10 Bagger Research

10BAGGER

WE.Connect SA

Euronext Paris: ALWEC

Purpose of the document and Disclaimer

This analysis is not intended to replicate the approach of a Sell-Side analyst seeking to predict the company's future performance. Rather, it is presented from the **perspective of an investor** seeking to determine whether the company represents an attractive investment opportunity.

The primary objective is to provide information and analysis that may encourage readers to conduct **their own research and make informed investment decisions.**

No buy or sell recommendations are offered, and readers are encouraged to conduct their own due diligence before making any investment decisions. It does not provide investment advice.

This document contains forward-looking estimates and personal opinions of the author. Please use caution when relying on such information, which may not be accurate.

The information on the company under review is based on the author's own research using publicly available data. The information is believed to be accurate, but no warranties are made as to its accuracy.

The author discusses these and other ideas on his blog:
https://10baggernewsletter.substack.com/

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We.connect in a nutshell

WE.connect group is an IT hardware wholesaler whose main products are computers, monitors, multimedia products, storage products, printers and supplies and accessories. It distributes products of more than 30 brands, some of them very well known, such as Acer, Samsung, HP, Lenovo, Iyama, LG and many others. It complements its activity as a distributor with the sale of products under its own brands, which compete in the low-cost segment.

Over the years, the company has increased its agreements with suppliers and the number of brands distributed.

Their main market is France, which accounts for more than 90% of the sales. Internationally, the company sells their main brand, WE, in the Gulf countries.

The company is growing organically by gaining market share and entering new partnerships with suppliers and also through acquisitions that help them expand their product portfolio and generate synergies such as the absorption of fixed costs or the introduction of new customers.

The market is coming off two bad years with the post-covid hangover, where demand for IT products increased dramatically. Demand should start to recover and be robust over the next few years, as the refresh cycle of PCs sold during covid begins. In addition, the introduction of the new AI computers and the end of Windows 10 support in 2025 should boost sales.

The company is managed by the founders, who earn a modest salary of less than 130,000 euros, and whose wealth depends entirely on dividends and the increase in the value of the company's shares, thus aligning them entirely with the shareholder.

Since its IPO in 2016, the company has grown at a CAGR of 19.5%, including M&A and organic growth. Organic growth has averaged a CAGR of 12%.

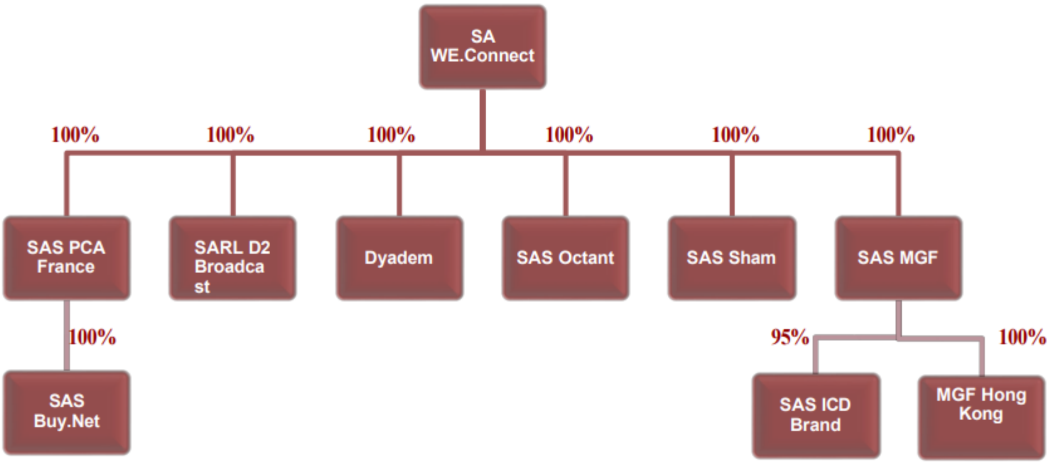
Despite being a company that generates over 25% ROICS, it trades at very attractive multiples of 4.6x EV/EBITDA, 5.2x P/E and 6.7x FCF normalized by working capital.

One of the keys to investment is working capital. Due to supply chain issues during the pandemic, the company increased their investment in working capital. Currently, working capital investment represents 93% of enterprise value. Just by normalizing working capital levels, the company will generate cash flow equivalent to nearly half of its enterprise value.

Introduction

WE.Connect Group is the result of the merger by absorption of Groupe Unika by Technline, which took place on December 17, 2015. The company was listed on Euronext Paris in 2016 under the ticker ALWEC.

The group specializes in the design, manufacture, assembly and distribution of computer hardware and electronics, with nearly 20 years of experience.



Distribution on behalf of third parties

The WE.Connect Group operates as a wholesaler of IT products. The company is part of a three-way relationship, acting as an intermediary between major brand manufacturers and mass retailers. With over thirty brands distributed, the group has established solid long-term partnerships with major high-tech brands such as Acer, Samsung, HP, Lenovo, Ilyama, LG and many others over the years.

Accessory Manufacturing

The WE.Connect Group offers a complete range of consumer electronics products that it designs, assembles and distributes.

The company sells products under its own brands, which generates a higher margin than distribution on behalf of third parties.

Customized PC Design and Assembly

The WE.Connect Group has its own in-house assembly line, enabling it to offer a range of customized PCs to its customers and institutional clients.

The Company's products are sold to specialized supermarkets, large and medium sized retailers, computer resellers and specialized e-commerce stores such as Fnac, Boulanger, Carrefour, Leclerc and through Internet sites such as Cdiscount and Rue du Commerce, as well as through its own websites such as www.mgf-info.fr and www.pcafrance.fr.

The Group's main products include computers, monitors, multimedia products, storage products, printers, and consumables and accessories (cases, phone accessories, tablets, and connectors), although we can also find all kinds of electronic products such as electric scooters and electric bicycles, among others.

Subsidiaries:

M.G.F.

M.G.F., the historical subsidiary of the Group, is responsible for the distribution of computer equipment and is the owner of the WE brand. This subsidiary also houses the Shenzhen office of M.G.F. Hong Kong, which guarantees the quality of the products supplied.

D2 DIFFUSION

In October 2012, WE.Connect Group acquired D2 Diffusion. D2 Diffusion, a specialist in connectors since 1981, has enabled the Group to support its strategic focus on accessories under its own brand.

PCA FRANCE

Founded in 1999 and acquired by WE.Connect in fiscal year 2017, PCA France has been distributing hardware from major brands such as Samsung and Liyama to resellers, particularly B-to-B industry leaders, for nearly 20 years. The company also offers a wide range of components, peripherals, and accessories under its own brands. Its Heden brand specializes in video surveillance and home automation. By decision of June 11, 2018, this company also benefited from the universal transfer of assets and liabilities of its subsidiary Halterrego and took over its operations. PCA France offers trendy items to the public through mass distribution and retail.

OCTANT / DYADEM / SHAM

Founded in 1992 and 1999 respectively, Dyadem and Octant are specialists in printing systems, consumables, and data backup, based in the Tours region. Specialized wholesalers, the two companies have developed a catalog of the leading brands of printers and consumables such as Brother, Epson, HP, Lexmark, Pantum, Ricoh, etc. and a strong partnership with Fuji for data backup products. Sham is the logistics platform of Dyadem and Octant.

Major milestones and events over the years

2016

IPO.

As part of their international strategy, they decided to stop distributing third party products and focus on their own branded products.

Launch of the GAMIUM brand, dedicated to gaming accessories.

2017

Acquisition of PCA FRANCE and HALTERREGO.

Target of 100 million sales in 2018.

2018

Strategic agreement with Kuwait for the distribution of the WE brand and New agreement with HP for the distribution of accessories in France.

Partnership with the LENOVO brand for the distribution of its IT and peri-IT products in France.

Start of construction of the new headquarters, which will bring together all the Group's offices on one site, in addition to the new logistics warehouse, which doubles the capacity of the previous one.

Achieved sales of 122 M, exceeding the target of 100 M proposed in 2017. Set a target of 200 M sales for 2022.

2019

Extension of the collaboration with ACER. Signing of this new agreement for the **exclusive** indirect distribution of PREDATOR and NITRO gaming accessories in France.

Extension of the agreement with HP to distribute the entire range of PCs and laptops.

2020

211 million in sales, already exceeding the 2022 target of 200 million.

2022

Acquisition of DYADEM, OCTANT and its logistics platform SHAM, entering the printer and supplies business, which is a more recurring source of revenue than consumables.

Signing of a new national distribution agreement with EPSON.

New activity "WE SECONDE VIE", which proposes that at the beginning of 2023, WE. CONNECT will also offer its reseller customers: a buy-back service for their old IT equipment and smartphones, and a new commercial offer of refurbished products. This new activity will further increase customer loyalty.

2023

New agreement with HP to distribute its products for the business and public sector, such as PCs, monitors, workstations, accessories, and services, including HP ProBook, HP EliteBook and HP Dragonfly notebooks, as well as ZBook workstations.

The distribution business

The Company's core business is third-party distribution. This is a business with low operating margins and low fixed asset requirements. The primary investment of these companies is typically in working capital, which causes free cash flow generation to lag net income as it grows.

Despite being a "simple middleman," distributors add value to both suppliers and customers in a variety of ways:

Manufacturers: Increased reach through the broad customer network, allowing suppliers to reach a wider audience without having to invest in marketing and sales. Reduced logistics costs. Wholesaler assumes inventory and non-payment risk. Working capital financing as the wholesaler typically pays suppliers earlier than large retailers such as Carrefour.

Customers: Outsourcing of warehousing and shipping on their behalf. The ability to access products from different brands without having to invest in establishing relationships with different manufacturers, as the distributor is a one-stop shop. Working capital financing.

Investors also have certain advantages, such as a lower risk bet on a sector than investing in a single manufacturer.

Business model

The company's main market is France, with 91.5% of sales in the country in 2022. The company also sells its WE brand internationally in the Gulf countries with high commercial potential.

The company has chosen to focus its growth in recent years on corporate customers with higher visibility and recurring revenues. The focus on these customers has been supported by recent acquisitions, with corporate customers generating more than 70% of sales in 2022.

The company's core business is the distribution of IT and IT peripheral products.

The company distributes the products of more than 30 brands with whom it has forged solid long-term partnerships with high-tech brands over the years. These are some of them:

The company does not break down the weight of each supplier on sales, which could be a risk . Given the large number of suppliers and the company's ability to expand partnerships, as in the case of HP or even the agreement with acer for the exclusive indirect distribution of PREDATOR and NITRO gaming accessories, the company is doing its job well and mitigating this risk.

The company's customers range from specialized supermarkets to large and medium-sized retailers, computer resellers and e-commerce specialists such as Fnac, Boulanger, Carrefour, Leclerc, Cdiscount and Rue du Commerce, as well as on its own sites such as www.mgf-info.fr, www.pcafrance.fr.

The 17 major customer chains alone represent 4,000 points of sale throughout France. As with suppliers, the company does not disaggregate information on the weight of each customer, which is another potential risk.

Own brands

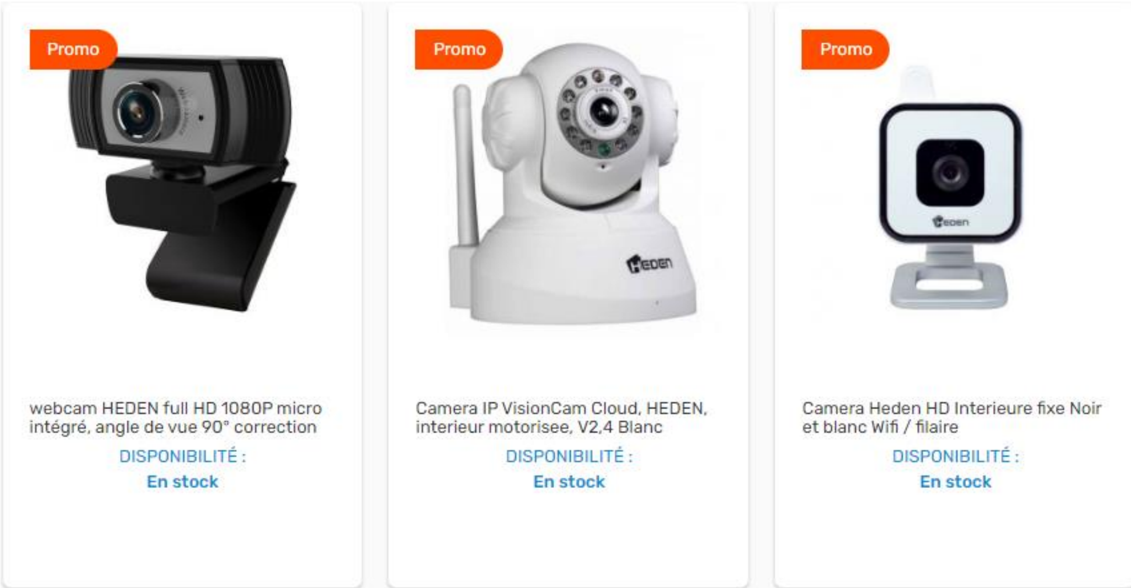
Relying on its logistics and its relationships with its customers and suppliers, the company complements its distribution of third-party brands with the sale of its own brands, which, although they represent a small part of its sales, are more profitable:

WE: WE offer a wide range of accessories for tablets, smartphones and laptops (bags, cases, speakers, etc.). It targets a broad audience as well as more specific audiences such as gamers, children, social network users and people who work from home. In addition to its core product line, the company is quick to seize market opportunities for products that become trendy at any given time, such as self-balancing electric scooters or set-top boxes for televisions. Basically, if they can replicate a technology-related product and offer it at a competitive price, they do.

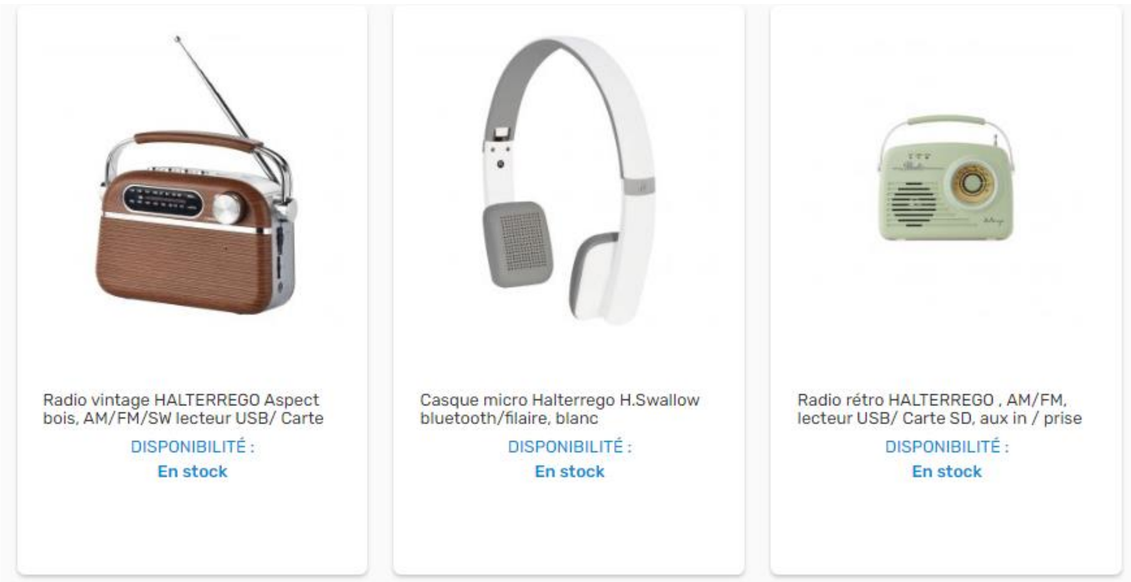
D2DIFFUSION: specialized in sound, image, and multimedia connectors.



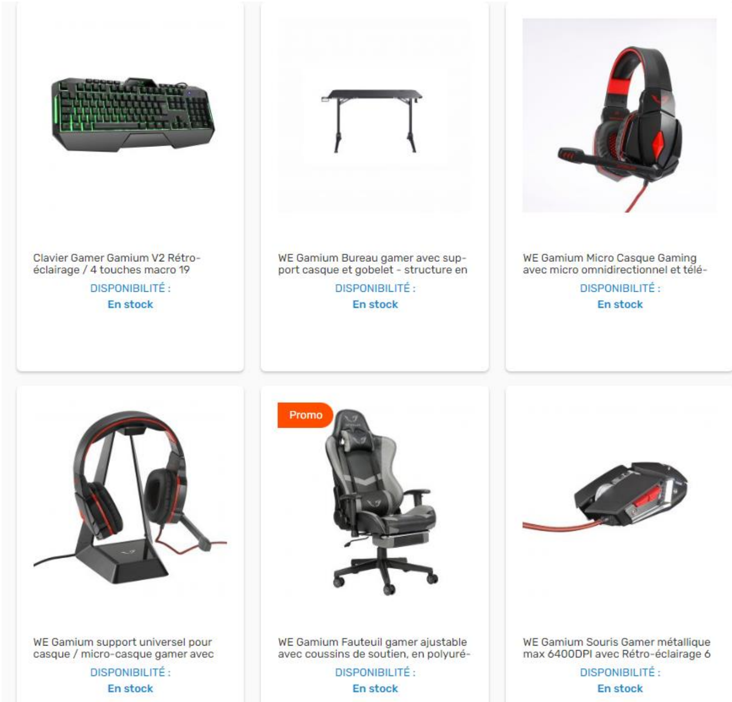
HEDEN: Specialized in video surveillance and home automations



Halterrego: specialized in sound.



Gamium: specialized in gaming.



Growth Strategy

Organically, by signing agreements with new brands.

Through M&A, by acquiring companies that allow it to achieve synergies by expanding its product portfolio, absorbing fixed costs, and creating cross-selling opportunities by leveraging the customer relationships it has built over the years.

Industry overview

According to the British research company, Context (January 2023), based on a wide range of distributors, they estimate that in 2022 the technology distribution market in France will be worth 8.3 B €. While according to Research and Markets the total IT hardware market would be valued at 12.34 B USD in 2022 and they estimate that it will grow at a rate of 3.9% per year until 2027.

According to Context data and the company's sales in 2023, the company would have no more than a 3% market share among distributors, which will allow it to continue to grow and gain market share. (This information should be treated with caution since there are many different components within this market in which the company may not be present, the author recommends that it be taken as a proxy to understand whether the company will have the capacity to continue growing or not, even if the data it is taken from professional analysis houses).

Demand drivers of the industry:

The industry has certain drivers and characteristics in terms of demand and cyclicality, which the author considers to be the most important:

Seasonality: Demand tends to be higher in the last quarter of the year due to Christmas shopping and the start of the new school year.

PC refresh cycle: It depends on whether the computer is for home, professional, or gaming use, but the average cycle is between 3 and 5 years.

Technological trends: Demand for new products increases when new technologies such as new processors or graphics cards are introduced.

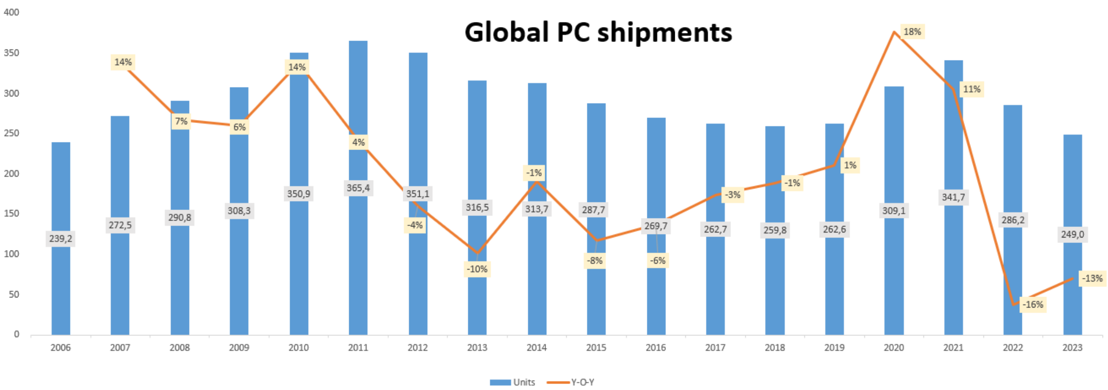
Other trends: Other positive trends for the industry include gaming and the increase in work from home.

Current market situation

Global computer sales are a good proxy for the market in which the company operates, and right now they are not at their best. In 2020 and 2021, there was a huge increase in demand for IT products due to the pandemic, with computer sales increasing by 18% and 11% respectively. This large increase in demand in those years caused a hangover with record sales declines of 16% and 13% in 2022 and 2023, respectively.

Gartner on Q4 2022: " Worldwide PC shipments totaled 65.3 million units in the fourth quarter of 2022, a 28.5% decrease from the fourth quarter of marking the largest quarterly shipment decline since Gartner began tracking the PC market in the mid-1990s. Mikako Kitagawa, Director Analyst at Gartner, said:

"The anticipation of a global recession, increased inflation and higher interest rates have had a major impact on PC demand. Since many consumers already have relatively new PCs that were purchased during the pandemic, a lack of affordability is superseding any motivation to buy, causing consumer PC demand to drop to its lowest level in years."



Source: from 2006 to 2022, Statista. 2023 by IDC.

Market Outlook

The outlook for the market is positive as we have several of the positive trends mentioned above.

AI PCs: HP will launch AI PCs in the second half of 2024.

Windows 10: Windows 10 will be unsupported on October 14, 2025.

PCs refresh cycle: Starting in 2024, the large number of PCs sold during the pandemic will begin their refresh cycle.

Shareholders, Management and Capital allocation

The company is controlled by the founders, brothers Moshey Gorsd (51 years old) and Yossef Gorsd (41 years old), who together hold 81.61% of the capital.

The management is fully aligned, with a salary of less than €130,000, depending entirely on dividends and share price increases.

To incentivize employees, the company pays a small amount in shares, which it then mostly buys back. In 2022, this bonus was worth €241,990.

Only 15% of this bonus goes to managers, the rest is intended for all employees of the company to give them a sense of ownership and incentive. Each employee receives 150 shares per year.

Since the IPO, the dilution has been 1.9%.

something to keep an eye on:

The real state of We.connect is leased by the company SCI LIBAI, a company owned by the Gorsd brothers. In the company's records, we can see the rent expenses. Since 2018, when the construction of the new facilities began, the rent paid has remained stable, and there seems to be no reason to doubt the Gords brothers' honesty.

Capital Allocation

The cash generated by the company has been invested in further growth, either organically through investment in working capital or inorganically through acquisitions.

The remainder is used to buy back some of the shares issued as a bonus to avoid dilution and to pay a small dividend. The dividend was only eliminated in 2020 because the company received government-guaranteed loans during the pandemic.

Financial analysis

P&L

Consolidated income statement	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023E
Sales	**75.601.328**	**93.677.634**	**122.035.032**	**155.018.462**	**211.376.150**	**217.493.715**	**237.474.027**	**263.400.000**
Y-O-Y		23,9%	30,3%	27%	36,4%	2,9%	9,2%	10,9%
Cost of goods sold	(66.159.385)	(82.173.400)	(108.688.294)	(140.266.749)	(193.558.599)	(197.147.927)	(212.141.933)	(231.792.000)
Gross profit	**9.441.943**	**11.504.234**	**13.346.738**	**14.751.713**	**17.817.551**	**20.345.788**	**25.332.094**	**31.608.000**
GPM	12,5%	12,3%	10,9%	9,5%	8,4%	9,4%	10,7%	12%
External services , supplies and consumables	(2.755.247)	(2.963.334)	(3.329.391)	(3.508.563)	(4.079.048)	(3.707.860)	(6.280.502)	(9.745.800)
Taxes	(338.740)	(586.985)	(478.647)	(771.981)	(415.791)	(535.599)	(779.239)	(737.818)
Personnel expenses	(3.022.287)	(3.334.266)	(4.090.684)	(4.531.634)	(4.995.784)	(5.832.675)	(8.472.429)	(7.713.343)
EBITDA	**3.225.668**	**4.619.648**	**5.448.016**	**5.939.535**	**8.326.928**	**10.269.654**	**9.799.924**	**13.411.039**
EBITDA margin	4,3%	4,9%	4,5%	3,8%	3,9%	4,7%	4,1%	5,1%
Net depreciation, amortization and provisions	274.994	(650.451)	(527.563)	(231.456)	(218.002)	(1.133.230)	(713.905)	(553.709)
EBIT	**3.600.661**	**3.969.197**	**4.920.453**	**5.708.080**	**8.108.926**	**9.136.424**	**9.086.019**	**12.857.330**
EBIT Margin	4,8%	4,2%	4,0%	3,7%	3,8%	4,2%	3,8%	4,9%
Net financial income	60.667	430.491	100.072	(1.070.102)	(930.845)	(720.807)	(764.451)	(476.950)
Exceptional results	(190.858)	768.037	(356.850)	(639.951)	(149.910)	(550.452)	1.632.770	(148.442)
Income before taxes	**3.470.470**	**5.167.725**	**4.663.675**	**3.998.027**	**7.028.171**	**7.865.165**	**9.954.338**	**12.231.938**
Corporate income tax	(33.797)	(533.972)	(322.521)	(1.651.124)	(1.882.759)	(1.511.055)	(2.076.784)	(3.424.943)
Net income	**3.436.674**	**4.633.753**	**4.341.153**	**2.346.902**	**5.145.412**	**6.354.110**	**7.877.554**	**8.806.995**
of wich minority interest	(2.691)	(7.378)						
avg number of shares	2.726.116	2.736.916	2.736.922	2.736.922	2.745.166	2.753.166	2.763.601	2.776.685
Earnings per share	**1,26**	**1,69**	**1,59**	**0,86**	**1,87**	**2,31**	**2,85**	**3,17**
Dividend per share	0,13	0,25	0,25	0,25	0	0,40	0,40	
payout	10%	15%	16%	29%	0%	17%	14%	

2023 data are estimates except for sales figure.

P&L Analysis	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023E
Growth %	N/A	23,9%	30,3%	27%	36,4%	2,9%	9,2%	10,9%
Organic growth %	N/A	11,7%	23,8%	27%	36%	2,9%	-11%	1%
export sales	13,6%	10,4%	10,4%	8,1%	3,9%	7,0%	8,5%	N/A
Gross profit margin	12%	12,3%	10,9%	9,5%	8,4%	9,4%	10,7%	12,1%
EBITDA Margin	4,3%	4,9%	4,5%	3,8%	3,9%	4,7%	4,1%	5,1%
EBIT Margin	4,8%	4,2%	4%	3,7%	3,8%	4,2%	3,8%	4,9%

Since 2016, the company has grown at a CAGR of 19.5%, combining organic growth and M&A. Organically, the company has grown at a CAGR of 12%.

In terms of margins, we should pay particular attention to the gross margin and the EBITDA margin, as the company is very conservative with provisions and a large part of these are often reversed, distorting the margins. We see that although the trend has been upward in recent years, there has been a significant decline in margins since 2018. This is mainly due to an increase in the number of deals for new licenses, which increased sales of third-party brands over own brands, which generate lower margins.

Balance sheet

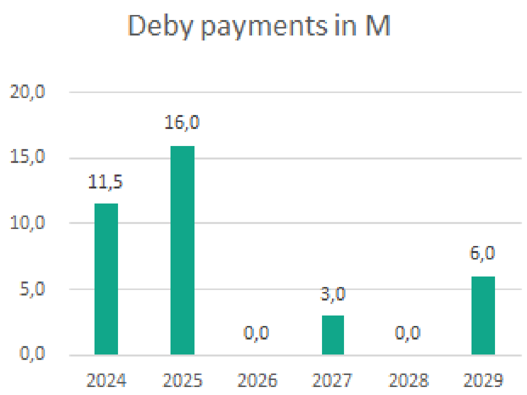
Consolidated Balance Sheet	2016	2017	2018	2019	2020	2021	2022	2023 H1
Net intangible assets	1.738.622	1.960.547	2.203.125	1.428.247	1.780.592	1.836.675	2.052.775	2.040.807
Property , plant and equipment	453.020	679.630	441.067	270.169	473.086	521.392	732.369	910.445
long - term investments	2.675.818	3.543.353	4.482.512	2.166.345	2.694.938	3.545.147	4.088.583	3.991.768
Non - current assets	**4.867.460**	**6.183.530**	**7.126.704**	**3.864.761**	**4.948.616**	**5.903.214**	**6.873.727**	**6.943.020**
Net inventories	13.888.842	20.177.894	27.021.693	30.714.020	34.545.321	50.877.429	65.720.487	76.568.808
Net trade receivables	15.152.910	21.658.910	28.614.700	36.820.814	45.585.406	33.671.735	39.873.572	55.054.902
Other receivables	3.016.276	3.886.937	8.362.752	14.166.289	5.953.349	8.564.035	15.468.989	14.746.368
Marketable securities	2.164.515	5.429.573	4.109.207	3.403.028	4.521.542	4.863.008	5.133.150	4.845.629
Cash and cash equivalents	10.216.428	17.718.870	15.779.969	23.283.142	38.591.068	31.174.336	24.534.776	14.161.856
Current assets	**44.438.971**	**68.872.184**	**83.888.321**	**108.387.293**	**129.196.686**	**129.150.543**	**150.730.974**	**165.377.563**
Total assets	**49.306.431**	**75.055.714**	**91.015.025**	**112.252.054**	**134.145.302**	**135.053.757**	**157.604.701**	**172.320.583**
Share or individual capital	14.273.277	14.314.071	14.314.071	14.314.071	14.357.218	14.401.412	14.453.602	14.522.031
Bonus	945.723	945.723	945.723	945.723	945.723	945.723	945.723	945.723
Consolidated reserves	(3.134.426)	(348.456)	3.316.792	7.735.462	14.311.377	20.790.881	27.415.858	30.503.027
Minority interest in reserves	(10.881)	(8.563)	(8.391)	(12.055)	(12.055)	(12.055)	-	-
Total equity	**15.510.367**	**19.536.528**	**22.909.348**	**25.330.103**	**29.602.263**	**36.125.961**	**42.815.183**	**45.970.781**
Provisions	**2.813.331**	**3.622.082**	**2.978.857**	**2.111.363**	**1.054.543**	**1.036.498**	**2.064.974**	**1.994.108**
Payables to credit institutions	7.077.074	15.005.446	14.065.099	14.332.051	29.795.729	27.823.669	40.472.731	35.287.058
Trade payables	21.275.843	32.992.668	46.069.289	60.242.407	67.816.240	63.719.081	58.758.680	80.370.944
other payables and accruals	2.629.817	2.127.990	4.992.431	10.235.129	5.865.002	6.348.547	13.493.133	8.679.692
Total liabilities	**49.306.432**	**73.284.714**	**91.015.024**	**112.251.053**	**134.133.777**	**135.053.756**	**157.604.701**	**172.320.583**

Balance sheet analysis and return on capital	2016	2017	2018	2019	2020	2021	2022	2023H1
DEBT	7.077.074	15.005.446	14.065.099	14.332.051	29.795.729	27.823.669	40.472.731	35.287.058
Net DEBT	(5.303.869)	(8.142.997)	(5.824.077)	(12.354.119)	(13.316.881)	(8.213.675)	10.804.805	16.279.573
NET DEBT / EBITDA	**(1,6)**	**(1,8)**	**(1,1)**	**(2,1)**	**(1,6)**	**(0,8)**	**1,1**	**1,2**
Inventories	13.888.842	20.177.894	27.021.693	30.714.020	34.545.321	50.877.429	65.720.487	76.568.808
Trade receivables	15.152.910	21.658.910	28.614.700	36.820.814	45.585.406	33.671.735	39.873.572	55.054.902
Other receivables	3.016.276	3.886.937	8.362.752	14.166.289	5.953.349	8.564.035	15.468.989	14.746.368
Trade payables	21.275.843	32.992.668	46.069.289	60.242.407	67.816.240	63.719.081	58.758.680	80.370.944
Other payables and accruals	2.629.817	2.127.990	4.992.431	10.235.129	5.865.002	6.348.547	13.493.133	8.679.692
Total working capital	**8.152.368**	**10.603.083**	**12.937.425**	**11.223.587**	**12.402.834**	**23.045.571**	**48.811.235**	**57.319.442**
Inventories / sales	18,4%	21,5%	22,1%	19,8%	16,3%	23,4%	27,7%	29,1%
Trade receivables / sales	20%	23,1%	23,4%	23,8%	21,6%	15,5%	16,8%	20,9%
Other receivables / sales	4,0%	4,1%	6,9%	9,1%	2,8%	3,9%	6,5%	5,6%
Trade payables / sales	28,1%	35,2%	37,8%	38,9%	32,1%	29,3%	24,7%	30,5%
Other payables and accruals / sales	3,5%	2,3%	4,1%	6,6%	2,8%	2,9%	5,7%	3,3%
Working capital / sales	**10,8%**	**11,3%**	**10,6%**	**7,2%**	**5,9%**	**10,6%**	**20,6%**	**21,8%**
Invested capital	13.019.828	16.786.613	20.064.129	15.088.348	17.351.450	28.948.785	55.684.962	64.262.462
ROIC	27,4%	21,2%	22,8%	22,2%	34,2%	25,5%	12,9%	14,4%

Data for 2023 are based on H12023 balance sheet and estimates.

Amounts due to credit institutions comprise the following loans :

(1) Loan from a banking pool (SG/CDN/CE) dated 30/06/2017: 8,000,000 euros (term: 7 years / rate: Euribor 3 months + 1.35% p.a.)
(2) Club loan from BPI France dated 20/04/2022: 5,000,000 euros (term: 7 years / rate: 0.95% p.a.)
(3) Loan from CRCA dated 14/09/2018: 1,000,000 euros (term: 60 months / rate: 0.60% p.a.)
(4) Loan from BPI France dated 07/31/2018: 2,000,000 euros (term: 5 years / rate: 0.90% p.a.)
(5) Loan from BPI France dated 16/04/2020: 5,000,000 euros (term: 60 months / rate: 2.00% p.a.)
(6) Loan from CRCA dated 26/10/2020: 500,000 euros (term: 48 months / rate: 0.35% p.a.)
(7) Loan from BPI France dated 22/11/2021: 3,000,000 euros (term: 36 months / rate: Euribor 3 months + 0.70% p.a.)
(8) Loan from CIC dated 02/05/2022: 3,000,000 euros (term: 60 months / rate: 0.95% p.a.)
(9) Loan from CRCA dated 14/04/2022: 3,000,000 euros (term: 36 months / rate: 0.84% p.a.)
(10) SG loan dated 22/02/2022: 2,000,000 euros (term: 36 months / rate: 0.45% p.a.)
(11) Loan from BPI France dated 04/05/2022: 1,000,000 euros (term: 84 months / rate: 1.19% p.a.)
(12) Loan from CDN dated 14/04/2022: 3,000,000 euros (term: 36 months / rate: 0.32% p.a.)



The company has historically been very conservative with its balance sheet, which is common for family-owned companies, and has operated with net debt until 2021. This is largely due to the supply chain disruptions during the pandemic, which caused many companies to increase their inventories for fear of not having product to sell. With the current level of debt, the company will have no problem repaying or refinancing debt. Most of the debt is fixed rate and the variable rate debt will be paid off in 2024.

This is perfectly understandable when you look at working capital, which was 7.2% of sales in 2019 before the pandemic and has never exceeded 11.3%, while it is currently 21.8%, three times higher.

This increase in investments, together with the decline in demand, has also affected the company's ROIC, which has historically been very high, exceeding 20% every year.

In the coming years, we expect the level of working capital to normalize, with the consequent cash generation by the company, elimination of debt and increase in ROIC.

Cash Flow

Consolidated cash flow statement	2016	2017	2018	2019	2020	2021	2022	2023H1	2023E
Consolidated net income	**3.436.674**	**4.633.753**	**4.341.153**	**2.346.902**	**5.145.412**	**6.354.110**	**7.877.553**	**4.288.402**	**9.285.285**
Depreciation and provisions	(66.205)	188.531	(2.102.586)	1.611.541	852.939	825.189	1.978.107	(347.259)	553.709
Change in deferred taxes	-	(8.001)	(42.214)	391.863	251.138	(180.375)	(96.642)	65.685	-
Capital gains on disposals, net of tax	-	(23.536)	(7.930)	(145.372)	(85.000)	(7.900)	(4.900)	(15.728)	-
Net change in current assets and liabilities	(2.692.318)	85.488	(4.541.545)	516.948	(5.634.617)	(11.876.121)	(26.297.697)	(7.999.906)	(8.508.207)
Net cash flow from operating activities	**678.151**	**4.876.235**	**(2.353.122)**	**4.721.882**	**529.872**	**(4.885.097)**	**(16.543.579)**	**(4.008.806)**	**1.330.787**
Acquisitions of fixed assets	(166.674)	(1.079.146)	1.190.970	(826.589)	(3.404.257)	(1.448.013)	(1.691.165)	(429.147)	(1.870.140)
Disposals of fixed assets, net of tax	102.122	103.566	178.340	2.250.135	293.272	797.758	501.690	1.103.396	1.103.396
Impact of changes in the scope of consolidation	-	415.512	-	40.206	-	-	478.045		-
Net cash flow from investing activities	**(64.552)**	**(560.068)**	**1.369.310**	**1.463.752**	**(3.110.985)**	**(650.255)**	**(711.430)**	**674.249**	**(766.744)**
Dividends paid to parent company shareholders	-	(354.785)	(683.347)	(684.231)	(686.293)	0	(1.101.900)	(1.109.150)	
Change in translation reserve	(128.273)	(7.670)	(277.948)	39.405	(166.189)	169.587	113.561	23.652	
Capital increase or other equity	-	-	-	-	-	-	-	(23.652)	
Decrease in capital or other shareholders' equity	-	-	-	-	-	-	-	(7.115)	
Associates' current accounts	(523.953)	(765.202)	633.623	1.349.880	3.539.744	(599.670)	(1.200.447)	(766.854)	
Bond issues	6.000.000	10.000.000	3.000.000	2.000.000	17.500.000	3.443.700	17.000.000	3.000.000	
Loan repayment	(305.418)	(2.071.628)	(3.940.347)	(3.991.905)	(2.172.840)	(5.347.293)	(18.265.245)	(5.579.769)	
Net cash used in financing activities	**5.042.356**	**6.800.715**	**(1.268.019)**	**(1.286.126)**	**18.014.422**	**(2.333.676)**	**(3.454.031)**	**(4.462.888)**	
Change in cash	**5.655.955**	**11.116.882**	**(2.251.831)**	**4.899.508**	**15.433.309**	**(7.869.028)**	**(20.709.040)**	**(7.797.445)**	

data from of 2023 is based on estimates

Cash flow analysis	2016	2017	2018	2019	2020	2021	2022	2023E
Capex / sales	0,22%	1,15%	-0,98%	0,53%	1,61%	0,67%	0,71%	0,71%
Levered Free cash flow	613.599	3.900.655	(983.812)	6.145.428	(2.581.113)	(5.535.352)	(17.733.054)	564.043
Levered Free cash flow excluding working capital	3.305.917	3.815.167	3.557.733	5.628.480	3.053.504	6.340.769	8.564.643	9.072.250

As we can see, the company does not need much investment in fixed assets since the company's facilities are leased.

As for cash generation, we need to understand what kind of business we are dealing with and the impact of working capital on it. This effect is very common in distributors, when they grow at high rates, they need large investments in working capital and when they stop growing, they generate that cash. Due to the pandemic, as an exceptional case, they have not been able to generate this cash even though growth has decreased and this is due to the disruption in the supply chain, which sooner or later will normalize.

The author believes that free cash flow excluding working capital is a more realistic representation of the company's ability to generate profits.

Valuation

Valuation against peers

We have chosen a list of companies that are as similar as possible, although some of them offer other IT-related services in addition to distribution. Looking at the peer group, we can see that it trades at a significant discount despite having better fundamentals, probably because it is the smallest company.

		EV/Sales			EV/EBITDA			P/E		
Company	Market cap € MM	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Esprinet	261,85	0,13	0,13	0,12	7,89	6,75	6,3	11,42	8,71	7,7
ASBISc Enterprises Plc	338,92	0,75	0,68	0,63	16,78	16,07	15,61	18,2	16,42	15,61
AB S.A.	296,13	0,10	0,09	0,08	4,96	4,86	4,7	8,07	7,31	6,70
ALSO Holding AG	3018,39	0,24	0,23	0,22	9,58	8,3	7,4	19,94	19,38	16,78
Arrow Electronics	5575,94	0,31	0,34	0,32	5,88	7,81	6,72	6,93	11,35	7,97
TD SYNNEX	8410	0,22	0,21	0,21	7,22	7,31	6,90	14,55	11,12	9,82
WE.Connect	45,88	0,24	0,21	0,18	4,63	4,14	3,7	4,99	4,41	3,92
Median		**0,24**	**0,21**	**0,21**	**7,22**	**7,31**	**6,72**	**11,42**	**11,12**	**7,97**
Mean		**0,28**	**0,27**	**0,25**	**8,14**	**7,89**	**7,33**	**12,01**	**11,24**	**9,79**

Discounted Cash Flow Valuation

We will value the company using the discounted cash flow method under two scenarios.

Base case: This scenario is based on a recovery starting in 2024 and achieving management's revenue target of 300 million.

Bear case: This is a scenario in which the recovery is delayed, and the company fails to return to pre-pandemic growth.

The 2 scenarios exclude any M&A activity, a cash generation in 2023 of €564,043 and a return to working capital levels at their pre-pandemic peak of 11% in 2025. This cash generation includes maintaining inventories at the same level as in H1, but we should not rule out a reduction in inventories due to the seasonality of the business.

Base case

BASE CASE	2024E	2025E	2026E	2027E	2028E	2029E	2030E	TV
Sales	300.000.000	336.000.000	366.240.000	399.201.600	427.145.712	448.502.998	461.958.088	471.197.249
Gross profit	33.000.000	36.960.000	40.286.400	43.912.176	46.986.028	49.335.330	50.815.390	51.831.697
EBITDA	15.000.000	16.800.000	18.312.000	19.960.080	21.357.286	22.425.150	23.097.904	23.559.862
EBIT	13.500.000	15.120.000	16.480.800	17.964.072	19.221.557	20.182.635	20.788.114	21.203.876
EBIT TAX	3.375.000	3.780.000	4.120.200	4.491.018	4.805.389	5.045.659	5.197.028	5.300.969
NOPAT	**10.125.000**	**11.340.000**	**12.360.600**	**13.473.054**	**14.416.168**	**15.136.976**	**15.591.085**	**15.902.907**
D&A	1.500.000	1.680.000	1.831.200	1.996.008	2.135.729	2.242.515	2.309.790	2.355.986
Working capital	45.000.000	36.960.000	40.286.400	43.912.176	46.986.028	49.335.330	50.815.390	51.831.697
Change in working capital	12.319.442	8.040.000	(3.326.400)	(3.625.776)	(3.073.852)	(2.349.301)	(1.480.060)	(1.016.308)
Capex	2.100.000	2.352.000	2.563.680	2.794.411	2.990.020	3.139.521	3.233.707	3.298.381
Unlevered Free cash flow	**21.844.442**	**18.708.000**	**8.301.720**	**9.048.875**	**10.488.024**	**11.890.669**	**13.187.109**	**13.944.205**
Discounted Free cash flow	**18.995.167**	**14.145.936**	**5.458.516**	**5.173.724**	**5.214.402**	**5.140.664**	**4.957.523**	**107.263.114**

Assumptions	2024	2025	2026	2027	2028	2029	2030	2031
Sales Growth	13,9%	12%	9%	9%	7%	5%	3%	2%
Gross Profit Margin	11%	11%	11%	11%	11%	11%	11%	11%
EBITDA Margin	5%	5%	5%	5%	5%	5%	5%	5%
EBIT Margin	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%
Tax rate %	25%	25%	25%	25%	25%	25%	25%	25%
D&A / Sales	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%
Working Capital / sales	15%	11%	11%	11%	11%	11%	11%	11%
Capex / sales	0,7%	0,7%	0,7%	0,7%	0,7%	0,7%	0,7%	0,7%

Valuation	
SUM DCF	59.085.931
Discounted TV	40.324.178
Enterprise Value	99.410.108
Net debt	15.715.530
Equity Value	**83.694.578**
Number of shares	2.776.685
Value per share	**30,14**

Discount rate	15%
Perpetual growth	2%

Sensitivity analysis

€ per share		**Long term-growth rate**				
		1%	**1,5%**	**2%**	**2,5%**	**3%**
	10%	47,37	49,05	50,94	53,09	55,55
	12,5%	36,23	37,1	38,08	39,1	40,26
WACC	**15%**	29,1	29,6	**30,14**	30,72	31,35
	17,5%	24,16	24,47	24,8	25,14	25,52
	20%	20,53	20,73	20,94	21,16	21,4

Implied Multiples	2024	2025	2026	2027	2028	2029	2030
EV/SALES	0,21	0,18	0,17	0,15	0,14	0,14	0,13
EV/EBITDA	4,1	3,7	3,4	3,1	2,9	2,8	2,7
EV/EBIT	4,6	4,1	3,8	3,4	3,2	3,1	3,0
EV / FCF	2,8	3,3	7,4	6,8	5,9	5,2	4,7

Bear case

BEAR CASE	2024E	2025E	2026E	2027E	2028E	2029E	2030E	TV
Sales	263.400.000	276.570.000	290.398.500	304.918.425	320.164.346	329.769.277	336.364.662	343.091.955
Gross profit	26.340.000	27.657.000	31.943.835	33.541.027	35.218.078	36.274.620	37.000.113	37.740.115
EBITDA	10.536.000	11.062.800	14.519.925	15.245.921	16.008.217	16.488.464	16.818.233	17.154.598
EBIT	9.219.000	9.679.950	13.067.933	13.721.329	14.407.396	14.839.617	15.136.410	15.439.138
EBIT TAX	2.304.750	2.419.988	3.266.983	3.430.332	3.601.849	3.709.904	3.784.102	3.859.784
NOPAT	**6.914.250**	**7.259.963**	**9.800.949**	**10.290.997**	**10.805.547**	**11.129.713**	**11.352.307**	**11.579.353**
D&A	1.317.000	1.382.850	1.451.993	1.524.592	1.600.822	1.648.846	1.681.823	1.715.460
Working capital	39.510.000	30.422.700	31.943.835	33.541.027	35.218.078	36.274.620	37.000.113	37.740.115
Change in working capital	17.809.442	9.087.300	(1.521.135)	(1.597.192)	(1.677.051)	(1.056.542)	(725.492)	(740.002)
Capex	1.843.800	1.935.990	2.032.790	2.134.429	2.241.150	2.308.385	2.354.553	2.401.644
Unlevered Free cash flow	**24.196.892**	**15.794.123**	**7.699.017**	**8.083.968**	**8.488.167**	**9.413.632**	**9.954.086**	**10.153.167**
Discounted Free cash flow	**21.040.776**	**11.942.626**	**5.062.229**	**4.622.035**	**4.220.119**	**4.069.773**	**3.742.109**	**78.101.287**

Assumptions	2024	2025	2026	2027	2028	2029	2030	2031
Sales Growth	0%	5%	5%	5%	5%	3%	2%	2%
Gross Profit Margin	10%	10%	11%	11%	11%	11%	11%	11%
EBITDA Margin	4%	4%	5%	5%	5%	5%	5%	5%
EBIT Margin	3,5%	3,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%
Tax rate %	25%	25%	25%	25%	25%	25%	25%	25%
D&A / Sales	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%
Working Capital / sales	15%	11%	11%	11%	11%	11%	11%	11%
Capex / sales	0,7%	0,7%	0,7%	0,7%	0,7%	0,7%	0,7%	0,7%

Valuation	
SUM DCF	62.048.267
Discounted TV	74.431.146
Enterprise Value	136.479.413
Net debt	15.715.530
Equity Value	**120.763.883**
Number of shares	2.776.685
Value per share	**43,49**

Discount rate	10%
Perpetual growth	3%

Sensitivity analysis						
€ per share		Long term-growth rate				
		1%	**1,5%**	**2%**	**2,5%**	**3%**
	10%	37,54	38,76	40,14	41,71	43,49
	12,5%	29,23	29,86	30,56	31,32	32,16
WACC	**15%**	23,86	24,22	**24,61**	25,04	25,5
	17,5%	20,09	20,32	20,55	20,81	21,08
	20%	17,3	17,44	17,59	17,76	17,93

Implied Multiples	2024	2025	2026	2027	2028	2029	2030
EV/SALES	0,23	0,22	0,21	0,20	0,19	0,19	0,18
EV/EBITDA	5,9	5,6	4,3	4,1	3,9	3,7	3,7
EV/EBIT	6,7	6,4	4,7	4,5	4,3	4,2	4,1
EV / FCF	2,6	3,9	8,0	7,6	7,3	6,6	6,2

Valuation summary

Enterprise value	
Share price	16,4
total shares outstanding	2.776.685
Market capitalization	45.537.634
Estimated net debt for 2023	15.715.530
Enterprise Value	61.253.164

Trading multiples	
EV/SALES	0,2
EV/EBITDA	4,6
EV/EBIT	4,8
FCF YIELD	1%
P/E	5,2

BEAR CASE	
target price	**24,61**
Current price	16,4
Upside	**50,1%**

BASE CASE	
target price	**30,14**
Current price	16,4
Upside	**83,8%**

Both cases offer upside potential, but it is important to note that our valuation is primarily driven by a normalization of working capital. Before the pandemic, the maximum weight of working capital to sales was 11.3%, while in 2022 it is 20.6%. The company currently has an investment in working capital of 57,319,442 against an enterprise value of 61,817,207, i.e. the investment in working capital is 92.7% of the enterprise value, any reduction in working capital levels will result in a strong cash inflow for the company.

Considering that we are so dependent on the cash and how they use it, one could be pessimistic and think that they will just accumulate the cash in the bank since this is a company that is 81% controlled by the Gorsd brothers. In this case, a good exercise to put the DFC in context is to think about what multiples it would take for the company to reach our price target now based on the 2023 estimates based on the company's reported sales.

BEAR CASE	
Price target	24,61
Total shares outstanding	2.776.685
Market cap	**68334217,9**
Estimated net debt	15.715.530
Enterprise value	**84.049.748**
EV/SALES	0,32
EV/EBITDA	6,27
P/E	7,76
EV/FCF Ex working capital	9,26

BASE CASE	
Price target	30,14
Total shares outstanding	2.776.685
Market cap	**83689285,9**
Estimated net debt	15.715.530
Enterprise value	**99.404.816**
EV/SALES	0,38
EV/EBITDA	7,41
P/E	9,50
EV/FCF Ex working capital	10,96

I will not comment on this, the reader must judge for himself.

Business Risks

Dependence on France: Virtually all the company's sales come from France, so problems in the French economy could affect demand.

Market size: As we have commented in the industry section, we estimate that the company has less than 3% share among distributors, on the other hand, as we can see in other countries, distributors have few competitive advantages, but one of them is scale, so they tend to be markets that end up consolidating with companies that can reach high market shares.

China: The company has suppliers in China and any geopolitical issue could affect them.

Partnerships: The loss of a supplier can severely impact the company. So far, the company has proven to be a good partner to its suppliers and not only has it not lost any, but it has actually gained more. The agreement with Acer for the exclusivity of its gaming brands is a good sign.

Illiquidity: Has nothing to do with the business but could be a risk for the investor as it is a very illiquid company.

Author's conclusion

The company looks attractive by any valuation method and has many positive attributes such as family ownership, growth and high return on invested capital. However, you have to understand the context that this is a very small and illiquid company that has always traded at low multiples and there is no catalyst in sight.

It is easy to see why the company is cheap and may not be for everyone. Small, illiquid company with no analyst coverage and all documents in French (more than 60 documents had to be translated for this analysis).

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For any questions, please feel free to contact me.