ESPIRITO SANTO INVESTMENT BANK
Research

Initiation of coverage | 28 March 2012

Sygnity

Ugly Duckling

We initiate coverage on Sygnity with a BUY rating and a Fair Value of PLN 28 (27% upside potential). From being one of the Polish IT market leaders, Sygnity found itself in severe financial difficulties in 2008-09 due to poor quality revenues, overstaffing and high debt. Although Sygnity has been restructuring itself over the past three years, the bottom line has stayed in the red and Sygnity has disappointed the market many times by not meeting its targets. As a result, market sentiment towards the stock has understandably been negative. However, we think Sygnity has turned a corner, starting with the appointment of new management in 2010 and several other positive changes. First, the cost base has been optimized and, in our view, is now under control (SG&A ratio of 15.6% in 2011 vs 23.9% in 2010). Second, net debt has been materially reduced to PLN 20m in 4Q11 from PLN 93m in 1Q08. Third, the top-line has started to grow (+8% yoy in 2011) and, following a period of defending its market share, Sygnity has started to win new contracts and regain its competitiveness against other IT companies in Poland, including Asseco Poland. Lastly, Sygnity is moving into new areas – we note the company's recent agreement with Huawei and the launching of a new product segment (Quatra) dedicated to SME clients.

In our view, Sygnity's successful cost restructuring, regaining market share and development into new areas may have led to Asseco Poland's hostile takeover bid for the company. Although we note that Sygnity has underperformed in the past, we see it as a turnaround story now with above-average top line and bottom line dynamics in the coming years (revenue and net income 2011-14E CAGR of 6.7%/60.9% vs 5.6%/11.3% for international IT peers respectively on Bloomberg consensus estimates). Hence, we think that Asseco's offer at PLN 21 per share is far too low as it does not include the usual takeover premium that a strategic investor might be expected to pay (especially given the potential size of post-acquisition synergies) and our fair value of PLN 28. We would recommend investors not accept the offer at PLN 21.

Asseco Poland has placed a hostile bid of PLN 21 per share

On 22 February, Asseco Poland (BUY, FV PLN 57.4) placed a hostile takeover bid for 100% of Sygnity shares at PLN 21 per share. The subscription period started on 12 March and ends on 10 April 2012. The take-over bid would become effective if Asseco Poland manages to buy 66.7% of Sygnity's shares. For now, Asseco Poland has said that the offer is final and it will not raise the price. We see the logic behind the offer as combined Sygnity and Asseco Poland would be a much stronger market player – not only in Poland but also in the CEE region. However, based on our FV for Sygnity and the potential size of synergies (such as headcount reduction, financial costs, office space and possibly better execution of a frame agreement with Huawei), in our view the bid is visibly too low.

Management guidance vs our expectations

Following 4Q11 results, management maintained 2012 guidance for revenues of PLN 650-700m and an EBIT margin of 5-7%. However, a few days ago, management downgraded guidance to PLN 580-620m and kept the EBIT margin at 5-7%. This resulted from Asseco's hostile bid, which prevented the company from signing new contracts and also delayed ongoing ones. Sygnity expects the frame agreement with Huawei to deliver PLN 30-50m of sales in 2012 and the recently launched Quatra product line around PLN 10m. We expect revenues of PLN 600m and an EBIT margin of 4.1%. Keeping in mind Sygnity's limited presence both abroad and in the ERP/SME market, we expect Huawei and Quatra to deliver PLN 10m and PLN 3m of revenues in 2012E, respectively.

Regaining market share

According to our estimates, the total value of tenders/contracts won and announced by Sygnity in 2011 amounted to PLN 291m versus PLN 150m in 2010. Sygnity has not announced any major contract in 2012 to date, but recently placed the best offer in the tender for the eHealth project of PLN 80m.

BUY 27% upside

Fair Value	PLN 28
RIC, Bloomberg Code	**COMW.WA, SGN PW**
Share Price (26/03/2012)	PLN 22.1
Market Capitalisation (m)	PLN 263
Free Float	100%

Source: Reuters, Bloomberg, Espírito Santo Investment Bank Research for estimates.

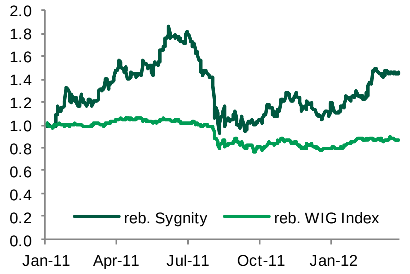
Year to Dec, PLN	2010A	2011A	2012E	2013E
Revenues m	524	566	600	648
EBITDA m	-7	23	40	49
EPS	-3.6	0.7	1.5	2.3
Recurrent EPS	-3.2	0.7	1.5	2.3
DPS	0.0	0.0	0.0	0.0
FCF per share	-0.4	-0.8	0.4	1.7
EV m	186	234	277	257
Net Debt m	7	20	14	-5
Net Debt/Ebitda (x)	-1.0	0.8	0.4	-0.1

Source: Company data, Espírito Santo Investment Bank Research for estimates.

At Current Price:	2010A	2011A	2012E	2013E
Recurrent PE (x)	-4.7	26.2	14.6	9.7
EV/Ebitda (x)	-71.8	10.0	7.0	5.3
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
At Fair Value:	**2010A**	**2011A**	**2012E**	**2013E**
Recurrent PE (x)	-4.2	26.2	18.5	12.3
EV/Ebitda (x)	-24.8	10.0	8.8	6.7
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%

Source: Company data, Espírito Santo Investment Bank Research for estimates. Actual results based on year end prices

RELATIVE MARKET PERFORMANCE



Source: Bloomberg

Analyst

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Summary Financial Information

Sygnity

Rating	**BUY**
Fair Value (PLN):	**28.0**
Share Price (26/03/2012, PLN):	22.1
Upside / Downside potential	27%
Bloomberg	SGN PW
Reuters	COMW.WA

Shares in Issue (Less Treasury)(m)	11.9
Market Cap (PLN m)	**263**
2011 Net Debt (PLN m)	20
Adjustments for Associates & Minorities (PLN m)	2
Enterprise Value (PLN m)	**285**

Forthcoming Catalysts

End of hostile takeover bid at PLN 21	10th April 2012

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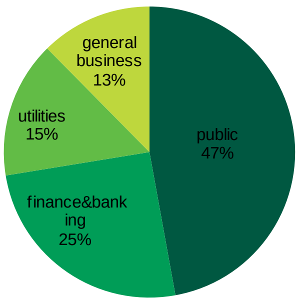
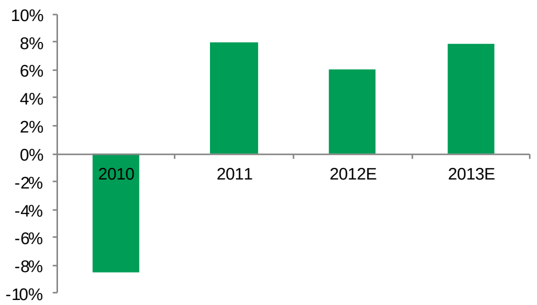
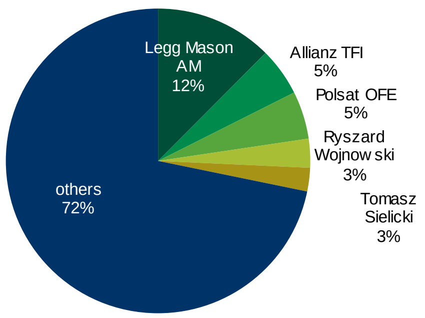
Revenues Breakdown (2011)



Revenues YoY Growth



Shareholder structure (end 2011)



Valuation Metrics (Year end Dec)	2010	2011	2012E	2013E	2014E
Recurrent P/E (x)	(4.7)	26.2	14.6	9.7	7.6
Reported P/E (x)	(4.2)	26.2	14.6	9.7	7.6
EV / Sales (x)	0.4	0.4	0.5	0.4	0.3
EV / EBITDA (x)	(24.8)	10.0	7.0	5.3	4.0
EV / EBIT (x)	(5.4)	29.2	11.2	7.6	5.5
FCF Yield (%)	-2.7%	-4.7%	2.0%	7.5%	10.7%
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	100.0%

Key Ratios	2010	2011	2012E	2013E	2014E
EBITDA margin	-1.4%	4.1%	6.7%	7.8%	8.8%
EBIT margin	-6.5%	1.4%	4.1%	5.2%	6.1%
Capex / Revenue (x)	0.0	0.0	0.0	0.0	0.0
Capex / Depreciation (x)	0.4	0.9	1.1	1.1	1.1
Net Debt / EBITDA (x)	(1.0)	0.8	0.4	(0.1)	(0.6)
EBITDA / net interest (%)	1	-3	-8	-13	-15
ROE	-18.9%	3.6%	7.5%	10.6%	12.2%

P&L Summary (PLN m, unless stated)	2010	2011	2012E	2013E	2014E
Revenue	**524**	**566**	**600**	**648**	**688**
% change	-8.5%	8.0%	6.1%	7.9%	6.2%
EBITDA	**(7)**	**23**	**40**	**49**	**57**
% change	-87.6%	-412.4%	69.4%	23.3%	16.8%
% margin	-1.4%	4.1%	6.7%	7.8%	8.8%
Depreciation & Amortisation	(27)	(15)	(15)	(15)	(15)
EBIT reported	**(34)**	**8**	**25**	**34**	**42**
EBIT adjusted	-29	8	25	34	42
% margin	-5.6%	1.4%	4.1%	5.2%	6.1%
Net Financials	(9)	(6)	(5)	(4)	(3)
Other Pre-tax Income	(0.4)	(0.2)	0.0	0.0	0.0
Pre-Tax Profit	**(44)**	**2**	**20**	**30**	**38**
Income Tax Expense	1	6	(2)	(3)	(4)
Discontinued Operations	0.0	0.0	0.0	0.0	1.0
Minority Interests	0.0	0.0	0.0	0.0	1.0
Net Income	**(43)**	**8**	**18**	**27**	**35**
Recurrent Net Income	(38)	8	18	27	35
Reported EPS (PLN)	(3.6)	0.7	1.5	2.3	2.9
Recurrent EPS (PLN)	**(3.2)**	**0.7**	**1.5**	**2.3**	**2.9**
DPS (PLN)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Payout Ratio	0%	0%	0%	0%	100%
Shares in Issue (Less Treasury) (m)	11.9	11.9	11.9	11.9	11.9

Cash Flow Summary (PLN m)	2010	2011	2012E	2013E	2014E
Net income	(44)	2	18	27	35
D&A	27	15	15	15	15
Change in Working Capital	(22)	(21)	(10)	(5)	(4)
Other Operating Cash Flow	11	7	0	0	0
Operating Cash Flow	**5**	**4**	**22**	**37**	**45**
Capital Expenditure	(10)	(14)	(17)	(17)	(17)
Free Cash Flow	**(5)**	**(10)**	**5**	**20**	**28**
Acquisitions & Disposals	3	1	0	0	0
Dividend Paid to Shareholders	0	0	0	0	0
Equity Raised / Bought Back	0	(5)	0	0	0
Other Financing Cash Flow	(4)	(56)	0	0	0
Net Cash Flow	**(5)**	**(52)**	**5**	**20**	**28**

Balance Sheet Summary (PLN m)	2010	2011	2012E	2013E	2014E
Cash & Equivalents	71	20	25	45	73
Fixed Assets	224	231	232	234	237
Associates & Financial Investments	2	1	0	0	0
Other Assets	193	206	224	241	255
Total Assets	**488**	**438**	**465**	**504**	**548**
Interest Bearing Debt	74	36	36	36	36
Other Liabilities	186	170	189	210	227
Total Liabilities	**260**	**206**	**225**	**245**	**262**
Shareholders' Equity	225	230	238	256	283
Minority Interests	2	2	2	2	2
Total Equity	**227**	**232**	**240**	**258**	**286**
Net Debt	7	20	14	(5)	(33)

Source: Company data, Reuters, Bloomberg, Espirito Santo Investment Bank Research for estimates

Hostile takeover bid by Asseco Poland

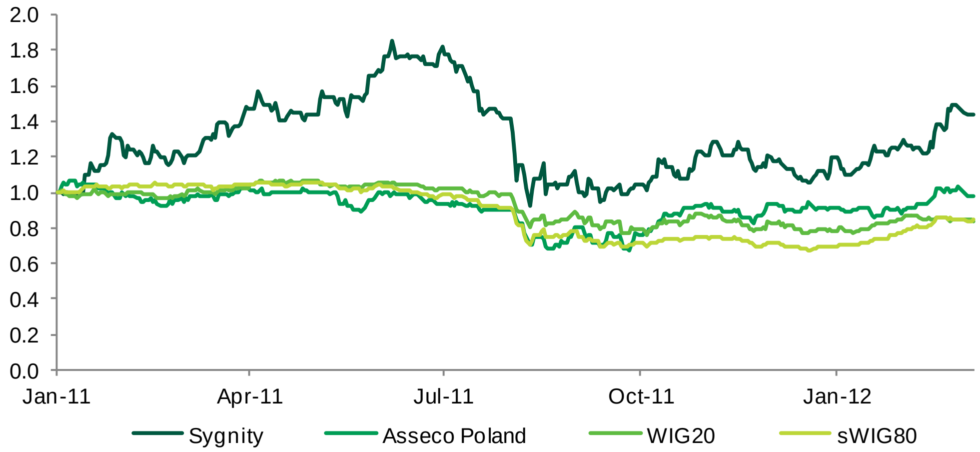
Details of the tender

On 22 February, Asseco Poland placed a hostile takeover bid for 100% of Sygnity's shares at PLN 21 per share which implies a market cap of PLN250m – a mere 2% above the closing market price on that day. The subscription period started on 12 March and ends on 10 April 2012. The takeover bid would become effective if Asseco Poland manages to buy 66.7% of Sygnity's shares. For now, Asseco Poland has stated that the offer is final and it will not raise the price.

Asseco Poland has stated that it believes that the offer price should be very attractive for current shareholders, as it offers an 18% premium to the average price for the past three months and a 22% premium to the six-month average, while the implied P/E based on 2011 results is 30x – much higher than Asseco Poland's current 2012E P/E of 10.3x on our and 10.4x on Bloomberg consensus estimates.

Although the takeover bid price for Sygnity implies double-digit premiums to the stock's three- and six-month average prices, it is important to keep in mind that the past six months have seen turbulence in financial markets, with a strong sell off in global markets – including Poland (especially for low-liquidity small and mid caps). Sygnity's share price dropped from the PLN 26-28 level in June-July 2011 to as low as PLN 14 (-50%) during this stock selloff. At the same time, Asseco's Poland's share price fell to PLN 35 from PLN 50 (by 30%). The stronger selloff in Sygnity reflects its lower liquidity. In general, the WIG80 experienced a much stronger selloff than the WIG20 index. Both Sygnity and Asseco Poland share prices have already recovered the losses from the 2011 Autumn selloff.

SYGNITY: RELATIVE PERFORMANCE VS ASSECO POLAND AND WIG INDEX



Source: Bloomberg.

We do not agree with Asseco's argument that the takeover bid implies a substantial premium or that it makes sense to compare Sygnity's P/E based on past rather than future results. In our view, comparing the takeover bid based on past multiples only makes sense for companies with already stable financials that have delivered relatively consistent results for several years and look likely to continue to do so in the future – which does not sum up Sygnity's situation.

Sygnity's story is different. Sygnity is currently regaining its market position after several years of poor performance, while the company's optimized cost base and new product portfolio suggest to us that results should continue to improve. Management guidance for 2012 assumes that revenues will grow to PLN 580-620m (+2.5-9.5% yoy) and the EBIT margin should double to reach 5-7% vs 1.4% in 2011. Sygnity's stock option plan assumes 2012 net income of PLN 30m, which would imply a P/E of 8.3x at Asseco's PLN 21 takeover bid price. We do not expect Sygnity to be able to deliver PLN 30m of net income in 2012 (we forecast PLN 18m), but we do expect a visible bottom-line improvement. We see Sygnity as a turnaround story, which is also reflected in a CAGR 2011-14E that is much better for Sygnity than for Asseco Poland or its other IT peers on EBIT and bottom-line on consensus estimates (see the table below). As a result, we think that forward – not past – multiples should be used to determine an appropriate takeover offer price for Sygnity.

SYGNITY P/E MULTIPLE BASED ON ASSECO POLAND BID, CONSENSUS AND ESIBR ESTIMATES

	P/E			CAGR 2011-2014E			
	2011	2012E	2013E	Revenues	EBITDA	EBIT	net income
Sygnity							
P/E at PLN 21	30.5	13.9	9.2				
P/E at ESIB est*	32.1	14.6	9.7				
P/E at consensus*	32.1	12.0	9.0				
Sygnity (cons)				6.7%	23.1%	61.9%	39.3%
Sygnity (ESIB est)				6.7%	34.2%	72.6%	60.9%
Asseco Poland (ESIB)				3.1%	3.9%	4.7%	3.3%
Polish IT peers (cons)				5.1%	12.5%	n.a.	22.0%
International IT peers (cons)				5.6%	10.8%	12.8%	11.3%

Source: Bloomberg consensus estimates, Espirito Santo Investment Bank research for estimates. * based on 26/03/2012 price of PLN 22.1

What is the attraction of Sygnity?

Asseco Poland commented in the takeover note that the main rationale behind its takeover bid is further development of the Asseco Poland group. Asseco adds that the takeover of Sygnity would strengthen Asseco's market position in the Public, Banking, Energy and Corporate segments and increase its competitive position versus global IT players in the Polish market. Asseco Poland says it believes that the transaction would have a beneficial impact on employee development and exchange of know-how.

However, we think that Sygnity is attractive because it has started to regain market share and become a source of real competition, especially in the buoyant public sector. The frame agreement signed with Huawei may also be a draw as this agreement assumes expansion into the Balkans region, where Asseco Poland operates through Asseco South Eastern Europe.

What might the potential synergies be?

Apart from removing competition and consolidating its revenues, client base, contacts and products, a takeover by Asseco Poland could lead to the monetization of synergies (which look substantial, in our view), keeping in mind the fact that Asseco Poland and Sygnity operate in the same market and compete for more or less for the same contracts. In our view, there are at least four areas of potential synergy:

- **Headcount optimization** – We think further headcount reductions would be highly likely, bearing in mind the degree of overlap between Sygnity and Asseco Poland's operations. We might expect to see reductions in backoffice headcount, as it would not have to be doubled after a potential acquisition. The consolidation of contracts within client segments, especially in the Public and Finance & Banking sectors would enable better utilization of headcount and its reduction and optimization as a result. Sygnity currently employs around 1,700 people, with an average salary of PLN 7,500 – hence, every 100 headcount cut reduces costs by PLN 9m a year. And we think that the headcount reduction potential is rather a multiplication of that 100 figure.
- **Office space –** The new group would also likely need less office space. In 1H2011, Sygnity leased around 5,600 square metres in Kopernik Office on Al. Jerozolimskie in Warsaw. Sygnity has not disclosed the rental cost, but on our estimates it could amount to EUR 15-17/m2 plus a maintenance fee of PLN 18/m2. Hence, total yearly rental costs could amount to PLN 5-6m.
- **Financial costs** – Due to its recent financial difficulties, Sygnity is paying a very high yield on its bonds, although recently issued bonds worth PLN 60m reduced the yields

to 500bps (from 800-900bps previously), they are still relatively high. The company's yearly cost of bond interest is PLN 5m. Asseco Poland has a very strong financial position with net cash of PLN 370m (4Q11). As part of the Asseco Poland group, Sygnity could potentially refinance its debt at much lower yields – or the debt could theoretically be repaid by Asseco Poland, thereby eliminating the PLN 5m yearly bond interest costs entirely.

- **Better utilization of the agreement with Huawei** – Because of Asseco Poland's existing presence in the Balkans and other European countries, we think Sygnity would be able to generate more revenues from its frame agreement as part of Asseco, but it is hard to estimate how significant such revenues could be.

To quantify the potential size of cost cutting synergies and their impact on valuation we created three different scenarios for the scale of synergies for Asseco Poland: a conservative, base-case and an aggressive one (seen below in the table).

In the conservative scenario we assume that Asseco Poland would decrease headcount by 200 people, which should deliver around PLN 18m of lower headcount costs a year. In addition, we also assume that Sygnity would be able to reduce interest on bonds by 100bps or just reduce the debt balance, which in total could cut financials costs by PLN 1m a year. Lastly, we expect that a lower headcount and further office space optimization could reduce rental costs by PLN 1m. We also assume full generation of those cost cutting measures by 2013. We discount these savings by Sygnity's forecast WACC (also used in our DCF model). We believe that a conservative scenario would not negatively affect revenues; this scenario just assumes good optimization measures. In a conservative scenario, the total value of discounted cost cutting synergies amounts to PLN 121m (or PLN 10.2 per share), which is around half the current market cap of Sygnity and half of the value at which Asseco Poland proposes to take over Sygnity.

Sygnity: Scale of potential synergies in the conservative scenario

Synergies (PLN m)	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Headcount (cut by 200)		18	18	18	18	18	18	18	18	18
Financial costs (margin cut by 100bps)		1	1	1	1	1	1	1	1	1
Office space		1	1	1	1	1	1	1	1	1
Discounted synergies										
Discount factor	*0.92*	*0.83*	*0.75*	*0.67*	*0.60*	*0.54*	*0.49*	*0.44*	*0.40*	*0.36*
Headcount (cut by 200)		14.9	13.4	12.1	10.9	9.8	8.8	7.9	7.1	6.4
Financial costs (margin cut by 100bps)		0.8	0.7	0.7	0.6	0.5	0.5	0.4	0.4	0.4
Office space		0.8	0.7	0.7	0.6	0.5	0.5	0.4	0.4	0.4
PV of 2012-2021E savings		101								
PV RV savings		20								
TOTAL		**121**								

Source: Espirito Santo Investment Bank Research for estimates

In the base-case scenario, we assume Asseco Poland could potentially reduce headcount by 300 people (PLN 27m of yearly savings), reduce the cost of financing by another 200bps (PLN 2m of yearly savings) and better optimize office space, also as a result of reduced headcount (PLN 2m of yearly savings). However, in this scenario, a stronger headcount reduction could also come from cancellation of some ongoing contracts or not signing new ones in an area where Sygnity and Asseco's expertise overlap heavily. This could have a negative impact on Sygnity's revenues and EBIT line, which we put at 10% lower, also reducing the net-net effect of total savings or impact on FCF.

The net-net effect of discounted synergies and negative impact on EBIT amounts to PLN 128m or PLN 10.8 per share and is relatively close to the first conservative scenario.

Sygnity: Scale of potential synergies in the base-case scenario

Synergies (PLN m)	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Headcount (cut by 300)		27	27	27	27	27	27	27	27	27
Financial costs (margin cut by 200bps)		2	2	2	2	2	2	2	2	2
Office space		2	2	2	2	2	2	2	2	2
Discounted synergies										
Discount factor	*0.92*	*0.83*	*0.75*	*0.67*	*0.60*	*0.54*	*0.49*	*0.44*	*0.40*	*0.36*
Headcount (cut by 300)		22.4	20.1	18.1	16.3	14.7	13.2	11.9	10.7	9.6
Financial costs (margin cut by 200bps)		1.7	1.5	1.3	1.2	1.1	1.0	0.9	0.8	0.7
Office space		1.7	1.5	1.3	1.2	1.1	1.0	0.9	0.8	0.7
Impac on EBIT (-10%)		-3.4	-4.2	-4.9	-5.0	-5.1	-5.2	-5.4	-5.5	-5.6
PV of 2012-2021E savings	113									
PV RV savings	15									
TOTAL	**128**									

Source: Espirito Santo Investment Bank Research for estimates

In the aggressive scenario, we assume even stronger cuts. This is based on the fact that: (a) Asseco Poland has launched a hostile takeover bid with the main intention of eliminating competition; (b) Asseco and Sygnity's businesses visibly overlap in the public segment; and (c) Asseco Poland has its own integrated IT division, which would not require all of Sygnity's workforce.

In this aggressive scenario, we assume that Asseco Poland would be able to reduce Sygnity's headcount by 500 people (from a 1,700 total headcount base at the end of 2011). This should deliver around PLN 45m of yearly headcount costs savings. Also in this scenario we assume Asseco Poland fully refinances Sygnity's expensive debt, which could deliver around PLN 5m in lower financial costs per year. Finally, such a strong headcount reduction could result in Sygnity's remaining workforce relocating to Asseco's new office in Wilanow, which could reduce rental costs by PLN 5m a year. However, such a strong downscaling of Sygnity's organization and removal of any business overlap would also negatively affect the revenue base and EBIT. We estimate the scale of this negative impact could amount to 30%, meaning that in this scenario Sygnity would generate around PLN 400-450m of yearly revenues, not PLN 600-650m as we currently expect. The total net-net effect on synergies and downscaling could amount to PLN 154m or PLN 13 per share.

Of course, Sygnity as a standalone would not able to carry out such a high level of cost cutting. This is the advantage of a strategic investor operating in the same segment/market and why a strategic investor is usually able and offers to pay a substantial takeover premium.

Sygnity: Scale of potential synergies in the aggressive scenario

Synergies (PLN m)	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Headcount (cut by 500)		45	45	45	45	45	45	45	45	45
Financial costs (refinanced by Asseco)		5	5	5	5	5	5	5	5	5
Office space (moved to Asseco headquar		5	5	5	5	5	5	5	5	5
Discounted synergies										
Discount factor	*0.92*	*0.83*	*0.75*	*0.67*	*0.60*	*0.54*	*0.49*	*0.44*	*0.40*	*0.36*
Headcount (cut by 500)		37.3	33.5	30.2	27.2	24.5	22.0	19.8	17.8	16.0
Financial costs (refinanced by Asseco)		4.1	3.7	3.4	3.0	2.7	2.4	2.2	2.0	1.8
Office space (moved to Asseco headquar		4.1	3.7	3.4	3.0	2.7	2.4	2.2	2.0	1.8
Impact on EBIT (-30%)		-10.1	-12.5	-14.6	-14.9	-15.3	-15.7	-16.1	-16.5	-16.9
PV of 2012-2021E savings	146									
PV RV savings	7									
TOTAL	**154**									

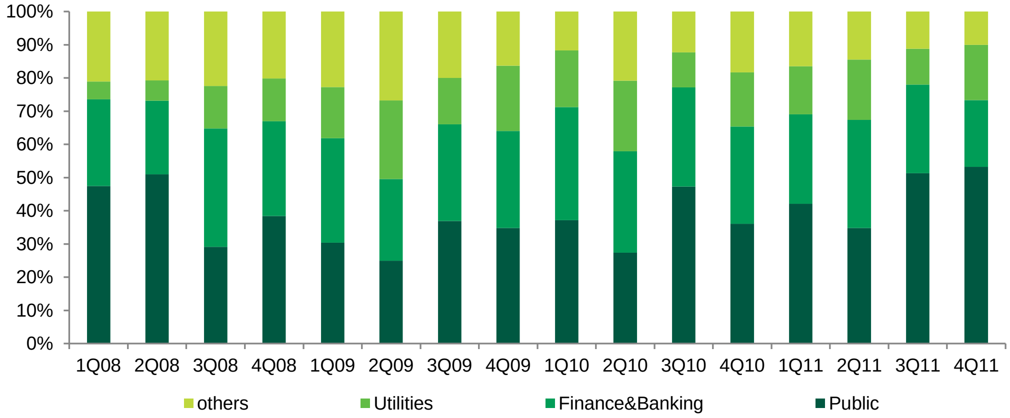
Source: Espirito Santo Investment Bank Research for estimates

All in all, we think that should the bid be successful, a potential takeover of Sygnity by Asseco Poland would create a much stronger market player – not only in Poland, but also in the CEE region. However, we think the takeover bid price of PLN 21/share does not reflect Sygnity's current fair value or its future prospects. Keeping in mind Sygnity's current value and the size of potential synergies, we think the bid looks too low. As a result, we think that the bid for Sygnity will be unsuccessful unless Asseco Poland materially increases the price.

The past and the present

It is difficult to identify a single cause for Sygnity's financial problems in 2008-09. Rather, we see three factors that, combined, led to significant problems. The first was the low quality of Sygnity's revenues. Sygnity generated PLN 1.2bn of sales in 2007, but a large share of this was generated on contracts with low margins or dedicated to one client without the opportunity for further distribution/resales. More importantly, many of these projects were in the public sector and thus Sygnity could not break the contracts without risking exclusion from future tenders. Often, poor contract terms also led to some changes in the scale of the works that increased contract costs and further hampered profitability.

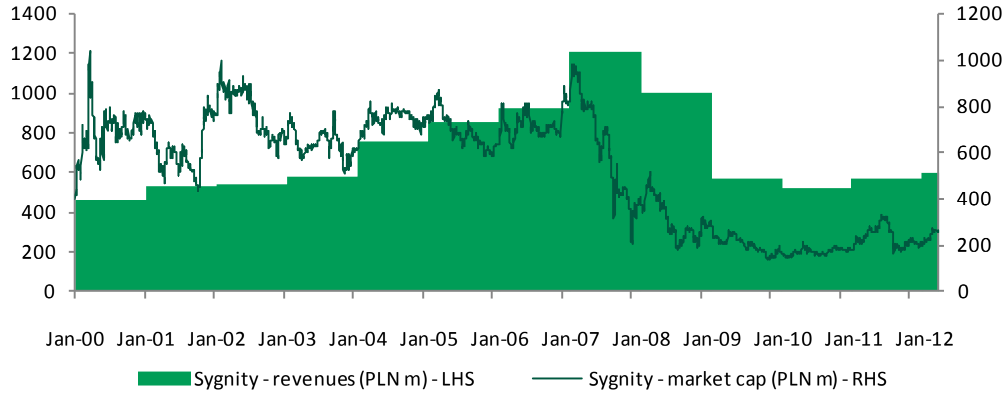
Sygnity: Revenue structure by segments, 1Q08-4Q11



Source: Sygnity.

The overstaffed organizational structure had a further negative impact at the EBIT line when the top line started to shrink. In addition, the bottom line was further burdened by significant debt, which was needed to finance the company's working capital. To summarize, we identify three elements behind Sygnity's past weakness: poor quality of revenues, an ineffective organizational structure and a large amount of debt.

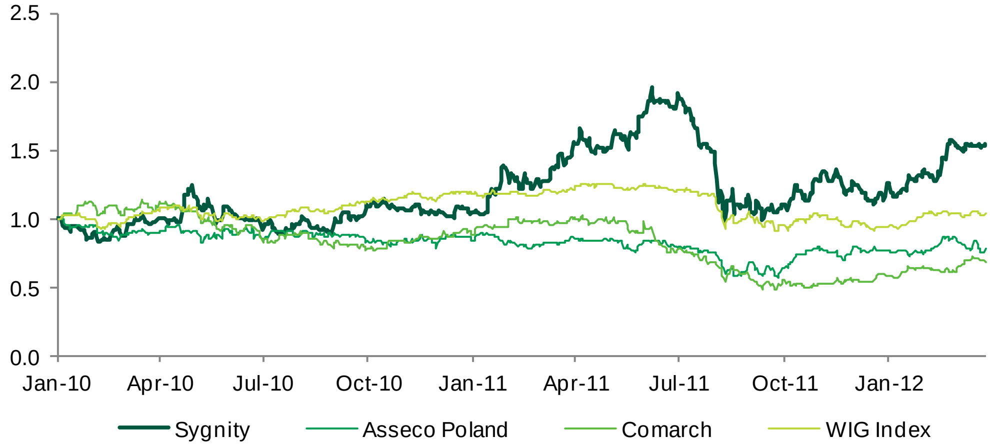
Sygnity: Revenues and share price performance, 2000-2012 YTD



Source: Sygnity, Bloomberg.

Much has changed since then and, in our view, the worst is now behind the company – revenues have bottomed in 2010, costs and the organizational structure have been optimized and debt appears to be under control (net debt at PLN 20m as of YE 2011 vs PLN 116m in 2007). Sygnity is now in a much better position versus 2-3 years ago and looks ready to focus on growth. We do not see it as simple investment case as there may be some legacy issues but in our view the overall picture is now positive.

Sygnity: Relative performance vs WIG Index, Asseco Poland, Comarch, 2010-2012

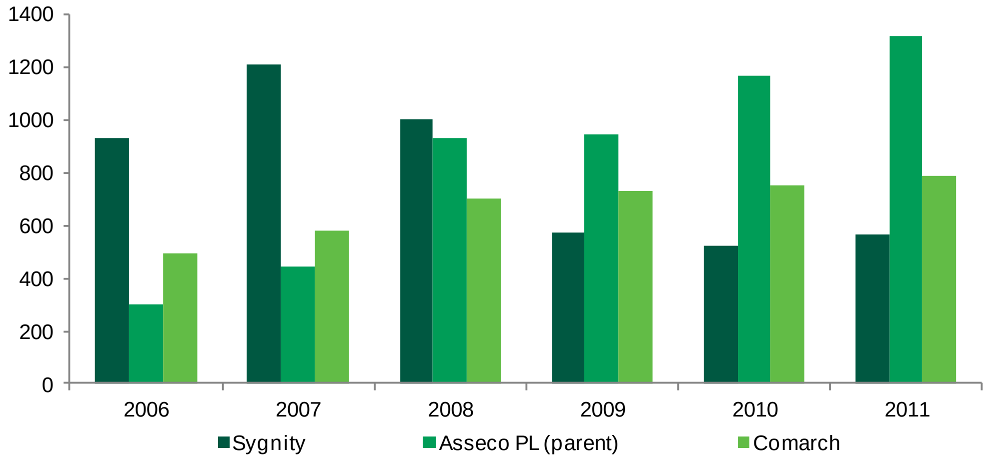


Source: Bloomberg.

Regaining market share

Sygnity was previously one of the market leaders in the Polish IT market, outpacing Asseco Poland and Comarch in terms of revenues. As we describe above, Sygnity's top line more than halved in 2010 vs 2008. However, revenues appear to have bottomed in 2010 (PLN 524m), growing 8% to PLN 566m in 2011.

Polish IT: Revenue development, 2007-2011, PLN m



Source: Sygnity, Comarch, Asseco Poland.

We see some room for top-line growth in the coming years, as the company: (a) regains its competitive advantage in existing markets; (b) develops new products (Quatra); and (c) expands abroad based on its alliance with Huawei.

Regaining lost ground

An analysis of the amount and value of won contracts/tenders announced by Sygnity since 2010 indicates that the company has started to regain competitiveness in its domestic market. As can be seen in the table below, the total value of tenders/contracts won (and announced by Sygnity) in 2010 reached PLN 150m. This amount almost doubled in 2011 to reach PLN 291m. In 2012, Sygnity has not yet announced a major contract, but it recently placed the best offer in the tender for the eHealth project of PLN 80m, and it is very likely that the contract will be signed soon, in our view.

SYGNITY: CONTRACTS WON AND ANNOUNCED SINCE 2010

When signed	Client	Contract	Timeline	Value (PLN m)
???	Ministry of Health	eHealth	26 months	79.5
29.02.2012	TU Inter Polska	installation of TIA Solution insurance system		~10
30.12.2011	Tauron	Microsoft Corporation license and maintenance	3 years	36.2
21.12.2011	Ministry of Justice	maintenance of Register	2 years	8.5
8.11.2011	PFRON	maintenance of SODiR system		18.0
3.11.2011	Lubuskie county	development of eGov office for Lubuskie county		22.4
	NFZ	Oracle license w ith maintenance		5.7
6.09.2011	State Treasury	Netw ork hardw are	1 year	80.0
10.08.2011	Ministry of Interior Affairs	pl.ID	until 30.06.2012	19.9
08.08.2011	City of Wroclaw	construction of IT education system		15.0
15.07.2011	Ministry of Labour	Syriusz	until 30.06.2013	30.6
	BZWBK, Lukas Bank, Invest I	multiple contracts for banking sector		20.0
28.06.2011	Post Office	ZST system	end 2013	16.7
20.01.2011	Social Security (ZUS)	development and installation of info portal	end 2013	18.1
TOTAL 2011				**291.1**
8.12.2010	Ministry of Interior Affairs	ePUAP		5.0
23.11.2010	PSE	SIRE system	3 years	18.9
2.11.2010	NFZ	server and softw are installation		2.8
29.07.2010	Ministry fo labour	maintenance of "Pomost" system	2 years	14.0
29.06.2010	NGB	mainenance & modernization of netw ork systems		4.8
21.06.2010	BGK	anti-fraud system		1.6
20.05.2010	Poznan Transport System	integrated IT system	end 2011	6.7
10.05.2010	Statistic Office	development of IT system		18.0
20.04.2010	Statistic Office	in consortium w ith TPSA, to develop mobile solutions		46.5
21.01.2010	Ministry of Interior Affairs	ZMOKU system		31.8
TOTAL 2010				**150.1**

Source: Sygnity.

Outlook

Despite the difficult economic backdrop, the situation in the Polish IT sector does not look gloomy, in our view – particularly in the public sector. Many of the big IT projects related to eGov are sponsored by EU funds and have to start by end-2013. Some of the biggest projects in the pipeline include:

- eHealth – Sygnity already placed the best (and likely winning) bid of PLN 80m; we expect it to sign a contract soon.
- pl.ID – a pl.ID project with a total budget of PLN 370m. Sygnity already submitted its bid and the deadline is 17 April 2012.
- eTax – The Ministry of Finance announced a tender on 25 January 2012 with an estimated budget of PLN 350m. The project will last 96 months (8 years) and bids can be submitted until 12 March 2012. The assessment criteria include: price (40%), system concept (30%) and the method of installation for the system (30%).

Sygnity has stated that it also plans to submit an offer in the tender for the Agriculture Agency (ARiMR), with an estimated contract value of c.PLN 100m. Apart from Sygnity, as direct competitors it is reasonable to assume that Asseco Poland and Comarch might also bid for the contract. The table below outlines a full list of the biggest IT contracts to be sponsored by EU funds. The deadline is 2013, although some of the contracts have already been started.

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INNOVATIVE ECONOMY PROJECTS: MAJOR EU OPERATIONAL PROGRAMS, (PLN M)

Electronic medical procedures platform	713
Countrywide digital communication system	500
pl.ID – new identity card	370
Emergency notification centres	350
National system of protection against force majeure events	300
e-Services infrastructure of the Ministry of Finance	210
Database of topographical objects	170
Consolidation of the customs and taxation systems	167
Teleinformation network for the number 112	165
Economic Information Centre of the Ministry of Justice	160
e-Taxes	151
e-PUAP2	141
e-Customs	119
Public statistical information system	111
e-Services of the Social Insurance Institution (ZUS)	102
Support system for the social insurance e-Services	100
e-Services of the Police	99
e-Deklaracje2	90
Geoportal2	90
Emp@tia platform of the Labour Department	62
Access to medical records	53
TERYT2 (register of boundaries)	45
e-Registration of the Ministry of Finance	40
Digitalization of the land register	30
Business firm register	29
Platform for the results of controls by the Supreme Chamber of Control (NIK)	25
e-Services of the Office of Electronic Communications	24
Localization platform of the Office of Electronic Communications	19
e-Services of the Ministry of Justice	16
System of information on broadband infrastructure	16
Electronic Single Point of Contact	14
TOTAL	**4 480**

Source: List of key projects of the Ministry of Interior and Administration, February 2011

Apart from the expected large tenders in the public sector, we expect some new opportunities in other segments:

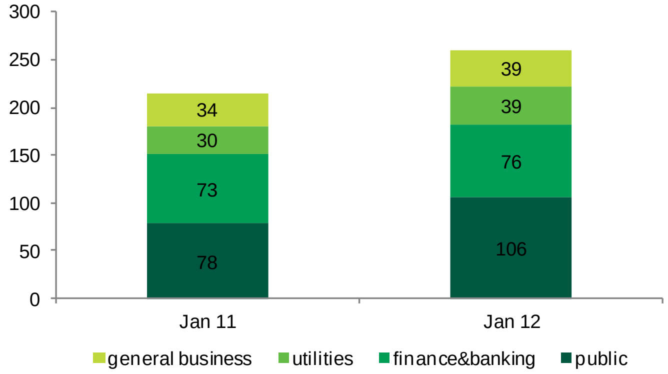
- Finance & Banking – Sygnity may be able to book additional revenues related to the change of IT systems for brokerage houses. The market is controlled by two players: Sygnity and Asseco Poland. Sygnity is delivering its Sidoma and Maestro IT systems to 14 brokerage houses, while Asseco Poland's Promak system is used in 8 brokerage houses. Comarch is also trying to enter this market with the recent sale of its Comarch Exchange Trading system to Raiffeisen brokerage house.

- Finance & Banking – Sygnity's key clients include Kredyt Bank and BZWBK. We think the recent announcement of the merger between these banks could generate some additional revenues for Sygnity, as the banks are likely to integrate their IT systems, but it is difficult for us to estimate the potential value or likelihood of these projects.

- Utilities – A never-ending story, with the expected investments by power energy companies in smart metering systems related to the liberalization of the energy sector. Sygnity estimates the value of the smart grid/metering market at PLN 100m. Sygnity has a strong position here thanks to its Winuel subsidiary.

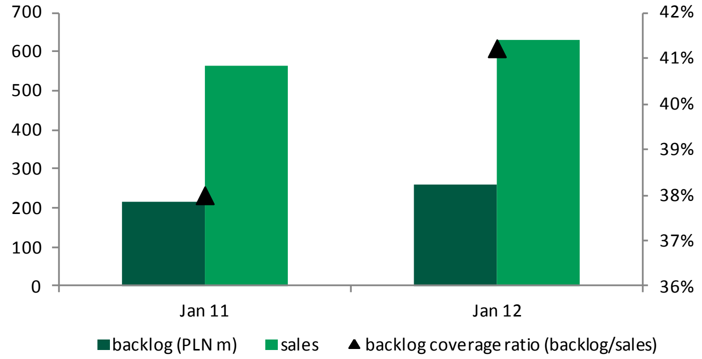
The company's current backlog stands at PLN 260m versus PLN 215m a year ago (+20% yoy), which should support the recovery we forecast in Sygnity's top line in 2012E.

SYGNITY: STRUCTURE OF BACKLOG (PLN M)



Source: Sygnity.

SYGNITY: BACKLOG LEVEL & BACKLOG COVERAGE RATIO (PLN M)



Source: Sygnity.

Development of new products – Quatra

Apart from working to regain market share in segments where it has a presence, Sygnity's management has decided to move into new areas. In February 2012, Sygnity presented its new product line, 'Quatra'. Quatra targets small- and medium-sized enterprises (SMEs). Sygnity developed this product for several reasons. First, Sygnity did not previously have a product line targeted at SMEs. Second, Sygnity believes that SMEs account for the fastest-growing segment of the economy and are still underinvested with IT solutions but have more flexible decision-making processes than larger companies and hence are more adaptable to new solutions. Last, the SME sector accounts for 99.9% of total registered companies in Poland and generated 50% of total revenues and net income in the Polish economy in 2010 (according to the Statistics Office). According to PMR Research, SMEs spend around PLN 4.6bn per year on IT, which is 19% of the total value of the IT market in Poland. The demand for ERPs (Enterprise Resources Planning systems) IT systems among SMEs is estimated by PMR at PLN 300m vs a total ERP market value of PLN 600m.

Quatra is a product line that includes ERP and other IT systems in the area of enterprise accounting, budgeting, taxes, labour force management, etc. Quatra is divided into five lines depending on client size (one person, micro, small, medium and large enterprises). Quatra is also offered in the SaaS and cloud computing models that are becoming increasingly popular. Sygnity spent around PLN 3m on Quatra's development and is currently marketing the product in the mass media and offering Quatra trials free of charge. According to the company, more than 2,500 SMEs have registered for the Quatra trial so far. Quatra will be offered directly through Sygnity's website and through its partners. So far, Sygnity has signed cooperation agreements with 21 partners and plans to have 100 partners at the end of 2012 and 200 in 2013.

Management expects Quatra to deliver PLN 10m of revenues in 2012 and around PLN 20m in 2013, when it also plans to start offering Quatra abroad. We are more conservative and expect PLN 3m in 2012E and PLN 5m in 2013E.

Alliance with Huawei

In October 2011, Sygnity signed a frame agreement with IT/telco hardware device producer Huawei. Under this agreement, Sygnity and Huawei will offer bundle products in the area of telecommunications infrastructure (IP edge routers & carrier Ethernet) and video conferencing – which, according to Sygnity, are currently the fastest-growing areas of the IT market. IDC forecasts the IP edge and carrier Ethernet market in Europe to grow by 25% p.a. over 2013-2015. Sygnity, together with Huawei, has prepared product bundles for the Public, Finance & Banking, Utilities and SME segments:

- Finance & Banking – the product is called iSygnum and will consist of Sygnity's mobile banking system combined with Huawei infrastructure, routers and switches.
- Public – eTicket, formed through the combination of Sygnity's city card and Huawei's

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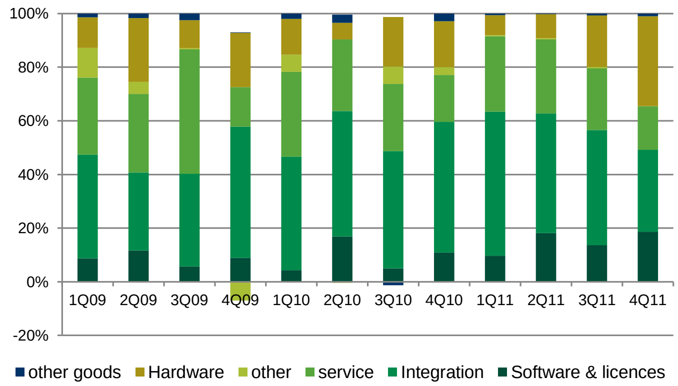
Research

routers, switch and infrastructure.

- Utilities (Energy) – Sygnity will offer its KIT software, combined with Huawei IT/telco infrastructure, to power energy operators.
- Corporate – Sygnity plans to offer integrated software for airport management (ERPort) combined with Huawei's infrastructure.

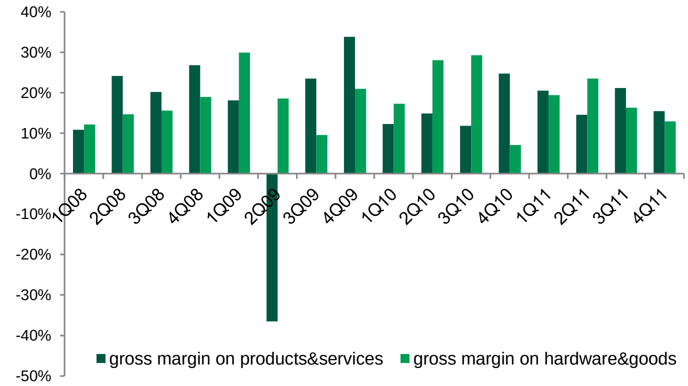
The bundle products will be offered in twelve Southeastern countries (mostly the Balkans) and Scandinavia. The products will be sold via the company's network of local partners. Sygnity's management expects the alliance with Huawei to generate PLN 30-50m of revenues in 2012 and PLN 100m by the end of 2013. The planned structure of revenues is: 60% IP products, 10% videoconferencing and 30% own solutions. Due to a lack of international presence and the need to build the sales network from scratch, we expect revenues of PLN 10m in 2012E and PLN 20m in 2013E.

SYGNITY: REVENUE STRUCTURE, 1Q09-4Q11



Source: Sygnity.

SYGNITY: REVENUE PROFITABILITY, 1Q09-4Q11



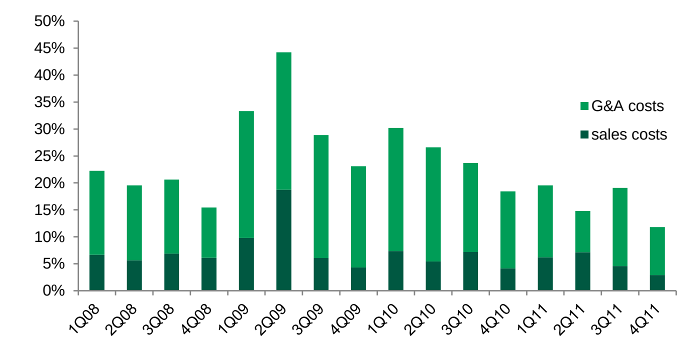
Source: Sygnity.

Costs seem to be under control

In the past, apart from the low quality of much of the company's revenues, Sygnity was hampered by ineffective management of its headcount and administrative costs. Rapidly falling revenues require at least proportional adjustments in the headcount level, but Sygnity's headcount reductions did not keep pace.

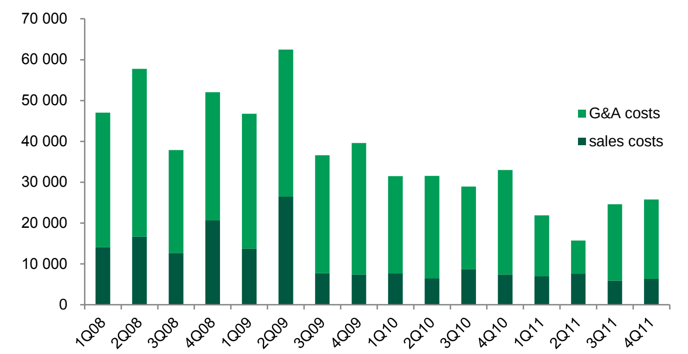
Since 2009, Sygnity has undertaken a wide-ranging restructuring process encompassing a headcount reduction, car fleet reduction and other administrative office costs reduction. As a result, Sygnity was able to reduce its SG&A ratio to 15.6% in 2011 from 19.8% in 2008, 32.1% in 2009 and 23.9% in 2010.

SYGNITY: SG&A RATIO DEVELOPMENT, 1Q08-4Q11, IN %



Source: Sygnity.

SYGNITY: SG&A RATIO DEVELOPMENT, 1Q08-4Q11, IN PLN 000



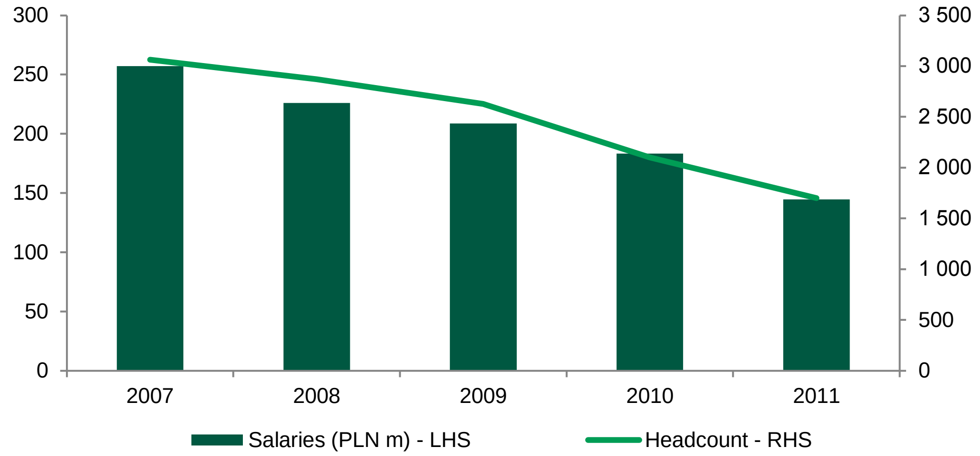
Source: Sygnity.

As can be seen in the charts above, the improvement was a result of increased efficiency in both sales costs and general & administrative (G&A). Average sales cost per quarter in 2011 amounted to PLN 5-7m (depending on the level of revenues) versus quarterly averages of PLN 7.5m in 2010, PLN 14m in 2009 and PLN 16m in 2008. The situation with G&A costs is the same – the average in 2011 was PLN 15m versus PLN 23m in 2010 and PLN 32m in 2008 and 2009.

Headcount reduction

Sygnity has pursued aggressive headcount reduction. The company has reduced its headcount by half since 2007, from c.3,100 to 1,700 as of end-2011. This has positively affected labour costs, which dropped to PLN 145m in 2011 from PLN 257m in 2007.

SYGNITY: HEADCOUNT LEVEL VS LABOUR COSTS



Source: Sygnity.

When comparing headcount efficiency (revenue/employee) with Sygnity's Polish IT peers, Sygnity's ratio is now in line with the market average and improved to PLN333k/employee in 2011 versus PLN214k/employee in 2009 (see on the next page).

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POLISH IT: HEADCOUNT EFFICIENCY, 2008-2011

Asseco Poland (Polish operations)	**2008**	**2009**	**2010**	**2011**
Revenues (PLN m)	1 877	1 724	1 801	1 601
headcount	4 638	4 582	4 526	4 216
Revenues/employee (in 000)	405	376	398	380
Asseco Poland (parent)	**2008**	**2009**	**2010**	**2011**
Revenues (PLN m)	929	946	1 168	1 327
headcount	2 246	2 222	3 056	3 196
Revenues/employee (in 000)	414	426	382	415
Asseco Business Solutions	**2008**	**2009**	**2010**	**2011**
Revenues (PLN m)	169	156	169	158
headcount	715	665	680	645
Revenues/employee (in 000)	236	235	248	245
Asseco Systems	**2008**	**2009**	**2010**	
Revenues (PLN m)	205	223	311	
EBIT margin		9.7%	5.0%	
headcount	311	296	248	
Revenues/employee (in 000)	658	752	1 254	
Comp	**2008**	**2009**	**2010**	**2011**
Revenues (PLN m)	317	241	260	432
headcount	769	716	665	1 036
Revenues/employee (in 000)	413	336	391	417
Comarch (excl. SoftM & Cracovia)	**2008**	**2009**	**2010**	**2011**
Revenues (PLN m)	888	507	535	535
headcount	2 909	2 921	3 144	3 186
Revenues/employee (in 000)	305	174	170	168
Talex	**2008**	**2009**	**2010**	**2011**
Revenues (PLN m)	132	62	106	143
headcount	731	288	450	
Revenues/employee (in 000)	180	215	235	
Wasko	**2008**	**2009**	**2010**	**2011**
Revenues (PLN m)	407	244	294	272
headcount	719	735	687	709
Revenues/employee (in 000)	566	332	429	384
Infovide-Matrix	**2008**	**2009**	**2010**	**2011**
Revenues (PLN m)	225	231	227	210
headcount	596	577	528	517
Revenues/employee (in 000)	377	400	430	407
Qumak-Sekom	**2008**	**2009**	**2010**	**2011**
Revenues (PLN m)	254	293	329	384
headcount	360	348	439	
Revenues/employee (in 000)	705	843	750	
Sygnity	**2008**	**2009**	**2010**	**2011**
Revenues (PLN m)	996	563	524	566
headcount	2 871	2 627	2 099	1 700
Revenues/employee (in 000)	347	214	250	333
Revenues/employee (in 000 PLN) - average	**395**	**355**	**368**	**344**

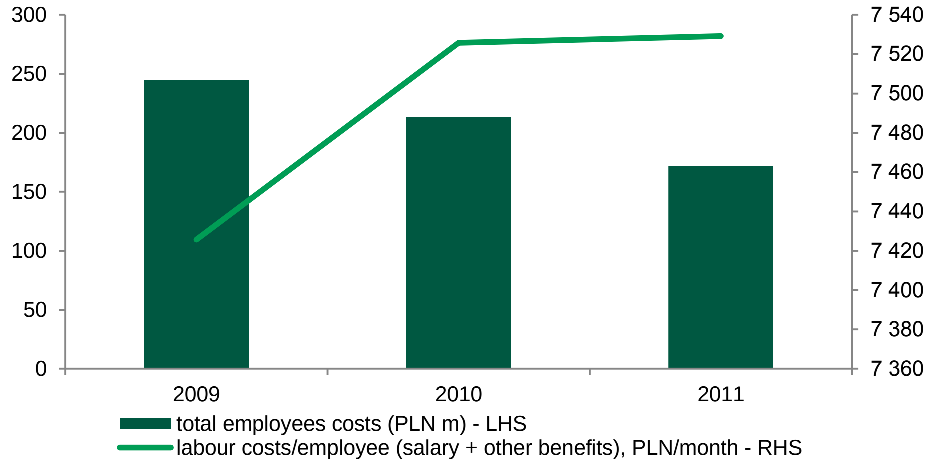
Source: Companies data, Espirito Santo Investment Bank Research

Further headcount cuts expected

Although Sygnity's headcount efficiency ratio has visibly improved over the past three years, management has stated that the company sees room for further headcount optimization – mostly in the utility segment.

Sygnity has stated that it is not satisfied with the development of the utility area in terms of generated revenues and margin, which was also behind the recent change to the Management Board of Directors. On 30 November 2011, the Board of Directors replaced Andrzej Paszynski with Krzysztof Ducal. Apart from the change in the Board, Sygnity also plans to adjust the headcount structure of the utility division to the current value of revenues generated by the segment. We expect a headcount reduction in this area of 100-150 employees. Given that the average value of total labour costs per employee (salary + other benefits) at Sygnity stands at PLN 7.5k/month, we estimate that this reduction could deliver c.PLN 90k in headcount cost savings per employee per year. Hence, a headcount reduction of 100-150 could amount to savings of PLN 9-13m/year (around 1.5% of additional EBIT margin, on our estimates).

SYGNITY: HEADCOUNT LEVEL AND AVERAGE SALARY PER MONTH



Source: Sygnity.

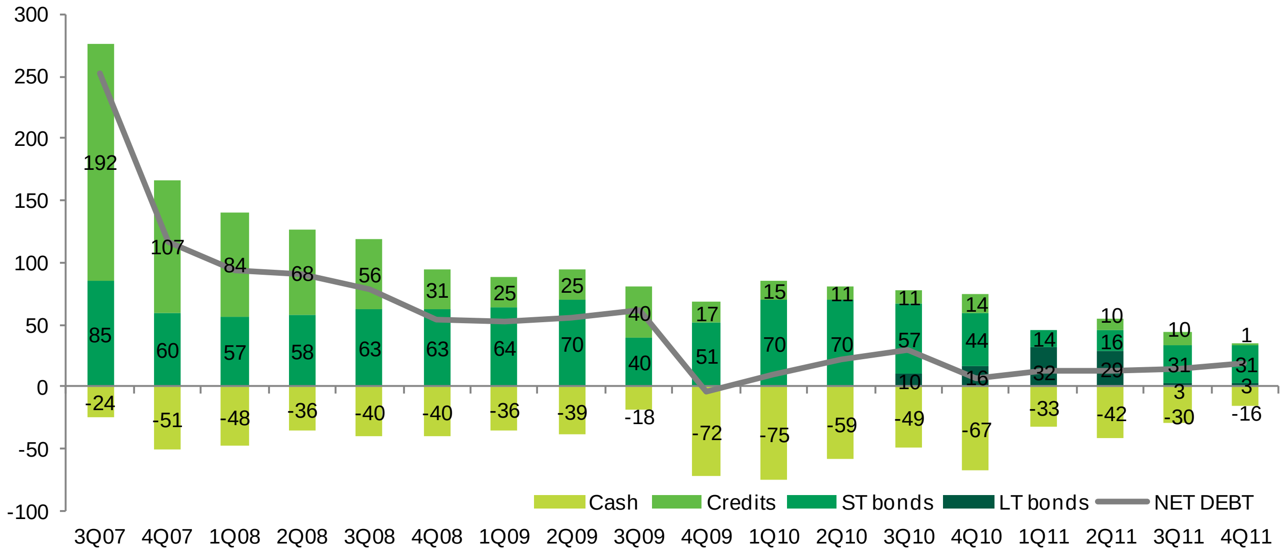
Other cost-cutting initiatives

Sygnity has identified some other areas for potential cost savings, including cutting office rent leases or renting unused office space when there is no possibility of ending leases early. The company has also highlighted that there is some room for further back office cost cutting and better car fleet management. In total, these potential savings could deliver a few million in yearly savings – no more than PLN 5m p.a., on our estimates.

Debt level under control

Together with cost optimization, Sygnity has also visibly improved its liquidity position since 2008-09. In our view, the period during which Sygnity had extreme financial difficulties is behind it.

SYGNITY: NET DEBT, 3Q07-4Q11



Source: Sygnity:

At the end of 2011, net debt amounted to PLN 20m (Net debt/EBITDA at 0.8x).

Owing to the aforementioned financial and liquidity issues, Sygnity has a very high cost of financing to roll over its bonds. The yields on old debt amounted to 800bps, with some even up to 900bps. However, last year's General Meeting approved a bond issue program amounting to PLN 100m in total, of which PLN 60m was supposed to be spent on bond debt rollover and the remaining PLN 40m on acquisitions. Due to the unstable macro environment, Sygnity has postponed from making any acquisitions for now. However, the bond rollover program is going ahead and last week (on Friday 23 March 2012) Sygnity announced that it had issued PLN 60m of 1Y bonds. PLN 33m will be spent refinancing old bonds, PLN 20-25m will be spent on product development in utilities and global partnership segments and PLN 7-10m on product development in other segments. Management informed that the bonds were oversubscribed. Management also said bond yields dropped to around 500bps from 800-900bps previously. Decreasing bond yields could also suggest that Sygnity's financial position is improving in investors' eyes. Sygnity expects that lower yields could reduce annual financial costs by PLN 0.5m.

Stock option plan for management

In mid-2011, the Board of Directors approved a stock option plan for Sygnity's management. Management will receive 600,000 options, allowing them to buy Sygnity shares at PLN 15/share. The stock options are divided into three tranches – for 2011, 2012 and 2013 – and will launch after delivering financial results:

- in 2011 – Management to receive 210,000 options if net income exceeds PLN 10m;
- in 2012 – Management to receive 210,000 options provided net income reaches PLN 30m; and
- in 2013 – Management to receive 90,000 -180,000 options provided that Sygnity delivers PLN 37-57m of net income.

Despite the fact that Sygnity did not deliver PLN 10m of net income in 2011, the Board of Directors decided to grant the 210 000 stock options as 2011 net income was distorted by one-off items and, when adjusted, the bottom-line would have exceeded PLN 10m. The stock option plan allows for the adjustment of the net income figure for one-offs.

Although we think this incentive should help Sygnity to further improve its revenue base, profitability and bottom-line, we do not expect Sygnity to deliver PLN 30m of net income in 2012E (we forecast PLN 18m).

ESIBR versus Bloomberg consensus

Our estimates are slightly more conservative than consensus for 2012-2013 and more optimistic for 2014. We estimate that once Sygnity achieves higher profitability in 2012-2013E, it should be able to maintain it in subsequent years, while consensus implies further top-line growth in 2014 but visible margin erosion.

Sygnity: ESIBR estimates versus Bloomberg consensus 2012E-2014E

	2012E			2013E			2014E		
(PLN m)	ESIBR	BBG	% diff	ESIBR	BBG	% diff	ESIBR	BBG	% diff
Revenues	600	651	-8%	648	731	-11%	688	689	0%
EBITDA	40	44	-10%	49	52	-7%	57	44	30%
EBIT	25	28	-13%	34	38	-10%	42	34	22%
Net income	18	21	-15%	27	30	-11%	35	22	57%

Source: Bloomberg, Espirito Santo Investment Bank Research for estimates.

Valuation

Valuation summary

We value Sygnity using two methods: DCF and peer multiples. Our final fair value is an average of these two methods (each with a 50% weighting). Using a DCF, we derive a fair value of PLN 27.5 and using the peer comparison we arrive at PLN 28.4. Our fair value is PLN 28, implying 27% upside potential to the current share price.

Valuation summary	Weights	Fair value (PLN m)	Fair value per share (PLN)	Value vs avg
DCF	50%	327	27.5	-2%
Comparative valuation	50%	338	28.4	2%
Weighted average fair value (PLN m)				**333**
Weighted average fair value per price (PLN/share)				**28.0**

Source: Bloomberg, Espírito Santo Investment Bank Research for estimates.

DCF

We use a 10-year forecast free cash flow period. The main assumptions in our DCF model are as follows:

- The valuation is based on FCF forecasts for 2012-2021E;
- Net debt at the end of 2011;
- Risk free rate during FCF projections is set at 5.7%;
- Terminal growth rate of FCF at 2% and beta level of 1.1 to reflect Sygnity's above-average risk profile; and
- Credit premium in 2012 at 900bps; however, we expect the upcoming rollover of bonds will reduce this credit premium to 500bps.

DCF Valuation											
(PLN m)	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	>2021
EBIT	24.7	33.7	41.8	48.5	49.8	51.0	52.3	53.6	55.0	56.4	
tax rate	10%	10%	10%	19%	19%	19%	19%	19%	19%	19%	
NOPAT	22.2	30.4	37.6	39.3	40.3	41.3	42.4	43.4	44.5	45.7	
Depreciation	15.0	15.1	15.3	15.4	15.6	15.7	15.9	16.0	16.2	16.4	
CAPEX	-17.1	-17.3	-17.4	-17.6	-17.8	-18.0	-18.1	-18.3	-18.5	-18.7	
Change of Working Capital	-10.5	-5.2	-4.4	-2.7	-2.0	-2.1	-2.2	-2.2	-2.3	-2.4	
FCF	9.6	23.0	31.0	34.5	36.0	37.0	37.9	38.9	39.9	41.0	
FCF change	100%	140%	35%	11%	5%	3%	3%	3%	3%	3%	2%
WACC Calculation											
debt/equity	7.6%	7.1%	6.5%	6.0%	6.0%	5.9%	5.9%	5.8%	5.7%	5.7%	5.7%
risk free rate	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.8%
credit premium	8.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
market premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
beta	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
cost of debt	12.3%	9.6%	9.6%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%
cost of capital	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.3%
WACC	**11.3%**	**11.1%**	**11.1%**	**11.0%**	**11.0%**	**11.1%**	**11.1%**	**11.1%**	**11.1%**	**11.1%**	**11.2%**
PV (FCF)	8.8	19.1	23.2	23.2	21.9	20.2	18.7	17.2	15.9	14.7	
PV (FCF)											183
PV (RV)											164
net debt											19.6
Fair Value											327
# of shares											11.9
Fair Value/share											**27.5**

Source: Sygnity, Espirito Santo Investment Bank Research for estimates.

Sensitivity analysis

Sensitivity table

Sales growth rate change vs ESIB est	EBIT margin change vs ESIB est: -1.5%	-1.0%	-0.5%	0.0%	0.5%	1.0%	1.5%
-3%	14.6	16.7	18.9	21.1	23.3	25.4	27.6
-2%	16.1	18.4	20.7	23.1	25.4	27.7	30.0
-1%	17.8	20.2	22.7	25.2	27.7	30.2	32.7
0%	19.6	22.2	24.9	27.5	30.2	32.8	35.5
1%	21.5	24.3	27.2	30.0	32.8	35.7	38.5
2%	23.6	26.6	29.6	32.7	35.7	38.8	41.8
3%	25.8	29.1	32.3	35.6	38.8	42.1	45.3

Sales growth rate change vs ESIB est	EBIT margin change vs ESIB est: -1.5%	-1.0%	-0.5%	0.0%	0.5%	1.0%	1.5%
-3%	-47%	-39%	-31%	-23%	-16%	-8%	0%
-2%	-42%	-33%	-25%	-16%	-8%	1%	9%
-1%	-35%	-26%	-17%	-8%	1%	10%	19%
0%	-29%	-19%	-10%	0%	10%	19%	29%
1%	-22%	-12%	-1%	9%	19%	30%	40%
2%	-14%	-3%	8%	19%	30%	41%	52%
3%	-6%	6%	17%	29%	41%	53%	65%

Source: Espirito Santo Investment Bank Research for estimates.

Sensivity Table

TGR	WACC: 9.2%	9.7%	10.2%	11.2%	12.2%	13.2%	14.2%
0%	27.2	26.5	25.9	24.8	23.9	23.1	22.5
1%	29.1	28.2	27.4	26.0	24.9	24.0	23.2
2%	31.4	30.2	29.2	27.5	26.2	25.0	24.1
3%	34.4	32.9	31.5	29.4	27.7	26.3	25.2
4%	38.7	36.5	34.6	31.7	29.5	27.8	26.4

TGR	WACC: 9.2%	9.7%	10.2%	11.2%	12.2%	13.2%	14.2%
0%	-1%	-4%	-6%	-10%	-13%	-16%	-18%
1%	6%	2%	0%	-5%	-9%	-13%	-16%
2%	14%	10%	6%	0%	-5%	-9%	-12%
3%	25%	19%	15%	7%	0%	-4%	-9%
4%	41%	33%	26%	15%	7%	1%	-4%

Source: Espirito Santo Investment Bank Research for estimates.

Peers Valuation (priced as at 26/03/2012)

Company	Ticker	CAGR 2011-2014E revenues	CAGR 2011-2014E EBIT	EV/EBITDA 2012E	EV/EBITDA 2013E	EV/EBITDA 2014E	P/E 2012E	P/E 2013E	P/E 2014E
Microsoft	msft us	6.7%	7.3%	7.6	7.0	6.5	12.1	11.0	10.2
Oracle	orcl us	5.6%	16.4%	7.1	6.6	6.1	11.8	10.9	10.1
SAP	sap gr	10.7%	15.7%	11.8	10.4	9.2	17.7	15.8	13.8
Accenture	acn us	6.0%	9.0%	9.3	8.6	8.1	17.2	15.9	14.9
IBM	ibm us	2.4%	7.6%	9.5	9.0	8.6	14.0	13.1	12.5
Atos Origin	ato fp	9.6%	15.6%	4.2	3.9	3.7	10.3	8.8	8.0
Cap Gemini	cap fp	3.6%	12.8%	5.6	5.1	4.9	12.0	10.7	9.5
Indra Sistemas	idr sm	4.4%	5.7%	7.4	6.9	6.2	10.2	9.5	8.7
Tieto	tie1v fh	1.7%	14.9%	5.3	4.7	4.4	11.7	10.3	9.2
Gemalto	gto fp	8.6%	20.4%	12.6	10.4	9.0	19.0	15.8	13.3
Softw are AG	sow gr	2.9%	7.7%	8.6	8.0	7.1	13.6	12.4	11.0
Dassault Systemes	dsy fp	9.1%	17.5%	11.3	10.0	9.2	20.2	18.0	15.7
Sage	sge ln	4.1%	5.5%	9.6	9.3	8.6	14.8	14.1	13.2
Hew lett-Packard	hpq us	0.2%	4.6%	4.3	4.1	3.8	5.9	5.5	5.1
Wincor Nixdorf	w in gr	2.4%	3.2%	6.7	6.3	5.7	12.9	11.7	10.4
Misys	msy ln	9.0%	12.3%	12.0	11.2	10.1	20.9	19.4	16.9
Unit4	unit4 na	5.6%	19.2%	8.1	7.1	6.4	15.3	12.7	10.8
Sopra Group	sop fp	5.8%	5.5%	6.2	5.7	4.8	9.3	8.2	7.2
Temenos	temn sw	5.3%		11.0	9.7	8.3	16.6	14.4	11.8
Sw isslog Holding	slog sw	4.5%	14.6%	4.5	3.9	3.7	15.8	11.9	11.0
Cognizant Tech Solution	ctsh us	20.1%	22.8%	13.7	11.4	9.6	21.1	17.6	15.4
Intuit	intu us	9.5%	19.5%	10.7	9.8	9.0	19.2	17.1	15.2
Infosys	infy us	17.1%	14.0%	13.6	12.2	10.5	0.4	0.3	0.3
Fiserv	fisv us	0.0%	0.0%	8.6	8.1	7.7	13.8	12.6	12.7
International Median		**5.6%**	**12.8%**	**8.6**	**8.0**	**7.4**	**13.9**	**12.5**	**11.0**
International Average		***6.4%***	***12.0%***	***7.9***	***7.2***	***6.7***	***14.5***	***12.9***	***11.1***
Sygnity (cons)	sgn pw	6.7%	61.9%	6.6	5.6	6.6	12.4	8.6	11.9
Comarch	cmr pw			6.5	5.4		18.8	14.7	
Asseco Poland (ESIB)	acp pw	3.1%	4.7%	6.0	5.8	5.6	10.3	9.9	9.8
Asseco Central Europe	acs pw			3.6	3.5		8.6	8.4	
Comp	cmp pw			9.5	8.6		18.6	17.0	
Domestic Median				**6.5**	**5.6**	**6.1**	**12.4**	**9.9**	**10.9**
Domestic Average				***6.4***	***5.8***	***6.1***	***13.7***	***11.7***	***10.9***
MEDIAN				**8.1**	**7.1**	**6.9**	**13.8**	**12.4**	**11.0**
AVERAGE				***8.3***	***7.5***	***7.1***	***13.9***	***12.3***	***11.1***
Sygnity		6.7%	72.6%	7.0	5.3	4.0	14.6	9.7	7.6
Sygnity vs peers				-13%	-26%	-41%	6%	-22%	-31%
Valuation (PLN m)							338		
Fair value/share (PLN)							**28.4**		

Source: Bloomberg consensus for not rated stocks and ESIBR estimates for Asseco Poland, Sygnity, Indra, Misys estimates

Financials

Income statement

Sygnity - P&L (PLN m)	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Revenues	**573**	**524**	**566**	**600**	**648**	**688**	**712**	**731**
% YoY change	*-43%*	*-8%*	*8%*	*6%*	*8%*	*6%*	*3%*	*3%*
public	184	194	267	288	305	321	330	337
finance&banking	165	161	143	143	147	152	156	161
utilities	106	85	86	86	96	101	104	107
general business	122	85	70	70	74	77	81	85
Huawei	0	0	0	10	20	30	30	30
Quatra	0	0	0	3	5	7	10	10
EBIT	**-95**	**-34**	**8**	**25**	**34**	**42**	**49**	**50**
% YoY change	*-853%*	*-64%*	*-123%*	*208%*	*37%*	*24%*	*16%*	*2%*
% EBIT margin	*-16.6%*	*-6.5%*	*1.4%*	*4.1%*	*5.2%*	*6.1%*	*6.8%*	*6.8%*
Depreciation	-34	-27	-15	-15	-15	-15	-15	-16
EBITDA	**-60**	**-7**	**23**	**40**	**49**	**57**	**64**	**65**
% YoY change	*-204%*	*-88%*	*-412%*	*69%*	*23%*	*17%*	*12%*	*2%*
% EBITDA margin	*-10.5%*	*-1.4%*	*4.1%*	*6.6%*	*7.5%*	*8.3%*	*9.0%*	*8.9%*
Financial income/(expense), net	-8	-9	-6	-5	-4	-3	-3	-3
Income tax	-14	1	6	-2	-3	-4	-9	-9
Minority interest in earnings	0	0	0	0	0	0	0	0
Net income	**-89**	**-43**	**8**	**18**	**27**	**35**	**37**	**38**
% YoY change		*-52%*	*-119%*	*119%*	*51%*	*27%*	*6%*	*3%*
% net margin	*-15.6%*	*-8.1%*	*1.4%*	*3.0%*	*4.2%*	*5.0%*	*5.2%*	*5.2%*
Recurrent Net Income	**-46**	**-38**	**8**	**18**	**27**	**35**	**37**	**38**
% YoY change	*295%*	*-19%*	*-122%*	*119%*	*51%*	*27%*	*6%*	*3%*
EPS (PLN)	**-7.5**	**-3.6**	**0.7**	**1.5**	**2.3**	**2.9**	**3.1**	**3.2**
% YoY change		*-52%*	*-119%*	*119%*	*51%*	*27%*	*6%*	*3%*
Recurrent EPS (PLN)	**-3.9**	**-3.2**	**0.7**	**1.5**	**2.3**	**2.9**	**3.1**	**3.2**
% YoY change	*295%*	*-19%*	*-122%*	*119%*	*51%*	*27%*	*6%*	*3%*

Source: Company data for historical figures, Espirito Santo Investment Bank Research for estimates.

Profitability ratios

Profitability Ratios	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
EBITDA margin	-10.5%	-1.4%	4.1%	6.7%	7.8%	8.8%	9.5%	9.5%
EBIT margin	-16.6%	-6.5%	1.4%	4.1%	5.2%	6.1%	6.8%	6.8%
Net margin	-15.6%	-8.1%	1.4%	3.1%	4.4%	5.3%	5.5%	5.5%
Effective Income Tax Rate	-13.5%	2.6%	-315.2%	10.0%	10.0%	10.0%	19.0%	19.0%
ROA	-16.2%	-8.7%	1.9%	3.9%	5.4%	6.3%	6.2%	6.4%
ROE	-31.5%	-18.9%	3.6%	7.5%	10.6%	12.2%	11.6%	12.0%

Source: Company data for historical figures, Espirito Santo Investment Bank Research for estimates.

Balance sheet

Sygnity - Balance sheet (PLN m)	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Total fixed assets	**260**	**224**	**231**	**232**	**234**	**237**	**239**	**241**
PP & E, and intangibles	229	209	214	216	218	220	222	225
Other fixed assets	32	15	18	16	16	16	16	16
Total current assets	**291**	**264**	**207**	**233**	**269**	**311**	**351**	**355**
Inventory	24	24	32	41	45	47	49	50
Trade and other receivables	171	156	157	167	180	191	198	203
Other current assets	24	17	1	4	4	4	4	4
Cash and equivalents	72	67	16	21	41	69	101	98
Total assets	**552**	**488**	**438**	**465**	**504**	**548**	**590**	**596**
Total stockholders equity	**283**	**225**	**230**	**238**	**256**	**283**	**318**	**318**
Including minority interest	2	2	2	2	2	2	2	2
Long-term liabilities	**3**	**19**	**10**	**21**	**30**	**38**	**40**	**41**
Long-term debt	0	16	3	3	3	3	3	3
Other long-term liabilities	3	2	7	18	27	34	37	38
Short-Term Liabilities	**176**	**202**	**168**	**176**	**187**	**197**	**203**	**207**
Accounts payable	98	137	134	142	153	163	168	173
Short-term debt	68	58	32	32	32	32	32	32
Other short-term liabilities	98	46	30	30	30	30	30	30
Total equity & liabilities	**552**	**488**	**438**	**465**	**504**	**548**	**590**	**596**
BVPS (PLN)	**23.8**	**18.9**	**19.3**	**20.0**	**21.5**	**23.8**	**26.7**	**26.7**

Source: Company data for historical figures, Espirito Santo Investment Bank Research for estimates.

Leverage indicators

Leverage Indicators	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Net Debt (PLN m)	-5	7	20	14	-5	-33	-65	-62
Net Debt / EBITDA (x)	0.1x	-1.0x	0.8x	0.4x	-0.1x	-0.6x	-1.0x	-1.0x
Debt / Assets (%)	12.3%	15.2%	8.1%	7.6%	7.1%	6.5%	6.0%	6.0%
Leverage ratio (Assets / Equity) (x)	1.9x	2.2x	1.9x	2.0x	2.0x	1.9x	1.9x	1.9x
EBITDA / Interest coverage (x)	-5.6x	-0.7x	3.4x	8.1x	12.8x	15.0x	16.8x	17.2x

Source: Company data for historical figures, Espirito Santo Investment Bank Research for estimates.

Cash Flow statement

Sygnity - Cash Flow (PLN m)	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Net income	**-103**	**-44**	**2**	**18**	**27**	**35**	**37**	**38**
Depreciation and Amortization	34	27	15	15	15	15	15	16
Change in Net Working Capital	134	-22	-21	-10	-5	-4	-3	-2
Other	-5	11	7	0	0	0	0	0
Cash Flow from Operations	**2**	**5**	**4**	**22**	**37**	**45**	**50**	**52**
Capital Expenditures	-6	-10	-14	-17	-17	-17	-18	-18
Other	30	3	1	0	0	0	0	0
Cash Flow from Investing Activities	**23**	**-7**	**-13**	**-17**	**-17**	**-17**	**-18**	**-18**
Change in Debt	-103	-1	-49	0	0	0	0	0
Issue of shares	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	-37
Other	-8	-3	-12	0	0	0	0	0
Cash Flow from Financing Activities	**-42**	**-4**	**-43**	**0**	**0**	**0**	**0**	**-37**
Beginning cash	88	72	67	16	21	41	69	101
Increase/(decrease) in cash	-16	-5	-52	5	20	28	32	-3
Ending cash	**72**	**67**	**16**	**21**	**41**	**69**	**101**	**98**
DPS (PLN)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**3.1**

Source: Company data for historical figures, Espirito Santo Investment Bank Research for estimates.

Valuation methodology - Sygnity – discussed in the body of the report

We value the stock using two methods: DCF and peer valuation. The final fair value is a weighted average of these two methods, where each has a 50% weight.

Risk factors:

1. Postponement or cancellation of IT contracts in the public sector;
2. Margin pressure in the market;
3. Lower than expected further cost cutting;
4. More expensive than expected rollover of bond financing; and
5. Salary pressure among IT specialists.

Valuation methodology – Asseco Poland

We value Asseco Poland using two methods: DCF and peer multiples. Our final fair value is an average of these two methods (each with a 50% weighting). Using a DCF, we derive a fair value of PLN 50.2 and using the peer comparison we arrive at PLN 64.5. Our fair value is PLN 57.4 implying 16% upside potential to the current share price.

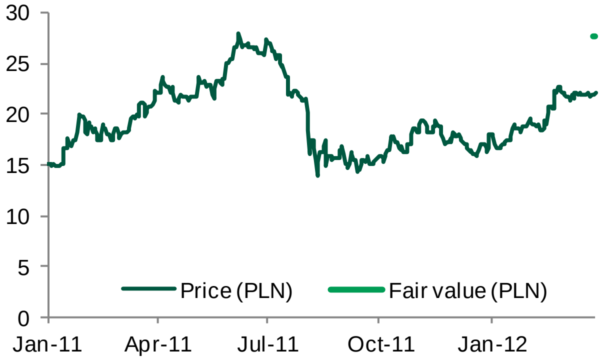
Risk factors:

1. Cuts in IT spending related to economic slowdown;
2. Recession in CEE, Balkans, DACH (Germany, Austria, Switzerland);
3. Weaker-than-expected performance of Asseco Central Europe and Asseco Spain that could trigger goodwill impairment;
4. Strong PLN would negatively affect the top-line;
5. Risk of expensive acquisitions and acquisition of poor-quality companies;
6. Delays of expected tenders related to the eGov projects

Companies Mentioned (priced as at 26/03/2012)

Asseco Poland (ACP PW, PLN 49.5, BUY, FV PLN 57.4)
Asseco Central Europe (ACS PW, not covered)
Comarch (CMR PW, not covered)
Sygnity (SGN PW, PLN 22.1, BUY, FV PLN 28)
Microsoft (msft us, not covered)
Oracle (orcl us, not covered)
SAP (sap gr, not covered)
Accenture (can us, not covered)
IBM (ibm us, not covered)
Atos Origin (ato fp, not covered)
Cap Gemini (cap fp, not covered)
Indra Sistemas (IDR SM, Eur 10.2, SELL, FV Eur 9.2)
Tieto (tie1v fh, not covered)
Gemalto (gto fp, not covered)
Software AG (sow gr, not covered)
Dassault Systemes (dsy fp, not covered)
Sage (sge ln, not covered)
Hewlett-Packard (hpq us, not covered)
Wincor Nizdorf (win gr, not covered)
Misys (MSY LN, 35p, SELL, FV 263p)
Unit4 (unit4 na, not covered)
Sopra Group (sop fp, not covered)
Temenos (temn sw, not covered)
Swisslog Holding (slog sw, not covered)
Cognizant Tech Solutions (ctsh us, not covered)
Intuit (into us, not covered)
Infosys (infy us, not covered)
Fiserv (fisv us, not covered)
Kredyt Bank (KRB PW, not covered)
BZWBK (BZW PW, PLN 231, NEUTRAL, FV PLN 222.5)

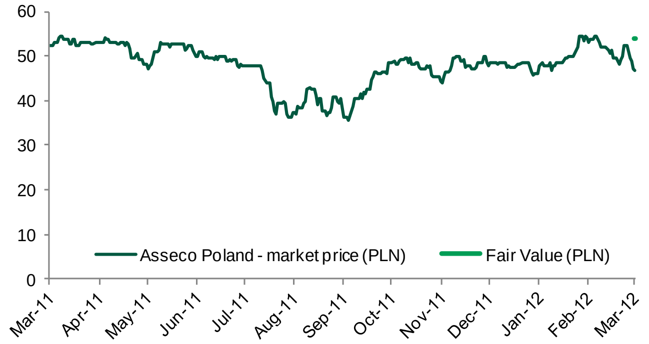
RATING HISTORY - SYGNITY



Date	Rating	FV	Closing Price	Analyst
28.03.2012	BUY	28	22.1	Konrad Księżopolski

Source: Bloomberg for closing prices, Espírito Santo Investment Bank Research for ratings and fair values.

RATING HISTORY – ASSECO POLAND



Date	Rating	Fair Value (PLN)	Closing price (PLN)	Analyst
28-03-2012	BUY	57.4	49.5	Konrad Księżopolski

Source: Bloomberg for closing prices, Espírito Santo Investment Bank Research for ratings and fair values.

IMPORTANT DISCLOSURES

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Recommendation	Count	% of Total	Count	% of IBC	% of Total
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