

Keyware Technologies N.V- valuation highlights

- This memorandum brings a short summary of Keyware Technologies N.V's (hereinafter 'Keyware' or the 'Company') valuation report as of December 31, 2014.
- This memorandum includes the main assumptions used to estimate Keyware's fair value and the fair value range derived from these assumptions.
- This memorandum is subjected to the disclaimer attached and should not be read or used without regarding the attached disclaimer.

A. Keyware Technologies- introduction

- Keyware Technologies NV, founded in 1996, is an independent network service provider that offers electronic payment solutions, headquartered in Zaventem, Belgium. The Company operates in three major segments:
 - Payment terminals renting and operating services (hereinafter 'PT');
 - Transaction services- Keyware is an independent Network Service Provider (NSP), owning a transaction platform that enables to connect between the merchant and the acquirers and the issuers (hereinafter 'TS').
 - Provider of secured airtime to have mobile terminals connect securely over a GPRS network with Keyware's payment network.
- Keyware has strategic partnerships with both top leading payment cards services providers in Europe, such as, PaySquare (Equens Group), European Merchant Services (Part of First Data Int'l), Six Payment Services, WorldLine Acquiring Services and terminal manufacturers such as Ingenico, Veriphone and WorldLine.

B. Historical financial highlights

- **Revenues**- the compound average growth rate (hereinafter 'CAGR') of the revenues between 2011 -2014 was 19%. The main revenue growth driver in this period is the PT segment, where in September 2012 the company had stopped selling leasing contracts to Parfip Benelux Nv (hereinafter: Parfip) , since the financial status was on an improving trend.
- **EBITDA margin**- the EBITDA margin ranged between 13% in 2011 up to 24% in 2014, with an average of 19%.
- **Income before tax and financial expenses (hereinafter 'IBTFE')** - the Company recognizes a revenue in the PT segment according to IAS 17-Leases. Therefore, a significant key factor in Keyware's financials is the financial income recognized from leasing contracts. The IBTFE to revenues ratio ranged from 13.5% in 2011 up to 24% in 2014, with an average of 17%. This growth is due to continuing trend of leasing contracts engagements growth.
- **Working capital**- the working capital to revenues ratio ranged from (15%) in 2011 and 4% in 2014, with an average rate of (2%) between 2011 -2014.
- **Profit margin**- the profit margin ranged from 1% in 2011 up to 20% in 2014, with an average rate of 10% between 2011 -2014.

C. Valuation main assumptions

- **Methodology**- Keyware's fair value was estimated according to the income approach by using the Discounted Cash Flow method (hereinafter 'DCF').

- **Model structure-** Since each business segment of Keyware (PT and TS) has a different business model and different risk factors, we evaluated each segment separately.
- The valuation model was conducted on a nominal basis.

1. PT segment model

- **General structure-** the PT valuation model is based on the amount of contracts in a year after various contracts discounts such as bankruptcy and early termination. The net amount of contracts is multiplied by several different tariffs. The amount of contracts is comprised of the installment base of contracts as of the Valuation Date and new contracts forecast.
- **Growth rate-** the net contracts and revenue growth rate was estimated by a CAGR of 6%.
- **Gross margin-** the gross margin was estimated by 77%, based on historical gross margin between 2011 -2014.
- **EBIT margin-** the EBIT margin ranges between 27%-46% with an average of 37%.
- **Income tax-** the income tax calculation was based on the corporate tax rate in Belgium, considering carry forward tax losses of Keyware as of the Valuation date.
- **CAPEX & depreciation-** we estimated that the CAPEX will be equal to the yearly depreciation.
- **Working capital-** the changes in the working capital was estimated according to the historical working capital average between 2011 - 2014.
- **Terminal value-** the terminal value is based on a long term revenue growth rate of 3.8% which is comprised of a long term GDP forecast in Belgium of 2% and inflation rate forecast of 1.8%. the EBIT margin is based on the average EBIT in the model between 2015-2019 of 33%.
- **WACC-** the WACC used to discount the PT cash flow was estimated by 12.7%.

2. TS segment model

- **General structure-** as of the valuation Date, the business model in the TS segment is based on a commission fee of 12.51% of the total commission fee that the customer pays for a single transaction, approximately 1.5% of the transaction amount. The rest of the 1.5% commission goes to other transaction services providers such as brand fees, card issuers and card acquirers. From mid 2015, the Company changes its business model, by moving from a kick-back model (gross margin (Merchant Service Charge minus Interchange Fee) is split 50/50 between Keyware and Acquirer) to a brokering model. The brokering model is based on purchasing the acquiring fee (Interchange fee plus acquiring services) in 0.85% of the transaction amount and selling it to the customer at an average MSC of 1.5% (MSC-Merchant Service Charge). We estimated a moderate transformation from the Kick-back model to the Brokering model from 2015 to 2019.

- **TS customers' portion-** as of the Valuation Date, about 75% of the PT customers related to the TS. We estimated a moderate increase up to 85% by 2019, based on Keyware's management assumptions.
- **Revenues-** the revenues were calculated on average revenue per contract for both the kickback and the Brokering model. The average revenue per terminal per year in the kickback model was estimated by 119€ and 166€ in the brokering model. The amount of contracts is based on the contracts calculated in the PT model. The revenue CAGR was estimated by 6% along the projection period.
- **Gross margin-** the gross margin is based on the average historical gross margin between 2011 -2014 of 82%.
- **EBIT margin-** the EBIT margin ranges from 40% to 56% with an average rate of 49%
- **Income tax-** the income tax was calculated according to the corporate tax rate in Belgium.
- **CAPEX, depreciation and working capital-** the calculation of the CAPEX, depreciation and working capital is on the same basis as in the PT model.
- **Terminal value-** the terminal value is based on a long term revenue growth rate of 3.8% which is comprised of a long term GDP forecast in Belgium of 2% and inflation rate forecast of 1.8%. The EBIT margin is based on the average EBIT in the model between 2015 -2019 of 49%.
- **WACC-** the WACC used to discount the TS cash flow was estimated by 12.4%.

The following table presents the valuation results:

| <i>Currency: 000'€</i> | |
|--|---------------|
| Payment Terminals EV | 34,221 |
| Transaction Services EV | 11,072 |
| Total enterprise value | 45,293 |
| Net financial liabilities | (3,923) |
| Equity value | 41,370 |
| Issued shares as of the Valuation Date | 20,439 |
| Derived share price (estimated) | 2.02 € |

Based on our analysis, the fair value of Keyware was estimated within the range of € 36,679 thousands and € 47,743 thousands, with an average of € 41,370 thousands.

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