Transcript from broadcast of Asseco's Q1-Q3 2023 earnings conference call

Artur Wiza - Vice President of the Management Board of Asseco Poland (AW):

Good day to you all. I'd like to welcome you to our conference dedicated to the Asseco Group's results for the 9 months of 2023. Marek Panek, Vice President of the Management Board, will introduce you to the activities of our Group. In turn, Karolina Rzońca-Bajorek, Vice President of the Management Board, will discuss the financial results. You also have the opportunity to ask questions. At the end of the conference we will try to answer them all. We will now begin the presentation and are encouraging you to ask questions. I will now give the floor to Marek.

Marek Panek - Vice President of the Management Board of Asseco Poland (MP):

Thank you. Good day to you. Today we are discussing Asseco's business activities in the first three quarters of 2023. If we wanted to characterize it briefly, we would have to say: a stable business development and good financial results. We are very satisfied with the results during this period. You can see the basic parameters of the profit and loss statement. I will get to the details in a moment. Looking at them, we are not hiding our satisfaction, especially since we have been operating in a difficult and challenging market environment. We would like to draw your attention to an important thing that will appear many more times in this presentation, namely the significant impact of foreign exchange rates. This impact is negative this year. You may remember that when we were talking about last year's results, the exchange rates worked exactly the other way - we showed dynamic increases in PLN then. However, this time, the situation is reversed - exchange rates work negatively for us and this makes the basic financial parameters very similar to those of last year. However, if they were calculated at fixed exchange rates, we would have recorded a 6% increase in revenues across the Group, which reflects much better what has been happening in the business.

Our strong financial performance is a derivative of our consistently executed business model, based on our proprietary software and related services, local experience and knowledge of the markets in which we operate, supported by the global expertise available throughout the Group. We are strongly diversified, both geographically and by sectors. This is our strength in more difficult times, because even when we are slightly weaker in one area, we can make up for it in another area.

There was one unusual event in the reporting period - a buyback of our own shares. Karolina will talk about its details in a later section.

Let me now focus on our results. Revenues reached PLN 12.6 billion, which means they are very comparable to those recorded last year. From our core business, i.e. proprietary software and related services, which account for about 80% of revenues, we achieved nearly PLN 10 billion - slightly more than in the comparable period of 2022. Non-IFRS EBITDA was nearly PLN 1.9 billion, non-IFRS EBIT was over PLN 1.45 billion. These results are very comparable to those of last year. Non-IFRS net profit amounted to PLN 384 million - the 6% decrease is not related to business operations, Karolina will talk about the details later.

Focusing on business operations, I will now discuss the situation in the various geographic segments in which Asseco operates. I will start with Poland - we achieved a 12% increase in revenues here. This is purely organic growth, not affected by exchange rate differences. We recorded strong double-digit growth in the areas of finance and banking, healthcare, energy and telecommunications. We generated very good results in our subsidiaries operating in Poland - Asseco Data Systems and Asseco Cloud. We also recorded a very good year in the public administration sector, where we focused on the execution of long-term contracts that had been concluded in previous periods.

The Formula Systems segment recorded a 2% decline in sales, but it should be remembered that this is where the impact of exchange rates is the greatest. Taking fixed exchange rates into account, we would have recorded an increase of 7%, which is a good result considering the scale of Formula Systems's operations. All of the companies in the group performed well. The group's business is highly diversified, including geographically. A very large share of revenues comes from the US market, which, especially in the context of the war in Israel that began in the fourth quarter, is important and allows us to diversify the business.

At Asseco International, we recorded a 3% decline in revenues. However, we should emphasize the very good and dynamic growth of our ERP business, which has been developed both in Poland and in the Czech Republic, Slovakia and Germany. There is a noticeable increase in revenues at Asseco South Eastern Europe, our holding company operating in the Balkans. It is worth noting, however, that in the case of the Asseco International segment, two circumstances worked to our disadvantage. First, we sold our Danish companies in December 2022, so we no longer had these revenues in 2023, and this is a substantial amount of about PLN 130 million for the three-quarter period. Secondly, we have seen a noticeable decline in sales of hardware infrastructure in our distribution company in Spain - while during the pandemic we saw a boom, recently we have been observing a halt and even a decline in sales. All of this results in lower sales at Asseco International than in the previous year.

Highlighting the strong diversification of Asseco's business, I will discuss sales results by the sectors in which we operate. The share of sectors in sales each quarter remains almost constant – general business accounts for 42%, finance and banking for 34% and the remaining 24% comes from public institutions. On the slide you can also see data confirming that we are not dependent on any one customer. Asseco's largest customer accounts for 2% of the entire Group's revenues, while our 10 largest customers account for 10% of our sales.

I will now turn to the characteristics of the various sectors in which we operate. I'll start with finance and banking. Across the Group, we generated revenues of PLN 4.3 billion, which is 3% less than in the corresponding period in 2022. The largest contributor in sales for this and other sectors is the Formula Systems segment, and that's why the effect of foreign exchange is very visible here, as we see -7%, while in fixed exchange rates the result would be comparable to the previous year. Sapiens has been doing very well in this segment, with 66% of its revenues coming from software and recurring post-implementation services. The company generates 90% of its revenues outside Israel (40% - US, 50% - Europe), which is important news in the context of Q4 and looking ahead to whole 2023, as the impact of the war on Sapiens's results will be the least.

At Asseco International, we have sales levels very similar to last year. The main driver was Asseco South Eastern Europe, which posted strong growth in banking solutions and the payments segment.

Asseco Poland has been having a very good year when it comes to finance and banking. The 22% increase in sales is thanks to our strong position in the banking sector in Poland. We have a broad customer base, a significant stream of recurring revenues related to maintenance. We also have 3 large core system implementation projects, several projects related to the capital market, brokerage offices, and projects related to the Business Intelligence area.

In the general business sector, revenues reached PLN 5.3 billion, so remained at comparable levels to 2022 – we have a slight increase here. The Formula Systems segment, the largest contributor, reported fairly flat results, but if exchange rate differences were taken into account, growth would be at 5-6%. This was thanks to the major players in the general business sector - Matrix IT and the large body leasing company Insync Staffing.

At Asseco International, we have a slight 5% decline, with sales that amounted to PLN 1.4 billion. This result was impacted by several issues I've already mentioned: double-digit increases in sales of our ER solutions in the Asseco Enterprise Solutions Group, the absence of revenues from the Danish companies that were sold in 2022 (about PLN 37 million, which we missed this year), and a decrease of about PLN 100 million in infrastructure sales in our Spanish distribution company. However, this has no material impact on the margin we generate in Spain.

In Poland, we recorded nearly 30% growth with PLN 342 million in sales. The biggest impact was a very dynamic increase in revenues from the energy and telecommunications sectors - a trend we have been observing since the beginning of the year. We are also pleased with the dynamic growth of sales in Asseco Data Systems and Asseco Cloud.

In the public institutions sector, we exceeded PLN 3 billion in revenues, which is a very similar level to the one from the previous year. In the case of Formula Systems we have +1%, but if one were to exclude exchange rate differences, it would be 6-7%. The main player here is Matrix IT and slightly smaller companies: Michpal or Shamrad.

At Asseco International, we see a 9% drop in sales. However, it should be remembered that the effect of the sale of the Danish companies is most visible precisely in the public sector, from which they generated the bulk of their revenues. In the first three quarters of 2022, it was PLN 79 million. This year it is not there. If we added them, we would record a 5-6% increase.

Asseco Poland's revenues remained at the same level. The healthcare sector has had a very good year, recording double-digit growth. It should be remembered that the public sector in 2022 was very dynamic - we carried out a lot of “unusual” orders for the Social Insurance Institution (ZUS) related to various social programs or assistance for Ukrainians. These were above-normal topics that gradually came to an end, and we are now back to the standard implementation of system maintenance and development at the institution.

We continue to implement our policy in the area of acquisitions. This year it looks a little less spectacular - after three quarters we had 3 acquisitions compared to a dozen in 2022. These 3 acquisitions were made in the Formula Systems Group. You can also see one more acquisition on the slide - it took place already in Q4 2023 and involved a Portuguese company operating in the payment area. The acquisition was made by Asseco South Eastern Europe, which has been specializing in this area and building a significant market position.

When discussing the Group's order backlog, I would suggest focusing on the left side of the slide, where the backlog is shown in fixed exchange rates. It is 5% higher than that shown at the same time in 2022. This is good news. The backlog is 11% higher at Asseco Poland, 4% higher at Formula Systems and 7% higher at Asseco International. Let me also draw your attention to the situation in Israel - there is currently a state of war there, about 1,000 people from the Formula Group have been drafted into the army. Mostly these are people working under Time & Material contracts, so some of these revenues will not be generated. All this has already been taken into account. Magic has also revised its official sales forecasts, which is also already taken into account. There's another effect, which we've talked about in the past - at Matrix IT, which is the largest company in Formula Systems, the CFO has changed, and this new person in charge of finance has a much more conservative approach to the backlog, looking at it in a different way, and all the Time & Material contracts, of which there are a lot at Matrix, are not treated as backlog, although historically they've always happened and will happen this year as well, but they're not treated as backlog now. Taking all this into account, we are satisfied with this order backlog, especially in the Asseco Poland segment.

That's all from my side. I will now give the floor to Karolina.

Karolina Rzońca-Bajorek - Vice President, CFO of Asseco Poland (KR-B):

Thank you Marek. For my part, a brief summary of the profit and loss statement. After three quarters, we recorded slight declines at every level of the profit and loss statement, which are largely due to the impact of exchange rates, i.e., what is due to our Group mainly in dollars or euros is today translated at a worse rate than it was for the three quarters of 2022. If we took fixed exchange rates into account, there would be increases at both revenue and non-IFRS operating profit levels, i.e. +6% in the first case and +1% in the second. The important thing is that we manage to maintain the profitability of non-IFRS EBITDA and are close to maintaining the profitability of non-IFRS operating profit, which is particularly important for us. We see that cost dynamics have slightly declined compared to previous quarters. We are putting a lot of emphasis on revenue indexing, and as a result, the "scissors" seem to be tightening. Please, note that the 2022 results were affected by various one-off events. As can be seen in the "M&A and one-off events" line, there was a positive impact of PLN 141.4 million, while this year the impact is negative and amounts to PLN -10.9 million. In the case of net profit, the impact of one-off events is significantly smaller and the delta for the two periods is about PLN 8 million.

Below operating profit, the stable interest result is worth noting. Although we have debt in some parts of the Group (including Asseco Poland), it is offset by the investment of surplus cash, hence the result on interest is strongly comparable. The impact of hyperinflation from Turkey coming from the Asseco South Eastern Europe Group is at a very similar level. The effective tax rate is lower in the three quarters of 2023 compared to the same period a year ago. This is mainly due to the settlement of tax credits. It should be remembered that we calculate taxes on a cash basis, so it is only when invoicing in various projects occurs that we can account for tax credits. The visible effect comes mainly from the Asseco Poland segment, from the parent company. Net profit of PLN 344.2 million - the 8% decrease recorded is due to the so-called high base, resulting from one-off transactions in 2022 and foreign exchange rates. On the other hand, looking at the business organically, we see stable results, with which we are very satisfied.

Observing the results in individual companies, 2023 will be a very successful year for Asseco Poland as a parent company. We see a significant improvement in non-IFRS operating profit, mainly thanks to the finance and banking, healthcare and general business sectors. We see slightly worse year-on-year results in the public administration and central institutions sector. Very good results were reported by Asseco Data Systems. In Asseco Poland's segment in the "Other companies and consolidation adjustments" line, non-IFRS operating profit, which was over PLN 34 million in the previous period and less than PLN 14 million in this period, is burdened by a one-off transaction from Q3 2022 - over PLN 13 million of booked profit on the sale of real estate, which should be taken off the result. Worse year-on-year results were posted by two smaller companies in Poland, resulting in worse operating result in these two entities.

In the Formula Systems segment, if not for the war, Matrix IT would have reported a record year in its reporting currency (i.e., the shekel). After three quarters of 2023, the impact of the war is not yet visible, but some caution has been shown in making estimates and allowances for receivables - Matrix's CFO has naturally introduced allowances for receivables on a slightly larger scale. Matrix IT is the company that will be most affected by the outbreak of the war. As at October 7, 2023, of the entire Formula Systems segment, a total of 1,000 of the 13,000 people who are employed in Israel have been called up to the military, 700 of whom are Matrix IT employees. Approximately 600 of those 700 are employees who were performing Time & Material contracts.

So there will be a natural revenue gap for this company in the fourth quarter. For those who have been drafted, the Israeli government compensates costs at a rate of about 70%, so this loss that will occur in Matrix IT's Q4 results will be the sum of the lost margin from the sale of employee time and the absence of 30% cost compensation. This effect will be diminished by one-off projects that have been contracted in our companies as a result of the current situation, mainly by the Ministry of Defense, but also the Ministry of Education, but these projects cannot be expected to "plug" the entire gap. Relatively lower results after three quarters of 2023 were reported by Magic - the company also revised its Q4 revenue estimates. This is a result of the slightly worse macroeconomic situation in the United States, which translated into a worse result for body leasing companies in the US. There has been some restructuring there, which mainly affected revenues. It translated minimally into the company's result, as this business is relatively unprofitable. We expect that in Magic, to some extent, the impact of the war will be visible. Sapiens has a very good financial performance this year - both in Europe, which already had a very good 2022, and now in the United States, where it has been rebuilding its business. The company has a very good backlog, more than a dozen new customers, so the outlook for the company is very good, and we think this company will be least affected by the war, since naturally 90% of its business is outside Israel.

The Asseco International segment is the only area that business-wise, operationally, has worse results year-on-year, and more specifically I am referring to the Asseco Central Europe Group. In this Group we consolidate Asseco Solutions, or ERP companies - this subgroup has had spectacularly good results in 2023, and in a way has compensated for what has been happening to ACE's results in Slovakia, the Czech Republic and Hungary. There, due to the political situation, we had to book some losses on projects for the public sector. There is a natural inertia related to public procurement, to customer decision-making, to defining the scope of projects. We bear the consequences of the natural business risks that, operating in the public sector, IT companies are exposed to. However, this is a place that should recover in the next year and beyond. Consequently, in assessing where we have some reserves, it is this geography. Asseco South Eastern Europe has very good results after three quarters of 2023, mainly banking and the dedicated solutions segment. In the payments sector, results are stable. In the Western European market, we see a rather large decline in revenues. This is the result of two factors: firstly, the sale of the Danish companies, which contributed around PLN 140 million to revenues in this period in the previous year (for the whole year it will be PLN 160-170 million), and secondly, the worse sales performance of Valorista, which is consolidated by Asseco Spain. Infrastructure sales there were much lower than in the comparable period of 2022. However, this is not reflected in the operating profit booked in this segment - profitability has been improving. This also answers a question that came up in a chat during the conference.

We are extremely pleased with the fact that we have recorded very good cash flow. After the third quarter, we see very good results in terms of cashing EBIT. Earlier, we asked you to be patient when it comes to our cash conversion capabilities, and warned you that nothing bad was happening. After two quarters of this year, the cash conversion ratio was a little worse. This is a natural effect of the life cycle of projects, mainly public ones, in which invoicing and converting receivables into cash occurs only at the end. We have seen this effect in Q3, it will also happen to some extent in Q4, and actually I think it will be even more pronounced in Q1 of next year. I think that in Q4 we will largely reduce the level of receivables, we will invoice them, while they will appear in cash in Q1 of next year. The level of cash conversion ratio that we are targeting and assuming for ourselves should be between 80-120%. Currently, at the Group level, the cash conversion ratio is 94% for the last four quarters. We have been seeing very good performance in the Formula Systems segment. Here it is worth noting Matrix IT, which had a rather volatile cash conversion rate after two quarters of the previous year. The cash conversion ratio at Asseco International was 93%. The cash flow rate in the Asseco Poland segment was very much rebuilt, which is mainly attributable to invoices to large public sector customers, from which cash flowed to the Company.

Looking at the balance sheet picture, as far as the liquidity situation is concerned, we would like to emphasize that it is very stable, although, of course, it should be noted that there was debt in the Asseco Poland segment due to the buyback. We have two places where we have net debt as at today. On the other hand, looking at the realization of liabilities or financial ratios, such as net debt to EBITDA, in all segments we achieve a ratio below or close to 1, which is very safe, still with reserves. Here there is no cause for concern.

I addressed the debt in the Asseco Poland segment, and it was taken out to buy back our own shares. The transaction carried out allowed us to buy back shares for PLN 1,185 million. We incurred a debt of almost PLN 950 million. This debt is not secured on shares, and therefore we have full freedom to dispose of these shares. Currently, after this transaction, Asseco Poland itself is the largest shareholder. We have 17.8% of the shares in our portfolio. After the transactions made recently by both Allianz and our Chairman, who has been buying up shares, the shareholder structure looks like the one presented on the right side of the slide. The second largest shareholder of Asseco Poland is Cyfrowy Polsat, followed by Allianz OFE and Adam Góral. That's all from my side, thank you.

AW:

We are now moving on to the question and answer (Q&A) session. Thank you very much for the questions you have already sent. You can keep on sending more all the time, and we will try to answer all of them.

Investor 1:

What impact is the war in Israel having on your business?

KR-B:

I think we have already tried to answer this question in our presentation.

AW:

If there were any more doubts about what Marek and Karolina have already said, we will ask you to send a question, but I think this question has been already well addressed.

Investor 1:

What had a negative impact on operating margins in the Asseco Poland segment?

KR-B:

As I said, looking on a year-on-year basis, this is certainly the effect of the Q3 2022 one-off. Therefore, a bit more than PLN 13 million would have to be deducted from last year's result. Secondly, EBIT in the Asseco Poland's segment in the past period was affected by the results of two smaller companies, DahliaMatic and ComCERT. These companies recorded an operating loss this year, and this is a delta of about PLN 10 million combined from these two entities. The third issue is the slightly worse operating profitability of the parent company itself, but this level is cosmetic, I would say. It is due to the fact that we have finished executing for our largest customer certain contracts that were signed as recently as last year. We are now pursuing new topics, more of a business-as-usual nature. Thus, profitability has returned to natural levels.

AW:

Another question that has also already been partially answered.

Investor 1:

Why were revenues in the Asseco International segment relatively weak, just due to exchange rates, while the margin improved a lot?

AW:

Karolina has already partially addressed this.

KR-B:

Yes, here we see the influence of the Valorista company.

Investor 2:

Speaking of the potential sale of the stake acquired by the company in the recent share buyback, what total sale price would you be satisfied with?

KR-B:

The natural answer is that the minimum at which we would want to sell these shares is the amount at which we bought them. From my point of view, we have to look at the fact that we are incurring the cost of money over time, the cost of debt, so we will obviously try to maximize that price. Our CEO said at the press conference that we were preparing for a larger transaction in this area, and we will cooperate with investment banks. We will try to set up this cooperation in such a way that all parties are interested in maximizing the price and actually operate only on the success fee. On the other hand, you know, of course, probably even better than we do, how the capital markets work and how many things the company has influence over, and how many things are due to what is happening in the macro environment and what the timing is and so on. We don't have the pressure today to sell these shares. We have time to prepare well for this transaction and do it in such a way that our shareholders are satisfied.

Investor 2:

Assuming the success of the negotiations with investors and the sale of the repurchased shares, would you consider repeating this cycle, i.e. conducting another buyback to resell the shares?

KR-B:

I think we need to finish one cycle first to think about the second. As at today, there are no such plans.

AW:

We would like to remind you that we were primarily concerned with improving the liquidity of the stock, and this is the main goal for us. Accordingly, we need to get closer to this goal, and this is the most important thing for us in the near future.

Investor 2:

What result projections do you have for the fourth quarter and the beginning of next year due to the war in Israel?

MP:

We have already answered this question a bit. The Israeli entities are certainly making more cautious plans: because of what Karolina mentioned, which is the 1,000 people whose time “won't be sold”, as well as due to the forecast adjustment already shown by Magic. This shows some caution. It's been more than a month since the war began. Of course, we talk very often with our colleagues in Israel. Business-wise, they try not to think about the war, but it's not that obvious at all. Virtually everyone is affected by the fact that a friend or family member is serving in the army, and it's easy for us, of course, to say from afar that we need to focus on business. It is well known that thoughts flee elsewhere. Karolina also said that the war itself had also brought additional projects for our companies, especially those that work with the Ministry of Defense, i.e. Matrix IT, TSG. In these areas some business will be generated additionally, while we are not at all happy about this and rather cautiously look at the fourth quarter, and probably the next.

Investor 2:

Are you planning any acquisitions after a very good year in 2023? Will the company's Supervisory Board recommend a dividend payment and can it be expected to be higher than last year?

AW:

It is difficult for us to comment on what the Supervisory Board's recommendation will be. On the other hand, as for the dividend policy itself, we have reiterated that we have not changed the policy and that we still plan to pay dividends. What the amount will be, we will, of course, confirm at the time when there is a decision in this regard. On the other hand, whether it will be higher than last year, the amount of the dividend has always depended on the results, and on the basis of the results and the current situation, this decision was made. Therefore, let's leave this decision until the year is completed and we can say more about it. On the other hand, we emphasize what we have already announced - the dividend policy has not changed.

MP:

This was the second part of the question, while the first part of the question was about acquisitions, and we also signaled on the occasion of the share buyback project that despite incurring debt for this purpose, we had funds earmarked for acquisitions, and absolutely, both in the Asseco Poland segment and other segments, all the time this machine of looking for new, interesting companies that could join us has been functioning. On the other hand, you can see that this is a bit of a slower process. Maybe we have become a bit, to put it ugly, more picky, selective, and we are looking for companies that are really a good fit for us. I think that because of the war, a little bit of these acquisition processes in Israel will be put on hold. In Poland, we are in talks with several companies at the moment. I can't say how these talks will end. We have had a few different topics recently that seemed promising and yet nothing came of them. We're still looking, but we're a little more cautious and picky.

Investor 3:

Do you have any estimates of the potential savings that can be generated by supporting developers' work with AI tools? What scale of impact do AI tools have on programmer efficiency?

MP:

I'm glad you directed this question to me. It is indeed a very fashionable topic at the moment, and there is a lot of talk about it. We have recently done a review of what we have been dealing with across the Group in terms of the topic of Artificial Intelligence, and there is indeed quite a bit of it. It's not only what this question refers to, which is the use of artificial intelligence for software production, because of course we're already doing that. It's just that it's still hard for us to quantify the savings we have from this. We have started the topic, in many places in the Group we have the first results - we use artificial intelligence for testing, for code review. There are also places where we are trying to use AI for code development. However, these are just the beginnings. We are looking hard at it, and we will certainly use it in some way. There will also probably come a point when we can quantify the resulting savings. We also use AI for other purposes - mainly to enrich the functionality, the attractiveness of our solutions that we deliver to customers.

Investor 3:

The number of offers for programmers on online portals in Poland has been falling by 30-40% y/y in recent months. Do you see less pressure on salaries in Poland? Is it easier to find new employees?

KR-B:

The answer to this question is: yes, easier, which does not mean easy. The pressure has diminished, which does not mean that it is not there. Looking at the nominal figures in our report, one gets the impression that this dynamic, in terms of labor costs, has slowed down sharply, including the fact that in variable exchange rates the average wage per employee has fallen. However, this is a kind of delusion, because if we look at revenues in fixed exchange rates, costs should be looked at that way as well - then this picture is somewhat different. Labor costs have been rising all the time, while the growth is less dynamic - about 8% y/y, and in the case of average wages it is 5% y/y. Therefore, we can say that the dynamics are controllable, while it varies from segment to segment - the highest in the Polish segment. The average salary increased period-on-period by 12%, while the corresponding figures in Asseco International and Formula are already 3% and 6%. It still seems that the labor market in Poland is, on average, more difficult than the other areas in which we operate. This trend is positive for employers, which does not change the fact that we remain a geographic region that foreign companies, including American ones, still use to attract IT specialists from. In terms of filling vacancies or recruitment processes, we have information from HR departments that it is relatively easier for us to fill these vacancies. This trend was already evident in the budgeting process at the end of 2022 - we had the first time that people from the business confirmed that they already had the number of employees needed for individual projects, whereas just 2 years ago vacancies had been budgeted with quite a lot of uncertainty as to whether we would be able to find someone for those vacancies. So the situation has changed quite significantly.

Investor 1:

How do you assess the cooperation with German adesso? Do you see chances that the first contract with a German banking client will be signed in 2024?

MP:

We would like to see such an agreement signed, but it is not easy. Sales topics have been all the time ongoing, while there was some turbulence due to the change of the person responsible for the financial sector in adesso itself.

The person who had previously worked there came back. She left for 2 years and is currently back. We have already had a meeting and it seems that there will be an acceleration of certain processes. We continue to believe in this market. We are continuing to work on getting our first customer and I hope to come to you with good news.

Investor 4:

Good day, I wanted to ask about the plan for repayment of the debt taken out for the buyback - should we expect regular installment payments or maintaining the level of this debt? How does the company intend to take the loan installment payments into account when deciding on dividends? How much time do you give yourself to sell the shares bought under the buyback? If they are not resold under the assumed parameters, when can the company decide to redeem these shares?

KR-B:

As at today, the debt balance is PLN 940 million. We repay half of the debt regularly every month and plan to continue to do so, while the other half is the so-called bullet payment at the end of the loan term, i.e. after 5 years. We repay principal and interest every month, and when looking at the annualized take for next year, it should be assumed that we will repay about PLN 100 million in principal installments and in close to PLN 60 million in interest expense, as planned. This is our plan for a systematic debt reduction. Naturally, if there is any transaction, we will want to reduce interest costs, the cost of capital commitment. We are a company that takes a rather conservative view of cash flow management, and this is not the level of debt we would ultimately like to stay with. There is no such decision. We would like to reduce this debt. We don't assume that to zero, but it will depend on very many factors, conditions. The base plan is to manage the debt on an ongoing basis according to the pattern I have just mentioned. When deciding on the debt and providing forecasts for the bank, we took into account the payment of dividends when estimating debt service. As Artur has said, the dividend will depend on how our bottom line and cash flow will be, while some level of dividend was assumed and that is how we are agreed with the bank. Covenants were disclosed in the financial statements. Let me remind you that the debt was incurred without any collateral. We are free to dispose of these shares, including the disposition for the Management Board. According to a resolution of the Extraordinary General Meeting, the Management Board can decide to resell, but can also decide to redeem the shares. Today it seems that redemption, given the situation, is not the base scenario. On the other hand, it cannot be ruled out. Internally, we are assuming a certain period for the sale of shares, but I would not like to talk about it, because we are aiming at making a good transaction, not a transaction over the course of 6, 12 or 24 months. We will largely watch and wait for the right moment, a better sentiment for our market. I think a lot will be shown by the first non-deal roadshows we will do and only then will we be able to say a little more. Currently, we do not have the time pressure that you should know about and should assume. As I said - we are aiming at a good deal, not a quick deal. Although if both a good one and a quick one can be executed, we will be very happy.

It was an extended question. I don't know if I answered all parts of it.

AW:

It seems to be the case. We have 2 more questions that relate to this topic.

Investor 4:

Does the company allow the sale of shares from the buyback below the purchase price plus costs?

Investor 5:

If in the process of selling own shares there are offers, for example, for PLN 78 per share, will you communicate information about such offers to your other minority shareholders?

AW:

I don't understand the question a bit, but let's perhaps first answer the question of whether the company allows the sale of shares from a buyback below the purchase price plus costs.

We have reiterated several times that we plan, and this is our assumption, to sell shares at a minimum at the purchase price plus what Karolina added, taking into account financing costs. At the moment we are not considering any other option. We always have a plan B related to their redemption. On the other hand, if there were offers below this price, we are not considering them at all for the time being. In addition to the planned intensification of sales activities, we have increased the number of meetings with investors and have positive feedback. More investors are interested in what Asseco does and have been deepening their knowledge of software production, comparing us to peers in Europe. Interest in meetings and the Polish market in general has increased. We have a few months ahead of us to reach out with information, to refresh our knowledge of Asseco with investors we haven't seen for a long time.

Investor 6:

What does the backlog for 2024 look like?

KR-B:

We are currently in the process of budgeting, aggregating the backlog. We will be able to share this information with you at the annual results. I would prefer not to comment on this today for a simple reason - we are in the process of collecting this data.

AW:

As we look at the repeatability of our results, which we are often asked about, it is very high, because of the way we contract and run our projects. Typically, going into a new year, the backlog is at 60-80%, depending on the areas, of the previous year's revenues. The closer we get to the 2023 results date, we will be able to say more about the backlog for 2024.

Investor 7:

Are you concerned about a temporary halt in public contracting, given the recent political changes? Could this have a significant impact on the 2024 results?

AW:

I also answered this question to journalists. In all of the countries where we operate, we have such a situation that political changes, changes of government affect the stoppage of new projects in particular. Those that are already underway are most often implemented, while decisions on new projects or even the launch of a project itself are often put on hold. Sometimes it takes longer, sometimes shorter, depending on what the changes are. On the other hand, without commenting on the political situation, what is of interest to us is the recovery plan

(KPO) and the possibility of an influx of additional funds from the European Union that Poland is waiting for. This is important information for us and the entire sector, which we are waiting for, because a huge part of these funds will be allocated to innovation and investment in new technologies. As a result, both the industry and Asseco will benefit, serving the central and local government sectors. We believe that if this is launched, it will have a positive impact on our Group.

Investor 7:

Does the agreement with the bank regarding debt for buyback provide for a maximum DPS?

KR-B:

It does not provide for it. There is no covenant on Dividend Per Share. If there was, we would have reported it in the financial statements. On the other hand, the level of dividends can clearly affect the level of net cash. Therefore, the agreement provides that if the value of the dividend declared, which translates into a financial liability, would cause the debt coverage ratio or debt/EBITDA to be exceeded, then the bank has the right to agree or not to agree to pay such a dividend. However, we are talking about ratios that, as at today, are beyond what we anticipate will happen in our numbers. These provisions are triggered if the net debt/EBITDA ratio exceeds 3, and we are around 1 today. Such a standard dividend level, which we assume is in line with policy, should not trigger this topic at all. We will report on an ongoing basis in periodic reports how much these ratios, on which the covenants are, are, so that you will have full clarity on Asseco's performance under the loan agreement.

AW:

Another question, it has already been answered, but this is perhaps a clarification.

Investor 3:

I would like to ask you to clarify your plans for debt repayment after a possible sale of own shares. How much of the current PLN 940m debt would the company like to repay beforehand?

KR-B:

This depends on a great many factors, so I will not answer this question precisely. PLN 940 million is the current debt balance. By paying installments every month, we will naturally go down in debt. Let's say that the transaction will take place in a year's time, so we are already talking about a different level here. It's difficult to predict what our acquisition needs will be at that point, for example. As a result, I would say that the base scenario assumes repayment of a significant portion of this debt, if not even all of it. On the other hand, I don't want to say that we will definitely use all the funds to pay off the debt, because it may turn out that we will have a major acquisition or the General Meeting will decide something else about dividends, etc. A number of different things may happen. Consequently, there is no very precise plan in this regard.

Investor 6:

What opex growth (mainly headcount) are you currently expecting for 2024?

KR-B:

We will be able to say something about 2024 after we have passed at least the first phase of budgeting in the Group, and this has not happened yet. Consequently, we do not have such data to share with you.

Investor 5:

Leaving aside a possible increase in interest expense, if you were unable to sell own shares, do you think you could improve net result attributable to equity holders of the parent in 2024 relative to the result in 2023? In such a scenario, would it be possible (without interest) to return to the record result of 2022?

KR-B:

The answer is: we can. Of course, we will try very hard, as our result will depend on a great many things. On the other hand, we are confident that organically there is nothing to worry about in terms of our performance, so if we were to assume a ceteris paribus situation, we will do our best to make it happen. Our goal is to improve our results year-on-year, even with debt service costs.

AW:

We have presented the activities of our Group and we have been growing very steadily in many areas. We have interesting, future-oriented projects. There are several areas that, if we can improve the situation in Slovakia or if the war in Israel ends and we return to normal operations, we view very positively. We have great prospects for development, adding to this the possibility of additional funds from the EU under the KPO and an increase in digitization spending in general, we see great opportunities for the next few years. Each time, of course, you have to take into account the specifics of the area and country, because over the past few years we have been surprised: the pandemic, the war in Ukraine, the war in Israel, but at the same time our performance has always been at a good level. We see that there is an opportunity to continue development in the future.

We have no further questions. Thank you very much for listening to our presentation. Thank you for all your questions. If any additional ones should arise after this conference, our investor relations department is at your disposal. Feel free to contact us.

We would also like to invite you to the 2023 full year results conference call today.

Thank you and see you there.