

June 10th, 2020

Europe | Hungary | Food & Technology

Public Company BUY**Enterprise value: 75.7 €m****CyBERG Corp.****Cybergs plans to acquire a majority stake of Coffeeshop Company, an Austrian coffeeshop franchise****Overview**

Industry:	Restaurant & mobile food service
Country:	Hungary
ISIN:	HU0000160122
Webpage:	www.cybergcorp.com
CEO:	Mr. Balazs Rozsa

Current Price:	2.97 EUR
	High Low
Price 52W:	6.25 2.13
Market Cap.(EURm):	8.867.770
No. of Shares:	2.983.888

Shareholders

Inverse Capital Partners Kft.	32.44%
Inbetwien Capital Kft.	28.77%
FINOALLAFINE SRL.	6.22%
Free Float	32.57%
(As of June 1 st 2020)	

Performance

YTD	-41.7%
3 months	-21.5%
1 year	-46.8%
From start	-37.4%



- CyBERG Corp. intends to acquire a majority equity stake of the franchise Coffeeshop Company. Under the agreement, the disruptive business model 3FA (Food Drinks for Free Anywhere) will be launched in Q1 2021. This model will world pioneer and will make the coffee experience unique.
- In 1999 the Coffeeshop Company launched its first coffeeshop. Characterized by a special and unique atmosphere, the Coffeeshop Company is an innovative interpretation of the traditional Viennese coffee house culture, which was included in the UNESCO list of “intangible cultural heritage” in 2011.
- Today, the Coffeeshop Company franchise system is represented in 22 countries with 203 shops. Outside of Austria main markets include Russia Slovakia, Turkey and Qatar.
- Introducing this new business model in the coffee sector is the first step to grow at other food/drinks brands as well. In the long run it is expected that revenue from digital consumption surpasses revenue from selling coffee and other related products. Consequently, the firm can offer free food and drinks based on the 3FA.
- The current Covid-19 pandemic offers an interesting investment occasion since it increases franchising opportunities, lowers expansion barriers and augments the potential of digital platforms.
- CyBERG has also acquired the software development company Bitgap Ltd. The company consists of 14 skilled software engineers with broad experience in fintech solutions based on blockchain, cloud technologies, AI and ML. The acquisition also allows CyBERG to integrate the recently developed contactless payment solution “Paycap” into the 3FA platform.

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1. Company profile

CyBERG Corp. Plc. was founded in 2015 and listed on the Budapest Stock Exchange Xtend market in October 2018. The company is the developer of the disruptive 3FA (Food and drinks For Free Anywhere) model. The vision is to build up a global digital community through bricks and mortar touchpoints like restaurants (KAJAHU brand) and coffeeshops (Coffeeshop Company brand), where physical filters supported by Biometric Segmentation, Artificial Intelligence and Machine Learning ensure the cleanliness of data and filter out fake profiles and false information. The high-quality database results in higher conversion rates and generates extra revenue for the global food and beverage sector.

2. CyBERG's technologies

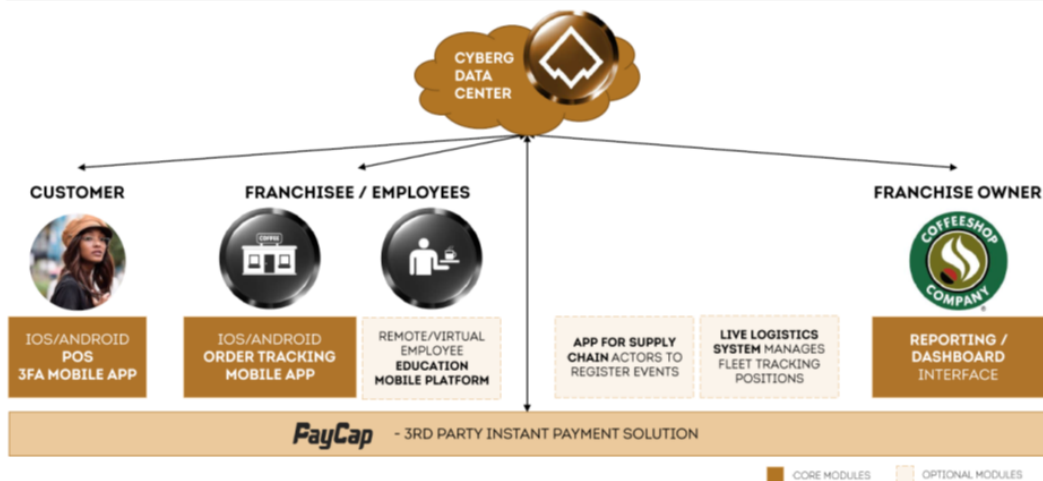
CYBERG CORP PLC. TECHNOLOGIES



Source: CyBERG

CyBERG is a young company which uses the newest technological advances to establish their disruptive 3FA business model. Goal is to establish various sources of digital revenues through the offer of free food or drinks. Following the acquisition of Bitgap CyBERG can now rely on a skilled in-house development team. Their experience from international projects with top-notch partners allows them to integrate state-of-the-art software technologies within the 3FA platform. With the help of technology based on AI, Machine Learning, Shape and Facial Recognition, CyBERG plans to take restaurants and coffee shops to the next level. From further optimizing the food ordering process through relying on facial analysis for both employee and customer reviews to defining what Group as a Platform is, they set out to reimagine our restaurant experience from the ground up. The current Corona pandemic also highlights the safety aspects of digitalization in this sector: With CyBERG's solution guests can screen the menu, order, and pay touchless via their smartphones.

3FA TECH ECOSYSTEM



Source: CyBERG

Core elements of the 3FA platform enable smart interaction with the guest (including the innovative instant payment solution Paycap developed by the Bitgap team) but also provide reporting functions for the franchise owner. The system can be enhanced by additional modules like supply chain/logistics management or employee education. Management is working on the development of a variety of additional applications and services, which are still not disclosed to investors or the general public. CyBERG's platform clearly has a competitive advantage over online-only platforms since they verify the collected user data through real-life transactions: fakes and bots do not eat or drink. Consequently, data obtained from the client's digital consumption at the restaurant or coffee shop is more reliable. The company's business model operates similar to the transportation concept of Uber, the accommodation rental of AirBnB and the navigation model of Waze. Crowdsourcing data over an existing real-world infrastructure is key to success.

CyBERG's target is to build a cleaner, more reliable social map of its platform's users in order to match products and services more efficiently. The firm is putting a large emphasis on clean data and is sure of the long-term potential this business model has -- the world has seen its fair share of made-up news. Facebook is spending huge amounts with limited success on reducing the number of fake accounts and bot traffic in advertisement is becoming a serious issue for Google. The fact that computers can generate photos with unique facial features, indistinguishable from real people, might become a further problem in the future. In this sense CyBERG is addressing an increasingly relevant issue for today's society. Business-wise high-quality data limits the risk of fraudulent transactions and increases advertising conversion rates which is even further helped by the application of machine learning algorithms on CyBERG's platform. This should turn the company into a valuable partner for advertisers and ecommerce companies, once user numbers have reached a critical mass.

3. KAJAHU – The first digital restaurant

The KAJAHU brand – developed and owned by CyBERG – is an innovative and pioneering gastronomic concept with the ambition to set the role model for a new digital sales strategy. KAJAHU is a disruptive restaurant franchise which allows CyBERG to test and improve their technology platform and different innovative services. This franchise creates a social digital restaurant brand, where gastronomy and newest technology go hand in hand with the idea to provide the customer with a different experience.

The existing restaurants in Budapest are equipped with desk-integrated touchscreens for order processing, social networking, and gaming. CyBERG also launched the mobile-based “Booker” system as a predecessor of the 3FA platform already enabling potential guests to take advantage of features like discounted seat reservations in low-traffic times. Together with coupon-like LTOs (Limited Time Offers) this was already the start of a new, more flexible pricing strategy. With ca. 40,000 registered “real” users in just one restaurant unit the Booker application verified the attractiveness of the digital approach despite the fact that the real “Food For Free” model has not even been established yet.

In the global restaurant business it is challenging, though, to expand as an unknown franchise brand with relatively high investment needs per unit. We understand that this was the main reason for CyBERG’s management to start discussions with an established network operator like Coffeeshop Company in an attempt to increase the scalability of the 3FA model.

4. Coffeeshop Company – The first coffeeshop offering Free Coffee

In April 2020, CyBERG has announced the signing of an LoI with Coffeeshop Company targeting the acquisition of a majority stake in the Austrian operator of a network of international coffee shops. While it seems that negotiations are progressing well, a final agreement is not expected before June and subject to a successful fundraising at CyBERG.

Established in 1999, the Coffeeshop Company is an Austrian family-owned company. Today, the Coffeeshop Company franchise system is represented in 22 countries with 203 shops. The franchise network sells over 10 million coffees annually and employs over 2000 people.

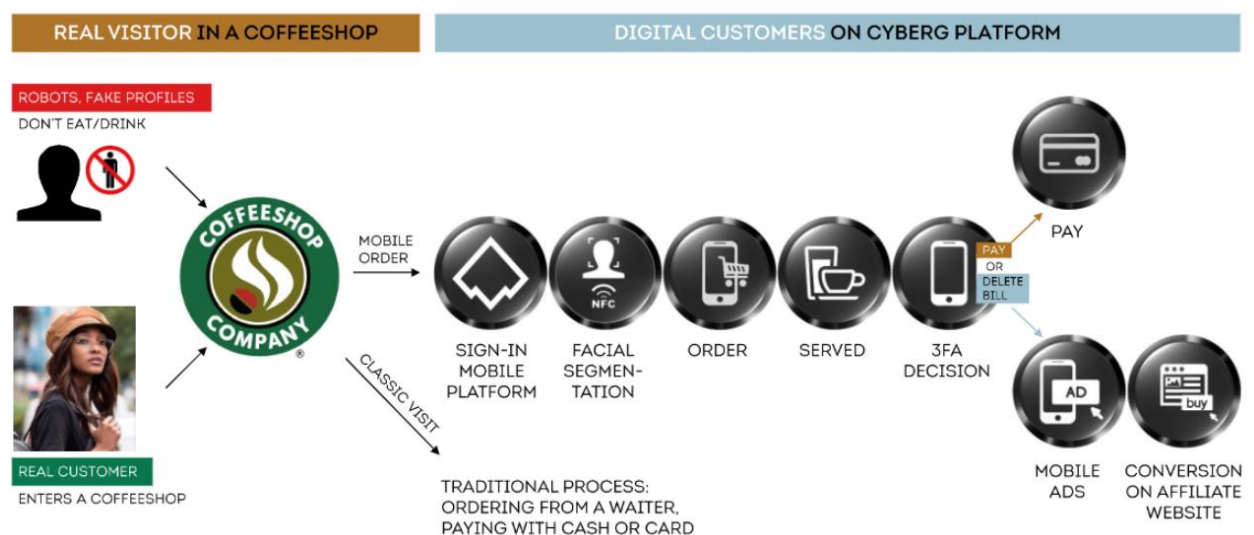
Russia, Slovakia, Turkey and Qatar are the strongest export markets. Other openings are currently planned in Portugal, Germany, Georgia and Turkmenistan.

The cooperation between CyBERG and Coffeeshop Company plans to completely replace the previous business model. The new business model is based on a 3FA concept where revenues are largely generated through additional digital services. In the future, coffee consumption is cheaper or free of charge, if the guest is performing a digital transaction via the 3FA platform.

Business Concept 3FA

- 1) Customer enters a Coffeeshop Company unit.
- 2) Order something through 3FA digital mobile platform building clean database via physical filters, AI & ML
- 3) Customer can choose to either pay or delete bill by purchasing other digital services
- 4) The physical-digital hybrid model results in higher conversion rates on ads and affiliates sales generating additional digital revenue with 100% margin
- 5) Extra digital revenue exceeds cost of e.g. free coffee driving margins and creating a true USP

Graphical illustration of the 3FA experience:

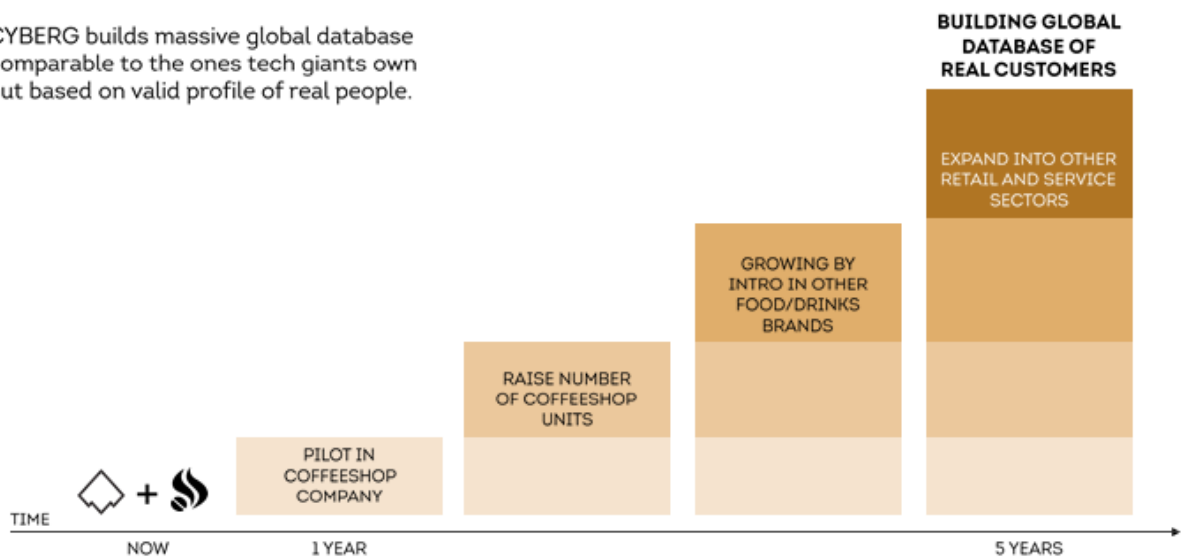


Source: CyBERG

In order to successfully implement the new 3FA business model, CyBERG has created a structured growth plan for the coming 5 years composed of smaller yearly objectives. In the first step, the new technology will be tested as part of a pilot phase in the Coffeeshop Company. This will be followed by a full-scale rollout within the franchise network with the goal of implementing the 3FA platform also at other brands.

Within 5 years, the company expects to have built a global database of real customers comparable to the current tech giants, but strongly more focused on the authenticity of their customers.

CYBERG builds massive global database comparable to the ones tech giants own but based on valid profile of real people.



Source: CyBERG

5. Profit and Loss Statement

All following financials are showing combined numbers of both, CyBERG and Coffeeshop Company.

Profit and Loss Statement All figures in €	2019	2020F	2021F	2022F	2023F
Revenues					
CSC	3,594,132	2,650,492	6,233,353	9,203,214	13,359,586
CyBERG	711,403	804,629	817,972	6,410,811	34,081,064
Total revenues	4,305,535	3,455,121	7,051,324	15,614,025	47,440,650
y-o-y	-	-19.8%	104.1%	121.4%	203.8%
Cost of sales	1,956,655	1,381,848	3,559,555	9,798,986	33,866,884
Gross Profit	2,348,879	2,073,273	3,491,769	5,815,039	13,573,766
y-o-y	-	-11.7%	68.4%	66.5%	133.4%
Other income*	16,176	461,462	-	-	-
Personnel expenses	1,204,381	1,354,044	2,360,809	2,835,661	3,352,465
Other operational costs	1,983,206	1,444,350	1,970,419	2,615,564	3,679,392
EBITDA	-822,531	-263,659	-839,459	363,814	6,541,909
y-o-y	-	-67.9%	218.4%	-143.3%	1698.1%
Amortisation/Depreciation	200,630	215,806	292,737	213,242	234,039
EBIT	-1,023,161	-479,465	-1,132,196	150,572	6,307,870
y-o-y	-	-53.1%	136.1%	-113.3%	4089.3%
Interest expenses	18,798	88,574	135,510	135,510	135,510
taxes	1,750	11,078	1,750	-11,581	476,183
Net Income	-1,043,709	-579,117	-1,269,456	26,644	5,696,178
y-o-y	-	-44.5%	119.2%	-102.1%	21279.1%

* incl. extraordinary item in 2020 (profit from write-off of group liabilities)

Source: Dr Kalliwoda Research 2020

CyBERG's revenue model is based on a number of different income sources. Following a successful acquisition of Coffeeshop Company - as we have assumed in our financial model - the group is recording significant franchise revenues from the two brands (Coffeeshop Company and KAJAHU). Apart from sale of branded trade goods and equipment to the franchisees these also include entrance & planning fees as well as ongoing revenue-based fees. Longer-term, though, traditional franchise revenue is expected to be outgrown by CyBERG's digital business. Digital revenue streams are expected to come from three sources:

- Advertising on the 3FA app
- Affiliate income from ecommerce transactions brokered via CyBERG's platform
- Premium services offered to users (e.g. skip-the-line function, gaming together, dating services)

The high volume of cost of sales in our model is due to CyBERG's strategy to share the upside of the digital business with all stakeholders like guests, brand owners, and franchisees in order to ensure

fast adaptation of the 3FA platform. Not only will the restaurant/coffee shop operator be fully compensated for the free coffee or food offered but on top of that revenues will be split between the different parties.

CyBERG and Coffeeshop Company are expecting to initially launch the 3FA platform in Q1 2021 with full roll-out during next Summer. As it is a cornerstone of the company's strategy to also attract third-party brand owners, we have assumed that more adapters are following from 2022. According to our estimates this additional business will be helping CyBERG to break even in that year. Although we understand that initial discussions with shopping centre operators are under way, we have not included any revenues outside the food and drinks sector.

In our financial model we have fully consolidated Coffeeshop Company's (CSC) numbers, based on the assumption of an acquisition of a majority stake in the company. Recently acquired 100% subsidiary Bitgap is included in the CyBERG numbers with the exception of separate cash flow calculations. As Bitgap is phasing out external development projects, we have assumed that the company serves as a cost center covering most of CyBERG's development spending and is being financed through the parent company. We are not aware of an internal cost allocation system that has been set up yet.

6. Balance Sheet

Balance Sheet (in T€)	2019	2020F	2021F	2022F	2023F
Assets					
Intangible Assets	506	2,726	2,689	2,687	2,679
Property, Plant and equipment	836	1,257	1,123	1,039	943
Non current Assets	1,342	3,983	3,812	3,726	3,622
Inventories	443	500	700	950	1,300
Trade receivables	2,931	3,000	3,050	3,300	3,900
Receivables from affiliated comp.	219	--	--	--	--
Other assets	837	800	900	1,100	1,400
Cash	423	2,453	813	581	5,506
Current Assets	4,854	6,753	5,463	5,931	12,106
Total Assets	6,196	10,736	9,275	9,657	15,728
Equity and Liabilities					
Subscribed capital	923	1,589	1,589	1,589	1,589
Capital reserve	7,299	11,882	11,882	11,882	11,882
Retained profits/Accumulated losses	(5,334)	(6,103)	(6,682)	(7,951)	(7,925)
Net income/net loss for the year	(1,042)	(579)	(1,269)	27	5,696
Total Equity	1,845	6,790	5,520	5,547	11,243
Accruals	882	900	950	1,100	1,200
Trade payables	621	591	705	810	985
Liabilities towards banks	969	1,700	1,700	1,700	1,700
Other loans	36	--	--	--	--
Liabilities to affiliated companies	1,719	556	150	150	150
Other liabilities	124	200	250	350	450
Current Liabilities	3,258	2,047	1,805	2,060	2,335
Total Liabilities	4,351	3,947	3,755	4,110	4,485
Total Equity and liabilities	6,196	10,736	9,275	9,657	15,728

Source: Dr Kalliwoda Research 2020

7. Cash flow

Cash Flow Statement All figures in €	2020F	2021F	2022F	2023F
CSC				
Operating cash flow	(211,841)	(437,681)	524,335	2,811,645
Financing cash flow	599,169	377,169	(422,831)	(22,831)
Investment cash flow	(515,000)	(30,000)	(35,000)	(40,000)
Cash position start of year	359,000	231,328	140,815	207,319
Cash position end of year	231,328	140,815	207,319	2,956,133
CyBERG				
Operating cash flow	(62,896)	(540,528)	(493,553)	2,378,952
Financing cash flow*	2,084,257	(918,393)	287,321	(112,679)
Investment cash flow	(91,429)	(91,429)	(91,429)	(91,429)
Cash position start of year	292,049	2,221,981	671,632	373,971
Cash position end of year	2,221,981	671,632	373,971	2,548,816
Total Cash Position Group	2,453,309	812,447	581,290	5,504,949

*incl. issuance of MFB Bond in 2020 at EUR 1.4 m

Source: Dr Kalliwoda Research 2020

We assume that CyBERG will issue a small bond of EUR 1.4 m via MFB (Hungarian Development Bank) during 2020. Should this not be the case, further equity financing via the stock exchange will be necessary in autumn 2020.

8. Ratios

Ratios	2019	2020F	2021F	2022F	2023F
Gross margin	54.55%	60.01%	49.52%	37.24%	28.61%
EBITDA margin	-19.10%	-7.63%	-11.90%	2.33%	13.79%
EBIT margin	-23.76%	-13.88%	-16.06%	0.96%	13.30%
Net margin	-24.24%	-16.76%	-18.00%	0.17%	12.01%
Return on equity (ROE)	-50.56%	-8.66%	-23.44%	0.49%	51.14%
Return on assets (ROA)	-18.15%	-5.51%	-13.48%	0.27%	36.81%
Return on capital employed (ROCE)	-25.80%	-12.58%	-15.37%	2.00%	47.29%
Net debt (in T EUR)	3,927.08	1,493.41	2,942.05	3,528.71	-1,020.55
Equity ratio	29.78%	63.24%	59.52%	57.44%	71.48%
Current ratio	1.49	3.30	3.03	2.88	5.18
Quick ratio	0.45	1.59	0.95	0.82	2.96
Net interest cover	54.43	5.41	8.36	-1.11	-46.55
Net debt/EBITDA	-4.03	-12.56	-3.94	9.10	0.51
Book value per share	0.69	2.24	1.82	1.82	3.73
CAPEX/Sales	-	1.92%	1.72%	0.81%	0.28%
Working capital/Sales	47.99%	138.61%	53.05%	25.64%	20.87%
EV/Sales	17.59	21.92	10.74	4.85	1.60
EV/EBITDA	-92.09	-287.28	-90.23	208.19	11.58
EV/EBIT	-74.03	-157.97	-66.90	503.03	12.01
P/BVPS	4.05	1.50	2.22	2.65	1.56
P/E	-8.00	-17.31	-9.48	541.87	3.04

Source: Dr Kalliwoda Research 2020

9. Valuation

The main difficulty when analysing and estimating a company's future performance without any or almost any historical data is that all the future projections will be based on projected uncertain forecasted data. In our valuation, we used very conservative assumptions to make our valuation realistic. The Discounted Cash Flow (DCF) method is one of the most used valuation techniques in finance.

In terms of cost of financing, we calculated the WACC of **10.47%**. We also used the growth rate of the group projected revenues streams and we opt for a long-term growth rate of 1.5%. Taking into consideration the weaknesses and threats mentioned in the SWOT-Analysis, we have added a reduction of 25% to our estimations to compensate the risk of the business. The terminal value indicates the present value of the project based on its future cash flows with a fixed long-term growth of **1.5%** and a WACC of 10.47%. The terminal value is calculated according to a stream of forecasted future free cash flows discounted by the cost of capital (10.47%). To determine the NPV of CyBERG, we apply the 25% reduction to the terminal value for the risk of business and for the reason mentioned before. We estimate the value for CyBERG to **EUR 75.7 million**.

Project Net Present Value	2019	2020F	2021F	2022F	2023F	2024FF
All figures in €						
Total Revenues	4,305,535	3,455,121	7,051,324	15,614,025	47,440,650	62,895,235
Net Income	(1,043,709)	(579,117)	(1,269,456)	26,644	5,696,178	11,801,959
Plus: Depreciation & Amortization	200,630	215,806	292,737	213,242	234,039	245,741
Less: CAPEX	-	(66,429)	(121,429)	(126,429)	(131,429)	-
Less: Change in NWC	-	(3,405)	(5,142)	(3,397)	1,779	7,133
Free Cash Flow	(843,079)	(433,145)	(1,103,289)	110,060	5,797,009	12,040,567
PV of discounted FCF	-	(412,100)	(950,162)	85,798	4,090,630	7,690,811
Sum of PV	10,504,977					
Terminal Value	86,984,123					
WACC	10.47%					
Long term Growth	1.5%					
Enterprise Value	75,743,069 €					

WACC	10.47%
Cost of equity	0.158
<i>Equity risk premium</i>	0.074
<i>Beta</i>	2.1
<i>risk free rate</i>	0.031
(%) of equity	0.632
Cost of debt (after tax)	0.014
<i>Average yield on debt</i>	0.020
<i>tax shield</i>	0.7
(%) of debt	0.368

Source: Dr Kalliwoda Research 2020

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3. Date of first publication of this document: June 10th 2020

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