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Symmetry Invest
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Epsilon Net

Research

Date	Target	Price	Upside
15/02/2022	16 EUR	5,3 EUR	202 %

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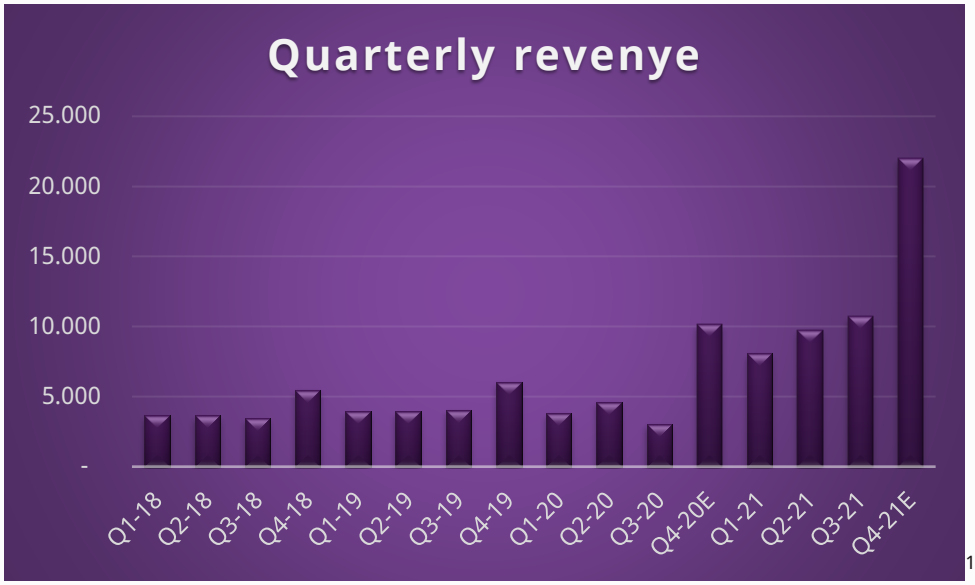
Leading software company in Greece trading at huge discount to underlying value

- **The stock of Epsilon Net has been on a rise in 2021 due to accelerating growth. We think the story is just at its early innings.**
- **While Epsilon have gained some attention in smaller circles on Twitter etc. the story is still mostly overlooked by the wider investment community due to Greece origin and tight float**
- **The market has not fully understood the massive potential and earnings contribution coming from Epsilon Smart in FY22 and FY23 – our data indicate a big inflection point happening**
- **EU stimulis programs to help digitalising the Greece economy will have a big benefit for Epsilon starting in Q2 2022 – we think the potential here is vastly overlooked**
- **The rollout (mostly EU funded) of 5G internet etc. in Greece allows companies to move from on-premise to Cloud solutions at a fast pace. Epsilon LTV and economics are far superior when customers move online**
- **Epsilon is starting to consolidate the industry vendors and vertically expand their products suites. Epsilon is able to roll up smaller companies at extremely low prices.**
- **Epsilon stock trades at a big multiple discount compared to international peers despite having less competition and a much higher growth trajectory due to the fact that digitalisation in Greece is just getting started.**
- **Epsilon is still majority owned by its founder and CEO – he has a deep passion for the business and employees and we have been fully impressed with him.**

Ticker	EPSIL.AT
ISIN	GRS498003003

Currency	EUR
Target	15
Latest	5,3
Shares outstanding (mil.)	53,6
Market cap (mil. EUR)	279

If you wish you had bought into SMB accounting companies like Xero, Fortnox or Admicon early you still have a chance to do that in Greece. In a much earlier situation, with a more dominant position and at a fraction of the price. Epsilon Net is just getting started:



[1]

We first started buying shares in Epsilon last summer after my friend Mark Sharogradsky of Kepler Capital pitched the idea to me. While we (regrettably) initially only took a small position we have used the last 8 months to follow the company and the management team. The recent pullback in the stock in combination with several positive business inflections have in our opinion created an excellent setup to invest. We have therefore used this opportunity to buy significantly more shares over the last 2 months.

In our opinion: 1) The launch of Epsilon Smart 2) the EU stimulis programs in combination with an expanding economy and an ongoing cloud transformation and 3) an accretive M&A program - have placed Epsilon in a perfect position to succeed.

Accounting software to SMB's is a really attractive segment if you are winning a market. The current valuations of market leaders in other countries are great examples of this.

[1] Symmetry Invest based on public figures

The main reason is that companies seldom change accounting software. It's extremely sticky:



[2]

Despite this, at a P/E ratio of only 14x 2022 income and 3,5x sales Epsilon still trades at a huge discount to peers. With a lot of catalysts in the horizon we think this could change fast.

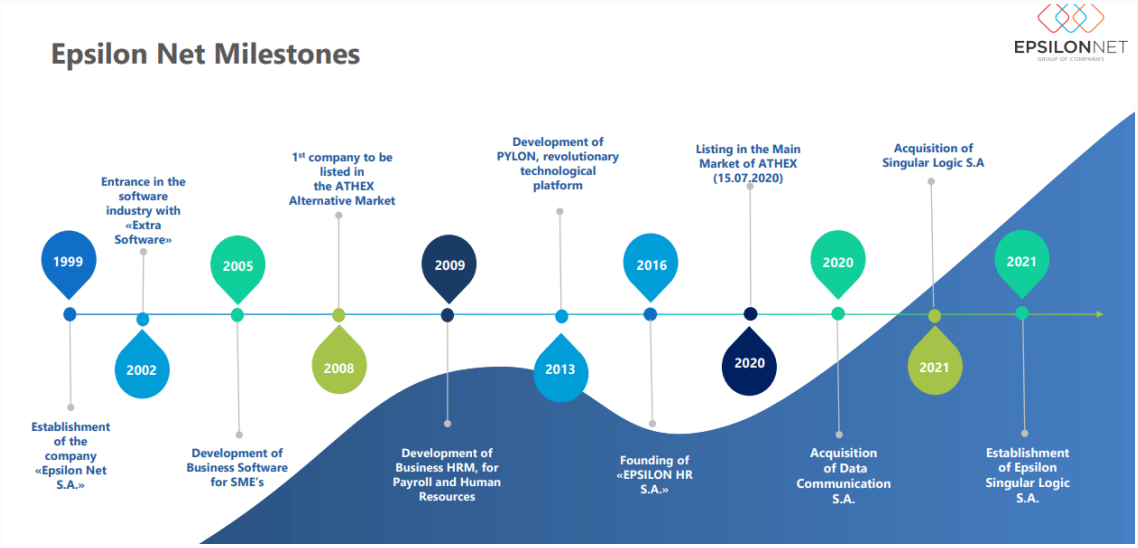
[2] Epsilon Net retention – investor presentation

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About Epsilon Net

Epsilon Net is a Greek IT company specializing in software primarily to small- and medium sized businesses.



In Greece Epsilon is by far the market leader in Payroll and HR software. Epsilon payroll systems are integrated in other ERP systems and connected to government systems. Many of the biggest companies in Greece that even use SAP or Microsoft products still want to use Epsilon for their payroll and HR needs:

Epsilon has used this position to expand into higher ARPU products withing accounting software, ERP, invoicing software, Cloud software, vertical products etc.



As investors that follow the Scandinavian firms like Fortnox, Economics, Visma etc. knows the best way to penetrate the market is to build the relationships with account offices as they are the perfect resellers for the product (normally helps startups). It is also the cheapest way to get market penetration as accounting offices will recommend end users the software they are used to.

Epsilon is by far the market leader in the Greek accounting offices:

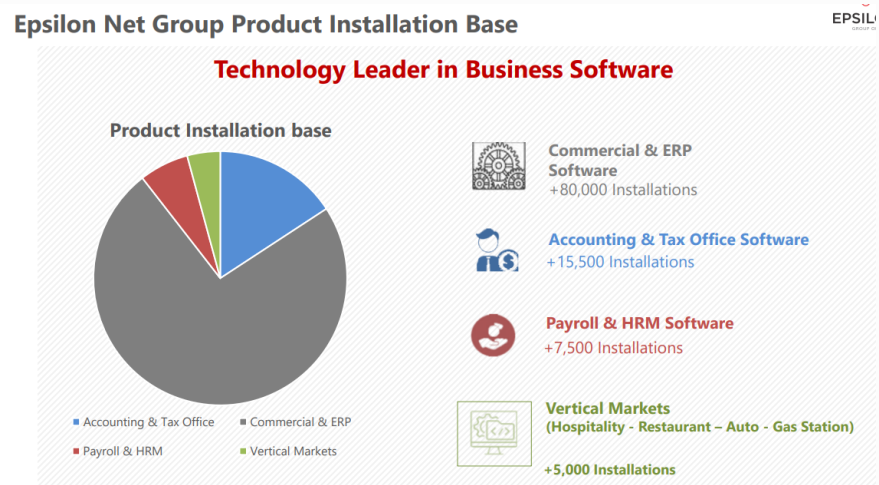


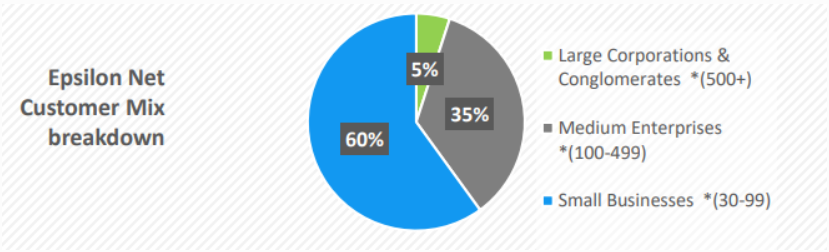
We think this gives Epsilon a natural entrance into startups and the ability to help companies scaling their tech stack early on. As Epsilon control most of the value chain from small accounting software to payroll, to HR, to full ERP, Cloud and Verticals they have amble opportunities to upsell solutions along the way.

As a former accountant I understand the formation of habits here. As an accountant you can save significant amount of time if your end-users deploy and use the software you are used to.

The only part of the segment that Epsilon really doesn't compete for is for the biggest multinational companies and subsidiaries as they usually use the same accounting software as their international parent company (SAP, Oracle, Microsoft etc.).

While Epsilon started building their stronghold in Payroll & HRM software today most of their subscriptions sits with ERP and commercial solutions.





As one can see from the figure above Epsilon primarily targets the smaller end of the businesses in Greece. And that chart does not include EpsilonSmart (discussed later) that targets primarily micro companies.

This strong position in Greece is also verified by customer reviews:

> Payroll software. Software that you calculate your payroll. So Epsilon Net is like a monopoly there. It began from some small firms and bought SCAN, I will explain later, which was a major rival and incorporated SCAN software into its software. So Epsilon Net is the monopoly there in Greece, in general.
>
> Epsilon Net in my experience, I incorporated payroll software. And ESS, which is a self-service for payroll. So there, it was a very good customer service. Very good application. And one of the best payroll programs I have tried.
>
> In the multinational company that it had SAP for ERP, for payroll, we did not SAP, we chose Epsilon Net for it. Because in the Greek market, Epsilon Net is like a sure thing. So it's a monopoly there. SCAN was its major rival before they acquired them. [3]

> There's a good thing with Epsilon Net, is that it's automatically updated. That's one of the reasons that it's a monopoly is because it's so frequently ablated in the hub. So many contacts with the Greek government. Before the rule changes, they have already made the change.
>
> So once the change comes out formally, the new law is out, your system is updated and they have it based where you can ask everything, free of charge. So this is a dream come true for an account, and this is a dream come true of a payroll manager. This is a dream come true of a CFO that needs his payroll system to work 100%. So that's why they are a monopoly rule. No other Greek company offers that.

[3] Former CFO of Epsilon customer. Source: Tegus

Epsilon Smart

One of the most significant additions to Epsilon Net revenue in FY22 and FY23 will come from Epsilon Smart. This is a segment the market has not fully understood the potential of yet.

To improve the tax collection abilities for the Greece government and to improve visibility into the private businesses the Greece tax authorities mandated the use of E-invoices from the beginning of 2022. This meant that businesses with only 1 or a few employees were mandated to use an official E-invoice system. Many businesses were using spreadsheets or other manual tools to do their invoices before and many just used cash transactions.

Epsilon quickly saw this as a big opportunity to help small businesses comply with the mandate but also to establish an important touchpoint with these small businesses with the ability to upsell further software to them in the future.



Epsilon quickly implemented the solution into their existing products but also realized they needed to create a new tool directly targeting this opportunity. They therefore created EpsilonSmart as a simple to use to tool for E-invoicing and priced it extremely competitive at only 120 EUR per year to make sure they were able to capture the opportunity.

Epsilon Smart has done a full integration with myDATA – the digital application from AADE/IAPR (independent authority for public revenue). This is important because Epsilon Smart is approved as one of only a few players with this invoice software.

What is the opportunity here for Epsilon? The number of micro, small and medium sized businesses in Greece vary a little bit according to different sources. There were 821.540 registered businesses in 2019 According to the SBAS fact sheet from the European:

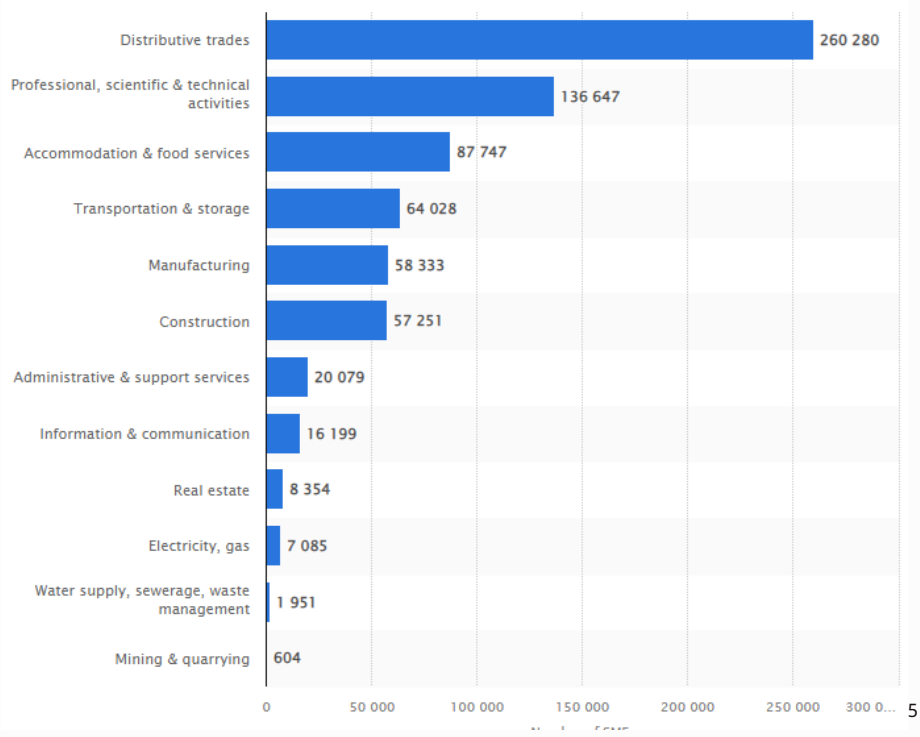
Class size	Number of enterprises			Number of persons employed			Value added		
	Greece		EU-28	Greece		EU-28	Greece		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	800,075	97.4%	*93.0%*	1,527,075	62.0%	*29.7%*	9.0	17.6%	*20.8%*
Small	18,958	2.3%	*5.9%*	398,514	16.2%	*20.1%*	11.8	23.1%	*17.6%*
Medium-sized	2,176	0.3%	*0.9%*	239,627	9.7%	*16.8%*	11.7	22.9%	*18.0%*
SMEs	**821,209**	**100.0%**	***99.8%***	**2,165,216**	**87.9%**	***66.6%***	**32.6**	**63.5%**	***56.4%***
Large	331	0.0%	*0.2%*	297,411	12.1%	*33.4%*	18.7	36.5%	*43.6%*
Total	**821,540**	**100 0%**	***100.0%***	**2,462,627**	**100.0%**	***100.0%***	**51.2**	**100.0%**	***100.0%***

These are estimates for 2018 produced by DIW Econ, based on 2008-2016 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed). The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

[4]

It is worth nothing how big a percentage of these are classified as Micro businesses.

Data from Statista (2020) have around 718.558 business outside the financial sector.



[5]

[4] Ec.europe.eu

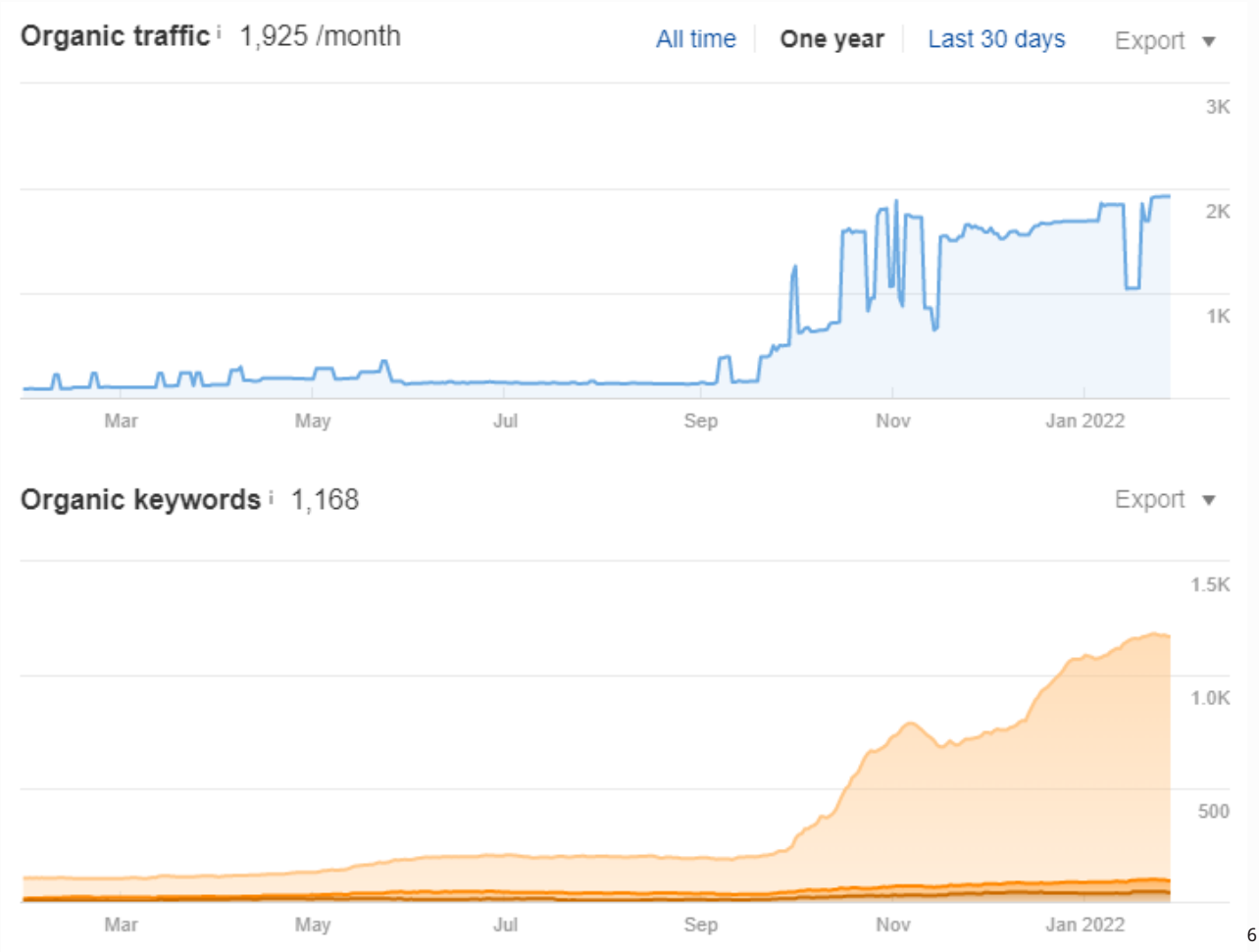
[5] https://www.statista.com/statistics/1252918/smes-in-greece-by-sector/

The next question to figure out is how many of these are truly addressable for Epsilon. First the bigger part of the market already has an existing accounting software that can handle E-invoicing (Epsilon have +50.000 customers themselves here). We also understand from our research that companies within the agriculture sector is exempt from the mandate. There will also always be companies that for some reason don’t want to comply with the rules.

In total we think the real addressable market for EpsilonSmart is around 250.000-300.000 companies. Epsilon hope to achieve a 50 % market share within this market. That would imply that Epsilon over time could achieve 125.000-150.000 customers.

From what we understand the official start of the mandate was from 1. January 2022 with a soft-launch from 1. October 2021 (originally it was 1. July but was postponed). It is therefore expected that Epsilon would see a big intake of new customers between October and December 2021.

We can clearly see this from website traffic to EpsilonSmart.gr beginning in October 2021:



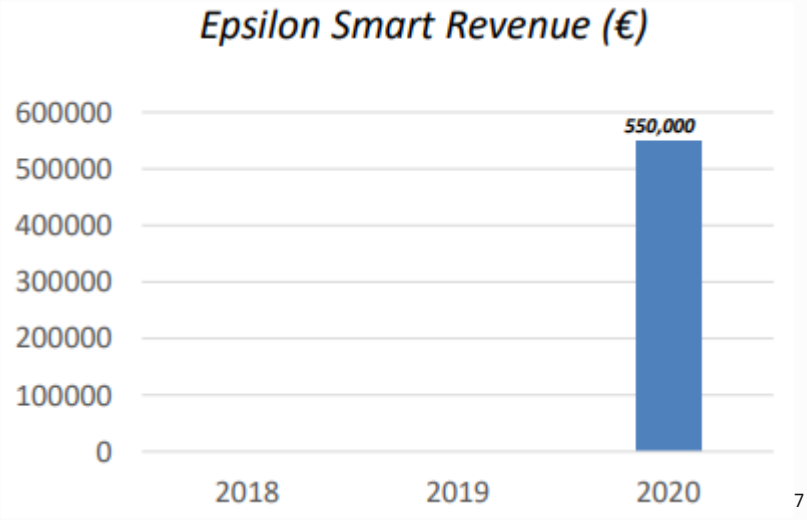
[6]

But we also have some more tangible data to measure the uptake:

Epsilon have disclosed the number of customers a few times in their investor presentations and press releases.

[6] Ahrefs.com

In their 2020 investor presentation Epsilon disclosed a total revenue for Epsilon Smart of 550.000



[7]

That would revert to around 3.000-5.000 subscribers depending on the price (the lowest price point is 120 EUR per year but we think the early users were the move advanced companies buying the higher versions modules).

In October 2021 Epsilon disclosed they had gotten more than 16.000 subscribers



[8]

[7] Epsilon Net 2020 IR præsentation
[8] Epsilon H1 IR presentation

In the middle of December Epsilon disclosed that it has grown to more than 50.000 subscribers:



[9]

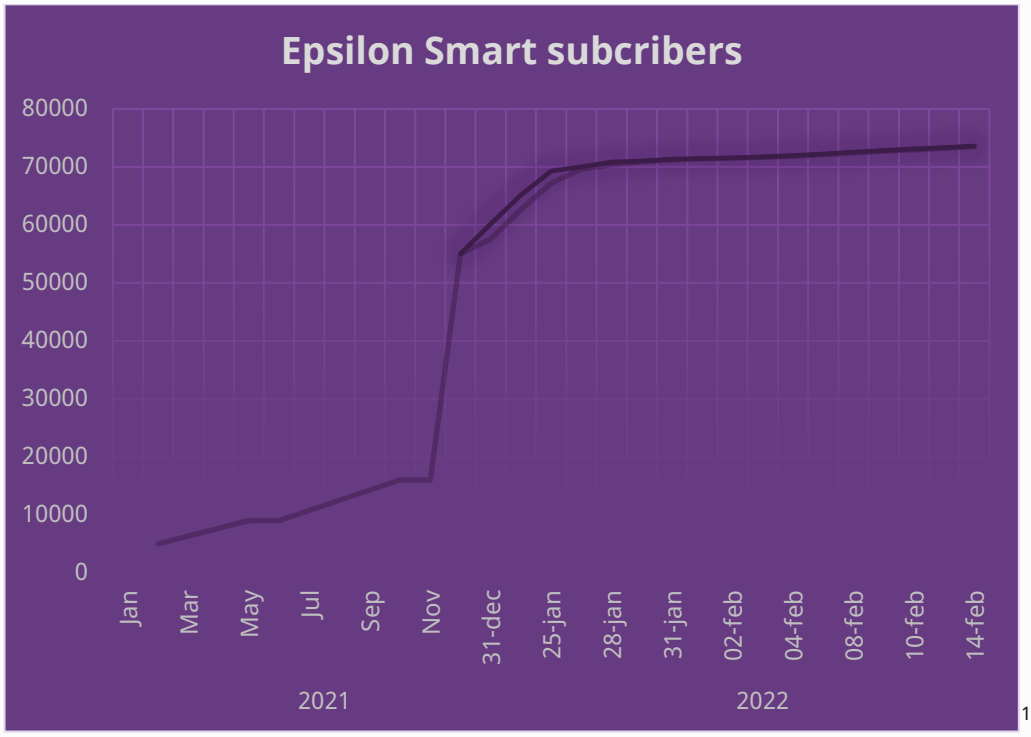
What is not known to many people is that Epsilon actually discloses the number of customers on their website www.epsilonsmart.gr:



[10]

Symmetry have been using different tools to scrape the website over the last few months to follow the daily uptake in new subscribers.

[9] Epsilon press release
[10] https://www.epsilonsmart.gr/



[11]

We of course saw the big jump between October 2021 and December 2021 when the mandate came into action. What's interesting is that Epsilon Smart have continued to get 200-300 new users per working day throughout 2022 so far. The addition of new users will start to slow down as the market gets fully penetrated. We do think its quite realistic for Epsilon to reach 100.000 subscribers before the summer.

Below we have shown the net additions to EpsilonSmart from our tracker.

2022										
31-jan	01-feb	02-feb	03-feb	04-feb	07-feb	08-feb	09-feb	10-feb	11-feb	14-feb
71353	71449	71569	71712	71945	72231	72535	72829	73069	73324	73585
	96	120	143	233	286	304	294	240	255	261

[12]

The company originally hinted towards that goal at the end of 2022 but now it seems approachable much earlier.

[11] Official data from Epsilon in combination with Symmetry data from website scraping
[12] Symmetry website tracker of Epsilonsmart.gr

It is when one start to think about the financial impact of EpsilonSmart that it starts to get really interesting.

As EpsilonSmart only really started to get subscribers doing Q4 2021 the full financial impact will only come in 2022 as EpsilonSmart is a SAAS product that get recognizes over 12 months. Epsilon already guided to a blowout Q4 report (see page 4). But the average number of EpsilonSmart users doing Q4 was only between 30.000-40.000. In Q1 we think that will double to more than 75.000.

For 2022 we calculate that Epsilon Smart will grow from 60.000 users to 120.000 users. We think it will be frontloaded but for simplicity we use 90.000 as the average. For 2023 we assume no more subscribers and thus use the 120.000 for the full year.

We know the annual price for a subscription start with 120 EUR per year and then move upwards to 300-500 as companies add on more modules/advanced solutions from Epsilon and some also buy consulting services etc. on the side.

Again, for simplicity let's assume that all users only pay the absolute minimum 120 EUR in 2022 growing slightly to 130 in 2023.

	2022	2023
Subscribers	90.000	120.000
ARPU	120	130
Revenue	10.800.000	15.600.000
Gross margin %	90%	90%
Gross profit	9.720.000	14.040.000
EBIT %	80%	80%
EBIT	8.640.000	12.480.000
EBIT Multiple	20	20
EpsilonSmart Value	**172.800.000**	**249.600.000**

[13]

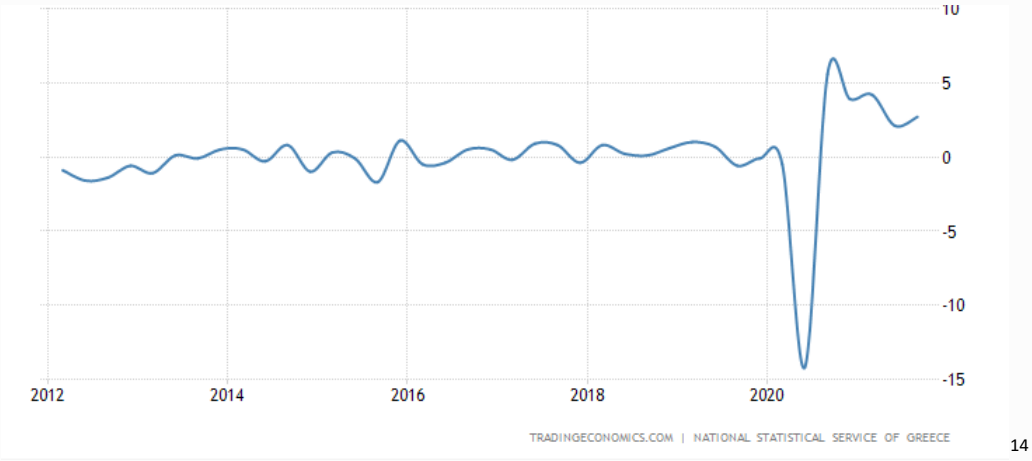
On a gross profit level EpsilonSmart is a pure cloud solution build on top of Microsoft Azure. It should run with +90 % gross margins. The product is to some extend a carveout/light version of existing Epsilon products and does not command a lot of ongoing R&D (main focus is to initially capture the market and upsell to higher ARPU Epsilon products over time). While Epsilon ran a national marketing campaign during the Q4 rollout period we don't expect much marketing going forward. We thus expect EpsilonSmart to command extremely high 80 % FCF margins or flowthrough as all the fixed costs are born by the existing Epsilon team.

At a 20x free cash flow multiple we think EpsilonSmart alone could be worth close to 250 million EUR or around 4,6 per EUR per share.

[13] Symmetry Invest estimates

EU stimulis program

As most people from Europe probably know, the Greece economy have been in a slump basically since the great financial crisis. Covid didn't help as the country is heavily dependent on tourism. Most people within the financial community probably also remember the debt crisis in 2011 where bondholders needed to take a haircut and the IMF had to lend money to the country.



[14]

The GDP growth in Greece has been staying around 0 % a year from 2011 to 2019 before Covid delivered a hit to the Economy. Greece is expected to have a rebound this year and expand at a faster pace afterwards.

With this in mind it's even more impressive that Epsilon managed to compound revenue at a 15 % CAGR from 2016 to 2020

Post Covid the EU introduced huge stimulis programs to help the membership countries rebound from Covid:

'Greece 2.0': The Plan for Greek Economic Recovery Explained (greekreporter.com)

In Greece especially the program is targeted for digital adoption.

– Ensuring the interconnection and interoperability of systems and individual registers and individual applications between public bodies.

– Information system for the management of transactions of the Public Administration with the citizens and businesses.

– Investments to battle tax evasion, which include further digitization of tax services, codification and modernization of tax legislation, actions against smuggling and the use of artificial intelligence to facilitate tax audits, enhance electronic transactions, etc.

– Digital transformation of companies, with the acquisition of equipment, cloud services and internet services, such as new electronic payment technologies, electronic invoicing, remote work, digital office, etc.

[14] https://tradingeconomics.com/greece/gdp-growth

There are several of the EU programs that is relevant for Epsilon. Indirectly the support of 5G rollout will support further Cloud adoption (as some businesses prefer on-premise due to bad ethernet connections). Also, the digital transformation of the public sector will help indirectly (more digital government programs) and directly from projects with their JV with Space Hellas.



The big piece is about digitalization of businesses. As we understand it this program is split into some pieces but the big part of it is around supporting software spending. As we understand the program, beginning in march 2022 businesses can invest up to 5.000 EUR into software (and software related consulting) and get 50 % of their spend refunded (up to 2.500 EUR per company) from the EU program.

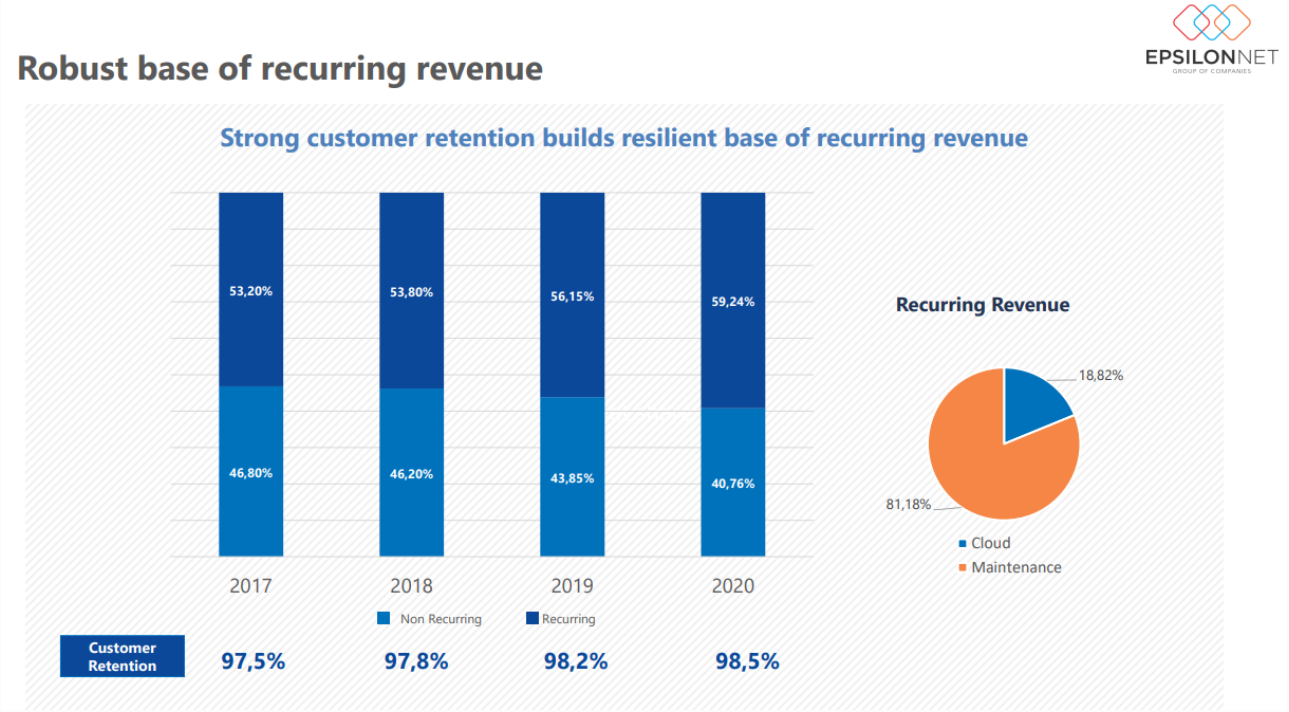
As Epsilon is the biggest software provider to Greek businesses, we think they can take a big piece of this program (they already work with accountants, banks etc. to be ready to file applications).

We think this this program could help a lot with cloud adoption as companies can use the program to pay for consulting fees etc. and pay for migration. We think Epsilon can do this in smart ways.

While its impossible to estimate the effect on Epsilon we think there could be some meaningful revenue additions here (remember Epsilon is only a 50 million EUR revenue company in 2021) both short term and longer term.

On-premise to Cloud:

One of the big opportunities for Epsilon over the next few years is the ongoing transformation from on-premise solutions to the cloud. In 2020 it was only 19 % of the recurring revenue base that came from cloud solutions. This has increased some in 2021 and should increase a lot more in 2022/2023 with the addition of EpsilonSmart.



While some would see it as a big negative that the cloud adoption is still somewhat low, we instead see it as a big opportunity for Epsilon over the next few years.

The long-term economics for Epsilon is just much better in Cloud. From what we can understand an average customer that use on-premise will spend around 1.000 EUR upfront and then around 200 EUR per year for service/maintenance. A pure cloud customer will spend on average 400-500 EUR per year. Just by moving customers to the Cloud, Epsilon can move than double the recurring ARR with high incremental flow-through.

Two of the biggest obstacles to Cloud adoption has been a bad network connection and lack of funding. With the EU supporting 5G rollout throughout Greece the connectivity should not be a problem for long. Regarding funding we think Epsilon can use the EU programs smart here. For example, Epsilon can convince a customer to spend 5.000 EUR for a cloud migration project in exchange for rebates the first 6-18 months on the cloud bill. As the EU program reimburse 2.500 of that 5.000 this can be a win-win for both the customer and Epsilon.

Cloud migration would also support the balance sheet and cash generation of Epsilon as its paid upfront. From our talks with management, just on Epsilon Smart close to 99 % of businesses chose the 120 EUR annually instead of 10 EUR pr. month.

M&A

Another interesting part of Epsilon is their ongoing M&A program. As the largest technology player in the country (now 1.000 employees) they are the natural consolidator of adjacent companies and companies that can help them in new verticals.

Date	Target name	% bought	EV paid (for 100%)	Revenue	EBIT	EBIT multiple
11/1 2022	CSA	100%	2,73	2,75	0,38	7,2
11/11 2021	PCS S.A	88%	1,1	2,35	0,48	2,3
14/9 2021	iQom	80%	2,25	1,92	0,71	3,2
7/6 2021	Technolife	60%	0,41	0,7	0,26	1,6
30/11 2020	SingularLogic	99,60%	16,1	N&A	N&A	N&A
27/10 2020	Data Communications	80%	7,8	6	N&A	N&A

[15]

The biggest deals were Data Communications and SingularLogic in 2020 (singularlogic was first consolidated during Q3 2021). While the profitability of Data Communications was not disclosed it was disclosed that it was profitable and that Epsilon could help expand margins. At 1,3x revenue we think it looks cheap as Epsilon had many synergies and the overall margin profile for Epsilon is +25 %.

The 4 recent deals are interesting because they show the potential for Epsilon to acquire smaller adjacent companies for attractive multiples.

- CSA is the leader in IT solutions & Automation systems for pharmacies in Greece with a 50 % market share of the Greece pharmacies.
- PCS is a provider to the financial sector within different applications. This is the first step for Epsilon to move closer toward Fintech players
- iCom is a developer of custom software applications to the retail sector.
- Technolife do customized ERP implementations and applications.

SingularLogic was by far the biggest deal but also the most complicated one to digest. Epsilon bought SingularLogic together with Space Hellas.

SingularLogic was one of the biggest players in the ERP space for both private and public companies. In some ways it was a good competitor to Epsilon but also with a big client base that Epsilon could upsell other services like HR, Payroll etc. into.

[15] Symmetry estimates based on public filings



The way the deal was structured together with Space Hellas was for SingularLogic to be split into two pieces.

The entity targeting public IT projects would be majority owned by Space Hellas with Epsilon keeping a 40 % stake.

the shareholders structure of the Beneficiary Company is **today** as follows:

1) **EPSILON NET S.A.**10,514,925 common shares or **60.00%** stake

2) **SPACE HELLAS S.A.** 7,005,125 shares or **39.972%** stake.

3) **GLOBAL EQUITY INVESTMENTS S.A.** 4,950 shares or **0.028%** stake.

Additionally, in the frame of the implementation of the strategic plan for **SingularLogic** announced on 01.03.2021, **EPSILON NET S.A.**transferred to **SPACE HELLAS S.A.** 902,989 common shares of a nominal value of € 1.00 each, for a total amount of **€930,078.67.**

After this transfer, the shareholders structure of **SingularLogic** is as follows:

1) **EPSILON NET S.A. 39.934%** stake

2) **SPACE HELLAS S.A. 60.000%** stake.

3) **GLOBAL EQUITY INVESTMENTS S.A. 0.066%** stake.

The Entity targeting private companies would be rebranded as “Epsilon Singularlogic” and would be owned 60 % by Epsilon Net and 40 % by Space Hellas.

In the financial segment Epsilon would then have “minority interest” regarding the 40 % income from “Epsilon SingularLogic” but would then in reverse have “financial income from associates” regarding 40 % of the “singularlogic” targeting public entities.

As SingularLogic was slightly larger than Epsilon in the ERP space this was a step-change deal for Epsilon to become the leader here on top of their leadership position in HR and Payroll.

The SingularLogic “Galaxy” product and Epsilon “Pylon” products still work and is branded independently but are being rebuild on the same dataplatform with decent cost synergies to be realized.

One of the great things about Epsilon M&A strategy is that it has been cash-funded. While initially Epsilon took some debt to buy data communications and SingularLogic the operating cash flow of the business is so strong that

Epsilon had around 0 in net debt after Q3. At the same time the dilution to shareholders have been minimal at around 10 %.

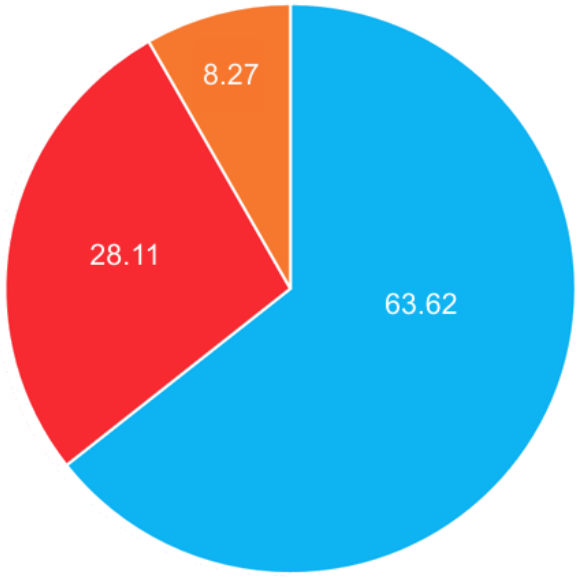
We are looking forward to see what the next M&A deal would be for Epsilon as this management team executes on their buy and build strategy to consolidate the Greece IT-market.

Management

The management team of Epsilon fits the Symmetry framework of investing in founder-led companies.

Shareholder	Number of Shares	Percentage
Ioannis Michos	34,100,000	63.62%
Barca Global Master Fund	4,432,116	8.27%
Others < 5%	15,067,884	28.11%
Total	53,600,000	100.00%

Date 23.11.2021



Epsilon is still led by its founder and CEO Ioannis Michos that controls 63,6 % of the company. With Barca Master Fund having 8,2 % only 28 % of the shares are in free float (of which Symmetry owns a decent chunk).

We think this management team is a perfect match for the Symmetry portfolio. It's a company that care about employees (voted best place to work several times), have the right long-term mindset (invest heavily in R&D) and delivers for shareholders (10x return in just the last few years).

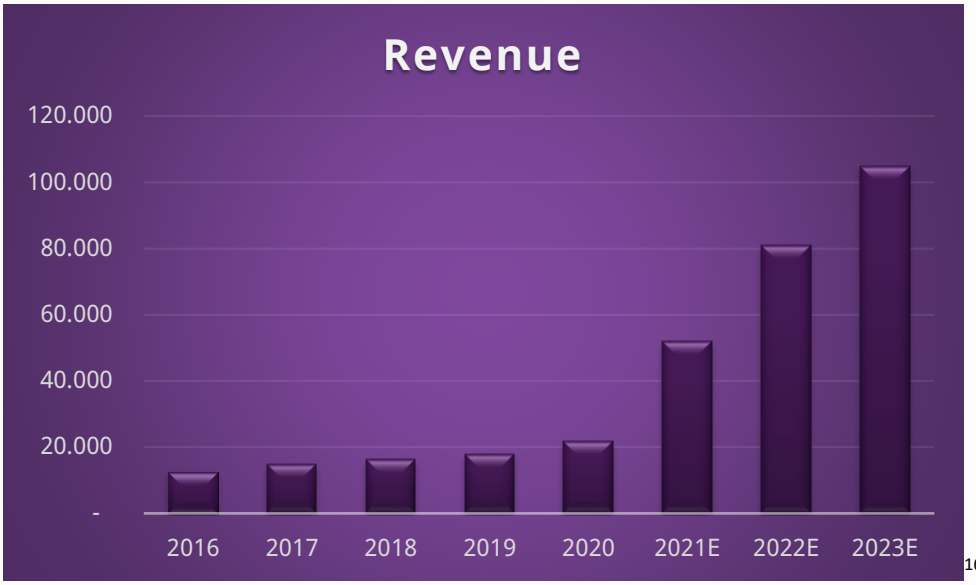
In our conversations with the management team one thing that really hits us is how deeply they care about Greece and want to contribute to making Greece a better place. With their work for government and businesses as well as developing solutions that contribute to better tax collection etc., they see the company as a vehicle to develop the tools that digitalise Greece.

Financials

Epsilon has been on a good growth trajectory over the last few years. From 2016 and until 2019 Epsilon averaged an annual revenue growth of 15 % per year while expanding EBIT margins from 1,4 % to 16,8% corresponding to an EBIT growing at **187 % on average PER YEAR** over that time period.

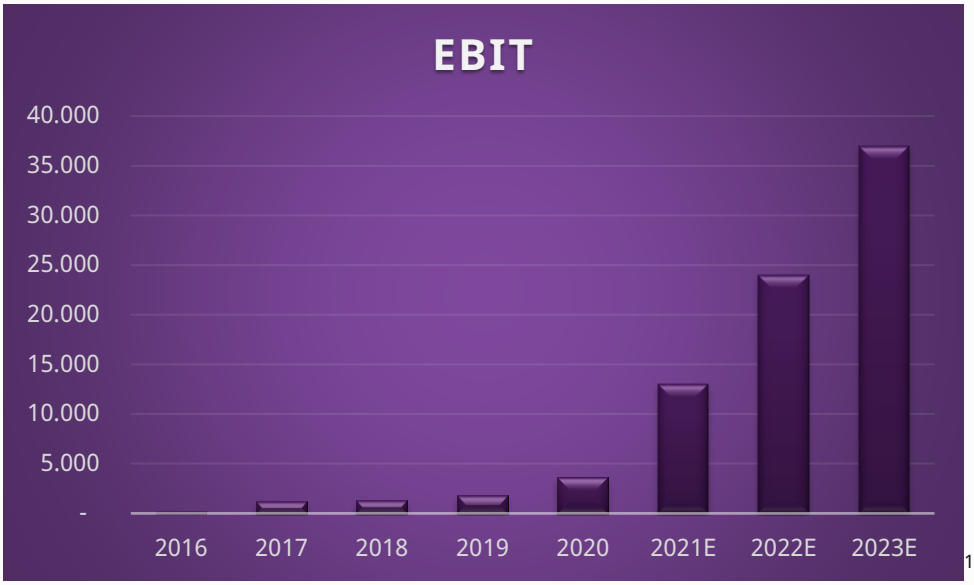
But that was just the beginning. In 2021 and going into the next 2 years the growth of Epsilon is going to accelerate significantly.

In 2021 we expect revenue of around 52 million EUR and EBIT around 13 million EUR (Epsilon already confirmed +50 million for the year). That would be a **growth of 140 % of 258 % YoY** respectively (without any dilution). This has come from +50 % organic growth rate and accretive M&A with good synergies.



[16]

[16] Official numbers + Symmetry estimates



[17]

As shown on the previous page we continue to expect rapid growth from Epsilon over the next few years. We expect a minimum of 80 million EUR in revenue and 26 million EBIT in 2022 growing to 105 and 37 in 2023. From there (2024 onwards) we project more normal 12-18 % growth rates in line with historical numbers. The reasons for the dramatic growth in 2022 and 2023 are the ones we have highlighted in this report mainly:

1) Full consolidation of recent M&A in 2022 and possible more M&A to come
2) Rapid recognition on EpsilonSmart revenue
3) Cloud migration and upsales

We have not included international expansion + more vertical expansion in our estimates.

We have also not included the possible revenue from EU grants in our estimates as its extremely uncertain to what extend Epsilon will benefit from it. If we are right in our suspicion (that Epsilon can use the grants to create a rapid Cloud migration) we would see a lot of additional consulting/software revenue in FY22 (on top of our estimates) followed by accelerating cloud/ARR growth in 2023 and beyond.

Epsilon is conservative regarding capitalising expenses. Basically, all of their R&D runs through the income statement. In 2019 and 2020 they capitalised only 490K and 730K respectively, and below the annual D&A.

Another positive change that is ongoing is regarding the working capital flow. In the past Epsilon normally tied up between 20-25 % of their revenue in working capital as customers in southern Europe not always pay their bills quickly. With the transition to Cloud and EpsilonSmart this is changing rapidly as Epsilon will gradually change to a negative working capital structure with billing upfront and revenue recognition over time. For example, with EpsilonSmart 99 % of customers pay annually (i.e., the company could se a big cash inflow in Q4) with most of revenue recognized in 2022.

As a lot of people knows (especially ones that have studied Fortnox, Visma etc.), penetrating accountants etc. as “resellers” lowers the sales & marketing expenses compared to other SAAS companies and create much better

[17] Official numbers + Symmetry estimates

unit economics. Epsilon only spend 13 % of revenue on “distribution expenses” in FY19 dropping to 11,6 % in FY20. On the other end Epsilon spend 29 % and 31% respectively on R&D investments as they constantly reinvest in the business to drive better products and grow.

		GROUP	
Amounts in €	Note	1.1-31.12.2020	1.1-31.12.2019
Sales	37	**21,696,897.43**	**17,977,982.38**
Cost of Sales	33	(8,768,915.47)	(7,773,931.39)
Gross Profit		**12,927,981.96**	**10,204,050.99**
Other Operating Income	34	166,625.37	55,135.30
Administrative Expenses	33	(343,172.26)	(301,680.19)
Research & Development Expenses	33	(6,268,874.71)	(5,567,945.45)
Distribution Expenses	33	(2,533,281.73)	(2,343,648.85)
Other Operating Expenses	34	(309,065.86)	(291,592.56)
Operating Profit		**3,640,212.77**	**1,754,319.24**
Financial Revenue	35	130,075.19	38,996.68
Financial Expenses	35	(510,647.59)	(391,176.93)
Share of Profit / (Loss) of Associates	10	44,031.86	(34,076.35)
Net Profit before Taxes		**3,303,672.23**	**1,368,062.64**
Income Tax	12	(24,274.63)	40,220.38
Net Profit After Taxes (A)		**3,279,397.60**	**1,408,283.02**

Valuation

At Symmetry we like SAAS companies and technology companies. Especially enterprise SAAS. We understand the power of high retention, upsell, critical infrastructure etc. But we have just never been willing to pay 15-25x revenue for these businesses, especially if they are also heavily burning money.

Epsilon is only trading at 3,7 and 2,8x revenue based on our 2022 and 2023 estimates. A fraction of competitors. And unlike most SAAS businesses Epsilon is also highly profitable. The company is trading at only 14,7x and 9,5x on a pure P/E or FCF basis.

It is quite hard to put a fair value on Epsilon. The first part is that they are still early in their cloud transformation. On one had that is a negative multiple wise. On the other hand, it's also a huge potential. As an EpsilonSmart customer pays 120 EUR a year and an on-prem pays 200 a year a full cloud pays 450-600 a year. The ARR uplift can be extreme the coming years.

	EV/Sales FY22	EV/Sales FY23	P/E 22	P/E 23
Admicon	11,2	9,7	38	31,9
Fortnox	19,9	14,9	73,5	53,6
Xero	13,7	11,2	279	132
Average	**14,9**	**11,9**	**130,2**	**72,5**
Epsilon	3,7	2,8	14,7	9,6
Discount	75,2%	76,5%	88,7%	86,8%
Epsilon (16 EUR)	10,2	8	42	27
Discount	31,7%	33,0%	67,7%	62,8%

[18]

As we can see above Epsilon trades at a huge 75-85 % discount to larger peers in more mature markets (Australia, Sweden, Finland). Based on our estimates Economic and Dinero in Denmark was also bought by Visma at these multiples. As we said earlier Epsilon should trade at a discount as its still earlier and probably also should have a "Greece discount". On the other hand, Epsilon is growing faster (both organic and inorganic) and have margins in line with peers already.

We value Epsilon at 16 EUR per share – that imply a discount of around 50 % to peers (depending if you use revenue or earnings). We still think such a discount is fair and Epsilon would need to be a bigger business with the majority of revenue coming from cloud before they can command a peer multiple.

Looking away from peers and just focusing on the absolute numbers we think 8x revenue and 27x FCF/PE is a fair 2023 multiple. Especially thinking about the growth runway, upsell opportunities etc. that would still exist for the company post 2023.

Our 16 EUR target would imply 202 % upside to the current prize and around 75 % annualised 2-year shareholder return

[18] 4-traders consensus numbers for competitors and Symmetry estimates for Epsilon