



BSB

Long-term investment in a growing business

- In the current context of market turmoil, the software sector in Europe may still realize some upside this year, mostly thanks to technical data and valuations currently low in terms of historical P/E and EV/EBIT
- BSB intends to take place rapidly among European leaders in the software sector and particularly within the insurance industry
- Change in the group strategy: pre-financing of developments at their own development rhythm, with better anticipation of market needs, will provide BSB with higher profitability
- Clear opportunities in the Asset Management market and good upside potential in the life-insurance industry
- Attractive pipeline; the best is yet to come

INTRODUCTION

In a context of economical slowdown in growth in the US and in Europe, principally due to the sub-prime crisis, the strong rise in commodities and energy prices, and the strong Euro, players in the software segment are generally expecting limited growth for 2008. On the other hand, analysts have slightly cut their forecasts for IT expenditures in Europe, as European markets should react to recession threats coming from the US. According to the analysts, visibility should be good for the 3 first

	2006	2007	2008e	Q3/07	Q4/07	Q1/08	Q2/08e	Q3/08e	Q4/08e
US									
GDP	2,90%	2,20%	1,30%	4,90%	0,60%	0,60%	0,90%	1,70%	1,50%
Inflation	3,23%	2,87%	3,60%	2,80%	3,97%	4,10%	3,70%	3,50%	2,80%
FED	5,25%	4,25%	1,50%	4,75%	4,25%	2,25%	1,50%	-	-
S&P 500	1418,3	1468,36	-	1526,75	1468,36	1322,7	-	1505,00	1610,00
Europe									
GDP	2,90%	2,70%	1,50%	0,80%	2,20%	2,20%	1,80%	1,40%	1,40%
Inflation	2,18%	2,13%	2,80%	1,87%	2,93%	3,37%	3,00%	2,80%	2,20%
ECB	3,50%	4,00%	3,75%	4,00%	4,00%	4,00%	4,00%	3,75%	3,75%
EuroStoxx 50	4119,94	4399,72	-	4381,71	4399,72	3628,06	-	4180,00	4560,00

Source : Bloomberg

quarters of the year, but less clear for the year end, usually period of highest IT expenditures by business companies. The consensus is 5% growth for software sector (compared to 6.5% in 2007), with development at 7%, and services from 4.5 to 6.5%. On the other side, the growth of technical assistance and integration should not be higher than 3% and 5% respectively (compared to 4 and 6% in 2007).

Despite these analysts' forecasts, the software sector in Europe may realize some upside this year, especially due to technical data and valuations currently low in terms of historical P/E and EV/EBIT, at 20.38x and 11.96x respectively, as of March 2008 (as they were at 33.63x and 18.52x 4 years ago).

At a Glance

Initial Price: 10.6 €

Share data (pre-money)

Mcap (m€) 18,1
Outst. shares 1 710 100

Public offer 471 698

Shares

ISIN BE0003892123
Euronext BSB
SVM 3892.12

VVPR Strips

ISIN BE0005626974
Euronext BSBS
SVM 5626.97

Key Estimations

(as of May, 2008)

(m€) 08E

Total Sales 21.05
EBIT 1.84
Net Profit 0.85

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THE COMPANY

Company Description

BSB, Business Solutions Builders, develops, publishes and distributes software principally for the financial sector. The company also offers outsourced IT services.

BSB's main clients are big names from the financial and industrial sector in Belgium, France and Luxembourg, such as Axa, Dexia, Fortis Insurance, ING Life, Suez, Lombard, and Baloise.

Offered software is:

- Soliam : software for the asset management activities of banks, insurance companies and holdings
- Solife : software for the management of the whole life cycle of insurance policies of insurance companies
- Bank Suite : software for banks' back-office securities
- A remote access for these 3 applications (Internet Portal)

Offered services are:

- Consulting and computer training services with highly experienced IT experts
- Tailored developments of solutions and custom IT systems
- Integration and configuration of software packages from partners, SAP (particularly in the financial and public sectors) and IDIT (for the management of the whole life cycle of non-life insurance policies (or "IARD")

		Clients by sector							
		Bank	Insurance	Asset Management	Holdings	Industry & Services	Utilities	Public	Retail
Software	Soliam	●	●	●	●				
	Solife		●						
	Bank Suite	●							
	Advisory	●	●	●	●	●	●	●	●
Services	Custom Development	●	●	●	●		●	●	●
	SAP services	●	●	●	●	●	●	●	●
	IDIT services		●						

Source :BSB prospectus

Group Ownership

BSB has been created in December 1995 by 3 engineers specialized in the IT for the financial sector: Jean Martin, Michel Isaac and Marc Van Steenwinkel, later joined by Miguel Danckers and Christophe Risse. As of today, the management owns 100% of the company.

Company Strategy

BSB's main target is, together with maintaining a competitive level of activity on its traditional markets, to enlarge its geographical presence out of its historical borders, to take place rapidly among European leaders, and particularly in the insurance sector, taking advantage of its expertise in its local market, taking position as a privileged IT partner for insurance companies and continuing its penetration in other sectors.

The company expects a significant growth of sales, profitability and assets in the coming years, thanks to 6 key elements:

- **Accessibility:** a good sales and distribution network with the creation of an international team of sellers. In addition, the development of partner networks, the customer referrals, ability to provide remote demonstration of its products
- **R&D:** the right adequacy of both main software Solife and Soliam with market, regulation and customers requests, and also anticipation of needs for a better differentiation and a real advance in their offer compared to competitors, thanks to 2 R&D pools located right in the center of activity; in Brussels for Soliam and in Luxembourg for Solife
- **Expertise:** with large recruitment and internal training plans, loyalty of managers and key employees to reinforce competencies for scheduled developments of activities
- **Information:** through a better tracking and an effective information system, the company is able to answer more rapidly and efficiently to its clients' requests
- **Adaptability:** of the products to the constant evolution of regulations in the financial markets and the consequent needs for adapted and performing tools for BSB clients. Additional opportunities in the life-insurance sector as companies need adequate tools for the consolidation and internationalization of the sector
- **Competition:** the Asset Management software market is relatively mature; potential growth opportunities coming from the renewal of software and filling of niches that are not serviced. There are a lot of competitors but the trend is towards industry consolidation of actors. In the life-insurance niche, there is no real leader yet.

BSB used to work in partnership with its clients. BSB was developing products on demand of clients, and budgeted by the clients. On the one hand, that gave them the opportunity to develop products and to build a solid basis of clients. But on the other hand, the rhythm of development was depending on them as well, sometimes miss some opportunities.

As a result, BSB has decided to change its strategy and its partnership with clients: BSB is pre-financing the developments, assuming the development risks but also deciding on the development rhythm, thus having the opportunity to anticipate the clients' needs and expectations but also further requests linked to market regulations. That will provide the company with higher profitability and also the possibility to take some edge on its competitors.

Company Risks

The different categories of risk we should consider, regarding BSB's business are concentrated on

- not being successful in reaching a leading position on the European asset management/life insurance software segment and not benefiting from expected market extension, as their current Business Plan is mostly based on these two factors
- real decrease in IT investments by companies in case of strong recession

- in Europe or loss of an important client
- decrease in tariffs applied by BSB on services if the economical environment worsens
- evolution of technology but BSB's R&D team has currently some edge on competitors
- turnover of key employees due to the nature of the software business
- ability to execute future acquisitions due to limited experience of the company in that field
- execution of international growth plans
- risks related to activities they are insourcing on behalf of other companies , but BSB is taking care of the track-record of its partners to reduce that threat

Business Opportunities

Regarding Soliam, the company has good opportunities with companies willing to renew their IT management structure, especially in Belgium. Also, in Luxembourg, the attractive growth rate of insurance business provide the company with growth potential through cross selling with existing clients of Solife software. In France, the recent obligation for Asset Management to fulfill regulation constraints is the best growth opportunity for Soliam.

Regarding Solife, the upside potential for life-insurance software is important as the life-insurance business is expanding and regulations are becoming more and more constraining. The growth of the Luxembourgish life-insurance market is over 20% per annum, with a major part linked to investment funds. As a result, the opportunities for BSB are attractive. In Belgium, life-insurance business is still booming and thanks to the good positioning of Soliam, BSB expects to raise rapidly its market share with Solife through cross-selling. In France, the market is developing and BSB has started to prospect potential clients.

Regarding Bank Suite, as the product doesn't need significant additional developments, efforts are based on the commercial aspect.

FINANCIALS

Company valuation

Based on BSB figures from their Business Plan, we have valued BSB using both DCF model and a peer group of 13 companies active in the software business for financial and/or asset management solutions.

In the DCF model, the scenario reflected in their Business Model implies an attractive growth for BSB based on increasing sales figures thanks to the development of Solife, and higher margins resulting from economies of scale made thanks to licenses management and new client acquisitions.

Regarding the peer group valuation, we have considered the EV/EBITDA and P/E multiples, for 2008 to 2010. Due to a difference in profitability between the peers and BSB, the EV/Sales ratios were not relevant so we decided not to consider these for the purpose of the valuation. The company is trading 7.2x EBITDA and 14.7x P/E multiples for 2008.

Peer Group Multiples

	EV/EBITDA			P/E		
	2008E	2009E	2010E	2008	2009	2010
UNIT 4 AGRESSO NV	6,5x	5,6x	5,1x	13,8x	11,5x	10,3x
EFRONT	5,0x	4,1x	3,2x	14,2x	11,7x	8,0x
STATPRO PLC	6,5x	5,4x	4,2x	9,2x	7,7x	5,5x
GL TRADE SA	5,8x	5,5x	5,0x	10,4x	9,8x	8,7x
LINEDATA SERVICES	5,0x	4,7x	3,8x	9,3x	8,6x	6,4x
MISYS PLC	8,6x	7,5x	7,2x	12,8x	11,6x	10,9x
CEGID GROUP	5,2x	4,9x	4,9x	9,8x	8,7x	7,7x
EXACT HOLDING NV	7,2x	6,8x	6,5x	12,7x	12,0x	11,7x
SOFTWARE AG	7,6x	6,7x	5,9x	11,6x	9,6x	8,2x
SAP AG	11,2x	9,5x	8,6x	17,4x	14,6x	13,3x
SAGE GROUP PLC (THE)	9,7x	8,9x	8,3x	14,3x	12,9x	11,7x
SOPRA GROUP	6,3x	5,9x	5,6x	9,3x	8,4x	8,2x
GROUPE STERIA SCA	3,5x	3,1x	2,9x	7,5x	6,6x	6,5x
Median	6,5x	5,6x	5,1x	11,6x	9,8x	8,2x
Kaupthing estimates for BSB	7,2x	5,2x	3,8x	14,7x	10,0x	6,8x
BSB relative to Mysis	83%	69%	52%	115%	86%	62%
BSB relative to SAP	64%	54%	44%	84%	69%	51%

Source : Bloomberg

Using both valuation methods, we estimate the value of BSB to be Eur 22m. The 20% discount, applied for IPO purpose, provides the investor with upside potential on the EUR 18m final valuation taken into consideration for the introduction of the company.

Investment Opportunities

The company fundamentals are good. The expected growth in Sales and Net Profit is attractive. In 2005 and 2006, EBITDA and Net Profits were somewhat disappointing while Sales level was in line with historical levels. This is principally related to the sudden end of a contract due to unilateral decision of one client's US mother company, weaker than expected level of activity in France in 2005 and subsequent related restructuring of the activities, change in the company's strategy and significant own investments in the development of products (see section Company Strategy) and the hiring of a new director in Luxembourg.

However, 2007 Section "investment turned positive again and expectations for the coming years are very good, with a ROE at 10.4%.

Management expects sales growth to rise from 4.8% in 2007 to 17.5% in 2009 thanks to the company's new strategy and business expansion.

The business pipeline of BSB for 2008 is promising good news in the coming months.

BSB Eur	2005	2006	2007	2008e	2009e
Total Sales	17,784	16,760	17,572	21,052	24,726
EBITDA	(594)	437	1,232	2,515	3,494
EBIT	(971)	18	723	1,837	2,675
Net Profit	(1,465)	(408)	71	857	1,434
Net Profit (before goodwill amortisation)	(1,097)	(40)	347	1,225	1,802
Balance Sheet					
Net Debt / (Net Cash)	(68)	(748)	(582)	(1,279)	(2,565)
Net Cash/Equity	4.1%	58.1%	7.9%	15.5%	26.6%
Margin and profitability					
EBITDA Margin	-3.3%	2.6%	7.0%	11.9%	14.1%
ROE	-88.4%	-31.7%	1.0%	10.4%	14.9%
Growth					
Sales Growth		-5.8%	4.8%	19.8%	17.5%
EBIT growth		173.6%	181.9%	104.1%	38.9%

Source :BSB prospectus

INVESTMENT CONCLUSION

BSB has an interesting growth potential from its core competencies in software development for asset management and life-insurance. More precisely, BSB has significant advantages, and namely:

- BSB has a key position in Luxembourg's rapidly expanding life-insurance market and is still expanding its market share in that sector
- the R&D department is very well performing, innovative and provides the company with a significant edge over competitors' products
- as market regulations and manager's needs are still increasing, software development has still a long time ahead

These three key points will help BSB to elevate among the European leaders in software development for financial sector, and will also help the company to overcome risks of not achieving the forecasted growth in the current market turmoil.

BSB offers an attractive upside potential in the mid-term, particularly if we consider the company's forecasts in terms of growth expectations and further developments.

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