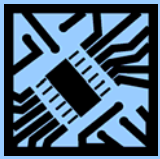


18 February 2008

Update


**IT**  
Poland

<b>Current price</b>	<b>PLN 51.50</b>
<b>Target price</b>	<b>PLN 59.50</b>
Market cap	PLN 97.2m
Free float	PLN 22.0m
Avg daily trading volume (3M)	PLN 0.09m

**Shareholder Structure**

Bogdan Michalak	33.15% / 33.74%
Włodzimierz Napiórkowski	21.21% / 21.58%
Macrologic	7.39% / 7.52%
Krystyna Napiórkowska	5.84% / 5.94%
Krzysztof Szczypa	5.56% / 5.66%
Andrzej Odyniec	4.23% / 4.31%
Pozostali	22.62% / 21.25%

**Sector Description**

The banking IT market totalled PLN 2.2bn in 2005 (ca. 14.5% of the Polish IT market). Forecasts for the years ahead foresee continued double-digit growth in our IT market. In 2006, the value of the Polish ERP market exceeded PLN 500m. According to IDC, it will keep increasing by 16.5% a year until 2009.

**Company Profile**

The company is a producer of enterprise resource-managing systems (ERP) and it targets mostly medium-sized companies. The Xpertis system is its flagship product. The system supports inventory management and planning, information and knowledge management and it allows management information to be generated.

# Macrologic

# Accumulate

MSFT.WA; MCL PW

(Reiterated)

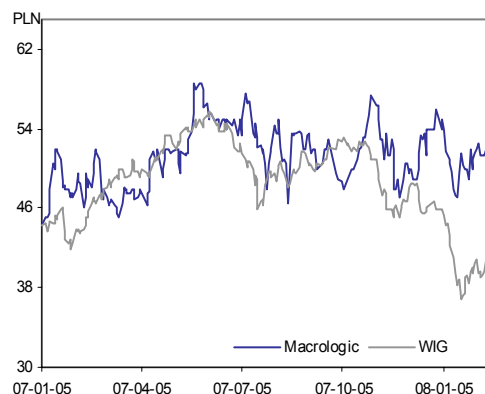
## For Whom the ERP System?

We have a positive view of the Company's Q4 2007 results, even though they have slightly undershot our target (PLN 6.1m in net income in FY2007 vs. PLN 6.8m we forecasted). The difference is due to the recognition of a ca. PLN 0.5m loss incurred by a subsidiary. Despite that, at the current share price the 2007 P/E stands at 15.9m, while with the PLN 7.0m net income we forecast for the current year it is 13.9. Sales revenue growth was over 17% again. Net income margin increased as well (from 11.5% to 14.1%). Because we are expecting the Company to yield to pressure on wages again this year (+15% y/y on average), we think that meeting the 15% net income margin target already in 2008 will be difficult. We expect that it will be possible to improve the net income margin starting in 2009, as wages slow down. In our relative valuation, we use a 30% discount to the peer group on account of the low liquidity of Macrologic shares. With this discount, we set the price target on MCL at PLN 59.5 per share, up from PLN 58.4 previously. We reiterate the accumulate recommendation.

**FY2007 Earnings**

After four quarters of 2007, sales revenues were PLN 43.2m (the pro-forma results with all divisions consolidated are PLN 45m, exactly in line with our expectations). Gross margin was improved to 47.8%, from 46.6% in 2006, which the Management argues is not a one-off increase, but rather a result of higher sales prices. FY2007 operating profit was PLN 8.3m vs. PLN 5.7m in 2006 (our forecast was also PLN 8.3m). Net income was PLN 6.1m, with a 14.1% margin (vs. PLN 4.4m net income in 2006). We had expected PLN 6.8m in net income in 2007. Our forecasts did not take into account a one-off event in the form of a PLN 0.5m subsidiary loss being recognized. Without it, Macrologic FY2007 net income was PLN 6.6m, i.e. 2.9% below our forecast.

Our forecasts for the upcoming years do not take into account profit attributable to minority shareholders (mostly the Kamil company). We are assuming that in 2008 Macrologic will increase its share in Kamil to 100%.

**Macrologic vs. WIG**

**Piotr Janik**

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(PLN m)	2005	2006	2007F	2008F	2009F
Revenues	32.6	38.4	45.0	51.6	58.5
EBITDA	6.8	7.4	9.3	11.2	13.3
<i>EBITDA margin</i>	21.0%	19.3%	20.6%	21.8%	22.7%
EBIT	5.0	5.7	8.3	8.6	10.7
Net income	3.7	4.4	6.1	7.0	8.8
Cash earnings	6.8	7.4	9.3	11.2	13.3
P/E	24.5	21.9	15.9	13.9	11.0
P/CE	13.4	13.1	10.5	8.7	7.3
P/BV	5.3	5.2	4.9	3.9	3.1
EV/EBITDA	12.9	12.7	10.5	8.3	6.5



## Valuation

We estimated the per-share value of Macrologic's stock using the DCF approach and relative valuation. We applied a 30% discount to peers to account for the stock's low liquidity.

### Valuation Summary

		weight	9M TP
DCF valuation	125.6	50%	
Relative Valuation	117.5		
by comparison to Polish peers	136.6	50%	
by comparison to foreign peers	98.5	50%	
Discount to peers	-30%		
Price after discount	82.3	50%	
<b>Average</b>	<b>103.9</b>		<b>112.4</b>
Per-Share Target			59.5

Source: BRE Bank Securities

### DCF Model Assumptions

1. Our forecast horizon is from FY2007 to FY2016, but the value estimates are based on expected FY2008-FY2016 cash flows and net debt as of 31 Dec. 2007.
2. We take the risk-free rate to be 5.8% (10Y Treasury bond yield) in the forecast horizon and thereafter.
3. We assume that Macrologic will make distributions to shareholders either in the form of dividends, or a share buyback. We predict a 30% payout ratio in the forecast horizon.
4. We project that FCF after FY2016 will grow at a rate of 4.5%.



**DCF Model**

(PLN m)	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2016+
<b>Revenue</b>	<b>45.0</b>	<b>51.6</b>	<b>58.5</b>	<b>64.9</b>	<b>71.4</b>	<b>77.1</b>	<b>82.1</b>	<b>86.2</b>	<b>90.3</b>	<b>93.9</b>	
<i>change</i>	17.3%	14.7%	13.3%	11.0%	9.9%	8.0%	6.5%	5.1%	4.7%	4.0%	
<b>EBITDA</b>	<b>11.5</b>	<b>12.9</b>	<b>15.1</b>	<b>17.2</b>	<b>18.5</b>	<b>20.0</b>	<b>20.8</b>	<b>21.3</b>	<b>21.6</b>	<b>22.3</b>	
<i>EBITDA margin</i>	25.5%	24.9%	25.8%	26.4%	26.0%	26.0%	25.3%	24.7%	23.9%	23.8%	
Amortization and depreciation	3.2	4.2	4.4	4.4	5.3	6.4	6.1	6.7	6.1	6.6	
<b>EBIT</b>	<b>8.3</b>	<b>8.6</b>	<b>10.7</b>	<b>12.7</b>	<b>13.3</b>	<b>13.6</b>	<b>14.7</b>	<b>14.7</b>	<b>15.4</b>	<b>15.7</b>	
<i>EBIT margin</i>	18.4%	16.7%	18.3%	19.6%	18.6%	17.7%	17.9%	17.0%	17.1%	16.7%	
Tax rate on EBIT	1.6	1.6	2.0	2.4	2.5	2.6	2.8	2.8	2.9	3.0	
<b>NOPLAT</b>	<b>6.7</b>	<b>7.0</b>	<b>8.7</b>	<b>10.3</b>	<b>10.7</b>	<b>11.0</b>	<b>11.9</b>	<b>11.9</b>	<b>12.5</b>	<b>12.7</b>	
CAPEX		-4.3	-3.9	-4.1	-4.6	-6.6	-6.8	-7.1	-7.3	-6.6	
Working capital		-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	
<b>FCF</b>		<b>6.6</b>	<b>8.8</b>	<b>10.3</b>	<b>11.0</b>	<b>10.6</b>	<b>10.9</b>	<b>11.3</b>	<b>11.1</b>	<b>12.5</b>	
<i>WACC</i>		11.0%	11.2%	11.3%	11.4%	11.4%	11.5%	11.5%	11.6%	11.6%	
<i>discount factor</i>		91.1%	82.0%	73.7%	66.1%	59.3%	53.2%	47.7%	42.8%	38.3%	
PV FCF		6.0	7.2	7.6	7.3	6.3	5.8	5.4	4.8	4.8	
<b>WACC</b>	<b>11.0%</b>	<b>11.2%</b>	<b>11.3%</b>	<b>11.4%</b>	<b>11.4%</b>	<b>11.5%</b>	<b>11.5%</b>	<b>11.6%</b>	<b>11.6%</b>	<b>11.6%</b>	
Cost of debt	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	
Risk-free rate	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	
Risk premium	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	
Cost of equity	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%	
Risk-free rate	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Beta	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	
FCF growth after the forecast horizon					4.5%	<b>Sensitivity Analysis</b>					
Terminal value					184.5	<b>FCF growth in perpetuity</b>					
Discounted terminal value (PV TV)					70.7		<b>2.5%</b>	<b>3.5%</b>	<b>4.5%</b>	<b>5.5%</b>	<b>6.5%</b>
Discounted FCF in the forecast horizon					55.1	WACC - 1.0pp	66.2	71.5	78.5	88.3	102.9
Equity value					125.8	WACC - 0.5pp	64.2	68.9	75.0	83.2	95.1
Net debt*					0.2	WACC	62.4	66.6	<b>71.9</b>	79.0	88.9
Minority interests					0.0	WACC + 0.5pp	60.8	64.5	69.2	75.4	83.7
Equity value					125.6	WACC + 1.0pp	59.3	62.7	66.9	72.3	79.4
Number of shares (millions)					1.9						
<b>Equity value per share (PLN)</b>					<b>66.5</b>						
Cost of equity (9M)					8.2%						
<b>Target Price (9M)</b>					<b>71.9</b>						
EV/EBITDA (FY08E) for the target price					10.6						
P/E (FY08E) for the target price					19.4						
TV to EV					56%						

Source: BRE Bank Securities  
\* net debt as of 31 Dec. 2007



## Relative Valuation

	P/E			EV/EBITDA		
	2007	2008	2009	2007	2008	2009
ABG SPIN	19.3	15	13.5	13.4	9.2	8.2
Asseco Poland	28.9	23.2	20.7	17	13.6	11.7
Comarch	23.9	15.8	12.7	16.1	11.8	9.2
Sygnity		11.1	7.5		4.8	3.3
<b>Median</b>	<b>23.9</b>	<b>15.4</b>	<b>13.1</b>	<b>16.1</b>	<b>10.5</b>	<b>8.7</b>
<b>Multiple-based valuation</b>		<b>weight</b>				
P/E	123.2	50%				
EV/EBITDA	150.0	50%				
<b>Average</b>	<b>136.6</b>					

	P/E			EV/EBITDA		
	2007	2008	2009	2007	2008	2009
Cap Gemini SA	13.5	10.3	9.0	5.1	4.3	3.8
EDB	8.5	8.7	8.8	4.2	3.6	3.7
Getronics	27.5	21.1	16.4	6.9	6.2	6.0
IDS Scheer	14.1	11.1	8.7	6.3	5.1	4.2
Logica CMG	22.0	12.6	11.2	7.3	6.3	5.9
Tietoenator	13.4	9.7	8.0	6.5	5.5	4.8
Microsoft Corp.	18.6	16.8	15.5	11.5	10.3	10.1
Oracle Corp.	20.1	17.0	14.5	10.8	9.8	8.7
SAP AG	17.2	14.5	13.8	10.2	8.8	8.1
Autodesk Inc.	20.2	16.8	13.9	13.4	11.4	9.6
CA Inc.	27.8	20.9	14.1	9.8	8.7	8.6
Business Objects	43.1	25.6	20.8	11.7	9.7	7.9
Misys plc	15.6	14.2	13.6	11.3	10.1	9.8
Kudelski SA	9.0	7.2	6.3	5.2	4.1	3.6
Temenos Group	20.2	14.9	11.4	15.1	11.5	9.3
Telelogic AB	22.6	19.5	16.6	12.4	11.3	11.3
Cegid Gruop SA	9.2	8.1	7.3	4.4	4.1	6.3
GL Trade	9.8	8.2	7.5	5.5	4.8	7.2
DADA SpA	12.9	8.9	7.1	8.4	6.2	7.1
<b>Median</b>	<b>17.2</b>	<b>14.2</b>	<b>11.4</b>	<b>8.4</b>	<b>6.3</b>	<b>7.2</b>
<b>Multiple-based valuation</b>		<b>weight</b>				
P/E	101.7	50%				
EV/EBITDA	95.3	50%				
<b>Average</b>	<b>98.5</b>					

Source: BRE Bank Securities, Bloomberg

## Relative Valuation Summary

Valuation by comparison to	PLN m	weight	9M TP
Polish companies	136.6	50%	
foreign companies	98.5	50%	
<b>Average</b>	<b>117.5</b>		
Discount	30%		
<b>Value after discount</b>	<b>82.3</b>		<b>89.0</b>
Per-Share Price	43.5		47.1

Source: BRE Bank Securities

**Consolidated Income Statement**

(PLN m)	2005	2006	2007F	2008F	2009F	2010F
<b>Revenue</b>	<b>32.6</b>	<b>38.4</b>	<b>45.0</b>	<b>51.6</b>	<b>58.5</b>	<b>64.9</b>
<i>change</i>		17.9%	17.3%	14.7%	13.3%	11.0%
Cost of sales	16.3	20.5	24.2	28.8	32.1	35.1
Gross profit	16.3	17.9	20.8	22.8	26.4	29.8
<i>Gross profit margin</i>	49.9%	46.6%	46.2%	44.1%	45.2%	45.9%
SG&A expenses	11.4	12.2	12.5	14.1	15.7	17.1
Other net operating profit	0.1	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>5.0</b>	<b>5.7</b>	<b>8.3</b>	<b>8.6</b>	<b>10.7</b>	<b>12.7</b>
<i>change</i>						
<i>EBIT margin</i>	15.4%	14.8%	18.4%	16.7%	18.3%	19.6%
Profit on financing activity	-0.1	-0.1	0.1	0.0	0.2	0.5
Extraordinary gains/losses	0.0	0.0	-0.5	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax income</b>	<b>4.9</b>	<b>5.5</b>	<b>7.9</b>	<b>8.6</b>	<b>10.9</b>	<b>13.2</b>
Tax	1.0	1.1	1.6	1.6	2.1	2.5
Minority interests	0.2	0.0	0.2	0.0	0.0	0.0
<b>Net income</b>	<b>3.7</b>	<b>4.4</b>	<b>6.1</b>	<b>7.0</b>	<b>8.8</b>	<b>10.7</b>
<i>change</i>						
<i>Margin</i>	11.5%	11.6%	13.5%	13.6%	15.1%	16.5%
Amortization and depreciation	3.1	3.0	3.2	4.2	4.4	4.4
<b>EBITDA</b>	<b>6.8</b>	<b>7.4</b>	<b>9.3</b>	<b>11.2</b>	<b>13.3</b>	<b>15.1</b>
<i>change</i>						
<i>EBITDA margin</i>	21.0%	19.3%	20.6%	21.8%	22.7%	23.3%
Shares at year-end (millions)	1.8	1.9	1.9	1.9	1.9	1.9
EPS	2.1	2.4	3.2	3.7	4.7	5.7
CEPS	3.8	3.9	4.9	5.9	7.0	8.0

Source: Macrologic, BRE Bank Securities

**Consolidated Balance Sheet**

<b>(PLN m)</b>	<b>2005</b>	<b>2006</b>	<b>2007F</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
<b>ASSETS</b>	<b>22.6</b>	<b>24.7</b>	<b>29.3</b>	<b>35.0</b>	<b>41.9</b>	<b>50.1</b>
<b>Fixed assets</b>	<b>11.5</b>	<b>13.6</b>	<b>18.7</b>	<b>18.8</b>	<b>18.3</b>	<b>18.0</b>
Property, plant and equipment	5,0	5,7	8,5	7,8	6,8	6,3
Intangible assets	2,4	3,7	6,3	7,2	7,7	7,8
Equity value	2,9	2,9	2,9	2,9	2,9	2,9
Long-term investments	1,0	1,0	0,5	0,5	0,5	0,5
Other fixed assets	0,3	0,3	0,5	0,5	0,5	0,5
<b>Current assets</b>	<b>11.1</b>	<b>11.1</b>	<b>10.6</b>	<b>16.2</b>	<b>23.6</b>	<b>32.1</b>
Inventories	0,1	0,4	0,3	0,3	0,4	0,4
Short-term receivables	6,8	7,1	7,3	8,4	9,4	10,4
Prepayments	0,0	0,0	0,0	0,0	0,0	0,0
Cash and cash equivalents	4,1	3,6	2,9	7,4	13,7	21,2
Other current assets	0,0	0,0	0,1	0,1	0,1	0,1
<b>(PLN m)</b>	<b>2005</b>	<b>2006</b>	<b>2007F</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
<b>LIABILITIES</b>	<b>22.6</b>	<b>24.7</b>	<b>29.3</b>	<b>35.0</b>	<b>41.9</b>	<b>50.1</b>
<b>Equity</b>	<b>17.3</b>	<b>18.6</b>	<b>20.0</b>	<b>24.9</b>	<b>31.0</b>	<b>38.5</b>
Share capital	1,8	1,9	1,9	1,9	1,9	1,9
Other equity	15,6	16,7	18,1	23,0	29,2	36,7
<b>Long-term liabilities</b>	<b>0,3</b>	<b>0,7</b>	<b>0,9</b>	<b>0,9</b>	<b>0,9</b>	<b>0,9</b>
Debt	0,2	0,4	0,7	0,7	0,7	0,7
other	0,1	0,3	0,2	0,2	0,2	0,2
<b>Short-term liabilities</b>	<b>5,0</b>	<b>5,5</b>	<b>8,4</b>	<b>9,2</b>	<b>9,9</b>	<b>10,6</b>
Debt	0,1	0,2	2,5	2,5	2,5	2,5
Trade creditors	4,3	4,7	5,0	5,7	6,5	7,2
Other	0,6	0,6	1,0	1,0	1,0	1,0
Debt	0,3	0,6	3,1	3,1	3,1	3,1
Net debt	-3,9	-3,1	0,2	-4,2	-10,6	-18,1
(Net debt / Equity)	-22,3%	-16,5%	1,2%	-17,0%	-34,0%	-46,9%
(Net debt / EBITDA)	-56,7%	-41,5%	2,7%	-37,6%	-79,6%	-119,3%
Shares at year-end (millions)	1,8	1,9	1,9	1,9	1,9	1,9
BVPS	9,7	9,8	10,6	13,2	16,4	20,4

Source: Macrologic, BRE Bank Securities

**Consolidated Cash Flows**

(PLN m)	2005	2006	2007F	2008F	2009F	2010F
<b>Cash flows from operating activities</b>	<b>6.3</b>	<b>7.7</b>	<b>9.4</b>	<b>10.9</b>	<b>12.9</b>	<b>14.8</b>
Net income	3.7	4.4	6.1	7.0	8.8	10.7
Amortization and depreciation	3.1	3.0	3.2	4.2	4.4	4.4
Working capital	-0.4	0.1	0.2	-0.3	-0.3	-0.3
Other	-0.1	0.2	-0.1	0.0	0.0	0.0
<b>Cash flows from investing activities</b>	<b>-5.0</b>	<b>-5.1</b>	<b>-7.5</b>	<b>-4.3</b>	<b>-3.9</b>	<b>-4.1</b>
CAPEX	-4.0	-4.0	-7.0	-4.3	-3.9	-4.1
Capital investments	-1.1	-1.1	-1.0	0.0	0.0	0.0
Other	0.0	0.1	0.5	0.0	0.0	0.0
<b>Cash flows from financing activities</b>	<b>-0.1</b>	<b>-3.2</b>	<b>-2.6</b>	<b>-2.1</b>	<b>-2.7</b>	<b>-3.2</b>
Stock offering	0.2	0.0	0.0	0.0	0.0	0.0
Debt	-0.1	0.1	2.6	0.0	0.0	0.0
Dividends (buy-back)	0.0	-3.3	-8.0	-2.1	-2.7	-3.2
Other	-0.3	-0.1	2.8	0.0	0.0	0.0
<b>Change in cash</b>	<b>1.2</b>	<b>-0.6</b>	<b>-0.7</b>	<b>4.5</b>	<b>6.3</b>	<b>7.5</b>
Cash at end of period	4.1	3.6	2.9	7.4	13.7	21.2

Source: Macrologic, BRE Bank Securities

**Market Multiples**

	2005	2006	2007F	2008F	2009F	2010F
P/E	24.5	21.9	15.9	13.9	11.0	9.1
P/CE	13.4	13.1	10.5	8.7	7.3	6.4
P/BV	5.3	5.2	4.9	3.9	3.1	2.5
MC/S	2.8	2.5	2.2	1.9	1.7	1.5
EV/EBITDA	12.9	12.7	10.5	8.3	6.5	5.2
EV/EBIT	17.6	16.6	11.8	10.8	8.1	6.2
EV/S	2.7	2.5	2.2	1.8	1.5	1.2
Price (PLN)	51.5	51.5	51.5	51.5	51.5	51.5
Shares at year-end (millions)	1.8	1.9	1.9	1.9	1.9	1.9
MC (PLN m)	91.9	97.2	97.2	97.2	97.2	97.2
Net debt	-3.9	-3.1	0.2	-4.2	-10.6	-18.1
Equity attributable to minority shareholders	0.0	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	88.0	94.1	97.4	93.0	86.6	79.1

Source: Macrologic, BRE Bank Securities



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**List of abbreviations and ratios contained in the report:**

**EV** – net debt + market value  
**EBIT** – Earnings Before Interest and Taxes  
**EBITDA** – EBIT + Depreciation and Amortisation  
**P/CE** – price to earnings with amortisation  
**MC/S** – market capitalisation to sales  
**EBIT/EV** – operating profit to economic value  
**P/E** – (Price/Earnings) – price divided by annual net profit per share  
**ROE** – (Return on Equity) – annual net profit divided by average equity  
**P/BV** – (Price/Book Value) – price divided by book value per share  
**Net debt** – credits + debt papers + interest bearing loans – cash and cash equivalents  
**EBITDA margin** – EBITDA/Sales

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**ACCUMULATE** – we expect that the rate of return from an investment will range from 5% to 15%  
**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%  
**REDUCE** – we expect that the rate of return from an investment will range from -5% to -15%  
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