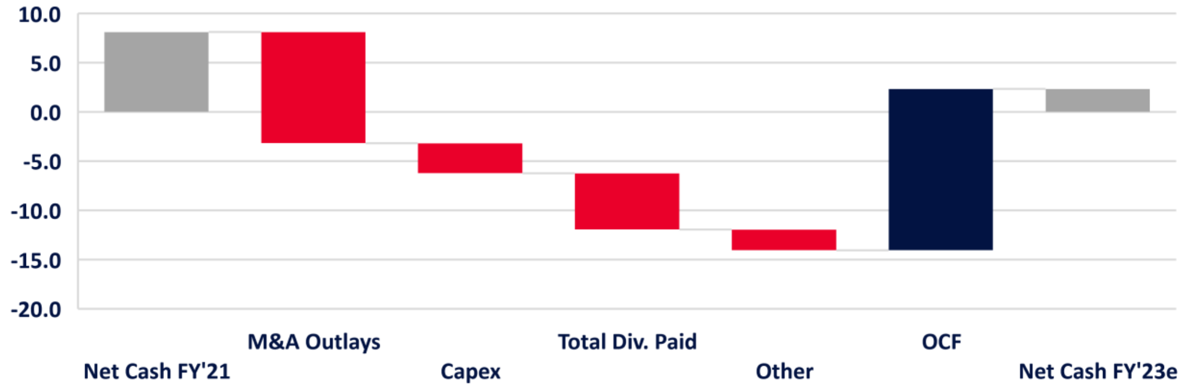
Source: Eurobank Equities Research, Company data.

Balance sheet and shareholder returns

Healthy financial position; balanced capital allocation policy leaves room for compelling payout

Entersoft maintains quite a healthy balance sheet, remaining comfortably cash positive in recent years despite historically high M&A activity. Notably, the group has additional liquidity options (i.e. available credit lines) which, combined with organic cash flow generation, form a substantial war chest for seizing attractive M&A opportunities. It is worth noting that despite completing 3 acquisitions by 9M'23, the group managed to maintain its net cash position at c€2.1m. Remarkably, the group remains net cash positive even when accounting for the recent addition of Infopower for c€900k (announced Dec. 2023) which was financed using own funds.

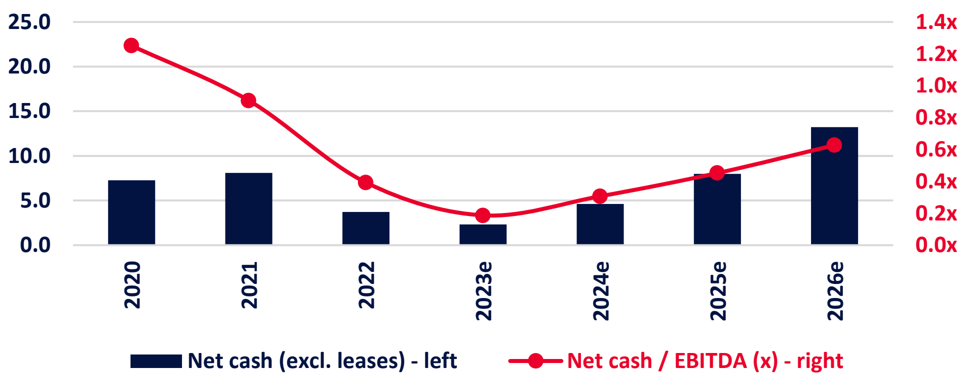
Net debt bridge 2021-23e, in €m



Source: Eurobank Equities Research, Company data.

Looking back, the group was on net cash of c€8.1m in 2021 and, following the streak of acquisitions in 2022 and 2023, is projected to end 2023 with a net cash position of €2.3m. We expect the cash generative nature of the core business and the gradual optimization of the added entities to drive net cash to c€13m by 2026e. We again underline that we do not account for further M&A in our model. The solid balance sheet allows Entersoft enough headroom if any attractive investment opportunities arise.

Net cash in €m & Net cash as a % of EBITDA

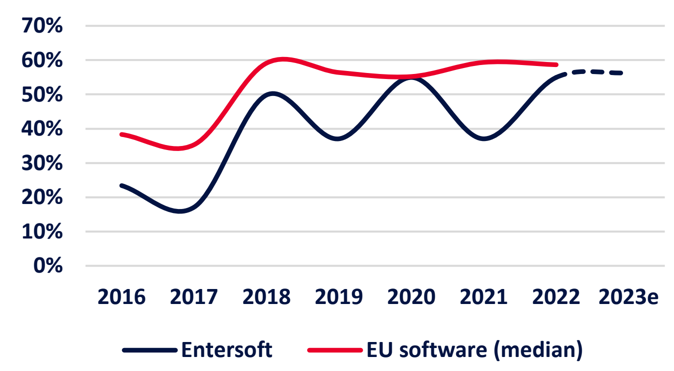


Source: Eurobank Equities Research, Company data.

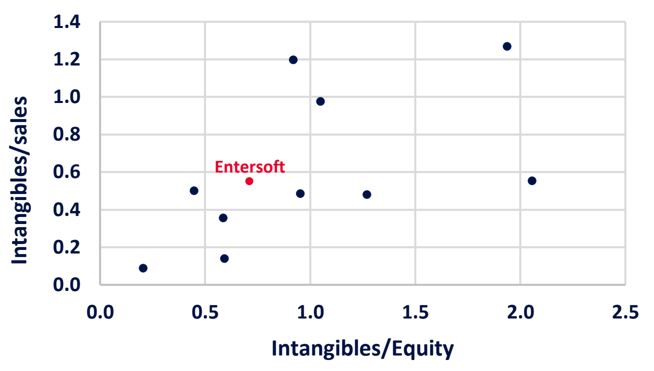
Intangibles not out of sync with other EU software companies

As typical for most software companies, Entersoft has a high number of intangibles on its balance sheet. Intangibles have varied from c20% to c55% of revenues over 2019-22, naturally peaking in years where M&A activity is stronger. We highlight that intangibles reached 51% and 56% of sales in 2020 and 2022, respectively, primarily on account of the numerous acquisitions completed during both years. Given the group's M&A activity in 2023, we expect intangibles as % of revenues to settle near c56% in FY'23 results. Considering our assumption for no further M&A post 2023, we expect the ratio to fall to near c45% by end 2024e, namely below the median of EU software peers. Entersoft's intangibles corresponded to c72% of equity in 2022 again below the levels of most EU software peers and are estimated at 85% of equity in 2023e, which is to be expected considering the number of completed acquisitions.

Intangibles as a % of revenue



Intangibles as a % of equity and sales – 2022, ENTER vs peers

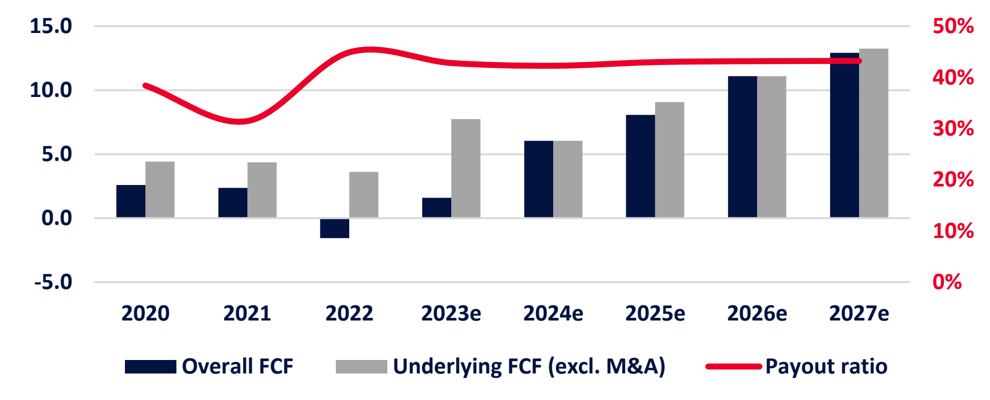


Source: Eurobank Equities Research, Company data, Bloomberg.

Solid cash flow generation more than covers for M&A

As mentioned in the previous section, the group's business model is inherently cash generative, delivering an underlying FCF (excl. M&A outlays) of €1-4m in 2019-22. Notably, overall FCF (including M&A) has also remained positive in all years except 2022, when it dipped to -€1.5m primarily due to some c€5.2m spent on acquisitions. We again emphasize that, except for the agreed minority stake acquisitions of BIT Software (2025) and SmartCV (2027), our projections do not model any further M&A outflows.

Overall FCF, Underlying FCF (left, in EURm) and Dividend payout (right)



Source: Eurobank Equities Research, Company data.

Assuming a c40-43% payout reflecting balanced capital allocation policy

Shareholder returns have also been consistently high over the past 4 years, with the distributed dividends equivalent to c49% of the cumulative underlying FCF generated during the period. Looking ahead, we anticipate Entersoft to deliver rising FCF and shareholder returns given robust top line growth, improved pricing in ERP/CRM solutions and economies of scale as newly developed/acquired solutions (e.g. pharma, property mgt, retail) gain further traction. Our calculations result in a payout ratio of c40-43% going forward, which we believe strikes a good balance between Entersoft's willingness to invest in the business, its capacity to reward shareholders and the optionality to deploy capital for potential acquisitions.

Estimates and main assumptions

On the revenue front, our main assumptions reflect the recurring nature of c60% of Entersoft's top line, increased penetration in niche products and client base expansion on low churn rates (>90% retention). We model recurring revenue CAGR of c20% between 2023e-26e and total revenue CAGR of 17% over the same period. We highlight that both the reported figures for 2022 and those expected for 2023e are boosted by M&A, with organic growth estimated at 10% for the former and 16% for the latter year, on our numbers.

On the profit side, we assume some mild margin pressure in 2023-24 from sustained high levels of personnel additions needed to capture secular growth in Greek IT. We expect this trend to be offset in the ensuing years, however, as newly acquired / under development solutions (HR, retail, pharma, and property mgt software, among others) are optimized to meet Entersoft standards. We thus model EBITDA margins to gradually return to the pre-M&A-eroded levels of 2021 over the next 4 years, expecting operating leverage to manifest itself in a more pronounced way from 2024 onwards. Overall, our estimates arrive at an EBITDA CAGR of c19% over 2023-26e.

We base our near-term forecasts on the following assumptions:
- The digitization trend in Greece, which will accelerate demand for Entersoft's entire range of products (from ERP/CRM solutions to e-invoicing and SaaS ERP/niche solutions);
- The improving Greek business landscape, which will propel demand for aftersales;
- The gradual realization of top line effects (either directly through license/SaaS sales or indirectly via synergies) from recent acquisitions;
- New clients (primarily large corporates) in the relatively underserved Romanian market.

Key estimates

EURm unless otherwise stated	2020	2021	2022	2023e	2024e	2025e	2026e
Revenue	**16.6**	**24.0**	**29.6**	**38.8**	**46.1**	**53.5**	**62.1**
yoy growth		44.7%	23.4%	31.2%	18.7%	16.2%	16.1%
of which:							
Recurring	11.3	13.6	16.7	23.7	28.9	34.5	41.1
yoy growth		20.9%	22.8%	41.8%	21.9%	19.3%	18.9%
Non-recurring	5.3	10.3	12.8	15.1	17.1	19.0	21.0
yoy growth		95.5%	24.2%	17.3%	13.7%	10.8%	10.9%
Gross profit	**10.9**	**14.6**	**16.2**	**22.5**	**27.3**	**32.5**	**38.5**
margin	*65.5%*	*61.1%*	*54.6%*	*57.9%*	*59.2%*	*60.7%*	*62.0%*
- Opex	-6.7	-8.1	-9.4	-12.6	-15.0	-17.6	-20.3
EBITDA	**5.8**	**8.9**	**9.5**	**12.5**	**15.0**	**17.7**	**21.1**
margin	*35.1%*	*37.3%*	*32.1%*	*32.1%*	*32.6%*	*33.0%*	*34.0%*
Net profit	**3.5**	**5.7**	**6.0**	**7.0**	**8.9**	**10.9**	**13.6**
OCF	6.1	7.1	6.0	10.4	8.9	12.3	14.8
Cash conversion	105%	80%	63%	83%	59%	70%	70%
Net cash (debt)	**7.3**	**8.1**	**3.7**	**2.3**	**4.6**	**8.0**	**13.2**
Dividend payout	38%	31%	45%	43%	42%	43%	43%
DPS	**€0.06**	**€0.09**	**€0.10**	**€0.13**	**€0.16**	**€0.20**	**€0.23**

Source: Eurobank Equities Research, Company data.

On the cash flow front, we project OCF to more than double by 2026e vs 2022 levels, approaching €15m. We anticipate conversion rates in the c60-70% area, with dividend payout between c40-43%. Considering the above and our assumption for no M&A activity going forward (apart from the agreed outlays for minority stakes in BIT Software and SmartCV, mentioned above) we expect Entersoft to increase its net cash position to €13.2m by 2026e.

9M’23 results overview

Strong results continue YTD on organic and M&A-driven growth

Entersoft reported solid 9M’23 results, with revenue growing by an impressive +29% yoy, driven by increased demand across all core segments. In more detail:

- **License sales** grew to €4.2m (+56%, fully organic) propelled by new RRF-financed installations.
- **Maintenance revenues** jumped +43% to reach €8.6m, on both organic and acquisition-driven expansion.
- Growth in **services** was more subdued, at 8% (€9m in 9M’23 vs. €8.3m a year ago) and was primarily the result of the integration of clients from BIT Software, Smartware and CGSoft.
- **SaaS** revenues were quite robust at €4.3m in 9M’23 (+54%) thanks to organic growth in e-invoicing and the addition of the SaaS-based solutions of BIT Software.

We highlight that the recurring component rose to c61% of sales in 9M’23 (vs. 57% in 9M’22).

Looking at profitability, group gross margins were held back by increased investment in personnel and payroll inflation, falling by 0.8pps vs. 9M’22. Notably, despite the slightly lower gross margin in 9M’23, group EBITDA margin grew by an impressive 3.2pps yoy, on account of the low base comps vs. 9M’22, where Opex were inflated from one-offs and restructuring costs related to recently completed acquisitions. 9M’23 EBITDA stood at c€8.1m (+45% yoy) filtering through to a pre-tax profit of €5.3m, a c47% increase vs. the previous year.

From a cash flow perspective, OCF generation jumped to €7.1m (vs. €1.6m in 9M’22) buoyed by new acquisitions and working capital inflows (at c€3m for the 9month period). Capex remained elevated at €5.8m (vs. €4.2m a year ago) as the group continued to enact its M&A envelope. FCF thus turned positive in the 9month period, reaching €0.5m (vs. -€3m in 9M’22).

9M'23 results overview			
amounts in EURm	9M'22	9M'23	%yoy
Sales	**20.7**	**26.8**	***29%***
of which:			
Licenses	2.7	4.2	*56%*
Maintenance	6.0	8.6	*43%*
Services	8.3	9.0	*8%*
SaaS	2.8	4.3	*54%*
other	0.9	0.7	0.0
Gross profit	**11.4**	**14.5**	***28%***
Gross margin	*55%*	*54%*	*-0.8pps*
EBITDA	**5.6**	**8.1**	***45%***
EBITDA margin	*27%*	*30%*	*3.2pps*
- Net interest expense	-2.0	-2.8	0
PBT	**3.6**	**5.3**	***47%***
Operating Cash Flow	1.6	7.1	
- Capex	-4.2	-5.8	
Capital repayment of leases	-0.4	-0.8	
Free Cash Flow	**-3.0**	**0.5**	
Net Cash / (Debt)	**4.0**	**2.1**	

Source: Eurobank Equities Research, Company data.

Overall, group net cash shaped at €2.1m as of September 2023, namely c€1.9m lower than the respective position in 9M’22. This was notwithstanding increased capex (€5.8m) and returns to shareholders (c€3m) during the 9month period, as operating cash flow generation was quite robust, especially in Q3’23.

History and shareholder structure

Entersoft was founded in 2002 by a team of executives from LogicDIS (later Singular Logic, now part of Epsilon Net and Space Hellas), a leader – at the time – in the Greek software industry. Entersoft focused on business software and services, developing its range of products on Microsoft's .NET platform.

Commercial activity effectively began in 2004, after the group developed the first iterations of its flagship line of integrated ERP systems, entering the small and mid-sized enterprise markets. This period also marked the beginning of the group's collaboration with third-party distributors, with an initial network of 15 resellers throughout Greece.

Entersoft began diversifying its business solutions in 2007, with the goal of creating a range of products with full interconnectivity capabilities between them. To that end, the group established CRM and e-commerce products during the year, enjoying new opportunities for sales, both in terms of standalone software sales and cross-selling.

In 2008, Entersoft got listed on the Athens Stock Exchange's alternative market. It also established subsidiaries in both Romania and Bulgaria. In 2009, it acquired Nova Consulting, a tech consulting firm, and Retail-Link, a developer and distributor of e-invoicing and EDI software, the former of which would later be absorbed by the parent company. The group made important additions to its product portfolio in the following years, launching two new retail-focused products and making sizeable upgrades to its existing product offering.

In 2012, the group expanded its activities to the public sector, acquiring Cardisoft, an IT company specializing in educational institution management. In 2014, the group made its first foray into an extra-EU market, founding a subsidiary in the UAE. During the same year, the group completed the acquisition of Alpha Software Solutions, its largest reseller in Greece, which would later be absorbed by the parent company to increase aftersales capacity.

In 2017, Entersoft completed the sale of Cardisoft to Ilyda, opting to focus solely on the B2B market. The group also expanded its activities to include warehouse management systems (WMS) in an effort to penetrate the large-sized enterprise market. In 2018, Entersoft acquired Sieben's enterprise mobility activity, its largest competitor in the domestic enterprise mobility market, establishing a leading position in the segment.

In 2020, Entersoft entered the main market of the Athens Stock Exchange. It managed to complete two acquisitions during the year, starting with Computer Life's textile manufacturing ERP activity and ending with Optimum, one of the most prominent players in the Greek WMS market.

As with most IT companies in Greece, 2021 marked the start of a significant period of M&A for the group, with the acquisition of Wedia in January. Entersoft also created a software implementation and development center in Patras later in the year, and further developed its offering in supply chain management software.

In 2022, the group completed 3 acquisitions, namely those of BIT Software in Romania, and LogOn and Smartware (only the activities relevant to retail and pharmacy mgt software) in Greece. BIT Software helped expand Entersoft's existing presence in Romania while also bolstering its offering in SaaS ERP solutions, LogOn provided a new software development center in Larissa and Smartware gave the group access to software for the retail industry (pharmacies, intensive retail).

The Chairman of the BoD and co-founder of the group Mr. P. Nikolopoulos has held his position since 2002. He holds a PhD in electrical engineering from ENSIMAG and has multi-year experience as an executive in the software industry, having previously held similar positions in the Greek market.

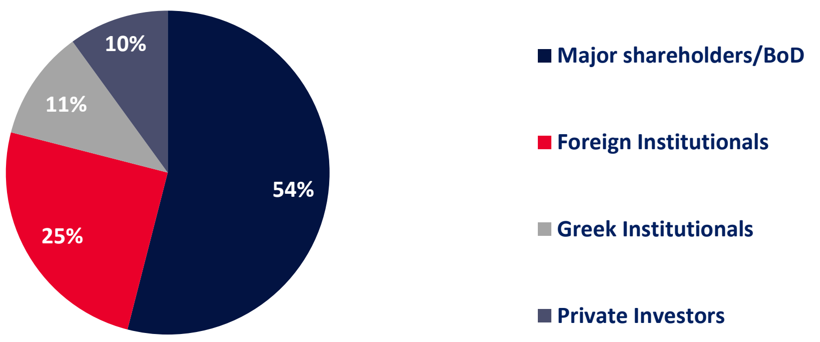
Mr. A. Kotzamanidis is the group CEO and a co-founder, having held his position since 2002. He holds a PhD in computing from Imperial College London and has been crucial in transforming Entersoft from an ERP-focused startup to a group of companies spanning a full spectrum of software products.

Mr. S. Menegos has been the group's CTO since 2002. He holds an MSc in computing from Imperial College London and is responsible for the development of new products. He has been recognized by Microsoft on numerous occasions for his contributions to the Greek software industry.

Mr. C. Avratoglou has served as the group's director of new business development since 2006, after acting as its technical director from 2002. He holds a PhD in electrical engineering from the University of Thrace and has been directly involved in the development of many well-known business applications in the Greek market.

Overall, the aforementioned executives hold c54% of the share capital. As far as the rest of the shareholder structure is concerned, 11% and 25% of the share capital is held by Greek and foreign institutional investors respectively, while 10% is owned by private investors.

Shareholder structure (2023)



Source: Eurobank Equities Research, Company data, Bloomberg.

Group Financial Statements

Reported Figures in €m					
Group P&L	**2021**	**2022**	**2023e**	**2024e**	**2025e**
Revenues	**24.0**	**29.6**	**38.8**	**46.1**	**53.5**
Gross Profit adj.	16.7	18.5	25.0	30.0	35.3
EBITDA	**8.9**	**9.5**	**12.5**	**15.0**	**17.7**
% change	*54%*	*6%*	*31%*	*21%*	*18%*
EBITDA margin	*37%*	*32%*	*32%*	*33%*	*33%*
EBIT	**6.9**	**7.1**	**9.9**	**12.3**	**14.9**
Financial income (expense)	-0.3	-0.5	-0.9	-0.9	-0.8
Exceptionals/other income	0.0	0.0	0.0	0.0	0.0
PBT	**6.6**	**6.6**	**9.0**	**11.4**	**14.0**
Income tax	-0.8	-0.6	-2.0	-2.5	-3.1
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Net Profit	**5.7**	**6.0**	**7.0**	**8.9**	**10.9**
EPS - adjusted (EUR)	**0.19**	**0.20**	**0.23**	**0.30**	**0.36**
DPS (EUR)	**0.09**	**0.10**	**0.13**	**0.16**	**0.20**
Group Cash Flow Statement	**2021**	**2022**	**2023e**	**2024e**	**2025e**
EBITDA	8.9	9.5	12.5	15.0	17.7
Change in Working Capital	-0.4	-1.8	0.8	-2.8	-1.4
Net Interest	-0.3	-0.5	-0.9	-0.9	-0.8
Tax	-1.1	-1.2	-2.0	-2.5	-3.1
Other	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	**7.1**	**6.0**	**10.4**	**8.9**	**12.3**
Capex	-2.0	-1.5	-1.6	-1.6	-1.9
Other investing	-2.0	-5.2	-6.1	0.0	-1.0
Net Investing Cash Flow	**-4.0**	**-6.7**	**-7.7**	**-1.6**	**-2.9**
Dividends	-1.8	-2.7	-3.0	-3.8	-4.7
Other	-0.5	-1.0	-1.1	-1.2	-1.4
Net Debt (cash)	**-8.1**	**-3.7**	**-2.3**	**-4.6**	**-8.0**
Free Cash Flow (adj.)	**2.4**	**-1.6**	**1.6**	**6.0**	**8.1**
Group Balance Sheet	**2021**	**2022**	**2023e**	**2024e**	**2025e**
Tangible Assets	3.3	3.6	3.4	3.2	3.1
Intangible Assets	6.3	7.9	13.3	12.3	12.5
Other Long-term assets	2.7	8.6	8.6	8.6	8.6
Non-current Assets	**12.4**	**20.1**	**25.2**	**24.1**	**24.2**
Inventories	0.1	0.1	0.1	0.1	0.1
Trade Receivables	8.3	10.4	10.6	14.1	16.3
Other receivables	0.3	0.2	0.2	0.2	0.2
Cash & Equivalents	10.3	14.8	12.6	14.9	18.3
Current assets	**19.0**	**25.5**	**23.5**	**29.3**	**34.9**
Total Assets	**31.4**	**45.6**	**48.7**	**53.4**	**59.1**
Shareholder funds	20.7	22.8	25.7	29.6	34.5
Non-controlling interest	0.0	1.0	1.1	1.1	1.1
Total Equity	**20.7**	**23.9**	**26.8**	**30.7**	**35.6**
Long-term debt	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	3.7	10.7	9.8	9.3	8.9
Long Term Liabilities	**3.7**	**10.7**	**9.8**	**9.3**	**8.9**
Short-term debt	1.0	5.1	5.2	5.7	6.2
Trade Payables	0.7	0.5	0.7	0.8	0.9
Other current liabilities	5.3	5.3	6.2	6.9	7.5
Current liabilities	**7.0**	**11.0**	**12.1**	**13.4**	**14.7**
Equity & Liabilities	**31.4**	**45.6**	**48.7**	**53.4**	**59.1**
Key Financial Ratios	**2021**	**2022**	**2023e**	**2024e**	**2025e**
P/E	20.6x	21.7x	21.9x	20.9x	17.0x
P/BV	5.7x	5.7x	6.0x	6.3x	5.4x
EV/EBITDA	12.3x	13.5x	12.3x	12.1x	10.1x
Oper. EBIT/Interest expense	22.9x	14.8x	11.0x	14.2x	17.6x
Net Debt (cash)/EBITDA	-0.9x	-0.4x	-0.2x	-0.3x	-0.5x
Dividend Yield	2.3%	2.3%	2.4%	2.5%	3.2%
ROE	28%	26%	27%	30%	32%
Free Cash Flow yield	2%	-1%	1%	3%	4%
Payout Ratio	31%	45%	43%	42%	43%

Source: Eurobank Equities

Company description

Entersoft is a Greek software company involved in the distribution of own-developed solutions 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 cloud-based installation, which can be used either as a licensed product or as Software as a Service.

Risks and sensitivities

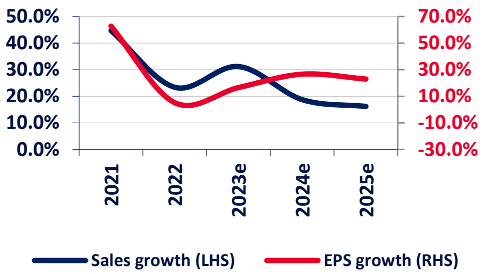
•**Macro and other demand risks:** Entersoft's top line largely hinges on the digitization agendas of companies in Greece and Romania. In that regard, there is downside risk to our estimates in case IT spending slows due to inaccessible credit lines or in case of a significant macroeconomic downturn.

•**Personnel costs:** Human capital is the overriding factor behind the success of a software company, and the same holds 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.

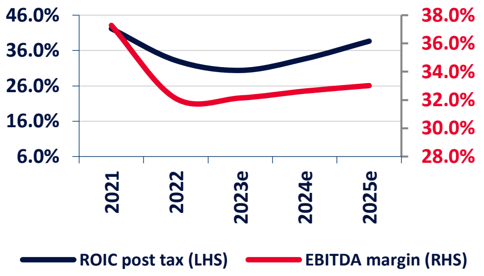
•**M&A risk:** Entersoft has at times resorted to M&A to tap new segments. In case of similar moves in the future, there is some integration risk (or risk of non-accretive M&A).

•**Sensitivity:** We estimate that flexing our revenue assumption by 1% would result in a c2.5% change in group EBITDA.

Sales and EPS growth



Profitability and returns



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This report has been written by Stamatios Draziotis (CFA), Natalia Svyriadi and Marios Bourazanis (Equity Analysts).

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12-month Rating History of Entersoft *

Date	Rating	Stock price	Target price
01/02/2024	Buy	€ 6.18	€ 8.20

** Entersoft has in the past been covered under Eurobank Equities' sponsored research program. Our last report under the particular program was published on 27th July 2022.*

Eurobank Equities Investment Firm S.A. Rating System:

Stock Ratings	Coverage Universe		Investment Banking Clients		Other Material Investment Services Clients (MISC) – as of 15th Jan 2024	
	Count	Total	Count	Total	Count	Total
Buy	20	69%	2	10%	11	61%
Hold	1	3%	0	0%	2	100%
Sell	0	0%	0	0%	0	0%
Restricted	1	3%	0	0%	0	0%
Under Review	2	7%	1	50%	2	100%
Not Rated	5	17%	1	20%	1	20%
Total	**29**	**100%**				

Coverage Universe: A summary of historic ratings for our coverage universe in the last 12 months is available here.

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.
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Under Review:	Our estimates, target price and recommendation are currently under review
Not Rated:	Refers to Sponsored Research reports