

Despec Bilgisayar

IT Consumables Distributor

TURKEY- EQUITY RESEARCH

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Dominant position in a focused business...

A specialist focused on IT consumables distribution: Despec is the market leader IT consumables distributor in Turkey with an overall 23% market share in the sector. The company is mainly active in distribution of printer supplies, data storage equipment, paper, office stationeries and PC accessories. While printer consumables constitute 89% of top-line, HP is the company's major supplier with 63% share in total sales in 2010. Further, the company is also the market leader in the original printer consumables market with c. 40% market share.

Benefits from the synergy among Index Group companies: We believe that Depsec's vast distribution network is its major competitive edge which is also supported by the synergy among Index Group companies. Despec benefits from the Index Group's operational know-how, distribution network and cross-selling opportunities. Despec Group B.V. is the other major shareholder, which is a Holland based company operating in the same business line in Europe and Middle Eastern countries, along with Turkey. Being the largest IT consumables distributor across Europe, partnership of Despec Group B.V. is offering procurement and pricing advantages.

Strong revenue record... Healthy projections going forward: Despec has attained 11% revenue CAGR in the last five years in USD terms (14% in TRL terms), outpacing the 9% CAGR in national income. For the following 3 years period, we projected a CAGR of 10%, assuming that current growth rates could easily be sustained especially with the contribution from rapid growth accessories category sales. We projected slight erosion in operating margins starting from 2011 onwards amid possible competitive environment with the entry of int'l players into the market. Following 11.7% and 11.3% gross margins in 2009&10, we expect 10.5% in 2011. Furthermore, we believe that EBITDA margin of 4% recorded in times of economic slowdown in 2008 will not be experienced again, thanks to the company's bargaining power based on strong long-term relationships with vendors. We expect the EBITDA margin to average at 7% levels through our valuation period.

Focus on IT accessories market could deliver a booster shot to operating margins: IT accessories market in which the company has only a 3% market share is the main growth opportunity segment. The management has recent efforts to initiate new contracts with global brands. Besides, they have plans to create their own brand in the medium term which will further support the margins. Note that margins in the accessories segment (14.3% gross margin in 2010) is significantly higher compared to printing consumables (11.3%), thus, growth in this segment would be the main upside risk for our valuation going forward.

No debt: Along with minimal maintenance capex requirement and stable net working capital, the company has a net cash of USD2mn as of 2010-end.

Risks: Possible slowdown in economy, weakening demand for IT consumables, increasing credit receivables risk, entry of int'l players into the market, major exchange rate fluctuations and dependence on HP products are the major risk factors for the business.

Initiating with an OUTPERFORM rating

Having a dominant position in a focused business, Despec is the major beneficiary from the high growth potential of the fast growing Turkish IT sector. With intentions to grow in accessories market, we believe that volume growth will translate into improved bottom-line. Our target price of TRL9.8 implies 23% upside potential.

Forecasts and Financial Ratios

(TRLmn)	2008	2009	2010	2011E	2012E
Net Sales	111	131	135	164	196
Sales growth	5.7%	18.2%	2.6%	22.1%	19.1%
EBITDA	4.3	11.1	10.3	11.2	13.1
% margin	3.9%	8.4%	7.7%	6.8%	6.7%
Net Earnings	4.4	7.6	8.1	9.8	12.6
% margin	4.0%	5.8%	6.0%	6.0%	6.5%
EPS	0.39	0.66	0.70	0.86	1.10
P/E	20.7	12.1	11.4	9.3	7.3
EV / EBITDA	20.9	8.1	8.7	8.0	6.8
DPS	0.33	0.31	0.27	0.36	0.47
Dividend Yield	4.1%	3.9%	3.4%	4.5%	5.8%

OUTPERFORM Initiated

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DESPC TI / DESPC.IS

Valuation

Share Price (TRL)	8.0
Target Price (TRL)	9.8
Upside Potential	23%
Market Cap (USDmn)	60.3
Net Debt (USDmn)	-1.6
EV (USDmn)	58.6
Net FX Pos. (USDmn)	-9.8

Trading

12m High / Low	11.50 / 5.76
Avg. Daily Vol. (USDmn)	2.1
Num. of shares (mn)	11.5
Foreign Ownership	0.04%

Ownership Structure

Desbil Teknoloji*	30.25%
Despec Group B.V.	30.33%
Free Float	39.35%
Other	0.07%

*owned by Erol Bilecik, who is the major shareholder of INDES.IS

Performance Chart

Return	TRL	Rel.
1M	20%	17%
3M	11%	2%
Since IPO	10%	8%

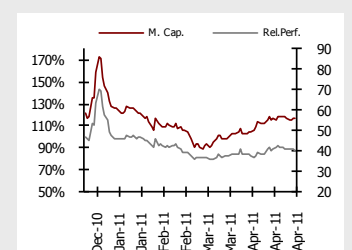


TABLE OF CONTENTS

INVESTMENT SUMMARY	3
RISKS	5
VALUATION.....	6
IT Consumables Sector	8
Despec Overview	10
FINANCIALS	15
Disclaimer	19

INVESTMENT SUMMARY

A specialist focused on IT consumables distribution

Despec is an IT consumables wholesaler with 12 years of experience in distribution of printer supplies, data storage equipment, special photography paper, office stationeries and PC accessories. Being the market leader with 23% market share as of 2010, Despec has distribution contracts with almost all globally recognized brands including HP, Canon, OKI, Lexmark, Targus and Trust. Despec ranks the first among customers of all of these brands except for Lexmark. Distribution of printer consumables is the major business line of the company constituting 89% of 2010 sales. The company is a major distributor of HP printer consumables since its inception in 1998. HP branded products comprise 63% of 2010 total sales which is the natural outcome of HP's dominant position in Turkish printer consumables market with around 60% market share.

Strong revenue record and projections

The notion that demand for IT products runs parallel with the economic growth is not exactly the case for Despec, as the company achieved to post 11% revenue CAGR, which is above 9% in national income in the last five years. The Company serves an existing IT park with a wide range of products; as opposed to sellers of IT products who may face higher demand volatility at times of economic slowdown. In addition, there is almost no obsolescence risk for the Company's products even after a redesign in consumables, as the Company will serve a market that continues to use its products. Therefore, even in 2009, when the Turkish economy contracted by 4.7%, Despec managed to keep its revenues stable in USD terms. After 6% growth in revenues in 2010, we projected revenue CAGR of 10% for the following 3 years period assuming that the company will manage to sustain its revenue growth by expanding its product range especially in the accessories segment.

Distribution margin is higher in consumables compared to other IT products

IT consumables distributors generally have higher margins compared to other IT distributors having hardware and software in their product portfolios. In 2010, 11.3% gross margin and 7.7% EBITDA margin show slight erosion after a record year in 2009, but we see it non-material as our projections suggest the continuation of these levels. In 2011, we expect the company to record 10.9% gross margin which is in line with the management's expectations. Managing the gross margin is very crucial for Despec as operating expenses are stable and variable expenses are minimal. Furthermore, incentives by vendors are supporters of improving operating margins. Despec's strong relationships with vendors, enable the company to receive incentives on certain conditions such as cash purchases, purchases surpassing sales quotas.

High growth potential in the under-penetrated Turkish market

Growth in sales of printer consumables can be regarded as a function of printer and PC sales. According to ITU figures, household PC ownership penetration stands at 27% in Turkey, while this figure is high as 70% in the USA, 53% in Italy and 40% in Greece. Despite the strong growth between 2005 and 2010, relatively under-penetrated Turkish IT market has much room for growth, when compared to the penetration levels of EU countries and other developed countries. Furthermore, low level of IT expenditure per capita in Turkey is one of the major reasons behind lagging PC and internet penetration. IT spending per capita stands at USD79 in Turkey, which is well below that of USD288 in Greece, USD162 in Brazil and USD127 in Russia (*with 2009 figures*).

High entry barriers limit the competition in the sector

Existence of a distributor in IT consumables sector heavily depends on a wide distribution network. Also, strong long-term relations with vendors are crucial for sustainability of contracts. While it is very difficult to form a new distribution channel and maintain it in the sector due to the high capital requirements, it is a major competitive edge for Despec to keep its leading position in the sector. Despec distributes around two thousand different products to 2,850 resellers and regional distributors across Turkey. Also, the sector is highly concentrated to three major players resulting in high barriers of entry.

Despec is an Index Group company, reaping the benefits of the Group's know-how in the business

Erol Bilecik, the chairman and the major shareholder of Index Group, owns 30% of Despec through Desbil Teknoloji. Note that Index Bilgisayar (INDES.IS) has no stake in Despec, however, Despec benefits from the Group's operational know-how, distribution network and cross-selling opportunities among group companies. Despec distributes products to around 2,850 points across Turkey, while this figure does not even reflect the full potential due to the cross-selling opportunities among other Index Group companies. Despec Group B.V. is the other major shareholder, which is a Holland based company operating in the same business line in Europe and Middle Eastern countries, along with Turkey. Being the largest IT consumables distributor across Europe, partnership of Despec Group B.V. is offering procurement and pricing advantages.

Capex requirement to maintain the business is very low

Although high level of capital is required to enter into the business, minimal capex is required to maintain the operations. Accordingly, capex is not a major determinant in our valuation. Going forward, Despec might be expected to increase its investments in order to increase its presence in the PC accessories market. Even such initial capex should not exceed USD1-2mn due to existing network.

Strong risk management practices

Despite the difficulty of dealing with around 2,850 channel partners across Turkey, Despec managed to keep the receivable risk in check thanks to its strict credit management policies. The company attained 0.62% and 0.001% "doubtful receivables/sales ratio" in 2009 and 2010, respectively. Further, Despec has a strong credit assessment team and policies to evaluate the financing ability of its channel partners. Credit committee meets every week to review the credit requests and monitor the existing liabilities of dealers.

Experienced management team... Same GM since inception...

Despec is managed by a very experienced board and management team. The General Manager of the company, Mr. Oguz Gulmen, has been holding his position since the company was founded back in 1998. The board is also led by the founder of the company and the Chairman of Index Group, Erol Bilecik, who has 22 years of experience in the IT sector.

Upside risk: New investments in the high margin PC accessories market

According to Despec estimates, the company has 3% market share in the PC accessories market. Unlike the printer consumables, PC accessories market is in its infancy stages. Growing share of individual PC users in the total market is a strong supporter of accessories demand. Considering that this is a very fragmented market on the back of vast product diversity, Despec has an advantageous position to increase its PC accessories sales with significant growth rates in the following years utilizing its existing distribution network. Focusing on signing new contracts with global brands will be a major driver for both top-line and earnings in the short term. Further, in the medium term the company plans to create and position its own brand in the sector.

RISKS

Collection of receivables might be a major risk as worsening macro fundamentals may deteriorate the financing ability of Despec's customers

The company distributes IT supplies to resellers all over Turkey. A large portion of these resellers have low level of capital adequacy when compared to chain stores or large corporate customers. Besides, risk of bankruptcy or change in the ownership is also high for resellers. In times of slowdown in Turkish economy, these smaller customers are likely to face more difficulties in financing purchases as opposed to corporate customers of Despec. However, note that, Despec sells mostly on cash or on credit cards to these kinds of relatively smaller buyers. Also it has a comprehensive risk management structure to minimize and manage the credit receivable risks. The risk management department closely follows the financial situation of each of these customers and assures their financial ability to pay the liabilities back before making new contracts.

High concentration on HP products

HP products comprise 63% of 2010 total revenues. Other than HP, Canon has a major share in total turnover with 18%. Although there seems to be a high concentration in Despec's suppliers, we believe that strong long-term relations with them, especially with HP since the foundation of the company, would not allow them to change their market leader distributor in Turkey. On the other hand, the company aims to focus on increasing its revenues in the accessories market which will lower the concentration among segments and vendors.

Threat from substitutes and re-fills

According to Index Group estimates, 15% of the total printer consumables market constitutes substitute and re-fill products. Low prices of re-fills attract especially individual consumers, however, producers are eager to eliminate this risk via producing toners and cartridges that do not allow re-fills.

Depreciation of TRL might hamper purchasing power of consumers

Operating in an import oriented sector, Despec makes almost all purchases and majority of the sales in foreign currencies. Purchasing power of consumers erodes during TRL weakness. Although depreciation of TRL is a major risk factor for demand, since the company protects itself from currency mismatches via forward transactions, fluctuations in FX rates do not pose an fx loss risk for the bottom line.

None of Despec's distribution contracts are exclusive

Despec does not have any exclusive contracts with its suppliers. There is genuinely a risk of cancellation of the distributorship contracts between Despec and producers. Besides, producers might decide to sign exclusivity with other distributors. However, considering Despec's strong know-how, wide distribution network and 12 years of expertise in the sector, we see the risk of cancellation of the flagship contracts very low. Note that, producers also want to assure timely delivery of their products to all possible customer touch points. Thus, cancellation of the contracts seems more risky for producers than Despec, having the largest distribution network in the sector.

Increasing presence of IT chain stores

Increasing presence of IT chain stores across the country such as Teknosa, Bimeks, Darty and Mediamarkt might weaken distributor margins as their bargaining power increases. Note that, margins in sales to chain stores are relatively smaller than regional resellers.

VALUATION

We initiate DESPC with an **OUTPERFORM** rating and **TRL9.8** target price implying **23% upside potential**. Our DCF analysis indicates a target value of TRL127mn based on WACC of 12.2%, beta of 1.0 and a terminal growth rate of 2% in TRL terms. Accordingly, cost of equity and after-tax cost of debt are anticipated as 13% and 9.2%, respectively. We also included domestic and international companies in our peer comparison analysis. Accordingly, we incorporated 2011E EV/EBITDA and P/E averages of 6.2x and 9.8x, respectively, into our valuation. Incorporating 70% of DCF driven value and 30% multiples driven value, we reach a target market capitalization of TRL113mn.

Despec Bilgisayar, DCF Valuation

TRL mn	2007	2008	2009	2010	2011	2012	2013	2016
Revenues	105.0	110.9	131.2	134.6	164.3	195.7	223.0	274.1
<i>growth %</i>		5.7%	18.2%	2.6%	22.1%	19.1%	14.0%	7.1%
Gross Profit	8.6	9.2	15.4	15.2	17.2	20.2	23.0	28.6
<i>gross Margin %</i>	8.2%	8.3%	11.7%	11.3%	10.5%	10.3%	10.3%	10.4%
EBIT	3.8	4.2	10.9	10.2	11.1	12.9	14.8	18.5
Tax on EBIT	0.8	0.8	2.2	2.0	2.2	2.6	3.0	3.7
<i>tax rate %</i>	20%	20%	20%	20%	20%	20%	20%	20%
EBITDA	3.9	4.3	11.1	10.3	11.2	13.1	14.9	18.7
<i>margin %</i>	3.7%	3.9%	8.4%	7.7%	6.8%	6.7%	6.7%	6.8%
NOPAT	3.04	3.36	8.75	8.14	8.90	10.35	11.83	14.78
Depr&Amortization&Severance Payments	0.09	0.08	0.12	0.13	0.11	0.14	0.16	0.19
Capex	-0.14	-0.02	-0.09	-0.06	-0.25	-0.23	-0.27	-0.14
NWC		5.71	7.48	-1.82	-1.30	5.19	2.53	2.03
FCF	3.0	-2.3	1.3	10.0	10.1	5.1	9.2	12.8
Discount Factor					1.00	0.89	0.79	0.56

NPV of FCFs	59.1	48%	Beta	1
NPV of Terminal Value	65.1	52%	Debt/Assets	20.0%
EV	124.2		Rf	8.5%
Net Debt	-2.5		Company Risk Premium	3.0%
Target Equity Value	126.7		Equity Risk Premium	4.5%
Capital	11.5		Tax Rate	20.0%
			Cost of Equity	13.0%
			Cost of Debt*(1-t)	9.2%
			WACC%	12.2%
Target Price TRL	11		Terminal Growth Rate	2%

DCF	126.7	70%
Peer's Multiples	81.6	30%
<i>EV/EBITDA 2010E</i>	67	50%
<i>P/E 2010E</i>	96	50%
Target Mcap TRLmn	113.1	
Target Price TRL	9.8	
Current Price TRL	8.0	
Upside Potential %	23%	

Peers' Multiples

USDmn	Mcap	EV/EBITDA			EBITDA Margin			P/E			Net Margin		
		2009	2010	2011E	2009	2010	2011E	2009	2010	2011E	2009	2010	2011E
INGRAM MICRO INC-CL A	3,211	6.9	4.8	4.4	1.3%	1.6%	1.7%	16.1	10.6	9.2	0.7%	0.9%	1.0%
TECH DATA CORP	2,365	7.7	6.9	5.5	1.1%	1.4%	1.6%	24.6	15.9	12.1	0.4%	0.7%	0.9%
SYNNEX CORP	1,144	8.7	7.3	6.0	2.3%	2.5%	2.5%	12.0	9.8	8.3	1.2%	1.3%	1.3%
ARROW ELECTRONICS INC	4,776	13.0	6.6	5.6	3.0%	4.7%	4.8%	25.3	10.1	8.6	1.3%	2.7%	2.7%
DIGITAL CHINA HOLDINGS LTD	2,147	19.2	16.5	12.9	1.9%	1.9%	2.1%	28.5	18.7	16.3	1.2%	1.6%	1.7%
ARENA BILGISAYAR	60	6.5	3.8	4.9	2.3%	4.3%	3.3%	39.6	5.6	9.2	0.3%	2.5%	1.9%
INDEKS BILGISAYAR	138	5.9	4.6	4.0	2.9%	3.8%	4.0%	16.6	4.4	4.7	0.5%	1.5%	1.3%
Average of Peers' Multiples	1,977	9.7	7.2	6.2	2.1%	2.9%	2.8%	23.3	10.7	9.8	0.8%	1.6%	1.5%

DESPC Multiples	60	8.1	8.7	8.0	8.4%	7.7%	6.8%	12.1	11.4	9.3	5.8%	6.0%	6.0%
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As shown in the table below, Despec's profitability ratios are significantly higher than other domestic IT distributors having a mixed product range containing hardware and software. That is also the reason for Despec's slightly higher multiples.

Better financial ratios compared to domestic IT distributors thanks to strong operational metrics

	Mcap TRLmn	Gross Margin	EBITDA Margin	Net Profit Margin	Asset Turnover	Assets/Equity	RoE
DESPC	92	11.3%	7.6%	6.0%	2.63	0.46	23.0%
INDES	207	6.1%	3.9%	1.1%	2.28	3.47	12%
ARENA	88	7.3%	3.8%	2.0%	3.63	1.84	21%
DGATE	41	3.3%	1.6%	0.6%	3.74	2.54	7%
ARMDA	45	7.5%	2.8%	1.9%	2.33	3.22	19%

Source: OYAK Securities

IT Consumables Sector

IT consumables demand has proven to outpace the economic growth

IT consumables segment constitutes around 9% of total hardware sales in Turkey. It posted a CAGR of 12% between 2005 and 2009. Growth in the market was only interrupted in 2009 since 2004. Despite the contraction of 4.7% in the Turkish economy, IT consumables market remained flat in 2009. However, in 2010, the market was estimated to record around 10% YoY growth and continues to grow by 8% CAGR until 2012 and reach a size of USD492mn according to Index Group estimates.

USDmn	2005	2006	2007	2008	2009
Service	529	614	759	858	872
Software	391	514	581	614	609
Hardware	2,448	2,962	3,857	3,842	4,219
Consumables incl. printer consumables	240	277	341	385	382
Growth		15%	23%	13%	-1%
Consumables/ Hardware Market	10%	9%	9%	10%	9%
Printer Consumables	139	159	192	223	210
Growth		14%	21%	16%	-6%
Economic Growth	8%	7%	5%	1%	-5%
Magnetic Media Products	10.8	11.7	13.9	15.1	12.4
Growth		8%	19%	9%	-18%
PC Accessories	79.2	95.8	124.7	138.1	151.6
Growth		21%	30%	11%	10%
Special Photography Paper	0.5	0.8	1.2	1.9	2.1
Growth		60%	50%	58%	11%
Printer Ribbon	10.5	9.7	9.6	7.4	5.2
Growth		-8%	-1%	-23%	-30%

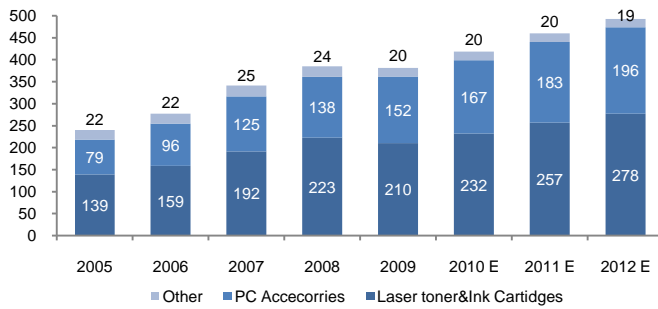
Source: IDC Estimates, Index Group

Printer consumables and PC accessories are the major categories in consumables market

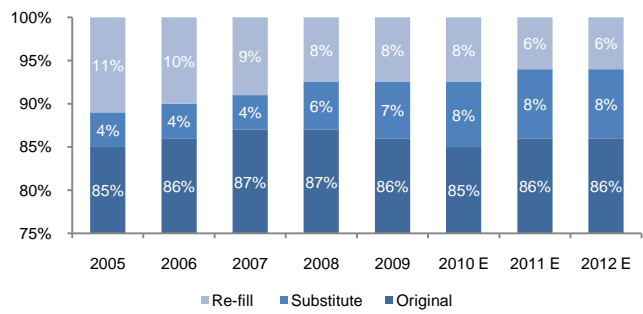
IT consumables market is dominated with printer consumables and PC accessories constituting 95% of the total market. Demand for printer consumables generally runs above GDP growth; further, CAGR between 2005&10 is estimated to be around 11%. The size of the printer consumables market is projected around at USD232mn in 2010, USD37mn of which was comprised with the re-fill and substitute products. Along with the further potential growth in the original printer consumables market, 16% share of re-fills and substitutes in total stands as a potential target to penetrate. As low prices of these products attract especially individual consumers, new technology toners and ink-cartridges that do not allow re-fills will naturally reduce the refill threat.

PC accessories market, on the other hand, showed strong growth during the past five years along with the increasing penetration of personal PC's. Share of individual users have been increasing with the advent of technology and mobilization of life-styles. This could also be affirmed by increasing share of notebooks in total PC sales which reached to 66% in 2010 from 63% in 2009.

Breakdown of IT consumables sales (USDmn)



Breakdown of printer consumables sales

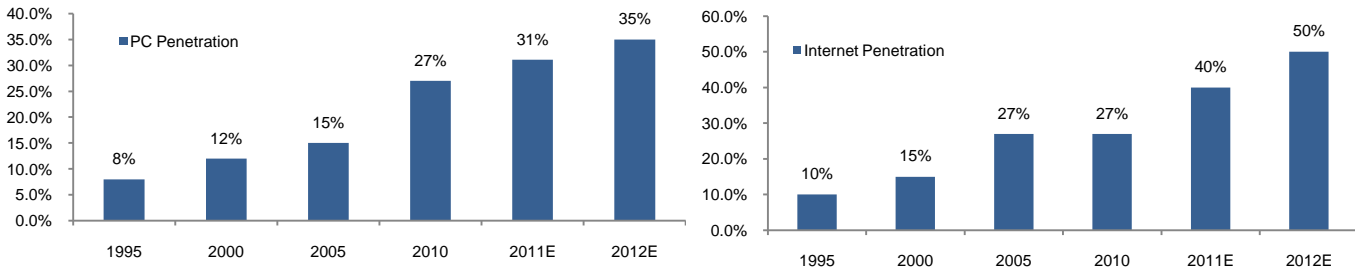


Source: Index Group Estimates

Strong growth potential in the under-penetrated Turkish market

Growth in sales of printer consumables can be regarded as a function of printer and PC sales. In Turkey, PC ownership penetration was only 8% in 1995 which increased significantly to 27% as of 2010. On the other hand, according to ITU figures, household PC ownership penetration stands at 29% in Turkey, while this figure jumps to 70% in the USA, 53% in Italy and 40% in Greece. Despite the strong growth between 1995 and 2009, relatively under-penetrated Turkish IT market has much room for growth, when compared to penetration levels of the EU and other developed countries.

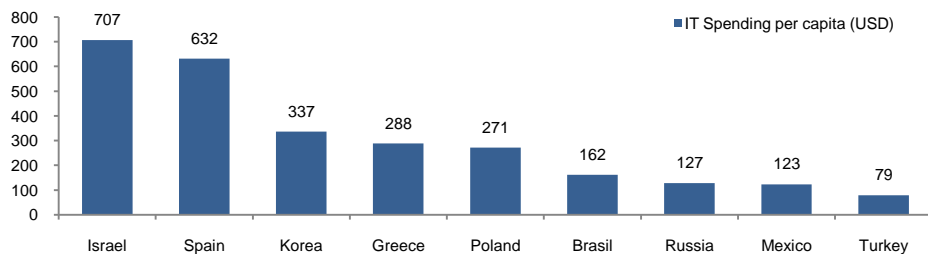
PC and Internet Penetration



Source: Index Group Estimates

Furthermore, low level of IT expenditure per capita in Turkey is the major reason behind lagging PC and internet penetration, compared to most of EU countries. Besides the affordability problem, level of new investments is the major factor that impacts the IT spending in especially a developing country. Along with economic recovery, rising per capita income and number of new companies turn out to positively impact the IT market in total. Demand for hardware, service and software should generally be considered to run parallel, as a new company first needs the IT infrastructure, new PC's, printers and consequently the need for toners and cartridges arises.

IT Spending per capita (USD)

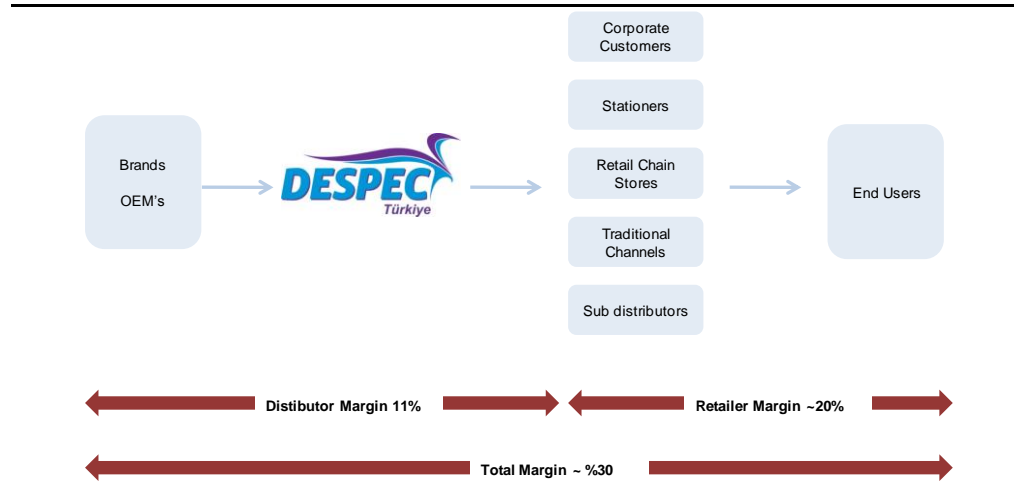


Source: IDC, OYAK Securities

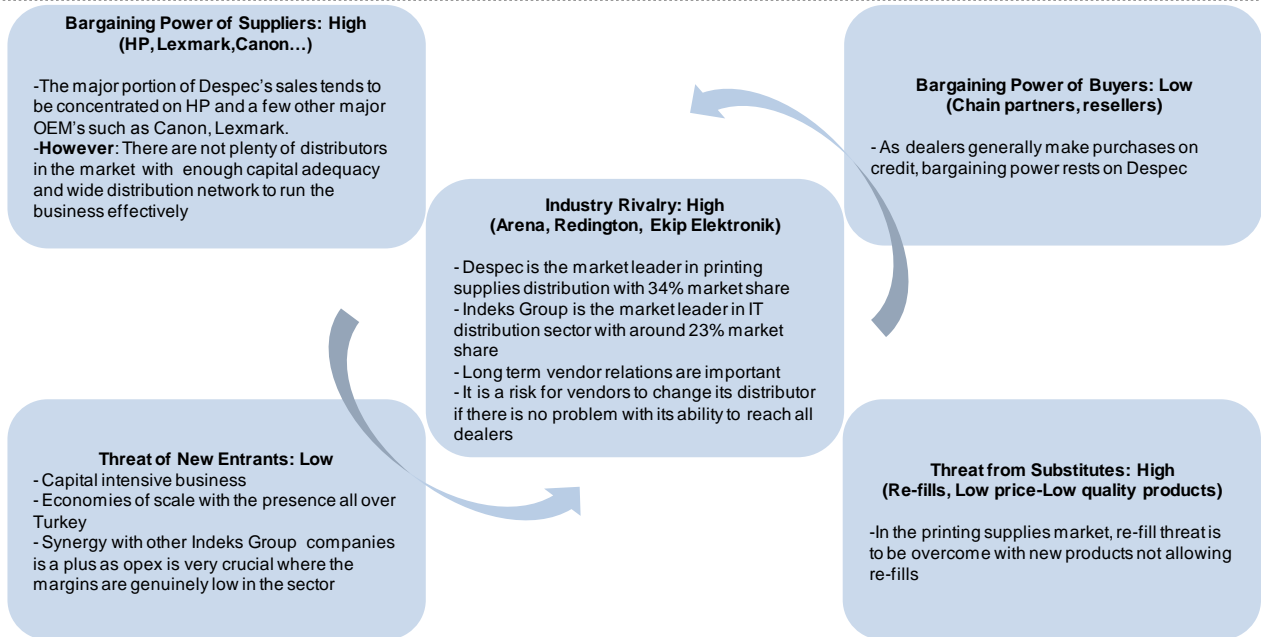
Despec Overview

Despec is an IT supplies wholesaler with 12 years of experience in the distribution of printer consumables, data storage, paper, office stationeries and PC accessories. The company has contracts with almost all globally recognized brands which have IT consumables in its product portfolio including HP, Canon, OKI, Samsung, Lexmark, Turst. Despec has a distribution network reaching 2,850 points across Turkey. In order to feed the reseller front of the equation, Despec needs to have strong working capital and risk management policies in order to bear the receivable risk of the channel partners. As shown in the table below, Despec does not have any business with any of the end-users.

Business Structure



Porter's five forces model, Despec's business overview



Brand	Product Group	No of Dist	Rank among Dist
HP	Ink, Toner, Paper, Data back-up	3	1
Canon	Ink, Toner, Paper, Data back-up	2	1
Oki	Ink, Toner, Ribbon	3	1
Lexmark	Ink, Toner, Ribbon	4	2
Trust	IT Accessories	2	1
Trargus	IT Accessories	2	1
IBM	Toner, Data back-up, Ribbon	1	1
Imation	CD, DVD, Data back-up	2	1

Source: The Company

Printer consumables segment is Despec's main focus

Despec has a dominant position in the overall printer consumables market with around 35% market share. However, excluding the re-fills and substitutes, Despec's market share reaches to 40% in the original printer consumables market as of 2009. As the printer consumables market is very concentrated, there are only Ekip Elektronik and Arena Bilgisayar (ARENA.IS/ ARENA TI) as major competitors.

The company's top-line is strongly correlated with printer consumables sales since it accounted for 89% of the revenues in 2010. We assumed that printer consumables will keep its dominant share in Despec's total revenues through our valuation period. As ink cartridges will gradually be replaced by laser toners, we did not project growth for ink cartridges segment. Further, growth in the laser toner segment could include the replacement effect.

Despec, Key Valuation Assumptions

	2007	2008	2009	2010	2011 E	2012 E
Total Revenues (USDmn)	80.6	85.8	84.8	89.7	103.4	112.3
	30%	6%	-1%	6%	15%	9%
Laser Toners (Printer consumables)	43.2	48.8	50.2	55.7	61.4	67.6
<i>Growth %</i>		13%	3%	11%	10%	10%
as % in total	54%	57%	59%	62%	59%	60%
<i>Gross margin</i>	7.9%	8.3%	12.3%	11.5%	10.3%	10.0%
Ink Cartridges (Printer consumables)	25.3	25.7	22.5	22.4	26.0	27.3
<i>Growth %</i>		1%	-12%	-1%	17%	5%
as % in total	31%	30%	27%	25%	25%	24%
<i>Gross margin</i>	7.7%	7.2%	9.7%	9.4%	9.0%	9.0%
Magnetic Media	4.4	3.5	4.7	3.3	5.8	6.0
<i>Growth %</i>		-20%	34%	-30%	76%	2%
as % in total	5%	4%	6%	4%	6%	5%
<i>Gross margin</i>	12.4%	13.8%	14.0%	14.0%	14.0%	14.0%
PC Accessories	3.6	4.4	4.6	5.1	7.4	8.7
<i>Growth %</i>		22%	5%	10%	45%	17%
as % in total	4%	5%	5%	6%	7%	8%
<i>Gross margin</i>	11.2%	12.1%	14.7%	14.4%	14.4%	14.4%
Printer Ribbon	3.1	2.6	2.0	2.1	1.8	1.8
<i>Growth %</i>		-17%	-24%	6%	-14%	-2%
as % in total	4%	3%	2%	2%	2%	2%
<i>Gross margin</i>	7.2%	6.7%	10.6%	11.0%	11.0%	11.0%
Paper	1.0	0.9	0.7	1.1	0.9	0.9
<i>Growth %</i>		-12%	-16%	48%	-16%	1%
as % in total	1%	1%	1%	1%	1%	1%
<i>Gross margin</i>	7.8%	5.4%	7.6%	8.0%	8.0%	8.0%

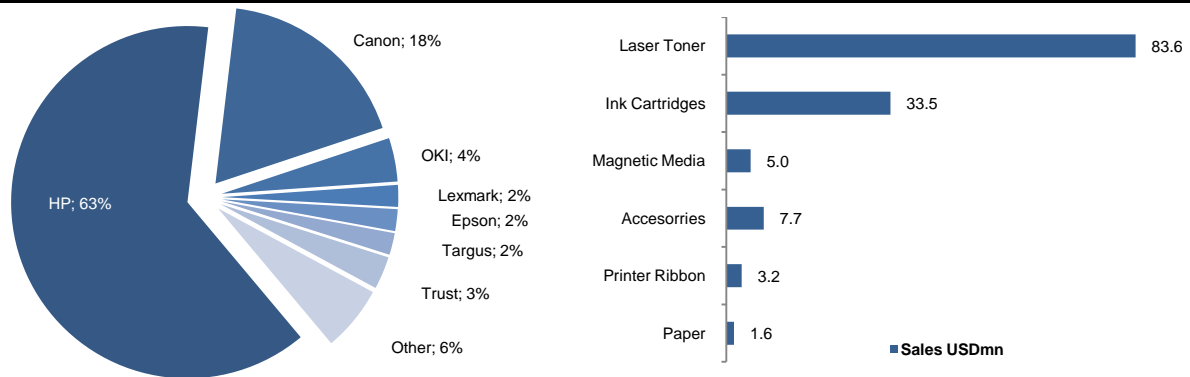
Source: OYAK Securities

Please see the important disclosures at the end of this report

High concentration on HP products

HP products comprise 63% of 2010 total revenues. Other than HP, Canon has a major share in total turnover with 18% share. Concentration of HP in Despec's revenue is inevitable as HP is the dominant market leader with around 60% in the printer consumables market. We believe that strong long-term relations between Despec and HP since the beginning of the company would not allow HP to change its market leader distributor in Turkey. On the other hand, the company aims to focus on increasing its revenues in the accessories market which will lower the concentration among the vendors.

Breakdown of Despec's Sales, 2010



Source: The Company

Despec Market Shares, Index Group estimates

	2007	2008	2009	1H10
Laser toner & Ink Cartridges	35.8%	33.2%	34.6%	35.2%
in the original Printer consumables market	41.1%	38.1%	40.3%	40.5%
Magnetic Media	31.6%	23.2%	38.2%	28.9%
PC Accesories	2.9%	3.2%	3.1%	3.4%
Paper	81.6%	44.0%	35.2%	54.9%
Printer Ribbon	32.4%	34.8%	38.3%	45.8%

Source: Index Group estimates

Upside risk: New investments in the PC accessories market

According to Index Group estimates, Despec has only 3% market share in the PC accessories market. Unlike the printer consumables, PC accessories market is in its infancy stages. Growing share of individual PC users in the total market is driving the growth in demand for accessories. Products in this market range from keyboards and pointing devices to notebook cases. Considering that this is a very fragmented market on the back of vast product diversity, Despec has an advantageous position to increase its PC accessories sales with significant growth rates in the following years utilizing its existing distribution network. Focusing on signing new contracts with global brands will be a major driver for both top-line and earnings in the short term. Further, in the medium term the company plans to create and position their own brand in the sector. Increasing dominance in the accessories market will be the basic supporter of operating margins, especially with the company's own brand. Note that, margin in the PC accessories market is significantly higher, as compared to that in printer consumables sector.

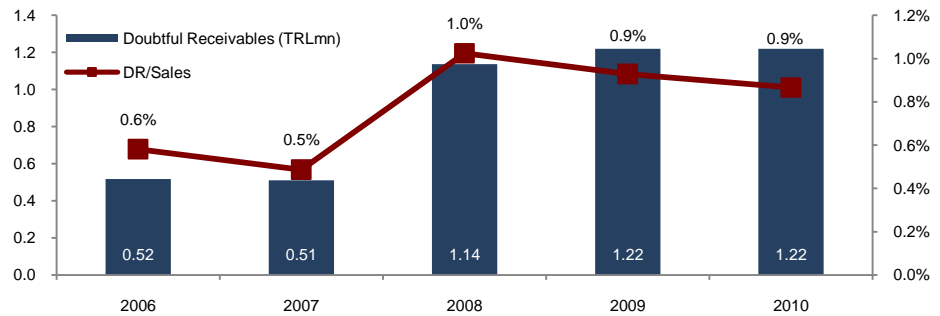
The synergy with other Index Group companies is crucial at this point, as possibility of cross selling enlarges Despec’s existing network significantly. Note that, Despec has the potential to distribute IT consumables to every point that Index Group companies distribute hardware, software and service. While Despec has around 2,850 resellers across Turkey, this number might increase to a potential 8,000, which is the total number of Index Group’s business partners.

Although we assumed that PC accessories sales will grow at a CAGR of 26% in the following 3 years, growth rates in this segment might surpass our estimates with new investments to create a new brand.

Strong risk management policies

Despite the difficulty of dealing with around 2,850 channel partners across Turkey, Despec managed to keep the receivable risk in check thanks to its strict credit management policies. The company’s doubtful receivables were only 0.9% in both 2009 and 2010. With its successful track record and Despec’s adherence on its risk management policies, we do not see credit receivables risk as a major factor that will harm the company’s operating profitability. Further, Despec has a strong credit assessment team and policies to evaluate the financing ability of its channel partners. Credit committee meets every week to review the credit requests and monitor the existing liabilities of dealers.

Doubtful Receivables



Source: OYAK Securities, The company

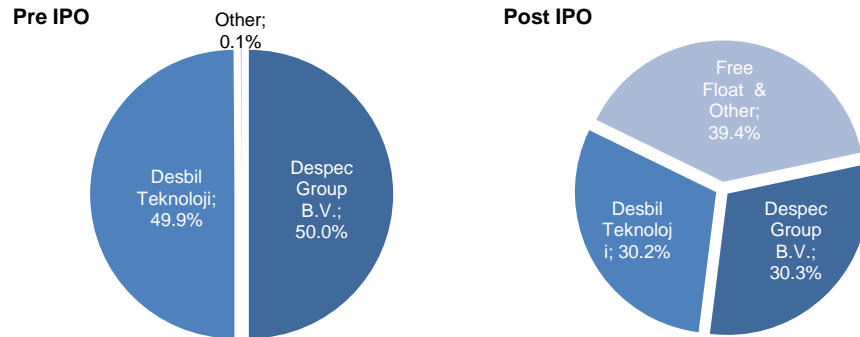
Milestones in Despec History



Shareholder Structure

The company was founded in 1995 by Mr. Erol Bilecik, who is also the founder and chairman of Index Group. Three years later in 1998, Despec Group B.V., which is a Holland-based international IT supplies wholesaler, became a 50% shareholder in the company.

Shareholder Structure, Before and After the IPO



Source: Company Data, Oyak Securities
Desbil Teknoloji is an Index Group Company

Despec Group B.V.: Despec Group B.V is an international wholesaler with 50 years of experience in the distribution of premium brand printer consumables, data storage, paper, office stationeries and multimedia products. They are active in over 20 countries. Despec Group B.V. became a partner of Erol Bilecik, the chairman of Index Group, when the IT consumables distribution is founded in 1998.

Index Group: Index Group is the market leader in the IT distribution sector with around 40% market share. The Group has Index Bilgisayar (INDES), Datagate (DGATE), Despec, Neteks, Neotech and Teklos in its portfolio, each specialized in different segments of the IT sector.

Index Group has around 8,000 distribution points across Turkey. Having the widest distribution network in the sector, Despec utilizes the advantage of cross-selling opportunities with other Index Group companies.

Index Group Companies

Company	Business Model	% Share	Capital (TRL)
Index Bilgisayar ¹	Broadliner Distributor	100.0%	56,000,000
Datagate ²	OEM Components Distributor	59.2%	10,000,000
Neteks	Networks Products Distributor	50.0%	1,100,000
Neotech	Consumer & Home Electronics Distributor	80.0%	1,000,000
Infin	Trade	99.8%	50,000
Teklos	IT Logistics & Service	100.0%	5,000,000
Despec	Consumables Dist.	--	--

Source: Index Group

¹Listed in the ISE since 2004

²Listed in the ISE since 2006

Products Distributed

Printer consumables:



PC Accessories

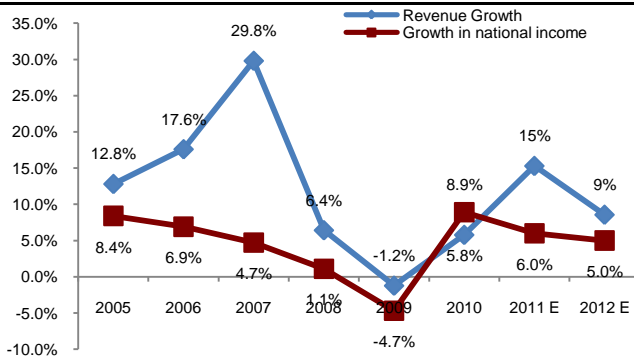


FINANCIALS

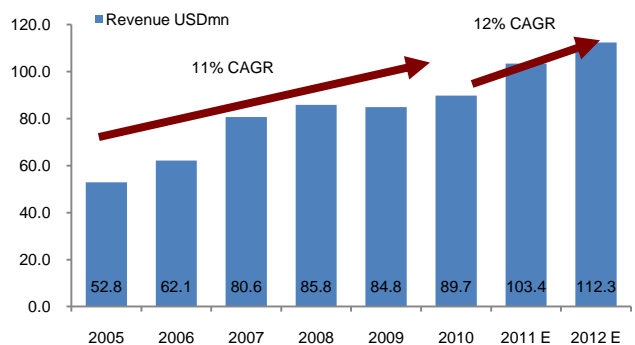
Revenues

The company recorded USD90mn in the 2010, which implies 6% increase YoY. Despec has attained 11% revenue CAGR in the last five years in USD terms (14% in TRL terms). For the following 2 years period, we projected the same growth to continue at a CAGR of 12% with the assumption of increasing contribution from the accessories segment.

Revenue growth vs. Turkey's national income growth



Revenues (USDmn)

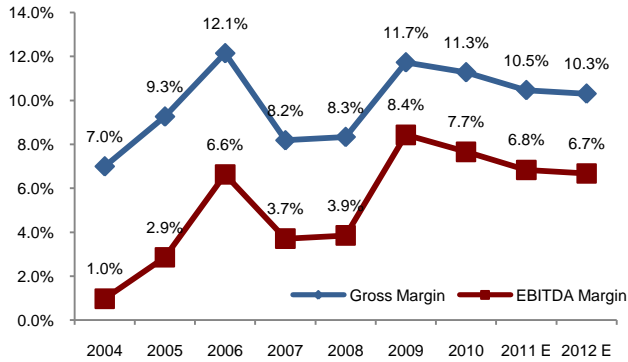


Source: OYAK Securities, The company

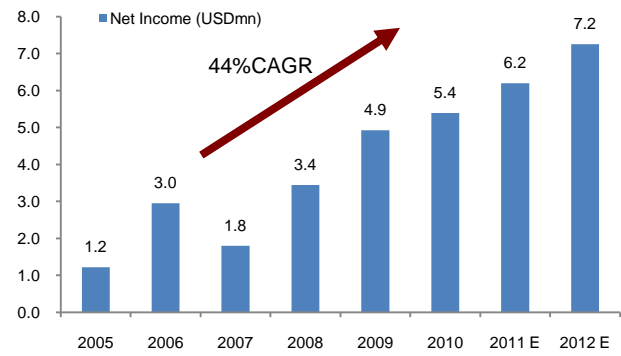
Operating margins and Earnings

Although operating margins showed stability since the beginning of 2009, we assumed that margins in 2009 would not be sustained in the long term in order to be on the conservative side considering the historic fluctuations. Furthermore, we see 10-11% as sustainable levels for the gross profit margin.

Operating Margins



Earnings



Source: OYAK Securities, The company

Despec - Income Statement (TRLmn)

	2007	2008	2009	2010	2011E	2012E
Revenues	105.0	110.9	131.2	134.6	164.3	195.7
Cost of Goods Sold	-96.4	-101.7	-115.8	-119.4	-147.1	-175.6
Gross Profit	8.6	9.2	15.4	15.2	17.2	20.2
Operating Expense	-4.8	-5.1	-4.5	-5.0	-6.1	-7.2
Operating Profit	3.8	4.2	10.9	10.2	11.1	12.9
Depreciation	0.0	0.0	0.0	0.1	0.1	0.1
Severance Provisions	0.1	0.0	0.1	0.1	0.1	0.1
EBITDA	3.9	4.3	11.1	10.3	11.2	13.1
Other Income	0.1	0.0	0.0	0.3	0.0	0.0
Other Expenses	-0.1	0.0	0.0	-0.1	0.0	0.0
Financial Income/Expenses	-1.2	1.3	-1.5	-0.3	1.2	3.1
PBT	2.5	5.5	9.4	10.1	12.3	16.1
Taxes	-0.2	-1.1	-1.8	-2.0	-2.5	-3.2
Net Income	2.3	4.4	7.6	8.1	9.8	12.8

	2007	2008	2009	2010	2011E	2012E
Profitability						
Gross Margin	8.2%	8.3%	11.7%	11.3%	10.5%	10.3%
Operating Margin	3.6%	3.8%	8.3%	7.6%	6.8%	6.6%
EBITDA Margin	3.7%	3.9%	8.4%	7.7%	6.8%	6.7%
Net Margin	2.2%	4.0%	5.8%	6.0%	6.0%	6.6%

	2007	2008	2009	2010	2011E	2012E
Growth						
Sales Growth		6%	18%	3%	22%	19%
Gross Profit Growth		8%	66%	-1%	13%	17%
Operating Profit Growth		10%	161%	-7%	9%	16%
EBITDA Growth		10%	159%	-7%	9%	16%
Net Profit Growth		90%	71%	6%	22%	30%

	2007	2008	2009	2010	2011E	2012E
Other Ratios						
NWC	17.1	22.8	30.3	28.5	24.9	29.6
Change in NWC		5.7	7.5	-1.8	-3.6	4.8

	2007	2008	2009	2010	2011E	2012E
Assumptions						
CPI avg	8.8	10.5	6.2	8.6	8.6	7.0
USD/TL Average	1.3015	1.2927	1.5473	1.5009	1.5892	1.7434
USD/TL Year-End	1.1647	1.5123	1.5057	1.5460	1.6602	1.8266
Euro/USD Average	1.7782	1.8965	2.1500	1.9898	2.2164	2.2166
Euro/USD Year-End	1.7102	2.1408	2.1603	2.0491	2.2412	2.1919

Source: Company Data, Oyak Securities

Despec - Balance Sheet (TRLmn)

ASSETS	2007	2008	2009	2010	2011E	2012E
Current assets:						
Cash and cash equivalents	2	2	1	6	23	32
Investment securities	0	0	0	0	0	0
Trade receivables	16	25	26	23	23	27
Inventories	9	5	16	17	16	20
Other current assets	2	2	5	4	4	4
Total current assets	30	34	47	49	66	83
Non-current assets:						
Trade Receivables	0.0	0.00	0.00	0.00	0.00	0.00
Investment securities	0.0	0.27	0.82	1.37	1.48	1.59
Real Estate Investments	0.0	0.03	0.03	0.02	0.02	0.02
Tangible assets	0.2	0.21	0.26	0.27	0.09	-0.06
Intangible assets	0.0	0.03	0.01	0.00	0.00	0.00
Other non-current assets	0.1	0.07	0.05	0.00	0.00	0.00
Total non-current assets	0.4	0.61	1.17	1.66	1.59	1.55
Total Assets	30.1	34.2	48.3	51.2	67.5	84.7

LIABILITIES & SHAREHOLDERS' EQUITY						
Current liabilities:						
Short-term bank borrowings	3.1	3.1	8.3	3.2	8.0	12.0
Trade payables	7.9	6.5	11.8	11.7	14.2	17.1
Other current liabilities	0.8	1.8	1.3	0.9	0.9	0.9
Total current liabilities	11.8	11.4	21.4	15.7	23.1	29.9
Non-current liabilities						
Long-term bank borrowings	0.0	0.0	0.0	0.0	0.0	0.0
Provision for employment termination benefits	0.1	0.1	0.1	0.2	0.2	0.2
Deferred Taxes	0.0	0.0	0.0	0.1	0.0	0.0
Other non-current liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total non-current liabilities	0.1	0.1	0.1	0.3	0.2	0.2
Total liabilities	11.9	11.5	21.5	16.0	23.3	30.1
Total shareholders' equity	18.2	22.7	26.8	35.1	44.2	54.6
Capital	11	11	11	11.5	11.5	11.5
Minority interest	0	0	0	0	0	0
Total liabilities and shareholders' equity	30.1	34.2	48.3	51.2	67.5	84.7

Financial Ratios						
ROE	12.8%	19.6%	28.4%	23.0%	23.5%	23.5%
Asset Growth		13.6%	41.2%	5.9%	31.9%	25.5%
Equity Growth		24.5%	18.1%	31.1%	25.8%	23.5%
Current Ratio	2.5	2.9	2.2	3.1	2.9	2.8
Quick Ratio	1.8	2.5	1.5	2.1	2.1	2.1
Debt / Equity	0.7	0.5	0.8	0.5	0.5	0.6
Equity/Total Assets	0.6	0.7	0.6	0.7	0.7	0.6
Debt/Total Assets	0.4	0.3	0.4	0.3	0.3	0.4
Net Cash Cycle	46	46	67	72	55	55
Receivables Days	41	53	53	55	50	50
Payables Days	29	22	35	33	35	35
Inventory Days	33	16	49	50	40	40

Source: Company Data, Oyak Securities

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