VOYANT ADVISORS

Voyant Europe

Comprehensive Analysis

Nagarro SE (NA9n.DE – €106.80)

July 12, 2022*

Nagarro SE (NA9n.DE) provides software and technology consulting and development services. It specializes in digital product engineering, digital commerce and customer experience, new-gen ERP consulting, and managed services. The Company is headquartered in Munich, Germany. Its fiscal year ends on 12/31.

Thesis Summary

We are concerned persistent wage inflation may drive margin pressure. In our view, Nagarro was unable to offset wage inflation pressure with billing rate increases within its "conservative" guided time frame. Our concerns are heightened given persistent revenue-per-average engineer employee pressure. We believe margin pressure may persist given (1) macroeconomic conditions may pressure billing rates and increase demand inelasticity, (2) currency fluctuations may exacerbate wage inflation-driven cost pressure, (3) increased fixed-price contract contribution and elevated purchase obligation levels may limit Nagarro's ability to implement billing rate increases in the medium term, (4) historically elevated employee attrition levels, and (5) limited middle manager incentive to protect/expand margins. We believe a receivable factoring surge may mask a trade receivable level build and/or obfuscate trade receivable analysis. We are concerned persistently elevated contract asset levels and depressed contract liability levels highlight potentially aggressive revenue recognition and revenue pressure. Below-targeted cash flow from operations relative to EBITDA levels and recent reclassification of cash flow from receivable factoring into cash flow from operations heightens our concerns.

Company Data	
Country/Exchange	Germany/Frankfurt
Reporting Currency	€
Accounting Standard	IFRS
Shares Outstanding (mil)	13.8
Float (mil)	7.6
Average Volume (mil)	€2.5
52 Week Range	€103.60 – €212.00
Dividend Yield	--
Market Cap (bil)	€1.5
Net Debt (bil)	€0.2
Enterprise Value (bil)	€1.7
FY 21 Rev (mil)/Rev Growth	€546.0 / 26.9%
FY 21 EBITDA (mil)	€79.7
FY 21 GM %/Change	28.3% / (430 bps)
FY 21 EBITDA Margin %/Change	14.6% / (310 bps)

Valuation (as of report date)	
NTM P/S	2.0x
NTM EV/ EBITDA	14.2x
NTM P/E	25.5x

Consensus Estimate Drift	EST	1M Ago	6M Ago	1YR Ago
Q2 22 Rev	--	--	--	--
FY 22 Rev	€801.5	€801.5	€687.8	€587.5
FY 23 Rev	€983.5	€983.5	€846.9	€705.3
Q2 22 EPS	--	--	--	--
FY 22 EPS	€3.52	€3.52	€3.08	€2.91
FY 23 EPS	€5.06	€5.06	€4.46	€3.79

Peers Mentioned In This Report
N/A

Catalysts and Timing
FY 22 margin guidance reduced as wage inflation persists.
Demand deteriorates as customers pull back spending.
Elevated contract asset levels portend revenue pressure.

*** All research is completed as of 4:00PM – 4:15PM Eastern Time unless otherwise noted.**
Please refer to the end of this report for an updated version of *The Short List*.

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Company Background

Company description: Nagarro SE (NA9n.DE) provides software and technology consulting and development services. It specializes in digital product engineering, digital commerce and customer experience, new-gen ERP consulting, and managed services. The Company is headquartered in Munich, Germany. Its fiscal year ends on 12/31.

Background on spin-off from Allgeier: In its Press Release on 09/25/20, Allgeier SE (AEIGn.DE) announced it approved the spin-off of the technology and software development business of Allegeir Group, Nagarro SE. On 12/16/20, the spin-off was completed and Nagarro began trading on the Frankfurt Stock Exchange. In its Press Release on 10/26/21, Nagarro indicated it completed the merger of Nagarro Holding GmbH and Nagarro SE which completed the reorganization of the Company related to the spin-off from Allegeir.

Background on business model and customers: In its FY 21 Annual Report, the Company disclosed it offered digital product engineering, digital commerce and customer experience, new-gen ERP consulting, and managed services to over 1,000 clients in 63 countries. The Company highlighted digital product engineering and digital commerce and customer experience accounted for approximately two-thirds of revenue. In FY 21, the automotive, manufacturing, and industrial industries accounted for 17.8% of revenue; retail and CPG accounted for 13.5%; financial services and insurance accounted for 12.0%; travel and logistics accounted for 10.0%; horizontal tech accounted for 9.6%; public, non-profit, and education accounted for 8.3%; energy, utilities, and building automation accounted for 8.1%; telecom, media, and entertainment accounted for 7.3%; life sciences and healthcare accounted for 7.2%; and management consulting and business information accounted for 6.3%.

> Nagarro's business model itself is fairly undramatic. We hire and deploy great professionals, most of whom are software engineers. We work with a diverse blue-chip client base comprising more than 1,000 clients across 63 countries. We offer a bouquet of sophisticated services such as digital product engineering, digital commerce and customer experience, new-gen ERP consulting and managed services. The first two of these account for about two-thirds of our revenue. (FY 21 Annual Report)

FY 21 Revenue By Industry Analysis	As % of Revenue
Automotive, manufacturing, and industrial	17.8%
Retail and CPG	13.5%
Financial services and insurance	12.0%
Travel and logistics	10.0%
Horizontal tech	9.6%
Public, non-profit, and education	8.3%
Energy, utilities, and building automation	8.1%
Telecom, media, and entertainment	7.3%
Life sciences and healthcare	7.2%
Management consulting and business information	6.3%
Total	100.0%

Background on employees: As of Q4 21, 76.1% of engineering employees were based in India, 5.8% in China, 5.6% in Romania, 5.1% in Germany, 2.5% in the US, 1.1% in Austria, and 3.8% in other regions. Further, 92.2% of employees were in engineering. In its FY 21 Annual Report, the Company guided for the number of employees and the number of employees in engineering to increase double digits in FY 22.

FY 21 Employees By Geography	As % of Employees
India	76.1%
China	5.8%
Romania	5.6%
Germany	5.1%
US	2.5%
Austria	1.1%
Other	3.8%
Total	100.0%

Results by segment and geography: In FY 21, North America accounted for 35.4% (35.1%) of revenue (gross profit), Central Europe accounted for 33.4% (32.0%), rest of Europe accounted for 14.4% (14.7%), and rest of world accounted for 16.8% (18.2%). Specifically, the US (Germany) accounted for 35.3% (24.5%) of FY 21 revenue.

FY 21 Results By Segment Analysis	As % of Revenue	As % of Gross Profit
North America	35.4%	35.1%
Central Europe	33.4%	32.0%
Rest of Europe	14.4%	14.7%
Rest of World	16.8%	18.2%
Total	100.0%	100.0%

Revenue by contract type: In FY 21, time and expense contracts accounted for 71.9% of revenue, fixed price contracts accounted for 25.5%, and other contracts accounted for 2.6%. In its FY 21 Annual Report, the Company indicated it typically invoiced monthly for time plus expense contracts and "occasionally" for fixed price contracts.

> We typically invoice monthly for our time plus expenses and only occasionally against fixed price contracts. (FY 21 Annual Report)

FY 21 Revenue By Contract Type	As % of Revenue
Time and expenses	71.9%
Fixed price	25.5%
Other	2.6%
Total revenue	100.0%

Customer concentration: In FY 21, the top five customers accounted for 14.0% of revenue, the top six to ten customers accounted for 10.6%, and the remaining customers accounted for 75.4%.

FY 21 Customer Concentration Analysis	As % of Revenue
Top five customers	14.0%
Top six to ten customers	10.6%
Outside top ten customers	75.4%
Total	100.0%

Competition: Nagarro competes with digital product engineering and IT consultants including Datagroup SE (D6HG.DE), NTT Data Corp (9613.T), Capgemini SE (CAPP.PA), Wipro Ltd. (WIPR.NS), Globant SA (GLOB), EPAM Systems Inc. (EPAM), Cognizant Technology Solutions Corp. (CTSH), Computacenter plc (CCC.L), Accenture plc (ACN), and Atos SE (ATOS.PA), among others.

Voyant's Earnings Risk Assessment

We are concerned persistent wage inflation may drive margin pressure. In our view, Nagarro was unable to offset wage inflation pressure with billing rate increases within its "conservative" guided time frame. Our concerns are heightened given persistent revenue-per-average engineer employee pressure. We believe margin pressure may persist given (1) macroeconomic conditions may pressure billing rates and increase demand inelasticity, (2) currency fluctuations may exacerbate wage inflation-driven cost pressure, (3) increased fixed-price contract contribution and elevated purchase obligation levels may limit Nagarro's ability to implement billing rate increases in the medium term, (4) historically elevated employee attrition levels, and (5) limited middle manager incentive to protect/expand margins. We believe a receivable factoring surge may mask a trade receivable level build and/or obfuscate trade receivable analysis. We are concerned persistently elevated contract asset levels and depressed contract liability levels highlight potentially aggressive revenue recognition and revenue pressure. Below-targeted cash flow from operations relative to EBITDA levels and recent reclassification of cash flow from receivable factoring into cash flow from operations heightens our concerns.

Inability To Offset Wage Inflation May Drive Persistent Margin Pressure, In Our View

Weaker-than-initially-guided FY 21 margins attributed to wage inflation and elevated number of trainees: In its FY 20 Annual Report, the Company guided for FY 21 gross margin (adjusted EBITDA margin) of 32.0% (15.0%). In its FY 21 Annual Report, the Company disclosed FY 21 gross margin (adjusted EBITDA margin) of 28.3% (14.6%), 370 basis points (40 basis points) below the initial guidance. The Company attributed the weaker-than-guided margin to wage inflation and carrying a large number of trainees partially offset by reduced travel and utility bills.

> Gross margin was lower than the forecast of 32% in the Annual Report 2020, while Adjusted EBITDA was marginally below the forecast of 15%. **Wage inflation and the carrying of a large number of trainees affected the gross margin and the Adjusted EBITDA in 2021** despite some relief from reduced travel and reduced utility bills. (FY 21 Annual Report) [emphasis added]

FY 21 Margin Guidance Analysis	Gross Margin	Adjusted EBITDA Margin
Guidance per FY 20 Annual Report	32.0%	15.0%
Guidance per Q1 21 Interim Report	32.0%	15.0%
Guidance per Q2 21 Interim Report	29.0%	15.0%
Guidance per Q3 21 Interim Report	28.0%	14.0%
Actual as reported in FY 21 Annual Report	28.3%	14.6%
Actual above (below) initial guidance	*(370 bps)*	*(40 bps)*

Wage inflation highlighted as most important near-term risk as billing rate increases lag cost increases: In its FY 21 Annual Report, the Company highlighted its "most important" short-term risk was wage inflation. The Company guided to address wage inflation by improving billing rates. On its Q1 22 Conference Call on 05/13/22, the Company highlighted billing rate increases typically lagged wage increases driving near-term margin pressure but the Company guided to fully offset wage increases with billing rate increases in the longer-term.

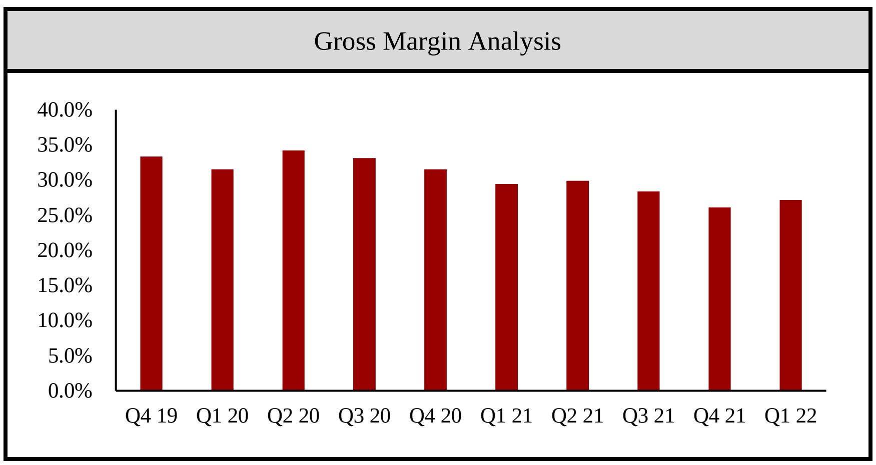
> The most important short-term risk is wage inflation, which we address mainly by improving billing rates. (FY 21 Annual Report)

Prior "conservative" guidance for gross margin pressure to persist until Q4 21: Previously, on its Q2 21 Conference Call, the Company guided for price increases to lag wage inflation by months and/or a quarter. Specifically, the Company guided for gross margin to remain pressured until Q4 21 and Nagarro highlighted its guidance was "conservative." In its Q3 21 Interim Report, Nagarro highlighted clients were "mostly supportive" of price increases but guided for the price increase impact to lag wage increases by "several months."

> **The gross margin may not become better before Q4 of the year**, right? Yes… And **we're also being a bit conservative**, I may also just add, there's also some conservatism, but it's – it is what we have put down. And we – you would rather pair on the side of conservatism on that. (Custodian of Entrepreneurship Mr. Manas Fuloria, Q2 21 Conference Call, 08/13/21)

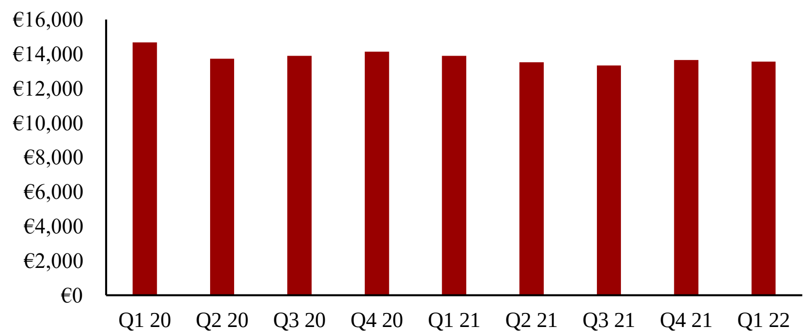
Gross margin pressure beyond initial guided timeframe highlights inability to offset wage inflation: In Q4 21 (Q1 22), gross margin declined 540 basis points (230 basis points) year-over-year to 26.1% (27.1%). In its Q1 22 Interim Report, the Company attributed the decline to wage inflation and the carrying of a large number of trainees. In addition, the Company highlighted talent remained in short supply and attrition levels remained elevated. **Given gross margin pressure persisted beyond the Company's "conservative" guided timeframe, we are concerned (1) price increases took longer than anticipated to offset wage inflation, (2) price increases did <u>not</u> fully offset wage inflation, and/or (3) wage inflation persisted beyond the Company's initial expectations. In any scenario, we are concerned persistent gross margin pressure despite billing rate increases suggests the Company may be unable to offset wage inflation in the medium term.**

> In our industry, demand remained strong regardless of geopolitical and macroeconomic concerns. **Talent remained in short supply and companies continued to report high attrition levels**. (Q1 22 Interim Report) [emphasis added]



Revenue-per-average engineering employee deterioration highlights limited billing rate improvement: In Q1 22, revenue-per-average engineering employee declined 2.5% year-over-year to €13,549, <u>at least the fifth consecutive decline</u>. In its Q1 22 Interim Report, the Company represented certain new engineers had recently graduated from college and were <u>not</u> expected to be immediately deployed in revenue-generating work. We are concerned persistent revenue-per-average engineering employee pressure highlights (1) an increased mix of lower skilled/non-revenue-generating engineers and/or (2) inability to implement billing rate increases. In either scenario, we are concerned persistent revenue-per-average engineer pressure suggests margin pressure may persist.

Revenue-Per-Average Engineering Employee Analysis



<u>We have the following observations about gross margin:</u>

1. **Macroeconomic pressure may reduce customers' willingness to accept price increases, in our view:** Previously, on its Q3 21 Conference Call on 11/12/21, the Company highlighted demand was "fairly price inelastic" as long as clients were not pressured. Specifically, the Company indicated a macroeconomic crash may impact customers' willingness to accept price increases. In its Q1 22 Interim Report, the Company highlighted the "global macroeconomic situation" was a "significant risk" but acknowledged it was "very difficult to predict." Given increased macroeconomic uncertainty/pressure, we are concerned certain industries/customers may reduce spending and demand for Nagarro's services and/or willingness to accept price increases may deteriorate.

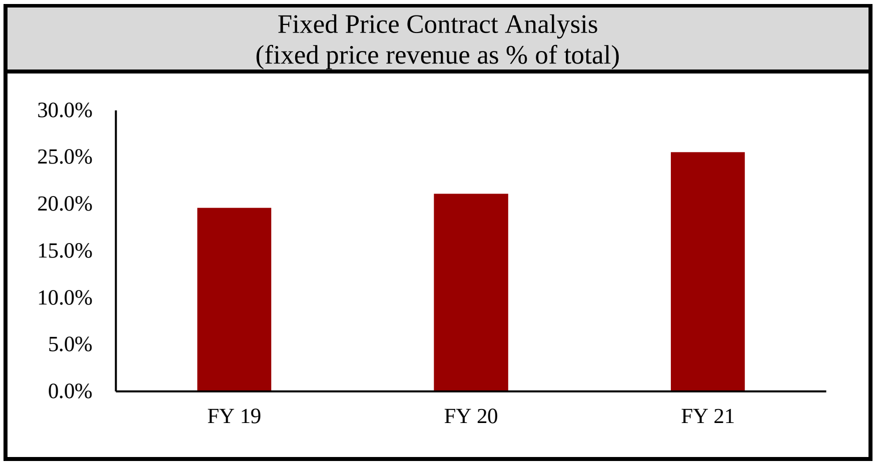
   Demand is fairly price inelastic as long as the – our clients are doing okay, right? If there is a macroeconomic crash or something, then it's slightly different. (Custodian of Entrepreneurship Mr. Manas Fuloria, Q3 21 Conference Call, 11/12/21)

2. **Currency-driven margin pressure may drive multiple billing rate revisions, in our view:** In its Q1 22 Interim Report, the Company disclosed the euro lost value against the Indian rupee, which pressured margins. While the Company indicated it hedged a "significant portion" of its currency exposure, it highlighted clients were "typically" open to billing rate revisions if justified by adverse currency movements. **In our view, customers may be reluctant to accept billing rate increases for wage inflation <u>and</u> currency fluctuations in a more uncertain environment and margin pressure may persist.**

   The Euro has lost value against the Indian rupee, an important currency for us, which has essential tendency to depress our margins. However, Nagarro hedges significant portions of its currency exposure. We also believe that our clients are typically open to billing rate revisions if justified by adverse currency movements. (Q1 22 Interim Report)

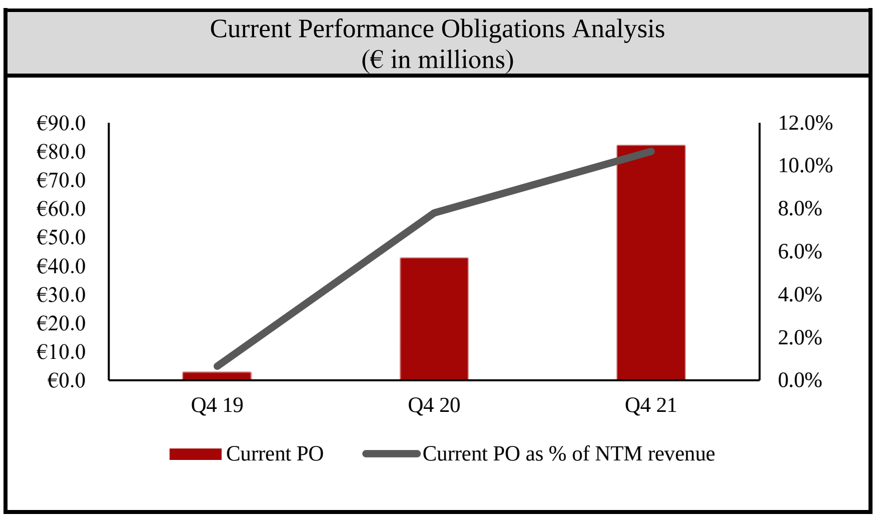
3. **Increased fixed price contract penetration suggests billing rate increases may not offset wage inflation:** In FY 21, fixed price contracts as a percent of revenue increased 440 basis points to 25.5%, at least the second consecutive increase.[1] We believe it may be more difficult to increase price on fixed price contracts relative to time and materials contracts. Accordingly, given the recent trend toward more fixed price contract revenue contribution, our concerns about the Company's inability to offset wage inflation in the medium term are heightened.

[1] The Company only discloses revenue by contract type annually.



4. **Elevated Q4 21 current performance obligations suggest certain contract pricing may be locked in:** In Q4 21, current performance obligations (i.e. performance obligations to be satisfied in the next twelve months) surged 92.7% year-over-year to €82.1 million and increased 290 basis points as a percent of next-twelve-month revenue (FY 22 guidance) to 10.7%. In our view, the current performance obligation surge may be indicative of locked-in customer orders/contract pricing and our concerns about the Company's inability to offset wage inflation with billing rate increases in the medium term are heightened.

   Almost all revenue is recognized with performance obligations satisfied over time from period related services, the annual amount of which can be clearly derived from the contractual agreements, as well as from customer-specific orders (contracts for work and services). For the work and services that will be completed in the following year, the amount is derived from the unsatisfied, firmly agreed order values after taking into consideration any updates to the original agreements. (FY 21 Annual Report)



5. **Historically elevated employee attrition highlights persistent wage inflation, in our view:** Previously, in its Q2 21 Interim Report, the Company highlighted attrition rates and wages sought by "top talent" increased. On its Q1 22 Conference Call, the Company highlighted employee attrition was historically 12.0% to 15.0% but acknowledged attrition levels were a "few percentage points" above normal. We believe historically elevated employee attrition rates may compel Nagarro to increase wages to retain/attract employees and wage inflation-driven margin pressure may persist. Further, to the extent the Company lost more experienced employees (i.e. "top talent"), we would be concerned about work quality deterioration and customer churn.

   We've always said that we have an approximate 12% to 15% attrition. **We are now a few percentage**

points over that, but nothing to be really crazy concerned about, and that's as specific as I can be. (Custodian of Entrepreneurship Mr. Manas Fuloria, Q1 22 Conference Call, 05/13/22) [emphasis added]

6. **Limited margin incentives for middle-managers heightens our margin pressure concerns:** Previously, on its Q3 21 Conference Call, the Company highlighted middle management incentives were primarily focused on client satisfaction with a "thin layer" of margin incentives. While we acknowledge client satisfaction incentives may drive strong customer renewals, we are concerned limited middle management margin incentives may drive persistent margin pressure (i.e. middle managers may prioritize client satisfaction at the expense of margins).

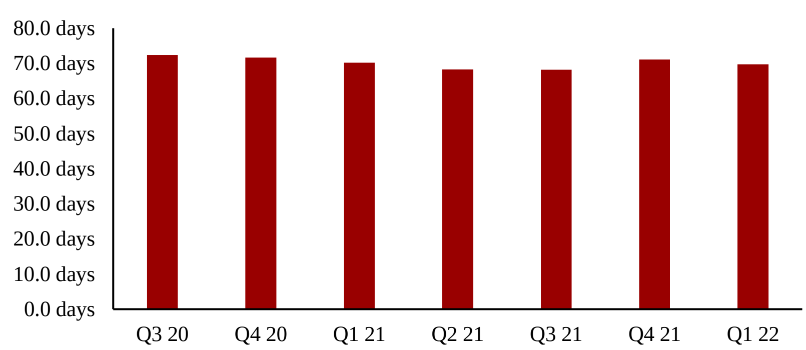
   In terms of our incentives for middle management, I think there is a thin layer that is definitely – has some incentives on the margins, but in general, our focus continues to be to incentivize client satisfaction. That's really our largest contributor to incentives. (Custodian of Entrepreneurship Mr. Manas Fuloria, Q3 21 Conference Call, 11/12/21)

Increased Receivable Factoring May Mask Trade Receivable Build, In Our View

Background on contract assets and trade receivables: In its FY 21 Annual Report, the Company disclosed contract assets related to fixed fee contracts that were accounted for using the percentage-of-completion accounting method. The Company represented revenue was recognized in line with the stage of completion related to the proportion of contract costs incurred relative to estimated total contract costs. In addition, the Company disclosed revenue recognized prior to invoicing was recorded as a contract asset, while the amount of consideration that is unconditional was recorded as a trade receivable. We analyzed days sales outstanding (DSO) using contract assets and trade receivables (i.e. total receivables).

Factoring may have masked trade receivable build while contract asset surge highlights elevated risk: In Q1 22, DSOs declined 0.7% year-over-year to 69.7 days and remained relatively in line with historical DSO levels. While receivable levels appear reasonable/in line with historical levels, we are concerned (1) factoring may have masked a portion of the trade receivable build (discussed next) and (2) elevated contract assets may highlight aggressive revenue recognition and/or lower total receivable quality (discussed herein).

Receivable Level Analysis
(DSOs calculated using contract assets and trade receivables)



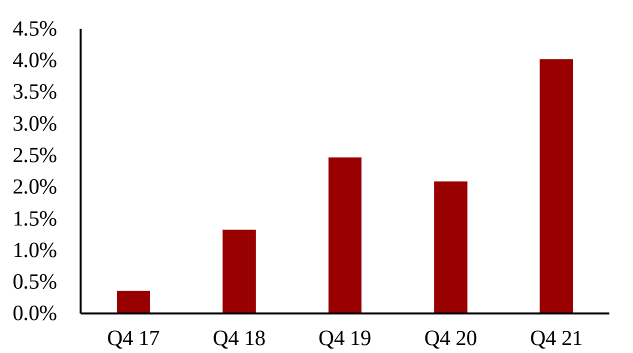
Background on receivable factoring and the associated disclosure: In its FY 21 Annual Report, the Company disclosed it had a factoring facility which allowed it to sell and derecognize receivables. Nagarro disclosed the factor (i.e. the third party) made the payment against submitted receivable lists. For instances where Nagarro collects outstanding receivables from customers but has yet to remit the payment to the factor, Nagarro records a factoring liability. In its Annual Reports, the Company discloses factoring utilization, the factoring liability, and the net factored receivables at the end of the period.

Factoring surge heightens our concerns about elevated receivable levels: In Q4 21, net factored receivables surged 118.3% year-over-year to €16.4 million and increased 450 basis points as a percent of trade receivables plus net factored receivables, the highest level in at least five years. To the extent factored receivables increased in Q1 22 (the Company does not disclose net factoring on a quarterly basis), we believe receivable factoring may mask a trade receivable build. In any scenario, we are concerned receivable factoring and limited quarterly factoring disclosures may obfuscate trade receivable level analysis.

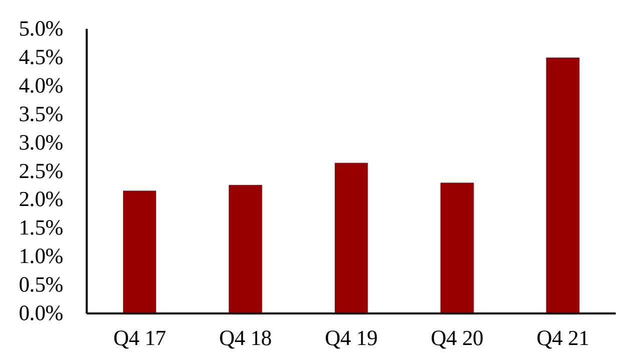
Factoring Analysis (€ in millions)	Q4 17	Q4 18	Q4 19	Q4 20	Q4 21
Factoring utilization	€4.8	€6.1	€6.2	€12.1	€27.7
Factoring liability	(€1.7)	(€1.8)	(€1.7)	(€4.6)	(€11.3)
Net factoring	€3.1	€4.3	€4.6	€7.5	€16.4
Trade receivables	€50.3	€75.0	€80.3	€73.9	€103.3
Trade receivables plus net factoring	€53.4	€79.3	€84.9	€81.4	€119.7
Net factoring as a percent of trade receivables plus net factoring	5.8%	5.5%	5.4%	9.2%	13.7%

Significantly elevated past due receivable levels highlight potential customer quality deterioration: In Q4 21, receivables over 360 days past due as a percent of gross trade receivables increased 190 basis points year-over-year to 4.0%, the highest level in at least five years. In addition, the receivable allowance as a percent of gross trade receivables increased 220 basis points to 4.5%. The allowance level increase was primarily driven by the material over 360 days past due receivable build (i.e. the Company reserved for over 90.0% of the receivables over 360 days past due). While we acknowledge (1) total past due receivables were not elevated and (2) the Company reserved for the majority of the significantly past due receivables, we are concerned the significantly past due (i.e. over 360 days past due) receivable surge suggests Nagarro may have extended credit to less creditworthy customers (i.e. customers that take over a year to pay) and customer quality may have deteriorated.

Past Due Receivable Analysis
(>360 days past due as % of gross trade receivables)

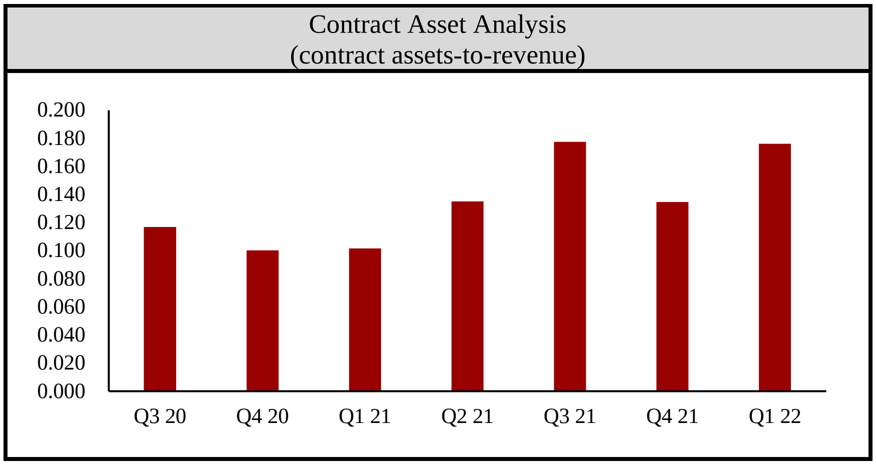


Receivable Allowance Analysis
(impairment allowance as % of gross trade receivables)



Elevated Contract Asset Levels Highlight Potentially Aggressive Revenue Recognition

Contract asset surge highlights potentially aggressive revenue recognition, in our view: In Q1 22, contract assets-to-revenue surged 73.5% year-over-year to 0.176, at least the third consecutive increase over 30.0%. In addition, contract assets as a percent of total receivables surged 970 basis points to 77.3%. While we acknowledge the recent ATCS acquisition and increased fixed price contract revenue contribution (discussed heretofore) may rationalize a portion of the contract asset build (i.e. Nagarro acquired certain contract assets from ATCS and fixed price contracts are recognized on a percentage-of-completion basis while time-and-materials contracts are billed monthly), we are concerned the contract asset surge highlights potentially aggressive percentage-of-completion revenue recognition. In any scenario, we believe total receivable quality may have deteriorated (i.e. contract assets are lower quality than trade receivables). To the extent wage inflation surges materially above expectations and the Company is compelled to adjust total project cost estimates, we would be concerned about risk of contract cost estimation adjustments and potential revenue pressure.

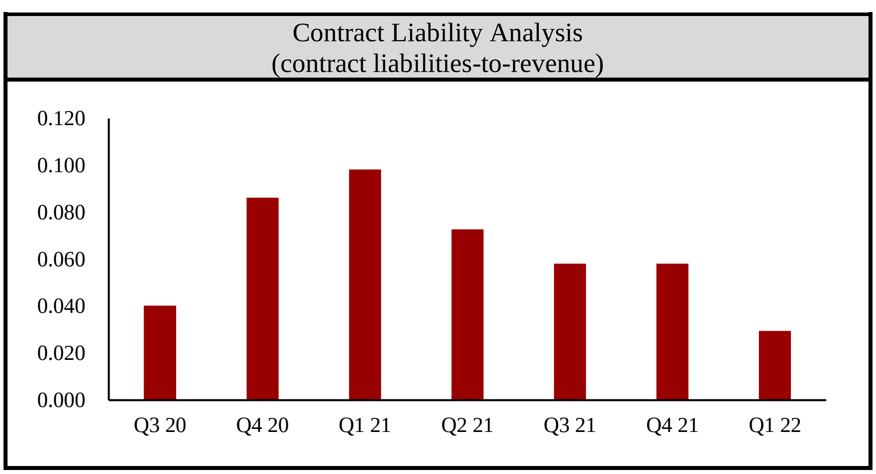


Prior guidance for contract asset levels to improve heightens our concerns: Previously, in Q3 21, contract assets-to-revenue surged 51.9% year-over-year to 0.177. On its Q3 21 Conference Call, the Company attributed the build to two clients who would be invoiced "shortly" and guided for contract asset levels to improve. While we acknowledge contract asset levels improved sequentially (contract assets-to-revenue declined 24.1% sequentially in Q4 21), we are concerned the improvement was temporary as contract asset levels surged in Q1 22.

> A quick point about the contract assets, these are essentially unbilled revenues and these are fully recoverable, invoicing will be done shortly and this pertains to just two clients. So, in terms of improvement that you asked, I think that's one place we will look at to, to get that going. (Managing Director Mr. Gagan Bakshi, Q3 21 Conference Call, 11/12/21)

Contract Liability Level Decline Heightens Our Revenue Pressure Concerns

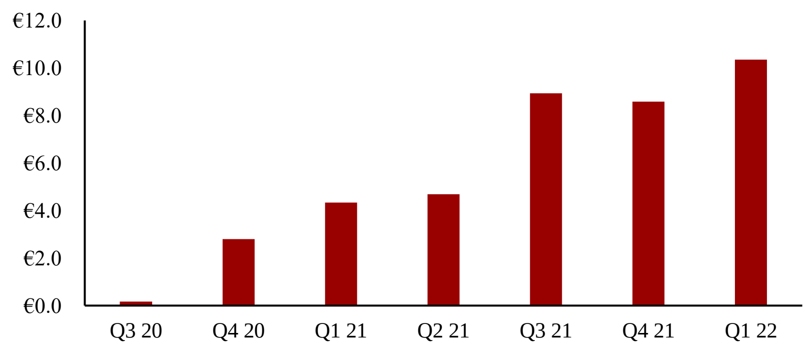
Depressed contract liability levels heighten our revenue pressure concerns: As mentioned, the Company records certain fixed-price contract revenue under the percentage-of-completion accounting standard. Therefore, the Company records a contract liability for payments received prior to revenue recognition. In Q1 22, contract liabilities-to-revenue declined 69.9% year-over-year to 0.030, the lowest level ever reported. In our view, depressed contract liability levels despite increased fixed-price contract revenue contribution in recent years suggests Nagarro may have reduced upfront payment requirements. Accordingly, our concerns about aggressive revenue recognition and potential revenue pressure are heightened.



Depressed Cash Flow Levels Highlight Elevated Earnings Sustainability Risk, In Our View

Factoring cash flow reclassification may be misleading and/or obfuscate analysis, in our view: In its Q3 21 Interim Report, the Company disclosed it reclassified cash flow from receivable factoring from financing activities to operating activities. Cash inflow from factoring surged materially in Q3 21 (the first quarter the Company included it in cash flow from operations) from €2.8 million in Q3 20 to €9.0 million in Q3 21. We are concerned the cash flow from factoring reclassification may be misleading given Nagarro has certain discretion over the amount of receivables factored. Our concerns are heightened given cash flow from factored receivables surged in the quarter the Company reclassified the cash flow statement item.

12M Net Cash Flow Impact From Factoring Analysis
(€ in millions)

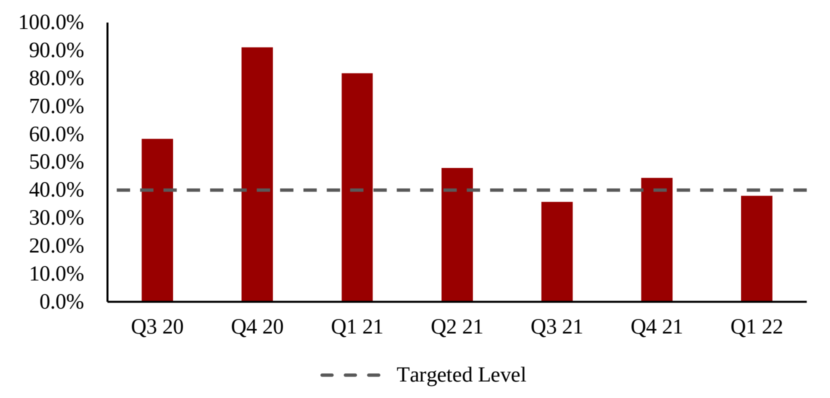


Below-targeted cash conversion heightens our concerns: Previously, on its Q2 21 Conference Call, the Company highlighted it "typically" converted 40.0% of EBITDA to cash. However, on its Q1 22 Conference Call, the Company indicated it did not "state any particular target" for cash conversion. In the twelve months ended Q1 22, baseline cash flow from operations (excluding the impact of factored receivables) declined 47.9% year-over-year to €34.2 million.[2] Working capital consumed €42.4 million of cash compared to providing €11.0 million in the prior year. Further, baseline cash flow from operations declined 4,400 basis points as a percent of EBITDA to 37.9%. Given cash flow from operations deteriorated below the previously highlighted "typical" conversion rate relative to EBITDA driven by working capital cash consumption, our earnings sustainability concerns are heightened.

> We do typically expect to drop around – **convert about 40% or so of EBITDA to net cash**. And we do expect to keep doing that in the future even as we grow. And how it exactly shapes up will depend a bit on how faster growing and yeah, if there are any one-offs at all. (Custodian of Entrepreneurship Mr. Manas Fuloria, Q2 21 Conference Call, 08/13/21) [emphasis added]

[2] Given we believe the Company has certain discretion over cash flow from receivable factoring and the Company highlighted its typical cash conversion as a percent of EBITDA prior to reclassifying receivable factoring cash flow to operating activities, we excluded cash flow from factoring from our cash flow from operations analysis.

12M Cash Flow Conversion Analysis
(cash from operations excluding factoring as % of EBITDA)



Other Observations: No Organic Growth Disclosure & Non-Traditional Structure

Lack of organic growth disclosure may obfuscate analysis, in our view: On 10/18/21, Nagarro agreed to acquire Advanced Technology Consulting Service, Inc. (ATCS) for $90.9 million ($53.9 million fixed, earnout of $35.0 million, and a milestone payment of $2.0 million). ATCS was consolidated as of 11/01/21 and contributed €6.8 million to FY 21 consolidated revenue. In FY 21, ATCS revenue (including revenue prior to the acquisition not included in Nagarro results) was €32.7 million. On its Q1 22 Conference Call, Nagarro represented it would not disclose FY 22 organic revenue growth. Assuming no ATCS revenue growth in FY 22, we estimate ATCS revenue would account for 4.3% of FY 22 revenue guidance. Accordingly, we are concerned the lack of organic growth disclosure may obfuscate FY 22 revenue growth analysis.

> The organic. We're not splitting out the organic growth in our numbers. So we couldn't share that. But yes, and so we couldn't do that either at the segment level or the overall level. (Custodian of Entrepreneurship Mr. Manas Fuloria, Q1 22 Conference Call, 05/13/22)

Non-traditional corporate structure may increase business disruption and/or strategy execution risk: In its FY 21 Annual Report, the Company highlighted its non-traditional management structure with no headquarters and no "strong" CXO roles. Instead, the Company has certain leadership councils and a decentralized leadership structure focused on global business units (GBUs). Nagarro represented it had a "large" senior management team which included all colleagues at Level 6 seniority. We are concerned the decentralized structure with a "large" senior management team may increase business disruption and/or strategy execution risk.

> Nagarro has no headquarters…We do not have traditionally strong CXO roles in the company in order to protect the primacy of GBU leaders. Hence, for example, the CFO role is replaced by a Finance Council, with each member of the council having a definite area of responsibility while still collaborating with each other and with the larger senior management team. Similarly, we have a global HR Council instead of a CHRO. (FY 21 Annual Report)

Conclusion

We are concerned persistent wage inflation may drive margin pressure. In our view, Nagarro was unable to offset wage inflation pressure with billing rate increases within its "conservative" guided time frame. Our concerns are heightened given persistent revenue-per-average engineer employee pressure. We believe margin pressure may persist given (1) macroeconomic conditions may pressure billing rates and increase demand inelasticity, (2) currency fluctuations may exacerbate wage inflation-driven cost pressure, (3) increased fixed-price contract contribution and elevated purchase obligation levels may limit Nagarro's ability to implement billing rate increases in the medium term, (4) historically elevated employee attrition levels, and (5) limited middle manager incentive to protect/expand margins. We believe a receivable factoring surge may mask a trade receivable level build and/or obfuscate trade receivable analysis. We are concerned persistently elevated contract asset levels and depressed contract liability levels highlight potentially aggressive revenue recognition and revenue pressure. Below-targeted cash flow from operations relative to EBITDA levels and recent reclassification of cash flow from receivable factoring into cash flow from operations heightens our concerns.

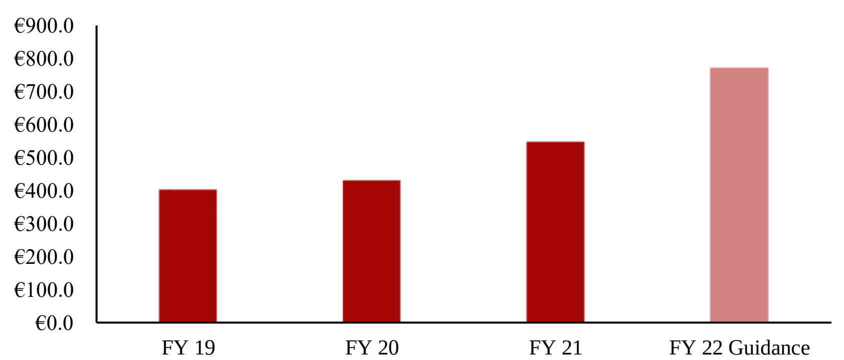
Risks to Our Thesis & Valuation

Revenue Growth, Acquisitions, & Pent Up Demand/ Strong Performance Obligations

Above guided recent revenue growth and guidance for growth to accelerate: Previously, in its Q2 21 Earnings Presentation on 08/13/21, the Company highlighted its medium-term target of approximately 20.0% organic revenue growth and 15.0% EBITDA margin. On its Q3 21 Conference Call, the Company revoked its medium-term guidance highlighting recent growth above the medium-term guidance (in FY 21, revenue increased 26.9% to €546.0 million, 10.3% above the Company's initial guidance in its FY 20 Annual Report). The Company highlighted it removed the guidance because it did not want to signal a revenue growth slowdown and highlighted it continued to see "rapid growth." In its Q1 22 Interim Report, the Company reiterated its guidance for FY 22 revenue to increase 41.0% to €770.0 million.

> When we started off, we had revenue growth that was lower and we were saying we think we can climb up to 20%. Now it looks like we are saying we think it will go down to 20%, which is not really the mood or projection of the company, at least in the short term. And definitely, the medium term now is difficult to quantify. And it is a couple of years out and what happens a couple of years later. So at the moment, we see really rapid growth. (Custodian of Entrepreneurship Mr. Manas Fuloria, Q3 21 Conference Call, 11/12/21)

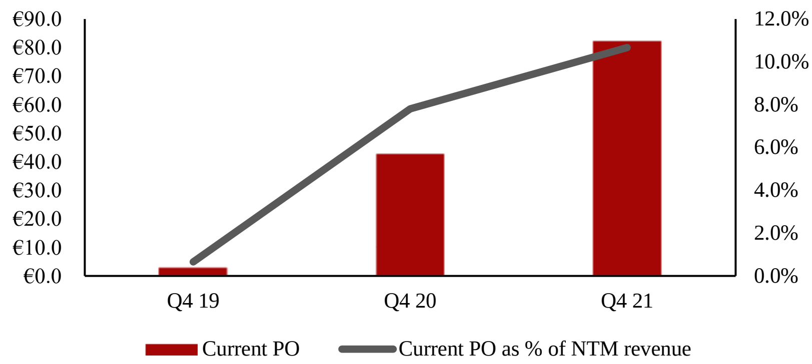
Revenue Growth Analysis
(€ in millions)



Pent-up demand and performance obligations growth highlights demand strength: In Q4 21, current performance obligations (i.e. performance obligations to be satisfied in the next twelve-months) surged 92.7% year-over-year to €82.1 million and increased 290 basis points as a percent of next twelve-month revenue (FY 22 guidance) to 10.7%. On its Q1 22 Conference Call, the Company highlighted "a lot of pent-up demand" in every region which it did not have the engineers to service.

> I can safely say that there is a lot of pent-up demand in every region that we just don't have the engineers to service. (Custodian of Entrepreneurship Mr. Manas Fuloria, Q1 22 Conference Call, 05/13/22)

Current Performance Obligations Analysis
(€ in millions)



M&A pipeline guided to drive growth: As mentioned, Nagarro acquired ATCS on 11/01/21 for $90.9 million. On its Q3 21 Conference Call, the Company highlighted the ATCS acquisition expanded its footprint in the US and guided for revenue synergies as ATCS had exposure to different verticals than Nagarro. In addition, Nagarro highlighted its "large" acquisition pipeline. In its FY 21 Annual Report, the Company guided to grow inorganically though M&A and represented it was "always on the lookout" for attractive acquisition targets.

Valuation Analysis

As of the date of this publication, Nagarro traded at 25.5x forward earnings, 11.7% above the peer group average.

Valuation Analysis	NTM P/E
Nagarro SE (NA9n.DE)	25.5x
Accenture plc (ACN)	23.2x
Cognizant Technology Solutions Corp. (CTSH)	14.7x
Capgemini SE (CAPP.PA)	14.7x
Globant SA (GLOB)	31.8x
EPAM Systems, Inc. (EPAM)	29.7x
Peer group average	22.8x
Nagarro % above (below) peer group average	*11.7%*

Disclaimer and Disclosure

This report was produced by Voyant Advisors, LLC ("Voyant"). The following Research Analysts employed by Voyant contributed to this report: Graeme Lazarus, Miles Trevelyan, and Ryan DesJardin. Voyant's home office is at 15373 Innovation Dr, Suite 365 San Diego, CA 92128. The firm's home office is where information about the valuations herein are located, unless otherwise indicated in the report.

At the time of this report, Voyant expects to provide updates on a quarterly or semi-annual basis depending on the frequency of when the above company discloses material financial results. We will cease providing updates if we are discontinuing research coverage as disclosed on the front page of this report in the Thesis Summary.

Voyant has not provided previous recommendations concerning the same financial instrument or issuer during the preceding twelve-month period.

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