

Due Diligence and Valuation Report

Arrowhead Code: 76-01-02
 Coverage initiated: 01 December 2015
 This document: 07 January 2016
 Fair share value bracket-DCF: € 2.55 and € 3.10
 Share price (06 Jan 16): € 1.73ⁱ

Analysts

Abhishek Bansal Himanshu Broota
 +1 212 619-6889 +1 212 619-6889
abhishek.bansal@arrowheadbid.com himanshu.broota@arrowheadbid.com

Market Data

52-Week Range: € 0.56 - € 2.10ⁱⁱ
 Average Daily Volume: 73,835 ⁱⁱⁱ
 Market Cap. (06-Jan-16): € 36.44 MM

Financial Forecast (in €) (FY ending - Dec)

€	'15E	'16E	'17E	'18E	'19E	'20E	'21E
High PBT '000	4,113	4,781	5,435	5,846	6,306	6,674	7,092
High NI '000	4,959	4,781	5,435	5,846	3,767	4,013	4,305
High EPS	0.24	0.23	0.26	0.28	0.18	0.19	0.20
Low PBT '000	4,041	4,614	5,202	5,565	5,979	6,190	6,520
Low NI '000	4,887	4,614	5,202	5,565	3,500	3,630	3,847
Low EPS	0.24	0.22	0.25	0.26	0.17	0.17	0.18

Company Overview: Keyware Technologies (herein referred to as "Keyware", "KEYW", "the Company", or "the Group") is a Belgium-based independent network service provider in the electronic payments industry. Keyware primarily operates in Belgium, with a small presence in Netherlands. The Company was formed in 1996 and got listed on Euronext Brussels in September 2003 with the stock symbol of "KEYW". Prior to 2003, Keyware was listed on NASDAQ Europe (also known as EASDAQ) since June 2000.

The Company's operations include renting/selling of payment terminals including programming, personalization, installation, maintenance and repair services. KEYW has collaborated with world leaders in payment terminal manufacturing, like Worldline, Ingenico, Verifone, to offer its customers a wide range of solutions for payment terminals. It also provides transaction services and has partnered with Worldline, Six Pay, PaySquare and EMS to enhance the quality of its services. With a view to offer end-to-end payment solutions to its customers, the Company also offers payment services for m-commerce and e-commerce through its payment service platform - PayService. Keyware currently has more than 17,000 customers using their services in various fields- hotels, fashion stores, grocery chains, government agencies etc.



Company: Keyware Technologies NV
 Ticker: EBR: KEYW
 Headquarters: Zaventem, Belgium
 CEO: Mr. Stephane Vandervelde
 CFO: Mr. Alain Hubert
 COO: Mr. Wim Verfaillie
 CCO: Mr. Joris Maes
 Website: www.keyware.com

Arrowhead is updating coverage on Keyware Technologies NV with a fair value bracket of € 2.55 (Low-Bracket estimate) and € 3.10 (High-Bracket estimate).

Key Highlights: **(1)** We expect strong CAGR of 30.2% (low bracket) to 31.8% (high bracket) in profit before tax (PBT) during 2014-18 period; **(2)** The Company's PBT in 9M 2015 also increased by 187% from € 1,041k to € 2,983k on YoY basis; **(3)** The Company is estimated to reach a level of 17,000 terminals by the end of 2015 given that they have already purchased 4,500 Worldline terminals till September 30, 2015; **(4)** In December 2015, KEYW entered into an agreement with Brussels South Charleroi airport to provide comprehensive payment terminal solutions for different services at the airport; **(5)** In 2015, Keyware revised its commission model from Spread Income Model to Brokerage Model, which will significantly increase its revenues from commissions; **(6)** The transition from Spread Income Model to Brokerage Model is expected to be over by December 31, 2018; **(7)** KEYW strengthened its partnership with Worldline and is now a technical payment service provider for Worldline; **(8)** Bringing Worldline on board has given a major boost to the Company's expansion in Tier II markets; **(9)** The Company acquired the assets of GlobalPay NV on January 01, 2015, which boosted its economies of scale and directly contributed to both the number of customers and revenues; **(10)** The government's decision to replace paper meal vouchers with e- vouchers from October 01, 2015 will serve as a new growth channel for Keyware.

Key Risks: Key risks include lower than expected increase in the terminal base, excessive contract terminations and slow adaptability to the ever changing technology. Also, there are a few pending legal disputes against the Company and its subsidiaries which lie outside the scope of normal business operations as per the Group.

Valuation and Assumptions: On the basis of due diligence and valuation estimates, Arrowhead believes that KEYW's fair share value lies in the € 2.55 - € 3.10 bracket using Discounted Cash Flow (DCF), which is our primary valuation methodology.^{iv} Our fair value bracket implies PE multiple of 10.5x and 12.8x based on our 2015 earnings estimates, compared to the industry average of 24.6x.

Table of Contents

1. SUMMARY AND OUTLOOK 3

2. BUSINESS OVERVIEW: 4

2.1 Ownership Structure 5

2.2 Company Milestones 6

2.3 Business Model..... 6

2.3.1 Payment Terminals 6

2.3.2 Transaction/Authorization Services..... 6

2.4 Products and Services 7

2.5 Company Premiums 7

2.6 Company Risks..... 8

2.7 Keyware’s Shareholding Pattern..... 9

2.8 Listing and Contact Details 9

3. KEY VARIABLE ANALYSIS 10

3.1 Variable 1 – Revenue from payment terminals10

3.2 Variable 2 – Revenue from authorization services10

4. NEWS 11

5. MANAGEMENT AND GOVERNANCE..... 12

6. INDUSTRY CHARACTERISTICS..... 13

6.1 Industry Overview13

6.1.1 Industry Segments.....13

6.1.2 Market performance14

6.1.3 Payment Process Participants15

6.1.4 Payment Card Industry Security Standards15

6.1.5 Competition17

7. VALUATION 19

7.1 Discounted Cash Flow Method.....19

Variable 1 – Installed Base (Terminals)21

Variable 2 – Terminals offering Authorized services21

Variable 3 – Volume of Transactions21

8. APPENDIX 23

8.1 Keyware’s Financial Summary23

8.2 Keyware’s Balance Sheet Forecast.....24

9. ANALYST CERTIFICATIONS 25

10. NOTES AND REFERENCES..... 26

1. Summary and Outlook

We update coverage on Keyware Technologies NV, headquartered in Zaventum, Belgium, an independent network service provider in the electronic payment industry. It has its own transaction platform and a number of strategic partners for payment terminals, acquiring services, e-commerce, m-commerce and air time.

Key Highlights:

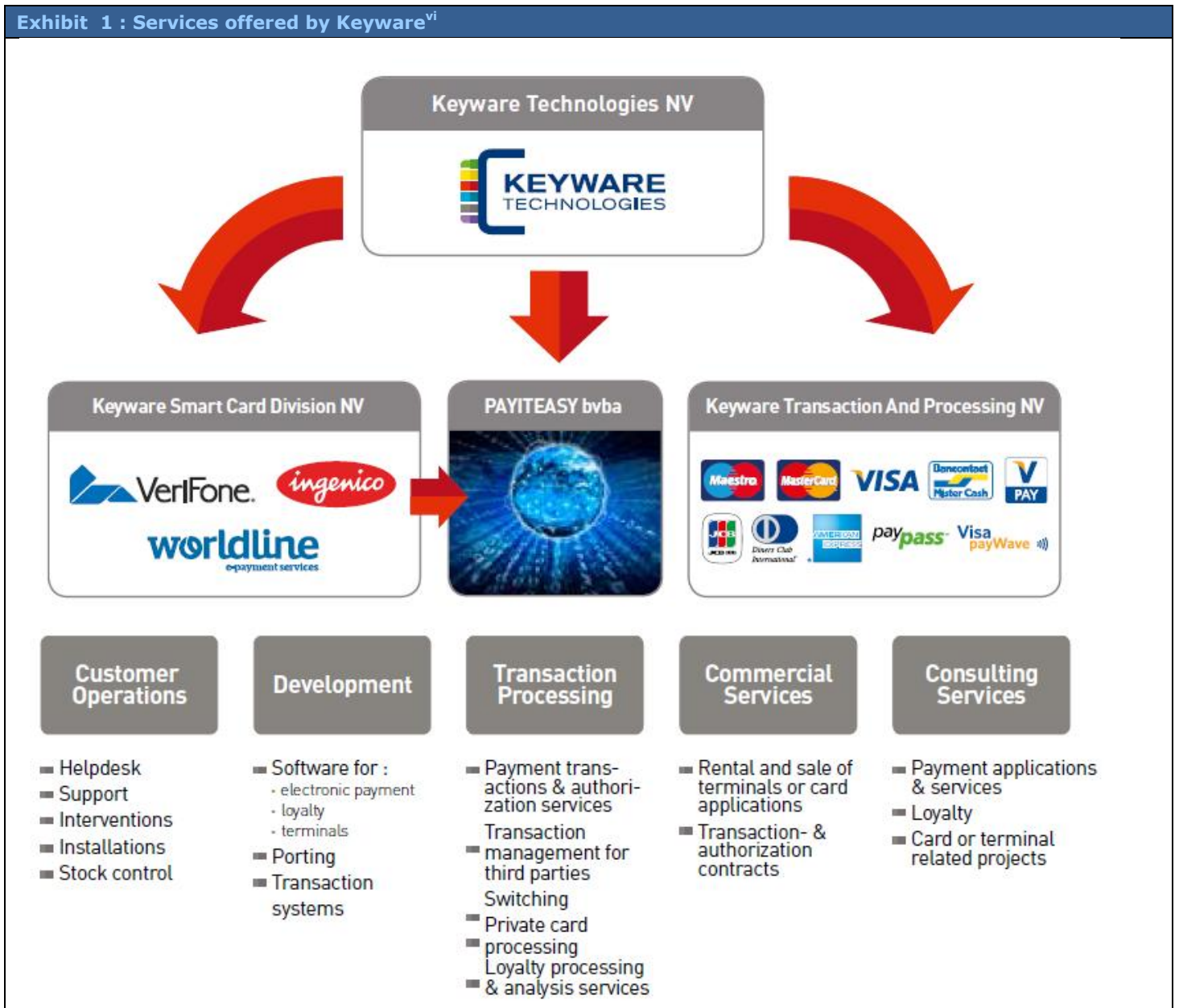
- (1) The Company had installed base of terminals of 16,519 at the end 3Q 2015, which has increased from 10,195 terminals at the end of 2010.
- (2) KEYW is trading at a forward P/E multiple of 8.0x on 2015 earnings, which is at a significant discount to its industry average of 24.6x.
- (3) Keyware signed a contract with Brussels South Charleroi Airport to deliver optimized payment solutions for various services at the airport, including those of operator Ryanair. KEYW in turn is helping the airport to effectively minimize its costs without hampering the quality of services.
- (4) In December, Keyware added contactless technology based payment terminal- Ingenico iCT 250- to its existing range of terminals. The device is certified for both MasterCard PayPass and Visa payWave contactless technologies along with the option of conventional payment.
- (5) The Company is undergoing a shift from Spread Income model of commission to Brokerage Model in a phased manner for providing transaction services. The transition is expected to get completed by the end of 2018. This move is expected to significantly increase the revenues of the authorization services segment with the expected increase of three-folds.
- (6) Keyware is now a technical payment service provider for Worldline, which is a leading terminal manufacturer and transaction services provider. It allows Keyware to offer acquiring services on terminals other than Worldline terminals including terminals from Ingenico, Verifone, etc.
- (7) With the elimination of paper meal vouchers like Sodexo, Edenred, etc from the market and introduction of electronic meal vouchers from October 01, 2015, the payment terminal market is set to witness an increase in the number of terminals to process these e-vouchers.
- (8) Keyware acquired the assets of GlobalPay NV on January 01, 2015. Initially, the acquisition added a total of 840 contracts with 74.6% still active as on December 31, 2015. The final price of the acquisition was determined to be € 445k on December 31, 2015, with balance € 170k outstanding at the end of the year.
- (9) As on September 30, 2015, Keyware had € 2.321 MM of deferred tax asset, which is related to Keyware Smart Card Division. We expect that these deferred tax assets will be sufficient to cover the tax liability in profit from the Keyware Smart Card Division till 2018. Therefore, we expect Keyware Smart Card Division to have tax outflow from 2019 onwards only.
- (10) For Keyware Technologies, the accumulated tax losses amount to € 60,541k as on December 31, 2014 and we estimate these losses to restrict any tax outflow from the authorization segment for the next 10 years. We estimate Keyware Technologies to utilize 50% of € 60,541k by 2025, and the tax benefit from the remaining € 30,270k has been added to the terminal value at the end of 2025.
- (11) Keyware's first 9 month's revenues increased by 39.8% from € 6,636k to € 9,281k on the back of excellent performance by both payment terminal and authorization services divisions.
- (12) Keyware now owns 100% in its joint venture of PayItEasy and fully consolidates it starting 4Q14.
- (13) We have assumed no distribution of dividends in the forecast period. However, the Company may commence the dividend distribution going forward, which will impact our forecasts related to balance sheet, leverage ratio, WACC etc. Also, the projected results do not take into account any acquisition or asset deals which might happen in the future.

Key Risks: Key risks include lower than expected increase in the terminal base, weak business environment in Belgium, excessive contract terminations and slow adaptability to the ever changing technology.

Industry Overview: The electronic payment industry's value chain comprises of a number of services- providing terminals, transaction services, telecommunication services etc. Keyware is an active player in providing terminal installation, maintenance and repair services as well as transaction services to its clients. In terms of the number of terminals in the market, the Belgian industry posted an increase of c. 7% CAGR over a period of 4 years from 2010-2014. With the government eliminating the use of paper food coupons like Sodexo and introducing electronic coupons, the industry is poised to witness a significant increase in the number of terminals as a large number of retailers accepting the food coupons do not currently own a payment terminal. In another significant development, the government has reduced the cash transactions from earlier € 5,000 to € 3,000, which will favorably impact the volume of payment transactions on terminals. Therefore, the industry is well poised to grow through both the volume of transactions as well as the number of terminals over the coming years.

2. Business Overview^v:

Keyware Technologies NV was established in June 1996 as a public limited company and was headquartered in Zaventem, Belgium. The Company's shares have been trading on Euronext Brussels under the symbol "KEYW" since June 2000. Keyware is an independent network service provider offering electronic payment solutions in the regions of Belgium and Netherlands. It has more than 15 years of experience in programming, installation, personalization, maintenance, rental and sale of payment terminals. It offers payment services for e-commerce and m-commerce and solutions for loyalty cards. It has partnered with leading global terminal builders like Ingenico, Verifone and Worldline and transaction partners - Worldline, Six Pay, PaySquare and EMS - to offer its customers the most suitable and updated payment solutions. This allows its customers to choose from multiple options depending on their need, market segment and type of organization, ensuring that the customers are not bound to any one particular terminal. Keyware catered to over 20,000 customers in 2014 covering retail chains, restaurants and cafes, government services, transport companies, installers, house-to-house suppliers, etc.



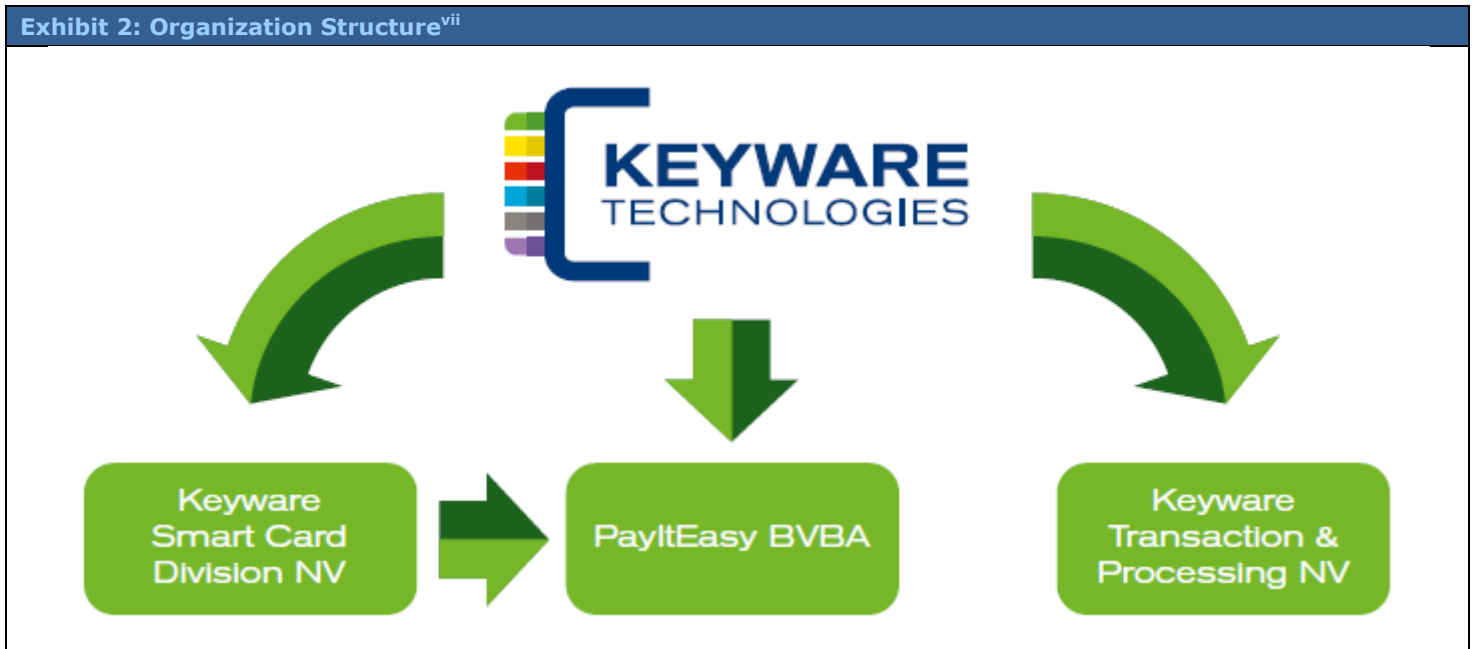
Keyware entered into an agreement with Worldline to sell its terminals in July 2013, successfully adding the popular terminals, Yomani, Yoximo and Xengo to its wide range of products. This led to the Company installing more than 2,000 payment terminals within the first six months of 2014. In 2015, the Company has already purchased more than 4,500 terminals from Worldline by the end of the third quarter.

In January 2015, the Group acquired the purchase and lease contracts of GlobalPay NV by making an upfront payment of € 275k. The payment was financed via owned funds and loans with € 250k being the amount of loan contracted to finance the asset deal. The final takeover price of this asset deal, € 445k, was determined on December 31, 2015 on the basis of a number of parameters. The acquisition increased Keyware's active number of contracts by 840 with 74.6% still active at the end of 2015.

2.1 Ownership Structure

Keyware Technologies NV operates through its fully owned subsidiaries - Keyware Smart Card Division, PayItEasy BVBA and Keyware Transaction & Processing NV. PayItEasy BVBA was established as a 50% joint venture between Keyware Technologies NV and J4S BVBA in mid-2013. Following the acquisition of the remaining 50% of shares in 2014, PayItEasy BVBA is now fully consolidated from October 01, 2014.

Exhibit 2: Organization Structure^{vii}



2.2 Company Milestones

Exhibit 3: Keyware Milestones	
Year	Events
2003	<ul style="list-style-type: none"> Keyware shares got listed on Euronext for the first time in September 2003 Payment Software got certified by Electronic Payment Certificate Institute
2005	<ul style="list-style-type: none"> The number of customers exceeded 5,000 in the payment terminal segment
2007	<ul style="list-style-type: none"> Acquired BRV Transactions NV. KEYW benefitted as BRV held license from Royal Bank of Scotland (RBS) for direct offering of credit/debit card authorization for Visa and Master Card in Belgium
2009	<ul style="list-style-type: none"> Successfully added fixed IP terminals and portable GPRS terminals to its existing offerings Entered co-operative venture with PaySquare, which enabled KEYW to offer payment authorization services on its own and on third party terminals
2011	<ul style="list-style-type: none"> Successfully penetrated higher market segment customers - government schools, municipalities, etc.
2013	<ul style="list-style-type: none"> Partnership with Worldline allowed Keyware to rent/sell Worldline terminals in the Benelux region
2014	<ul style="list-style-type: none"> The reduction in the amount of cash permissible for transactions from € 5,000 to € 3,000 by Belgian government added to the already growing volume of transactions for Keyware Added a record number of terminals crossing 14,000 mark
2015	<ul style="list-style-type: none"> Acquired the assets of GlobalPay in January, taking over a number of purchase and lease contracts Replacement of paper meal vouchers with electronic version from the last quarter of 2015 is set to bring in new growth opportunities for Keyware in 2016

2.3 Business Model

Keyware provides value add to its customers by offering personalized payment services - terminals, applications, telecom and transactions, installation, maintenance and repair services. Its tie-ups with the various global players for each part of the payment solution enable it to offer its customers the best solutions available in the industry. Keyware provides personalized and flexible payment solutions through two main business segments - Payment Terminals and Transaction Services.

2.3.1 Payment Terminals

It involves renting and selling of fixed, portable and mobile payment terminals from various terminal builders through its Smart Card Division. Approximately 98% of the terminals sold/rented are supplied by Ingenico and Worldline, and the remaining by Verifone. Worldline and Ingenico provide the merchants with secure, extensive and innovative technology; thereby, becoming the first choice for most users.

Keyware has a large presence in Tier-III market segment, providing terminals to smaller local shops, grocery stores, fashion departments, pharmacies, café and restaurants. With the introduction of Worldline terminals to its product portfolio, the Company is now looking to penetrate Tier-II segment, incorporating big corporate houses, government agencies, automotive companies and others.

2.3.2 Transaction/Authorization Services

Keyware commenced providing transaction authorization services from 2007. Under this segment, Keyware offers transaction services to acquirers such as banks and payment institutions. It sends the transaction data it receives from the retailer's terminal to the acquirers' for payment authorization via the involved debit/credit card schemes and then provides for clearing and settlement of the transactions.

Earlier KEYW used to charge a fixed percentage as a commission per transaction (called the Spread Income Model), but starting 2015 the Company has shifted to Brokerage Model where it will buy the transactions on a floor fee and the upper part will be charged as a commission based on negotiation with the acquirer. The migration to Brokerage Model is expected to be over by the end of 2018. This strategic step will translate into approximately three times higher revenues than Spread Income Model.

2.4 Products and Services^{viii}

- 1. PayFix:** These terminals use a fixed cable connection to communicate from the terminal to the telephone network or internet modem. They are generally found in shops with fixed payment/ check-out counters.
- 2. PayAway:** These are portable terminals consisting of a base station and a portable device. The base station operates via a fixed connection just like a fixed terminal. However, the portable device has a range of approximately 150 meters, which can be used to receive payments from customers in restaurants and cafes without them going to the billing counter.
- 3. PayMobile:** These pocket sized terminals use the GSM or GPRS communication technology and can be taken anywhere within Belgium to receive the payments. They are mostly used by door-to-door suppliers and taxi drivers to receive the payments.
- 4. Pay-E:** This channel is used to assist e-retailers who wish to add the option for electronic payment on their website. It provides transaction services, along with standard templates, that can be integrated into the web-shop of a retailer without any hassle. Keyware can also adapt to the customer's needs and offer customized solutions to an e-retailer depending upon purchases with debit cards or credit cards, average purchase value, purchase frequency, etc. As a back-end support, Keyware also provides the retailer secure access to the payment module on its site enabling the retailer to view reports, activate options and monitor its payments.
- 5. Pay-M:** The service provided on this channel is similar to "Pay-E," except that it is provided for the mobile applications.

2.5 Company Premiums^{ix}

- 1. Strong growth in customer base and revenues:** According to the latest results, Keyware's revenues increased by 39% in 9M 2015 from € 6.6 MM to € 9.3 MM. Both lease/ sale of the payment terminals and authorization services contributed positively to this increase. While the payment terminal segment witnessed an increase of 39%, the authorization services also increased by 45%. The management's decision to shift from Spread Income model of revenue to Brokerage model for authorization services contributed to the increase in the authorization revenues. The transition to new commission model will be done by the end of 2018 and will impact the segment earnings favorably going forward. In the payment terminals segment, Keyware acquired the assets of GlobalPay NV adding 840 new contracts at the beginning of 2015. Overall, the Company has seen expansion through both the organic and inorganic routes. Going forward, we expect the growth from inorganic to continue due to strong cash flow generation while continually improving its in-house capabilities.
- 2. No tax outflow for next 3 years:** As on September 30, 2015, Keyware had € 2.321 MM of deferred tax asset, which is related to Keyware Smart Card Division. We expect that these deferred tax assets will be sufficient to cover the tax liability in profit from Keyware Smart Card Division till 2018. For Keyware Technologies, the accumulated tax losses amount to € 60.5MM as on December 31, 2014 and we estimate these losses to restrict any tax outflow from the authorization segment for the next 10 years. However, the accumulated losses worth € 30,270k would still remain at the end of 2025 for Keyware Technologies with tax benefit of € 10,292k. We have added the tax benefit to the terminal value at the end of 2025 to account for the unrealized tax benefits.
- 3. Partnership with world leaders in terminal manufacturing and transaction services:** Keyware has collaborated with leaders in the terminal builders segment - Verifone, Ingenico and Worldline - to offer its customers a wide range of world class terminals to choose from. It has transaction partners like Worldline, Six Pay, PaySquare and EMS. This allows Keyware to offer its customers the latest up-to-date services and maintain Keyware's competitiveness in the fast-changing technological market.
- 4. New market of electronic meal vouchers:** The social partners united in the Nationale Arbeidsraad (NAR) (National Labour Council) agreed to abolish paper meal vouchers and introduce electronic meal vouchers from October 01, 2015. With more than 1.3 MM employees receiving meal vouchers in Belgium, this opens up a new market for the payment terminal providers. According to 2014 annual report of Keyware, only 39% of retailers are equipped to process electronic meal vouchers and the remaining 61% do not have the necessary infrastructure to handle such payments. Keyware plans to introduce low cost card readers to tap this new market as well as integrate the existing terminals to accept the e-vouchers. Because it will increase the target market of Keyware, we expect it will be positive for the Company.
- 5. Increasing profitability and lower debt going forward:** Based on our estimates, we expect the Company to register strong top line growth of 11%-13% during 2014-20 period and have an operating profit margin in the range of 25%-27%. Supported by strong operating performance and no tax payments in the near term, we

expect the Company to generate strong free cash flows. As a result, Keyware's financial leverage will continue to decline and balance sheet will be totally debt free.

- 6. Diverse portfolio of customers:** KEYW is a company with over 17,000 customers contributing to its top line. According to the Company, its most important customers contribute less than 1% to the Group's turnover. This isolates the Company from any significant risk arising from concentrated group of customers.
- 7. Lower Impairments:** The Company's impairments reached a level of € 1.9 MM in 2013 due to heightened bankruptcies and business terminations in that year. However, the impairments decreased to € 1.0 MM in 2014 and we estimate the impairments to be € 1.2 MM in 2015 out of which € 1.0 MM has been already recorded in 9M 2015. Therefore, we believe that 2013 impairments were at an exceptionally high and thus non-recurring level for the Company as macro-economic condition indicated a higher level of distressed businesses that year.

2.6 Company Risks^x

- 1. Slow adoption of new technology:** Keyware's market of operations is characterized by frequent new developments in the field of technology, changing customer needs, upcoming new mode of payments through internet and mobile, etc. To stay ahead of its peers, Keyware needs to respond to these changing circumstances in a swift and timely manner without compromising on the quality of services offered to its customers. Not being able to adapt to the fast pace of this industry can result in negative consequences for the Company.
- 2. Poor business environment:** KEYW's success is also dependent on the success of its customers. A downfall in the country's economy increases the probability of businesses going bankrupt, and can shoot up the net impairments of the Company. In 2013, Keyware's net impairments increased by 58% from € 1.1 MM to € 1.8 MM YoY due to a record number of bankruptcies and terminations of the general businesses.
- 3. Less than expected swaps or renewals:** Keyware enters in to a 5 year long lease contract with its customers and it remains crucial for the Company to have higher renewals. An increase in attrition rate will not only decrease the revenues but also serve as a negative performance indicator for the other prospective customers.
- 4. Legal Risks:** In 2002, Keyware Smart Card Division NV initiated a "descriptive attachment with respect to counterfeiting" action against Kinopolis Group NV claiming a compensation of € 930k plus interest from January 01, 2002. Keyware has charged Kinopolis with alleged infringement of copyright with regard to a number of computer programs developed by Keyware. Kinopolis rejects this claim and demands a compensation of € 10k. According to the latest verdict on June 06, 2013, KEYW's claim was unfounded and was sentenced to the payment of compensation of legal expenses to Kinopolis. Keyware has lodged an appeal and the case is pending for the Court of Appeal in Brussels. In addition to this, there are a number of claims and legal proceedings pending against the Company and its subsidiaries, however the Board of Directors do not believe such claims or proceedings to have any significant impact on the financial position of the Company or its subsidiaries.

2.7 Keyware’s Shareholding Pattern

As on December 31, 2015, the number of shares outstanding was 21,063,793.

Exhibit 4: Shareholding pattern ^{xi}	Exhibit 5: Shareholding Pattern ^{xii}		
<p>A pie chart illustrating the shareholding pattern. The largest slice, representing 47.34%, is light blue and corresponds to 'Others'. The second largest slice, representing 46.97%, is dark blue and corresponds to 'Parana Management BVBA/Powergraph BVBA/Guido Van der Schueren'. The smallest slice, representing 5.69%, is medium blue and corresponds to 'Big Friend NV/Stéphane Vandervelde'.</p>	Shareholders	No. of Shares	% of total
	Parana Management BVBA/Powergraph BVBA/Guido Van der Schueren	9,894,419	46.97%
	Big Friend NV/Stéphane Vandervelde	1,197,713	5.69%
	Others	9,971,660	47.34%
	Total	21,063,793	100%

2.8 Listing and Contact Details

The ordinary shares of Keyware Technologies are listed on Euronext Brussels (EBR) (Ticker: EBR: KEYW, Date of Listing – 3rd September, 2003)

Contacts: Ikaros Business Park, Ikaroslaan 24, B-1930 Zaventem, Belgium

E-mail ID: info@keyware.com

Phone: +32 2 346 25 23

Fax: +32 2 347 16 88

3. Key Variable Analysis^{xiii}

3.1 Variable 1 – Revenue from payment terminals

Keyware’s major source of revenue is the number of terminals it sells/ leases. Considering developments like partnership with Worldline, requirement of new terminals in the market for electronic meal vouchers, limit on the amount of cash for transactions, we forecast the number of terminals to increase for Keyware. From 2010-14, the Keyware’s installed terminal base increased at a CAGR of 8.7% from 10,195 terminals in 2010 to 14,236 terminals in 2014. KEYW registered growth rate higher than the overall industry growth rate of 7.3%, signifying the strong performance of the Company in the industry. Following are our estimates for components of revenue from payment terminals for the forecast period under two scenarios, Low bracket and High bracket:

Exhibit 6: Payment terminal revenue breakdown												
In €MM		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Low Bracket	Rental revenues	7.0	7.1	7.5	7.6	7.9	7.7	8.0	8.2	8.5	8.7	9.0
	Terminal sales	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
	Rendered services	3.6	4.2	4.7	5.2	5.6	5.9	6.1	6.4	6.6	6.8	7.0
	Cancellation pay	0.7	0.9	1.0	1.1	1.1	1.3	1.4	1.4	1.4	1.5	1.5
	Total	11.5	12.5	13.5	14.1	14.8	15.2	15.7	16.2	16.8	17.3	17.8
High Bracket	Rental revenues	7.0	7.3	7.7	7.8	8.1	8.2	8.5	8.7	9.0	9.3	9.6
	Terminal sales	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	Rendered services	3.8	4.4	4.9	5.4	5.8	6.2	6.4	6.7	7.0	7.2	7.5
	Cancellation pay	0.7	0.9	1.0	1.1	1.1	1.3	1.4	1.4	1.5	1.5	1.5
	Total	11.7	12.8	13.9	14.5	15.3	15.9	16.5	17.1	17.7	18.3	18.9

3.2 Variable 2 – Revenue from authorization services

As on September 30, 2015 Keyware offered transaction/ authorization services on c. 83% of the total installed base of terminals. These terminals form a source of revenue for the authorization services’ segment. Given that the Company holds solid partnerships with transaction service providers like Six Pay, PaySquare, EMS and Worldline, we estimate the number of terminals offering transaction services to increase going forward. Also, the agreement with Charleroi Airport will also contribute to the revenue from authorization services. Following is the estimate revenue from authorization services during the forecast period for the low bracket and high bracket:

Exhibit 7: Authorization services revenue											
In €MM	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Low Bracket	0.9	1.4	1.9	2.4	2.8	3.3	3.7	4.2	4.8	5.4	6.0
High Bracket	0.9	1.6	2.3	2.8	3.3	3.9	4.5	5.1	5.8	6.6	7.5

4. News^{xiv}

1. **Final GlobalPay acquisition price determined at € 445k:** Keyware acquired the assets of GlobalPay NV, a reputed player in the market for payment terminals and payment transactions, on January 01, 2015. Keyware paid a sum of € 275k upfront and the balance to be paid was decided on December 31, 2015 after the determination of final price on the basis of various parameters including the number of active contracts. At December 31, 2015, 74.6% of the total 840 contracts acquired on January 01, 2015 were still active and the balance amount of € 170k still remained as a liability for the Company.
2. **Exercised warrants increase Keyware's capital:** In respect to the Warrant Scheme 2012 and Warrant Scheme 2014, some warrant holders exercised their warrants on December 23, 2015 which led to the issuance of 625,000 new shares into the market. 430,000 warrants were issued at a strike price of € 0.70 per warrant and 195,000 warrants were exercised at a strike price of € 0.569 per warrant. As a result, capital and share premium increased by € 281,250 and € 130,705 respectively. Following the exercise of warrants, the total number of shares amounted to 21,063,793 and the capital to € 9,447,547.84.
3. **KEYW launched Ingenico iCT 250 with contactless technologies:** Keyware continued to expand its horizon of offering personalized, high performance payment solutions by introducing Ingenico iCT 250 payment terminals offering the option of both contactless and conventional payment. The terminal is equipped to process all forms of payments such as Bancontact/MisterCash and is certified with two most important contactless technologies- MasterCard PayPass and Visa payWave. The terminal has a compact design with large color screen making it convenient to use. Its large memory capacity and powerful processors make it compatible to process other applications like loyalty programs, gift vouchers, phone cards, ticketing or different electronic purses, as well as for publicity and promotion or even personalized mobile content.
4. **Keyware signs an agreement to offer payment services at Brussels South Charleroi Airport:** On December 17, 2015, KEYW announced the signing of an agreement to provide comprehensive electronic payment solutions for various services at the Charleroi airport including the services of operator Ryanair. The agreement will help KEYW to process a greater number of payment transactions- ticket payments, excess baggage claims, purchases at various outlets, etc. and benefit from millions of travelers that go through the Charleroi airport every year. The airport, in an effort to reduce its costs, was in search of a payment infrastructure provider who could reduce the costs substantially while maintaining or improving the quality of services. Keyware's multi-brand range of payment terminals enabled it to offer optimized solutions at reduced cost without compromising on the quality of services. The services with high frequency of payment transactions are equipped with high-performance terminals, while other services are provided with standard solutions.
5. **Keyware acquires a stake in Congra Software S.A.R.L:** In September 2015, Keyware acquired a 2.09% stake in Congra Software, the holding Company of Hybrid Software Group, for € 250k. Keyware Group financed this transaction via a loan from its subsidiary, Keyware Smart Card Division SA. Hybrid Software's main activity is to provide a link between MIS systems, web-to-print portals and prepress workflow. The group has operations in Belgium, Germany, Italy and the United States.
6. **Keyware and Worldline extend the partnership:** In June 2013, Keyware and Worldline signed a partnership agreement under which Keyware bought the terminals build by Worldline and then rented/sold the terminals after customizing it for each client. The agreement also allowed Keyware to offer certain acquiring services on behalf and for the account of Worldline.

In June 2015, both the parties agreed to further extend the existing partnership. Now Keyware is a Technical Payment Service Provider for Worldline. This agreement allows Keyware to offer acquiring services not only to clients with Worldline terminals, but also to merchants with terminals of other vendors. The payment terminals are linked to Keyware's payment host, which submit the payment transactions over a secure connection to the Worldline acquiring servers. In this way, Keyware can directly offer subscriptions based on its own commercial solutions to clients for payments made with Bancontact/MisterCash, V Pay or Maestro. Additionally, the new infrastructure will allow Keyware to offer acquiring contracts for the processing of credit card transactions with Visa, MasterCard, Amex, JCB, Diners Club, CUP, etc.

5. Management and Governance^{xv}

The Company has a team of experienced professionals with expertise in the field of technology, operations, sales and marketing and finance. These highly qualified professionals have been with the firm for a long time, signifying the stability of the firm's management. The management's focus is on improving profitability and creating shareholder value.

Exhibit 8: Management Team		
Name	Designation	Background
Stephane Vandervelde	President & CEO	<ul style="list-style-type: none"> Stephane is the co-founder of Keyware, with over 25 years of experience in technology organizations. He has been a Board Member in firms across multiple industries, such as Hybrid NV and US, Pinnacle Investments NV, Immo David NV, Big Friend NV, amongst others. He is an electronics engineer. He completed specialization in micro-electronics and chip design from Catholic University of Leuven (KUL). He has been the President and CEO of Keyware since 2001.
Wim Verfaillie	COO	<ul style="list-style-type: none"> Wim has over 20 years of work experience in streamlining operations. He worked as Operations Manager at Modular Lighting Industries from 1994 to 2003. Since 2003, he has worked as an Operational Business Consultant and Interim Manager. He was involved in long-term projects at Tenovis (Telecom) and Maxeda (Retail). He is an industrial electricity engineer and joined the firm in 2007.
Joris Maes	CCO	<ul style="list-style-type: none"> Joris has over 20 years of experience in international sales and marketing positions at Alcatel-Lucent, KPN, AT&T and Balta. He completed his Masters in industrial engineering (electronics) and is an MBA in General International Management from the Vlerick Leuven Gent Management School. He has been associated with Keyware since 2010.
Alain Hubert	CFO	<ul style="list-style-type: none"> Alain joined Keyware in 2013 and has over 20 years of experience in financial management, taxation and accounting. Previously, he worked with Ernst & Young as an Executive Director of Transaction Advisory Services (TAS). He has been a certified auditor since 1998; until 2008 he was an audit partner at Constantin Bedrijfsrevisoren. He has proficiency in due diligence, quality and risk management. He completed Licentiate Applied Economic Sciences (UG) and Special Licentiate in Accountancy work from Vlerick School of Management.

6. Industry Characteristics

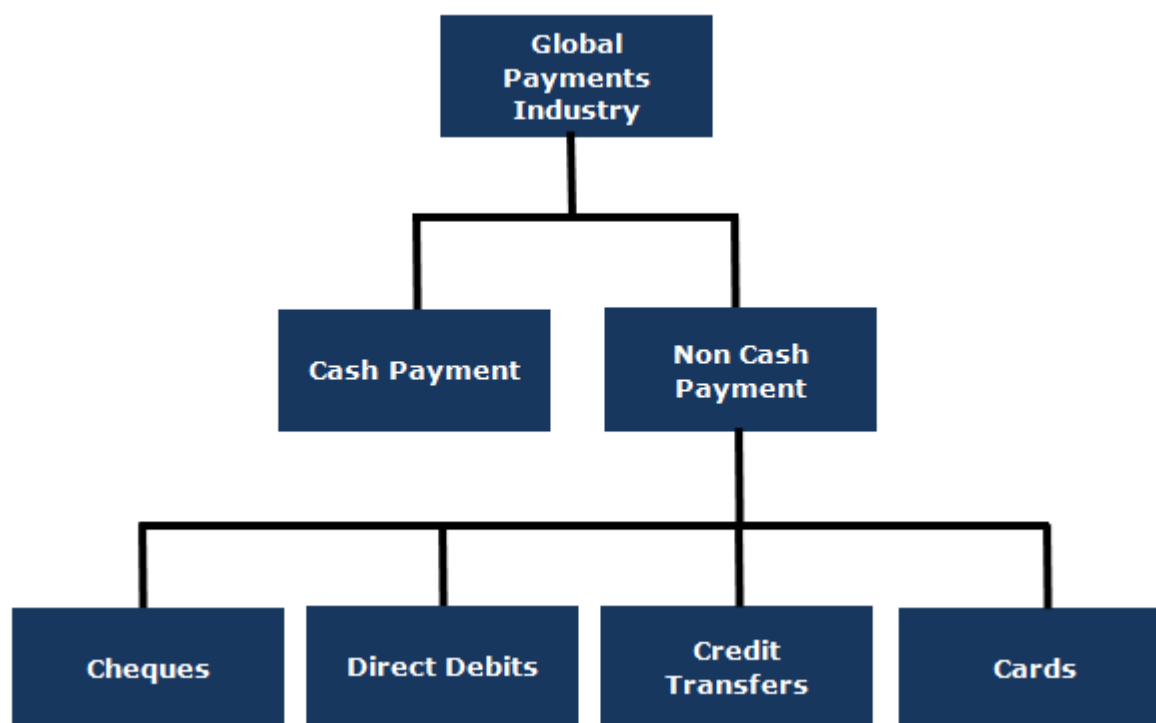
6.1 Industry Overview^{xvi}

Electronic payment industry involves multiple stakeholders including terminal providers, banks and payment institutions, transaction service providers, infrastructure telecommunication companies, government agencies to create a strong payment services ecosystem. The industry is fast eliminating the use of cash and cheques as a mode of payment and moving towards technologically enhanced methods like Debit/Credit Cards, Credit Transfers and Direct Debits. Various European countries have also formulated laws limiting the use of cash for any transaction. Since January 2014, the Belgian authorities have revised the limit on cash transactions for the purchase of goods and services from € 5,000 to € 3,000. This bodes well for the players involved in the electronic payment industry as this will bolster the volume of transactions occurring through the non-cash mode of payments.

6.1.1 Industry Segments

The payment industry broadly comprises of two segments - Cash payments and Non-cash payments. Non-Cash Payments are further divided depending upon the modes of payment method.

Exhibit 9: Industry Classification



1. **Cash Payments:** Transactions happening through the use of paper money form a part of this segment.
2. **Non-Cash Payments:**
 - a. **Cheques:** A written consent where the person signing the cheque obliges to pay the drawer the amount of money stated on the cheque.
 - b. **Direct Debits:** An arrangement that allows the banks to transfer the funds from a customer's account to a third party on previously agreed fixed dates. This mode of payment is especially used to pay bills.
 - c. **Credit Transfers:** It is a direct mode of transfer of money from one account to another.
 - d. **Cards:** Use of credit/debit/loyalty cards for making payments for the goods and services purchased.

Keyware Technologies forms a part of the non-cash payment system by providing payment services to facilitate the card payments. For this, it provides infrastructure support in the form of renting/selling of payment terminals along with the maintenance support. It also provides transaction services required to transmit, authorize and verify the card data used during the transaction. Since the Company's major revenues come from renting the terminals, which are used to complete the card transactions offline, the more the number of transactions the better the Company's performance in terms of revenue.

6.1.2 Market performance^{xvii}

Card Transaction Trends: According to the Payment Statistics Report 2015 issued by European Central Bank, the total number of non-cash payments in Belgium increased 27.2% YoY to reach 3.44 billion in 2014. Of this, card payments accounted for 43.9%, credit transfers 39.8%, direct debits 15.4% while the remaining 0.9% is accounted by e-payment transactions, cheques and other payment services. Within the non-cash segment, credit transfer volume increased to 1.36 billion, direct debits increased by 69% to 0.53 billion whereas the number of card payments climbed by 13% in 2014 to reach 1.51 billion. (However, the 2014 card data is not fully comparable to previous years; please refer to the note in Exhibit 10). The volume of transactions through cards increased at a CAGR of 7.7%, that is, from 1.07 billion in 2010 to 1.33 billion in 2013.

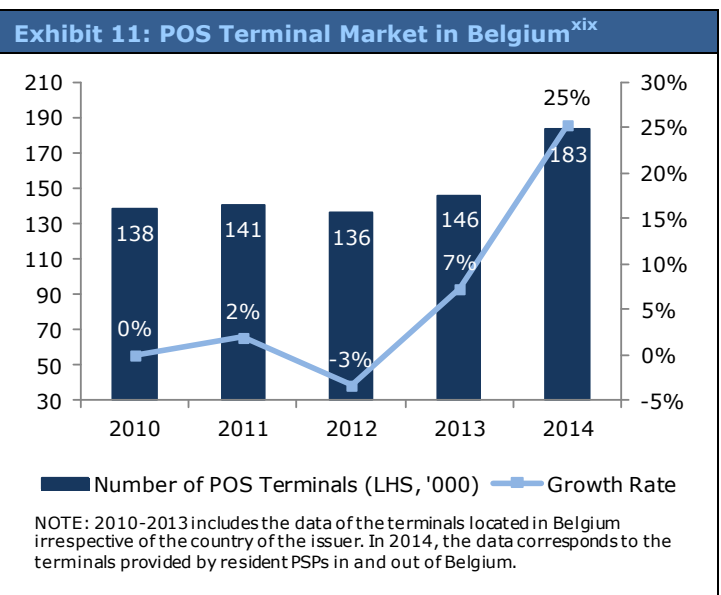
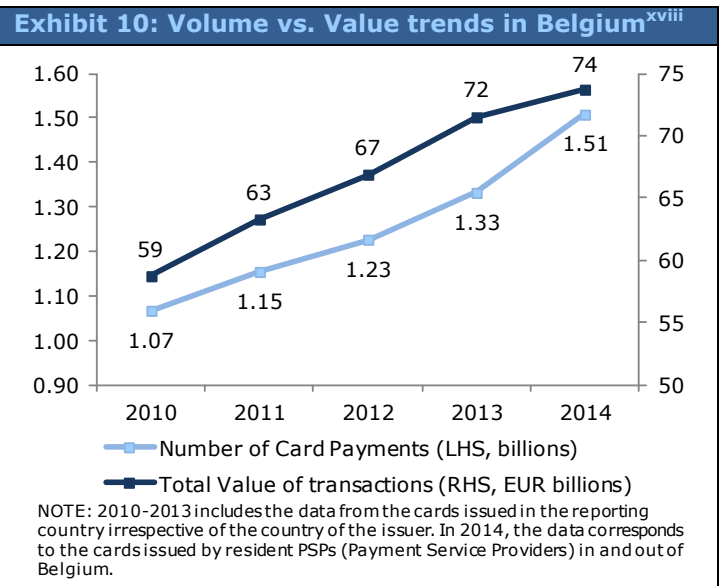
Corresponding with the increase in the number of transactions through cards, the total value of the transactions also witnessed a positive trend, growing from € 59 billion in 2010 to € 72 billion in 2013, at a CAGR of 6.8%.

This increase over the years in the volume and value of transactions is expected to persist going forward with the introduction of measures like elimination of paper meal vouchers, w.e.f. from October 01, 2015; introduction of electronic meal vouchers; and limiting cash transactions to up to € 3,000 (effective from January 2014).

Point of Sale (POS) Terminal Trends: According to the data provided by ECB, the total number of POS terminals in Belgium increased to 183,210 in 2014, an increase of 25% YoY. Since ECB did not report the figure for 2013, the 25% increase is calculated by using the extrapolated figure of 2013. The extrapolation was done by increasing the 2012 figure by the CAGR during 2010-2014. (However, the 2014 data is not fully comparable to previous years; please refer to the note in Exhibit 11)

Technological advancements such as introduction of chip embedded payment cards and stringent government measures regarding data security are the likely factors to augment the growth of POS terminals market in the coming years. In 2014, the Belgium government reduced the cash transactions limit from € 5,000 to € 3000, which is also expected to contribute to the future increase in the number of terminals.

Going forward, the demand for POS terminals is expected to grow on back of the introduction of electronic meal vouchers from the last quarter of 2015. This will do away with paper meal coupons like Sodexo and Edenred. With more than 1.3 million employees receiving meal vouchers in Belgium and only 31% of retailers equipped to accept electronic meal vouchers, the scope of expansion is huge for the terminal providers. According to Keyware's management, this new opportunity will require the introduction of 80,000 new terminals in the market.



6.1.3 Payment Process Participants^{xx}

Various stakeholders play an important role in ensuring successful electronic transactions. High level of collaboration is required to ensure the safe and seamless transfer of funds from one bank account to another. Following are the various participants in an electronic payment process:

- 1. Cardholders:** They are the consumers who use the electronic mode of payment for purchasing goods and services. The transactions are carried out via plastic/physical cards - debit cards, credit cards, loyalty cards, gift cards or virtual cards – and Smartphone.
- 2. Retailers:** They sell goods or services and accept the non-cash payment method. Retailers use fixed, portable or mobile payment terminals to carry out the transactions and receive the payment via a card.
- 3. Payment acceptance processing providers:** These provide the retailers with means to operate and execute the card payment. They arrange for necessary infrastructure like installation of POS terminals, online payment gateways to collect and transmit the card data and receive payment authorization.
- 4. Acceptance-related service providers:** They provide additional features to retailers such as coupon, loyalty or ticket functionalities on the payment terminal, electronic meal vouchers, etc.
- 5. Acquirers:** These are the banks and payment institutions that facilitate the transfer of funds from the consumer's bank (issuing bank) to the retailer's bank account after charging the service fee. The acquirers give the retailer access to various card schemes like Visa, MasterCard, Maestro, Bancontact/Mister Cash, JCB, Diners, etc. and a "merchant account". The payment received from the customer is then transferred into this merchant account.
- 6. Acquiring Processors:** They provide transaction processing services to the acquirers, which include transmitting the card data from the retailer's terminal to acquirers' for receiving payment authorization via the credit/debit card schemes and clearance and settlement of all the transactions.
- 7. Card Schemes:** Various schemes - MasterCard, Maestro, Visa, V-Pay, Diners, JCB - are available for the retailer to choose from. Each card scheme has different processing costs, which the retailer has to pay depending upon the service he adopts.
- 8. Clearing and Settlement Institutes:** Generally the national banks who provide clearing and settlement services between the acquiring bank and issuing bank.

KEYW as a participant is active in the area of payment acceptance processing providers, acceptance-related service providers and transaction services providers as described in points 3, 4 and 6 above.

6.1.4 Payment Card Industry Security Standards^{xxi}

Payment Card Industry Security Standards Council (also referred to as PCI SSC), formed in 2006, is responsible for the development, management, education and awareness of PCI Security Standards. It includes Payment Application Data Security Standard (PA-DSS), PIN Transaction Security (PTS) and Data Security Standard (DSS).












- 1. PA-DSS:** It applies to software vendors and others who develop payment applications that store, process or transmit cardholder data and/or sensitive authentication data.
- 2. PTS:** These standards contain the set of requirements for the secure management, processing and transmission of personal identification number (PIN) data during online and offline payment card transaction processing at ATMs and POS terminals. The requirements are applicable to all the acquiring institutions and agents responsible for PIN transaction processing on payment card industry participants' denominated accounts.
- 3. DSS:** These standards apply to all the participants in payment card processing including merchants, acquirers, service providers and all the entities that store, process or transmit the cardholder's data and sensitive authentication data. Cardholder data includes cardholder name, expiration date, service code, Primary Account Number (PAN), amongst others. The cardholder data, except PAN, must be protected in compliance with the PCI DSS requirements. Sensitive authentication data includes CVV, CVC or PIN codes and must not be stored in any form after authorization.

Exhibit 12: PCI-DSS Compliance Requirements



6.1.5 Competition

There are various services offered by the players in the payment terminal market. Different players provide different services along the extended payments value chain. The following table gives an overview of the presence of various players along the wide range of segments in the Payment services industry across Europe.

Exhibit 13: Services offered by various players in the market ^{xxii}								
Card Payment Services in Europe	Issuing transaction processing	Services to cardholders and issuers	Automated Clearing House	Credit/ Debit transfers	Services to merchants	Acquiring transaction processing	Commercial Acquiring	Acceptance POS/ eCommerce
					✓	✓	✓	✓
	✓	✓	✓	✓	✓	✓	✓	✓
	✓	✓	✓	✓	✓	✓	✓	✓
	✓	✓			✓	✓	✓	✓
					✓	✓	✓	✓
					✓	✓	✓	✓
	✓				✓	✓	✓	✓
	✓	✓				✓		
	✓	✓	✓	✓	✓	✓	✓	✓
	✓	✓		✓	✓	✓	✓	✓
					✓	✓	✓	✓

Note: The list of services may not be exhaustive. Additional services may be offered by the individual firms.

Comparison with listed peers

Exhibit 14: Peer Comparison^{xxiii}

	Current	2014	2014		9M 2015*	
	Market Cap (US\$ MM)	Revenue (US\$ MM)	EBITDA Margin	Net Profit Margin	EBITDA Margin	Net Profit Margin
Keyware	39	13	24%	19%	37%	39%
Worldline	3,242	1,527	17%	9%	18%	8%
Ingenico	7,391	2,135	22%	11%	24%	12%
Global Payments**	8,280	2,774	21%	10%	22%	10%
Tsys	8,813	2,447	28%	13%	29%	14%
Fiserv	20,393	5,066	32%	15%	34%	13%
Heartland Payment Systems	3,473	2,311	8%	1%	11%	3%
Wirecard	6,154	601	29%	18%	29%	18%
Total/Weighted Average	57,785	16,874	26%	13%	27%	12%

NOTE: *- Worldline and Ingenico results correspond to 6 months.

** - Global Payments' fiscal year ends in May, therefore, 2014 financials represent fiscal year ending May-2015 while 9M 2015 financials represent 9 months ending August-2015

7. Valuation

The Fair Market Value for all of the Company shares stands between € 53.67 MM and € 65.40 MM as of January 07, 2016. The Fair Market Value for one Company publicly traded share stands between € 2.55 and € 3.10 as of January 07, 2016. The valuation approach followed is the Discounted Cash Flow method. The terminal value includes the tax benefit worth € 10,292 arising from the accumulated losses of Keyware Technologies which will be realized post 2025.

7.1 Discounted Cash Flow Method

Valuation

WACC

Risk-free rate	2.20% ^{xxiv}
Beta	0.45 ^{xxv}
Equity Market premium	6.65% ^{xxvi}
Country Risk Premium	0.9% ^{xxvii}
Cost of Equity	5.61%
Cost of Debt	4.92%
Terminal Growth Rate	3.0%
WACC (Discount Rate)	5.49%

Year Ending- Dec	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
FCFF (High)										
Net cash from operating activities	228	1,164	1,954	1,519	2,103	2,420	2,772	3,072	3,426	3,760
Capital Expenditure	289	242	225	223	238	273	267	283	299	316
Free Cash Flow to Firm	-61	922	1,729	1,296	1,865	2,147	2,505	2,790	3,127	3,443
Discount factor	0.95	0.90	0.85	0.81	0.77	0.73	0.69	0.65	0.62	0.59
Present Value of FCF	-58	830	1,474	1,047	1,429	1,559	1,725	1,821	1,934	2,019
FCFF (Low)										
Net cash from operating activities	84	940	1,672	1,239	1,912	2,141	2,391	2,595	2,849	3,087
Capital Expenditure	279	231	214	212	221	253	246	258	272	286
Free Cash Flow to Firm	-194	709	1,458	1,028	1,691	1,888	2,146	2,337	2,578	2,802
Discount factor	0.95	0.90	0.85	0.81	0.77	0.73	0.69	0.65	0.62	0.59
Present Value of FCF	-184	637	1,243	830	1,295	1,371	1,477	1,525	1,594	1,642

Arrowhead Fair Value Bracket	High	Low
Terminal Value (TV)	93,721	78,173
Present Value of TV	54,960	45,842
Present Value of FCF	13,780	11,433
Present Value of TV+FCF	68,740	57,275
Net Debt	3,343	3,619
Equity Value Bracket		
Shares O/s (000's)	21,064	21,064
Fair Share Value Bracket (€)	3.10	2.55
Current Market Price (€)	1.73	1.73
Upside/(Downside)	79%	47%
Current Market Cap. (€ '000)	36,440	36,440
Target Market Cap. Bracket (€ '000)	65,397	53,656

Sensitivity Analysis

Sensitivity Table- High		Growth Rate (%)				
		2.0%	2.5%	3.0%	3.5%	4.0%
WACC (%)	4.5%	3.63	4.35	5.54	7.94	15.19
	5.0%	2.92	3.36	4.01	5.10	7.29
	5.5%	2.42	2.71	3.10	3.70	4.70
	6.0%	2.05	2.25	2.51	2.87	3.42
	6.5%	1.77	1.91	2.09	2.33	2.66

Sensitivity Table- Low		Growth Rate (%)				
		2.0%	2.5%	3.0%	3.5%	4.0%
WACC (%)	4.5%	2.98	3.57	4.54	6.48	12.39
	5.0%	2.40	2.76	3.29	4.17	5.95
	5.5%	1.99	2.22	2.55	3.03	3.84
	6.0%	1.69	1.85	2.06	2.35	2.80
	6.5%	1.46	1.57	1.72	1.91	2.18

Valuation multiples - comparison with the peer group

Keyware Technologies is trading currently at 8.0x and 8.7x P/E multiples based on 2015 and 2016 average earnings forecasts. It is trading at significantly discount to the industry average of 24.6x and 21.5x respectively. In addition, our fair value bracket implies P/E multiple of 10.5x and 12.8x based on our 2015 earnings estimates, compared to the industry average of 24.6x.

Exhibit 15: Valuation Multiples^{xxviii}

	Market Cap (US\$ MM)	Price to Earnings		EV/EBITDA		Price to Book Value		
		2014	2015	2016	2015	2016	2015	2016
Keyware*	39		8.0	8.7	9.3	8.3	1.7	1.5
Worldline	3,242		24.8	22.9	11.7	10.1	4.2	3.7
Ingenico	7,391		24.3	21.6	14.6	12.7	4.8	4.1
Global Payments**	8,280		21.1	18.8	14.3	12.8	8.1	6.2
Tsys	8,813		19.7	18.3	11.9	10.9	4.6	4.0
Fiserv	20,393		23.2	20.7	13.6	12.5	3.6	3.1
Heartland Payment Systems	3,473		32.4	27.9	19.2	16.5	10.3	8.3
Wirecard	6,154		36.6	27.8	22.9	17.8	4.7	4.1
Total/Weighted Average	57,785		24.6	21.5	14.8	13.0	5.1	4.2

Note: *- Keyware's multiples are calculated based on average of High and Low bracket forecasts.

** - Global Payments' FY15 has already ended, therefore reported the actual figures for FY15.

Approach for DCF Valuation

Time Horizon: The Arrowhead fair valuation for Keyware is based on a DCF method. The time period chosen for the valuation is 120 months (2016E-2025E).

Terminal Value: Terminal value is estimated using terminal growth rate of 3.0%.

Prudential nature of valuation: It should be noted that this Arrowhead Fair Value Bracket estimate is a relatively prudential estimate, as it discounts the eventuality of any new products being launched in the market or any significant change in the strategy.

Key variables: The upper and lower bounds in the estimation correspond to the extreme positions taken by the following key variables:

Variable 1 – Installed Base (Terminals)

Exhibit 16: Number of terminals at the end of year											
In '000s	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Low estimate	17.0	18.5	19.8	20.9	21.9	22.5	23.1	23.6	24.1	24.5	24.9
High estimate	17.0	18.6	20.1	21.3	22.5	23.3	24.2	24.9	25.5	26.1	26.6

Variable 2 – Terminals offering Authorized services

Exhibit 17: Number of terminals offering authorization services, at the end of year											
In '000s	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Low estimate	13.8	15.0	16.1	17.1	18.0	18.6	19.2	19.6	20.1	20.5	20.8
High estimate	13.8	15.1	16.4	17.5	18.5	19.3	20.0	20.6	21.3	21.8	22.2

Variable 3 – Volume of Transactions

Exhibit 18: Volume of transactions											
In MM	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Estimate	11.4	13.0	14.7	16.4	18.2	20.3	22.3	24.5	26.7	29.1	31.6

Important information on Arrowhead methodology

The principles of the valuation methodology employed by Arrowhead BID are variable to a certain extent depending on the subsectors in which the research is conducted, but all Arrowhead valuation research possesses an underlying set of common principles and a generally common quantitative process.

With Arrowhead Commercial and Technical Due Diligence, Arrowhead extensively researches the fundamentals, assets and liabilities of a Company, and builds solid estimates for revenue and expenditure over a coherently determined forecast period.

Elements of past performance, such as price/earnings ratios, indicated as applicable, are present mainly for reference purposes. Still, elements of real-world past performance enter the valuation through their impact on the commercial and technical due diligence.

Elements of comparison, such as multiple analyses may be to some limited extent integrated in the valuation on a project-by-project or asset-by-asset basis. In the case of this Keyware report, there are no multiple analyses integrated in the valuation.

Arrowhead BID Fair Market Value Bracket

The Arrowhead Fair Market Value is given as a bracket. This is based on quantitative key variable analysis, such as key price analysis for revenue and cost drivers or analysis and discounts on revenue estimates for projects, especially relevant to those projects estimated to provide revenue near the end of the chosen forecast period. Low and high estimates for key variables are produced as a tool for valuation. The high-bracket DCF valuation is derived from the high-bracket key variables, while the low-bracket DCF valuation is based on the low-bracket key variables.

In principle, an investor who is comfortable with the high-brackets of our key variable analysis will align with the high-bracket in the Arrowhead Fair Value Bracket, and likewise in terms of low estimates. The investor will also take into account the Company intangibles – as presented in the first few pages of this document in the analysis on strengths and weaknesses and other essential Company information. These intangibles serve as supplementary decision factors for adding or subtracting a premium in the investor's own analysis.

The bracket should be understood as a tool provided by Arrowhead BID for the reader of this report and the reader should not solely rely on this information to make his decision on any particular security. The reader must also understand that on one hand, global capital markets contain inefficiencies, especially in terms of information, and that on the other hand, corporations and their commercial and technical positions evolve rapidly: this present edition of the Arrowhead valuation is for a short to medium-term alignment analysis (one to twelve months). The reader should refer to important disclosures on page 25 of this report.

8. Appendix

8.1 Keyware's Financial Summary

Exhibit 19: Financial Summary		<i>Low Bracket Estimates</i>									
<i>Year Ending Dec</i>	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Revenue (€ '000)	12,695	14,261	15,789	16,894	18,081	18,928	19,969	21,028	22,128	23,275	24,465
Operating Profit (€ '000)	3,367	3,767	4,190	4,413	4,702	4,832	5,106	5,415	5,703	6,050	6,377
Net Income (€ '000)	4,887	4,614	5,202	5,565	3,500	3,630	3,847	4,086	4,320	4,607	4,883
EPS	0.24	0.22	0.25	0.26	0.17	0.17	0.18	0.19	0.21	0.22	0.23
Growth rates (%)											
Revenue	27.0%	12.3%	10.7%	7.0%	7.0%	4.7%	5.5%	5.3%	5.2%	5.2%	5.1%
Operating Profit	145.8%	11.9%	11.2%	5.3%	6.6%	2.8%	5.7%	6.0%	5.3%	6.1%	5.4%
Net Income	152.8%	(5.6%)	12.7%	7.0%	(37.1%)	3.7%	6.0%	6.2%	5.7%	6.6%	6.0%
EPS	155.7%	(8.4%)	12.7%	7.0%	(37.1%)	3.7%	6.0%	6.2%	5.7%	6.6%	6.0%
Margins (%)											
Gross Margins	77.8%	79.0%	79.7%	80.1%	80.5%	80.9%	81.4%	81.9%	82.4%	82.8%	83.2%
Operating Profit Margin	26.5%	26.4%	26.5%	26.1%	26.0%	25.5%	25.6%	25.8%	25.8%	26.0%	26.1%
Net Profit Margin	38.5%	32.4%	32.9%	32.9%	19.4%	19.2%	19.3%	19.4%	19.5%	19.8%	20.0%
Ratios											
ROA	16.0%	13.7%	13.6%	12.9%	7.6%	7.2%	7.1%	7.0%	6.9%	6.8%	6.7%
ROE	21.4%	16.8%	15.9%	14.5%	8.4%	8.0%	7.8%	7.7%	7.5%	7.4%	7.3%
Debt/Equity	0.2x	0.1x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
Interest Coverage	8.9x	11.5x	15.4x	19.7x	25.2x	29.8x	31.5x	33.4x	35.2x	37.3x	39.4x
Price /Earnings Ratio	8.1x	8.8x	7.8x	7.3x	11.6x	11.2x	10.6x	9.9x	9.4x	8.8x	8.3x

Exhibit 20: Financial Summary		<i>High Bracket Estimates</i>									
<i>Year Ending Dec</i>	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Revenue (€ '000)	12,935	14,774	16,505	17,748	19,071	20,309	21,557	22,844	24,186	25,593	27,064
Operating Profit (€ '000)	3,448	3,942	4,430	4,702	5,039	5,316	5,670	6,065	6,442	6,888	7,314
Net Income (€ '000)	4,959	4,781	5,435	5,846	3,767	4,013	4,305	4,623	4,939	5,318	5,686
EPS	0.24	0.23	0.26	0.28	0.18	0.19	0.20	0.22	0.23	0.25	0.27
Growth rates (%)											
Revenue	29.4%	14.2%	11.7%	7.5%	7.5%	6.5%	6.1%	6.0%	5.9%	5.8%	5.7%
Operating Profit	151.7%	14.3%	12.4%	6.1%	7.2%	5.5%	6.7%	7.0%	6.2%	6.9%	6.2%
Net Income	156.6%	(3.6%)	13.7%	7.6%	(35.6%)	6.5%	7.3%	7.4%	6.8%	7.7%	6.9%
EPS	159.4%	(6.5%)	13.7%	7.6%	(35.6%)	6.5%	7.3%	7.4%	6.8%	7.7%	6.9%
Margins (%)											
Gross Margins	77.9%	79.2%	80.0%	80.5%	80.9%	81.4%	81.9%	82.5%	83.0%	83.5%	84.0%
Operating Profit Margin	26.7%	26.7%	26.8%	26.5%	26.4%	26.2%	26.3%	26.6%	26.6%	26.9%	27.0%
Net Profit Margin	38.3%	32.4%	32.9%	32.9%	19.8%	19.8%	20.0%	20.2%	20.4%	20.8%	21.0%
Ratios											
ROA	16.2%	14.0%	14.0%	13.3%	7.9%	7.7%	7.6%	7.5%	7.4%	7.4%	7.3%
ROE	21.6%	17.2%	16.4%	15.0%	8.8%	8.6%	8.4%	8.3%	8.1%	8.1%	7.9%
Debt/Equity	0.2x	0.1x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
Interest Coverage	9.2x	12.0x	16.3x	21.0x	27.0x	32.8x	35.0x	37.4x	39.8x	42.5x	45.1x
Price /Earnings Ratio	8.0x	8.5x	7.5x	7.0x	10.8x	10.1x	9.4x	8.8x	8.2x	7.6x	7.1x

8.2 Keyware's Balance Sheet Forecast

Exhibit 21: Consolidated Balance Sheet											
All figures in € '000, unless stated differently <i>Low Bracket estimates</i>											
Year Ending-Dec	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total current assets	5,169	7,199	10,643	14,950	16,853	19,831	23,056	26,546	30,273	34,286	38,566
Total non-current assets	25,367	26,590	27,565	28,129	29,430	30,262	31,102	31,922	32,748	33,584	34,441
TOTAL ASSETS	30,536	33,789	38,208	43,079	46,283	50,093	54,158	58,468	63,021	67,870	73,006
Total current liabilities	4,976	4,723	4,870	4,723	4,426	4,607	4,825	5,048	5,281	5,524	5,777
Total non-current liabilities	2,692	1,585	655	108	108	108	108	108	108	108	108
TOTAL LIABILITIES	7,668	6,308	5,525	4,831	4,534	4,715	4,933	5,156	5,389	5,632	5,885
Total shareholder's equity	22,868	27,482	32,684	38,249	41,749	45,378	49,225	53,312	57,632	62,238	67,121
TOTAL LIABILITIES & EQUITY	30,536	33,789	38,208	43,079	46,283	50,093	54,158	58,468	63,021	67,870	73,006

Exhibit 22: Consolidated Balance Sheet											
All figures in € '000, unless stated differently <i>High Bracket estimates</i>											
Year Ending-Dec	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total current assets	5,437	7,662	11,376	15,997	18,206	21,483	25,071	29,032	33,333	38,029	43,094
Total non-current assets	25,228	26,476	27,459	28,018	29,309	30,311	31,291	32,225	33,149	34,069	35,004
TOTAL ASSETS	30,666	34,139	38,834	44,016	47,516	51,794	56,362	61,257	66,482	72,098	78,098
Total current liabilities	5,034	4,833	5,023	4,906	4,638	4,903	5,166	5,438	5,723	6,022	6,336
Total non-current liabilities	2,692	1,585	655	108	108	108	108	108	108	108	108
TOTAL LIABILITIES	7,726	6,418	5,678	5,014	4,746	5,011	5,274	5,546	5,831	6,130	6,444
Total shareholder's equity	22,940	27,721	33,156	39,002	42,770	46,783	51,088	55,711	60,650	65,968	71,654
TOTAL LIABILITIES & EQUITY	30,666	34,139	38,834	44,016	47,516	51,794	56,362	61,257	66,482	72,098	78,098

9. Analyst Certifications

I, Abhishek Bansal, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security and the subject Company, based on the collection and analysis of public information and public Company disclosures.

I, Himanshu Broota, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security and the subject Company, based on the collection and analysis of public information and public Company disclosures.

Important disclosures

Arrowhead Business and Investment Decisions, LLC received fees in 2015 and will receive fees in 2016 from Keyware Technologies for researching and drafting this report and for a series of other services to Keyware Technologies, including distribution of this report and investor relations services. Neither Arrowhead BID nor any of its principals or employees owns any long or short positions in Keyware. Arrowhead BID's principals intend to seek a mandate for investment banking services from Keyware and expect to receive compensation for investment banking activities for Keyware in 2016.

Aside from certain reports published on a periodic basis, the large majority of reports are published by Arrowhead BID at irregular intervals as appropriate in the analyst's judgment.

Any opinions expressed in this report are statements of Arrowhead BID's judgment to this date and are subject to change without notice.

This report was prepared for general circulation and does not provide investment recommendations specific to individual investors. As such, any of the financial or other money-management instruments linked to the Company and Company valuation described in this report, hereafter referred to as "the securities", may not be suitable for all investors.

Investors must make their own investment decisions based upon their specific investment objectives and financial situation utilizing their own financial advisors as they deem necessary.

Investors are advised to gather and consult multiple sources of information while preparing their investment decisions. Recipients of this report are strongly advised to read the Information on Arrowhead Methodology section of this report to understand if and how the Arrowhead Due Diligence and Arrowhead Fair Value Bracket integrate alongside the rest of their stream of information and within their decision making process.

Past performance of securities described directly or indirectly in this report should not be taken as an indication or guarantee of future results. The price, value of, and income from any of the financial securities described in this report may rise as well as fall and may be affected by simple and complex changes in economic, financial and political factors.

Should a security described in this report be denominated in a currency other than the investor's home currency, a change in exchange rates may adversely affect the price of, value of, or income derived from the security.

This report is published solely for information purposes, and is not to be considered in any case as an offer to buy any security, in any state.

Other than disclosures relating to Arrowhead Business and Investment Decisions, LLC, the information herein is based on sources Arrowhead BID believes to be reliable but is not guaranteed by Arrowhead BID and does not purport to be a complete statement or summary of the available data.

Arrowhead Business and Investment Decisions, LLC is not responsible for any loss, financial or other, directly or indirectly linked to any price movement or absence of price movement of the securities described in this report.

10. Notes and References

- i Source : Bloomberg, retrieved on January 07, 2016
- ii 52 weeks to January 07, 2016. Source: Bloomberg, January 07, 2016
- iii 3 months to January 07, 2016. Source: Bloomberg, January 07, 2016
- iv Arrowhead Business and Investment Decisions Fair Value Bracket – AFVBTM. See information on valuation on pages 19-21 of this report and important disclosures on page 25 of this report.
- v Source :Annual Report 2014, Company Website and Press Releases
- vi Source: Annual Report 2014
- vii Source :Annual Report 2014
- viii Source: Annual Report 2014, Company Presentation
- ix Source: Arrowhead BID analysis
- x Source: Arrowhead BID analysis
- xi Source : Bloomberg
- xii Source : Bloomberg
- xiii Source : Arrowhead BID estimate
- xiv Source : Press Releases, 1H15 Report
- xv Source: Company Reports, Company website and Bloomberg
- xvi Source : Europe Consumer Center (ECC)
- xvii Source: Payment Statistics for 2015 by ECB, Keyware Annual Report 2014
- xviii Source: Payment Statistics for 2015, ECB
- xix Source: Payment Statistics for 2015, ECB
- xx Source: Annual Report 2014
- xxi Source: <https://www.pcisecuritystandards.org/> and Keyware Annual Report 2014
- xxii Source: Worldline Presentation December 2014 and Arrowhead Estimates
- xxiii Source: Bloomberg , Respective Company Results
- xxiv Source : Bloomberg
- xxv Source : Bloomberg, 5 year Adjusted Beta
- xxvi Source : Damodaran Estimate
- xxvii Source : Damodaran Estimate
- xxviii Source: Bloomberg Estimates