

Keyware Technologies N.V

Valuation update as of 31.12.2015

April 26, 2016

- This memorandum brings the main updates regarding Keyware Technologies N.V's (hereinafter "Keyware" or the 'Company') valuation report as of December 31, 2015 (hereinafter: "Memo date") with respect to the main report from December 31, 2014. (Hereinafter: "Report") and the last three valuation update memos as of March 31, 2015 June 30, 2015 and September 30, 2015.
- This memorandum includes the main changes in the valuation parameters used in the Report and the effect on Keyware's value, as of the Memo date.
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A. financial highlights- 31.12.2015

- **Revenues**- the revenues generated during the financial year of 2015 (hereinafter "The Period"), amounted to 12,491€ thousands, compared to 9,718€ thousands during the year of 2014. The increase is due to the continuing growth of Keyware as presented in 2014 results compared to previous years, the purchase of contracts from Globalpay transferred on January 1, 2015, higher authorization revenues in 2015 and a greater portion of contracts with a higher tariff.
- **EBITDA margin and operating margin** - the EBITDA margin during The Period amounted to about 40% compared to about 23.7% during the year of 2014. The operating margin for The Period amounted to about 26% compared to about 14% during the year of 2014.
- **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 during The Period amounted to about 35% compared to about 24.4% during the year of 2014.
- **Profit margin**- the profit margin for the first nine months of 2015 amounted to about 42.4%, compared to about 19.7% during the year of 2014. The reason for this increase, besides the increase in revenues as afore mentioned, is a deferred tax income of 1,373€ thousands triggered by the recognition of additional deferred tax assets relating to tax losses.

B. Valuation reconciliation

As we approached to the end of 2015, we have conducted a reconciliation analysis (hereinafter: “Reconciliation”) in order to assure that the initial forecast is in line with the actual results. The Reconciliation was conducted on the following parameters:

- **Financial ratios**- the relevant financial ratios that have been observed are the gross margin, EBIT margin and NIBTFE¹ margin

The results showed that The Company has exceeded all the parameters above. We note that a-553K Euros which were generated in the TS segment were recorded under the PT segment. Thus, the financial ratios’ analysis include this revenue among the TS segment and not in the PT segment. The reconciliation results of these parameters are presented in the table below:

	<u>Actual 2015</u>		<u>2015 Forecast as of 31.12.14</u>	
	<u>PT</u>	<u>TS</u>	<u>PT</u>	<u>TS</u>
Gross Margin	80%	100%	77%	82%
EBIT	23%	41%	NA	40%
NIBTFE	30%	NA	27%	NA

- **Cash revenues** – since the revenue recognition in the PT segment is made under IAS 17 instructions, the revenue recorded in the financial statements is not on cash basis. Since that in the PT valuation model we estimated the revenues on a cash basis we conducted a reconciliation analysis based on the P&L revenues and working capital changes presented in the cash flow statements. Furthermore, the table below presents the cash revenues’ growth –actual vs. forecast. The results are presented in the table below:

000'€	2015	2014
Revenues PL- including other profit and losses	12,805	9,996
Financial income	1,141	1,005
Total income	13,946	11,001
Change in lease receivables	-3,091	-2,505
cash revenues	10,855	8,496
<i>% growth</i>	28%	
2015 forecasted	10,272	
<i>% growth forecast</i>	21%	
Gap	583	
	6%	

¹ Since that the valuation model takes into account all cash revenues as part of the operating revenues, among that the financial income, the right reference in the PT model should be the NIBTFE, rather than the EBIT

- **Working capital**- the table below presents the actual change in WC (trade payables, inventories and other receivables only) and the forecasted WC change:

000'€	2015
Decrease / (increase) of inventories	-817
Decrease / (increase) of deferred charges and accrued income	11
Decrease / (increase) of trade and other receivables	217
(Decrease) / increase of trade debts	-1,259
(Decrease) / increase in other liabilities	114
Total change in WC	-1,734
Exclude one-time Parfip payment	800
Adjusted changes in WC	-934
Forecasted	764
Gap	1,698

Note- the one-time adjustment is due to the amount paid to Parfip in order to repurchase the remaining contracts sold in the past by the Company to Parfip.

- **Contracts and contracts' terminations**- the following tables present the forecasted contracts in 2015, as estimated in the 31.12.14 valuation report and the actual balance of the IB in 2015. The lower table presents the revenues of the PT segment, the contracts' terminations between 2012-2015, and the average contracts' termination ratio in the valuation model as of 31.12.2014:

# Contracts	2015	
	Actual	Forecast
OB	14,236	14,236
CB	16,947	16,124
Net growth	2,711	1,888
	19%	13%
Terminations	-1,702	-1,760
%	-11%	-12%

<u>Average discounts</u>						
000'€	2010	2011	2012	2013	2014	2015
Total terminations	-1,635	-1,110	-1,136	-1,176	-1,668	-1,702
OB contracts	9,923	10,195	10,719	12,114	13,135	14,236
CB contracts	10,195	10,719	12,114	13,135	14,236	16,947
Discount/revenue ratio	-16%	-11%	-10%	-9%	-12%	-11%
Average						-12%
Valuation 31.12.14 average						-15%

- **TS revenues and Brokering and spread income models transition**

As of the Memo Date, the total amount of contracts related to the TS segment was 14,346, compared to 10,236 contracts in the TS segment as of December 31, 2014, meaning a 35% growth. The portion of the TS contracts out of the total contracts in the PT segment was about 85%. The table below presents the actual results of 2015 compared to the initial forecast in 31.12.2014:

	2015 Actual	2015 Forecast (31.12.2014)	Gap
Total revenues (000'€)	1,481	1,445	2.5%
Brokering model contracts	1,147	2,410	-52.4%
SI model contracts	13,201	9,626	37.1%
Total TS contracts	14,348	12,036	19.2%
Total PT contracts	16,947	16,124	5.1%

The negative gap between the forecasted and actual brokering model contracts, is due to the fact that the brokering model has begun in mid-2015 and thus, a 50% gap is reasonable considering the time factor. The negative gap in the brokering model was offset by a higher number of SI model contracts compared to the forecast, resulting in higher revenues related to the TS segment compared to the forecast of total revenues in TS segment.

C. Valuation parameters' update

- Following the above reconciliation, the estimation of Keyware's fair value was updated due to several main financial and operational key indicators which were selected by us, due to our understanding of Keyware's activity, materiality and the reconciliation above mentioned.
- The main key indicators that were updated, in each business segment, are described as follow:

1. PT segment model

- **Contracts IB-** the IB was updated due to the IB as of December 31,2015;
- **Growth rate-** the growth rate was reassessed and is in accordance with market growth forecasts of an 11% CAGR during the period of 2016-2020, converging toward a long term growth rate of 2%. The market forecast is a CAGR of approximately 12%. Since The Company has exceeded its forecasts, we have applied a growth rate in accordance with market forecasts.
- **Gross margin and EBIT margin-** the gross margin and EBIT margin were updated due to the new average margins as of 2015.
- **Income tax-** the income taxes were updated due to the updated tax asset balance as of the Memo date.
- **WACC-** the WACC was updated due to changes in risk free rate, beta and debt structure of Keyware as of the Memo date.
- **Working capital-** the working capital was recalculated based on the historical cash flow statements.
- **CAPEX & Depreciation-** since the strategy of The Company is to seek for new strategic alliances and M&A opportunities (Globalpay transaction for example), we have updated the assumption regarding that the CAPEX will be equal to the depreciation. Thus, the CAPEX was calculated based on the historical CAPEX/revenues ratio.

2. TS segment model

Brokering-spread income models transition- due to the change in the IB balance as of the Memo date and the gap between the forecasted and actual brokering model contracts, the revenue forecast was updated. The updated revenue forecast is supported by both an independent analysis and company's updated forecasts. According to The Company's management, in 2016 the amount brokering model contracts is forecasted to be around 2,000, of which about 200 contracts are SI model contracts converted to the brokering model and the rest are new contracts via Worldline. We have

We have reassessed our initial forecast due to the actual results and The Company's new forecast. We have estimated that by 2019, 6,350 net new contracts with brokering model revenues will be added, of them 2,400 as result of conversion from SI model and about 3,250 contracts will be terminated within this period. Throughout the period between- 2020-2024, we have estimated an annual decrease of 2,000 contracts related to the in SI model and a moderate total increase in TS contracts up to 85% of PT contracts in 2024. Besides the aforementioned updates, all the parameters and assumptions regarding the revenues' growth remained unchanged. The following table presents the updated revenue forecast:

000' €	2016	2017	2018	2019	2020	2021	2022	2023	2024
Market forecast	9%	8%	8%	7%	7%	6%	6%	5%	4%
C.B terminal contracts	19,320	21,814	24,392	27,008	29,611	32,141	34,537	36,735	38,672
% of Transaction Services custom	81%	77%	72%	68%	71%	75%	78%	82%	85%
Total Transaction Services custom	15,648	16,698	17,498	18,298					
Old model revenues (Spreas income model):									
C.B contracts durring the year	13,001	12,601	11,801	10,801	8,801	6,801	4,801	2,801	801
Average contracts durring the year	13,101	12,801	12,201	11,301	9,801	7,801	5,801	3,801	1,801
Old model revenues	1,558	1,523	1,451	1,344	1,166	928	690	452	214
New model revenues (Brokering):									
C.B Brokering model contracts	2,647	4,097	5,697	7,497	12,282	17,192	22,172	27,156	32,070
Average contracts durring the year	1,897	3,372	4,897	6,597	9,889	14,737	19,682	24,664	29,613
Revenue from Brokering model	237	421	874	1,177	1,765	2,630	3,512	4,401	5,284
C.B total Transaction Services custom	15,648	16,698	17,498	18,298	21,083	23,993	26,973	29,957	32,871
Adj.	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total revenues	1,828	2,015	2,453	2,708	3,204	3,960	4,761	5,598	6,456

- **Gross margin and EBIT margin-** the gross margin and EBIT margin were updated due to the new average margins as of 2015.
- **WACC-** the WACC was updated due to changes in risk free rate, beta and debt structure of Keyware as of the Memo date.
- **Working Capital-** the working capital was recalculated based on the historical cash flow statements.
- **CAPEX & Depreciation-** since the main investments are in the PT segment, the assumption of CAPEX equal to depreciation hasn't changed but the depreciation amount was updated due to the CPAEX update in the PT segment.

Another update was made due to the change in net debt balance as of the Memo date.

The following table presents the changes in Keyware's value from December 31, 2014 throughout the year of 2015:

Parameter	Maximum effect
Keyware's Value as of 31.12.2014	41,370
IB contracts & growth rate update	28,736
Gross margin update	2,433
EBIT margin update	(4,162)
Tax asset update	(1,267)
CAPEX update	(1,568)
WC update	(14,216)
Net debt updated	259
WACC update	8,064
GPRS and non debit collections portion update	42
Others	18
Keyware's Value as of 31.12.2015	59,709

Currency: 000'€	31.12.2014	31.03.2015	30.06.2015	30.09.2015	31.12.2015
Net debt	3,923	4,993	4,927	4,532	3,251
WACC	12.7%	11.9%	12.9%	12.6%	11.7%
Enterprise value	45,293	50,210	55,169	56,494	62,960
Financial debt, net	(3,923)	(4,993)	(4,927)	(4,532)	(3,251)
Equity value	41,370	45,217	50,242	51,962	59,709

Based on our analysis, the fair value of Keyware was estimated within the range of € 51,435 thousands and € 71,543 thousands, with an average of € 59,709 thousands.

The following table presents selected financial key indicators as of the Memo date of Keyware and comparable companies:

Comparable name	Ticker	Country	Share price (€)	Market cap/ Millions €	EBITA margin	Profit margin	P/E***
INGENICO	ING FP	France	116.5	7,105	22%	10%	30.6
WIRECARD	WDI GR	Germany	46.5	5,742	29%	18%	41.0
WORLDLINE*	WLN FP	France	23.9	3,149	17%	8%	30.4
GLOBAL PAYMENTS	GPN US	United States	59.4	7,711	21%	10%	24.9
TOTAL SYSTEM SERVICES	TSS US	United States	45.8	8,432	29%	13%	27.2
FISERV	FISV US	United States	84.2	19,236	33%	14%	27.3
HEARTLAND PAYMENT SYSTEMS	HPY US	United States	87.3	3,207	10%	3%	43.3
MI-PAY GROUP	MPAY LN	UK	-	15	-123%	-160%	-
SHENZHEN XINGUODU TECHNOLOGIES	300130 CH	China	5.3	1,209	4%	12%	34.7
KEYWARE**	KEYW BB	Belgium	2.8	42	40%	42%	7.6

*Worldline's wasn't taken into account as a comparable company for the WACC calculation, due to the fact that Worldline is not traded enough time and using its trading data would result a significant inaccuracy.

** Keyware's EBITDA margin (quarterly-latest quarter) as of the Memo Date was taken from the press release from March 2016. The share price of keyware presented in this table is based on the derived share price from this updated value of Keyware as of December 31 2015, while the comparable companies share price presented is according to the quoted share price as of the Memo Date.

***The P/E multiple of Keyware is based on the quoted share price as of the Memo date and not on the derived share price from Keyware's fair value estimation as of December 31 2015.

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