

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Pilot Program.

4/2020/GPW (12) February 2, 2020

Analyst: Sylwia Jaśkiewicz, CFA

Voxel

Sector: Health care
 Fundamental rating: Buy (→)
 Market relative: Overweight (→)
 Price: PLN 31.20
 12M EFV: PLN 39.5 (↑)

Market Cap: US\$ 84.6 m
 Bloomberg code: VOX PW
 Av. daily turnover: US\$ 0.015 m
 12M range: PLN 20.10-34.00
 Free float: 51%

Recommended action

We uphold both our LT fundamental Buy recommendation and ST relative Overweight rating for the Company and we are going to put the Company's shares in our Monthly Portfolio discussed on a recurring basis.

The Company's shares offer an exposure to the rapidly growing and consolidating health care market in Poland. Above all, Voxel can also be the subject of an acquisition. Voxel Group enjoys significant competitive advantages over public entities, including cyclotron, hospital, IT subsidiary.

We expect decent 4Q19 recurring financial results. We deem the expected NP yoy decline as stemming from the method of medical contracts settlement.

After an update of the capex program assumptions our financial forecasts for 2020 and years beyond increase. We would like to note that limits for CT and MRI treatments are set on a high level as based on 1H19 performance. From the perspective of the Company the payment execution significantly improved. Besides the funding of PET treatments carried out in hospitals changed which should help enhance their numbers.

Valuation

Update of our financial forecasts results in a growth of our 12M EFV for the Company, being a 50%- 50% mix of DCF FCF result and peer-relative valuation, to PLN 39.5 from PLN 38.4 per share. The DCF FCF/peer relative valuation implies PLN 41/PLN 38 per share.

Guide to adjusted profits

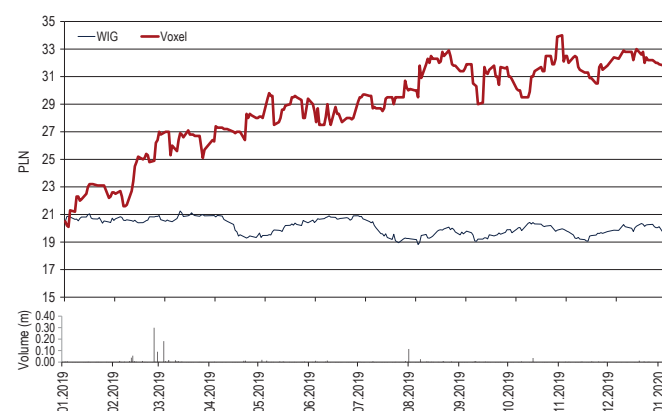
No factors necessitating adjustments.

Key data

IFRS consolidated		2018	2019E	2020E	2021E
Sales	PLN m	170.4	214.7	256.8	266.9
EBITDA	PLN m	45.3	58.0	68.4	73.3
EBIT	PLN m	31.0	35.4	40.3	42.8
Net income	PLN m	23.4	24.4	27.4	29.7
EPS	PLN	2.2	2.3	2.6	2.8
EPS yoy chg	%	18	5	12	8
FCFF	PLN m	-2.9	-20.1	19.6	32.3
Net debt	PLN m	55.9	109.9	102.2	85.6
P/E	x	14.0	13.4	11.9	11.0
P/CE	x	8.7	7.0	5.9	5.4
EV/EBITDA	x	8.5	7.6	6.3	5.6
EV/EBIT	x	12.4	12.3	10.7	9.7
DPS	PLN	1.00	0.99	1.04	1.16
Gross dividend yield	%	3.2	3.2	3.3	3.7
Number of shares (eop)	m	10.5	10.5	10.5	10.5

Source: Company, DM BOŚ SA estimates

Stock performance



Source: Bloomberg

Upcoming events

1. Release of FY19 results: March 23, 2020
2. Release of 1Q20 results: May 26, 2020
3. Release of 1H20 results: August 21, 2020
4. Release of 3Q20 results: November 23, 2020

Fig. 1. Voxel; DCF model

	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Cost of equity								
Risk free	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Equity market premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Unlevered beta	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Leveraged beta	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9
Required rate of return	9.6%	9.5%	9.3%	9.2%	9.3%	9.0%	9.0%	9.0%
Cost of debt								
Pre-tax cost of debt	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
After-tax cost of debt	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
WACC								
Equity share	79%	84%	84%	85%	85%	85%	85%	88%
Debt share	21%	16%	16%	15%	15%	15%	15%	12%
Cost of equity	9.6%	9.5%	9.3%	9.2%	9.3%	9.0%	9.0%	9.0%
After tax cost of debt	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
WACC	8.4%	8.5%	8.4%	8.3%	8.5%	8.2%	8.2%	8.3%
Financial forecasts								
Sales (PLN m)	266.9	274.3	281.5	288.8	296.4	304.2	312.4	320.8
EBIT (PLN m)	42.8	42.5	45.3	46.8	48.0	48.8	49.5	50.1
NOPLAT (PLN m)	34.7	34.4	36.7	37.9	38.9	39.5	40.1	40.6
Depreciation (PLN m)	30.5	32.8	32.1	32.5	33.4	34.8	36.3	38.0
PPE + intangibles	22.5	24.6	23.6	23.8	24.5	25.6	26.9	28.4
Right-of-use assets	8.0	8.3	8.5	8.7	8.9	9.2	9.4	9.7
NWC change (PLN m)	-1.7	4.3	-1.1	-1.1	-1.1	-1.1	-1.1	-1.2
Capex (PLN m)	-23.2	-26.0	-26.1	-25.0	-25.2	-25.9	-27.1	-28.5
Capital lease payments	-8.0	-8.3	-8.5	-8.7	-8.9	-9.2	-9.4	-9.7
FCFF (PLN m)	32.3	37.3	33.0	35.6	37.0	38.1	38.7	39.3

Source: DM BOŚ SA estimates

Fig. 2. Voxel; DCF FCFF valuation (PLN m)

FCFF terminal growth	1.0%
WACC in residual period	8.3%
Residual value	541.0
PV of residual value	286.7
PV of FCFF	205.6
Minorities	4.0
Enterprise value	488.3
Net debt, excl. IFRS16	69.9
Dividends	10.9
Equity value	429.2
Number of shares (million)	10.5
12M forward equity value per share (PLN)	40.9

Source: DM BOŚ SA estimates

Fig. 3. Voxel; Sensitivity to terminal growth rate and equity market premium

FCFF residual growth	Residual WACC				
	7.9%	8.1%	8.3%	8.5%	8.7%
0.0%	38.6	37.9	37.4	36.8	36.3
0.5%	40.4	39.7	39.0	38.4	37.8
1.0%	42.4	41.6	40.9	40.1	39.5
1.5%	44.8	43.9	43.0	42.2	41.4
2.0%	47.6	46.5	45.5	44.5	43.6

Source: DM BOŚ SA estimates

Fig. 4. Voxel; Peer-relative comparison

Company	P/E			EV/EBITDA			EV/EBIT		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Medica Group	17.5	14.8	15.1	10.7	9.2	n.a.	12.5	11.0	n.a.
Integral Diagnostics	25.1	20.8	18.8	13.7	11.4	10.4	18.4	14.9	13.4
Centro De Imagem Diagnosticos	36.3	26.2	15.9	10.6	10.2	n.a.	18.8	15.3	12.8
Medpace Holdings	25.1	22.1	19.6	18.2	15.6	n.a.	19.1	16.4	n.a.
BML	19.5	18.2	17.2	5.3	4.8	4.2	n.a.	n.a.	n.a.
Spire Healthcare Group	19.1	16.6	15.1	8.3	7.2	5.6	17.4	15.2	11.4
Laboratory Corporation of America	15.0	14.3	13.5	10.8	10.1	n.a.	13.1	12.0	n.a.
Cardinal Health	10.5	10.2	9.9	6.0	6.1	4.7	7.5	7.3	6.0
Amerisourcebergen	11.5	10.9	10.3	7.4	6.5	6.0	8.5	7.5	6.9
Alfresa	13.7	13.6	12.6	5.3	4.9	4.2	n.a.	n.a.	n.a.
China National Accord Medi-B	12.9	11.2	n.a.	6.3	5.2	n.a.	7.0	5.9	n.a.
Jointown Pharmaceuticals	15.0	12.9	n.a.	10.9	11.7	n.a.	13.1	14.0	n.a.
Medipal Holdings	14.6	15.0	13.1	5.5	4.8	4.4	n.a.	n.a.	n.a.
Mckesson	9.9	9.8	9.5	7.8	7.2	7.0	8.9	8.3	7.9
Bayer	10.6	9.5	8.5	8.2	7.3	6.6	12.9	10.3	9.4
Synektik	9.9	8.1	6.8	5.3	4.5	n.a.	6.8	5.6	n.a.
Median	14.8	13.9	13.3	8.0	7.2	5.6	12.9	11.0	9.4
Voxel	11.9	11.0	10.9	6.3	5.6	5.2	10.7	9.7	9.2
Implied Voxel's share value (PLN)	38.6	39.4	38.1	42.5	42.1	33.9	39.6	36.9	32.0
Average implied Voxel's share value (PLN)	38.1								

Source: Bloomberg, DM BOŚ SA estimates

4Q19 forecasts

The Company will release FY19 financial report on March 23.

The Company's financial results will be supported by (i) continuation of the existing agreements with the NFZ and the new ones emerging, (ii) increase in the number of facilities, (iii) unlimited reimbursement of CT/ MRI procedures (April 2019), (iv) introduction of changes in the valuation of PET-TK and SPECT services (increase by 3% from July 1, 2019).

The volumes of CT/ MRI/ PET scans increased by 9%/ 37%/ 26% yoy to 48,841/ 58,323/ 59,354 scans in 1Q/ 2Q/ 3Q 2019. We expect 58,000 scans in 4Q19, more than 15% yoy. However, Voxel's 4Q19 revenue may not record a rise yoy, in our opinion. In 4Q18, the Company accounted for the number of procedures exceeding the limit whereas in 2019 the limits were lifted, and a higher number of treatments

(CT/ MRI) was booked during the year. Alteris, which generates about half of its annual revenues in 4Q, showed a fairly high result in 2018 and we hope for a comparable one in 2019. We forecast the Group's 4Q19 revenue at PLN 70 million (+7% yoy) with PLN 2 million expected from Exira and PLN 5 million delivered by Vito-Med.

Profitability will be affected by changes in the Group's structures and tests mix (tests shift from private to less profitable public financing; the latter accounted for 62% of Voxel's 3Q19 sales). We also expect profitability softening at Alteris. The Group's financial costs should increase yoy considerably due to higher debt and the introduction of IFRS16.

We forecast the Group's 4Q19 EBIT and NP at PLN 11 million (-6% yoy) and PLN 8 million (-10% yoy), respectively. The decline does not worry us given its origins.

Fig. 5. Voxel; 4Q19 financial forecasts

IFRS consolidated (PLN m)	2019								2020			2021			Realization of the FY figures in:	
	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19E	yoy	2018	2019E	yoy	4Q18	4Q19E		
Sales	32.6	33.8	38.5	65.6	49.1	46.6	48.6	70.4	7%	170.4	214.7	26%	38%	33%		
Profit on sales	4.8	5.6	7.2	11.7	7.2	7.8	8.5	10.8	-7%	29.3	34.4	17%	24%	25%		
Profit on sales margin	14.9%	16.7%	18.6%	17.8%	14.7%	16.8%	17.5%	15.4%	-	17.2%	16.0%	-	-	-		
EBITDA	8.8	9.2	11.8	15.6	12.8	13.7	14.6	16.9	9%	45.3	58.0	28%	26%	25%		
EBITDA margin	26.9%	27.2%	30.7%	23.7%	26.1%	29.3%	30.0%	24.1%	-	26.6%	27.0%	-	-	-		
EBIT	5.3	5.7	8.3	11.8	7.4	8.1	8.8	11.1	-6%	31.0	35.4	14%	27%	25%		
EBIT margin	16.2%	16.8%	21.6%	18.0%	15.1%	17.4%	18.1%	15.8%	-	18.2%	16.5%	-	-	-		
Pre-tax profit	4.8	5.5	7.9	11.0	6.2	6.9	7.6	9.9	-10%	29.1	30.5	5%	27%	25%		
Pre-tax profit margin	14.8%	16.2%	20.5%	16.7%	12.5%	14.8%	15.6%	14.0%	-	17.1%	14.2%	-	-	-		
Net profit	3.9	4.3	6.4	8.8	5.0	5.5	6.0	7.9	-10%	23.4	24.4	5%	27%	25%		
Net profit margin	12.0%	12.6%	16.6%	13.5%	10.1%	11.8%	12.4%	11.3%	-	13.7%	11.4%	-	-	-		

Source: Company, DM BOŚ SA estimates

2020E outlook

We updated our financial forecasts for the Group including (i) continuation of the existing contracts with the NFZ and conclusion of several new ones, (ii) limits for CT/ MRI reimbursed treatments set at the 1H19 level (limits were suspended then), (iii) maintenance of NFZ prices, (iv) increase in the number of medical facilities and (v) consolidation of a newly acquired entity Rezonans Powiśle and Scanix from January. This should allow for an increase in the volume of CT/ MRI/ PET treatments by at least 20% yoy. We forecast this year's revenue growth stemming from acquisitions at PLN 23 million (incl. Scanix and Rezonans Powiśle).

With the increase in the number of medical facilities included our financial forecasts go up, together with forecasted capex and lease contracts value. We expect the Group's sales and NP at PLN 257 million

and PLN 27 million, respectively, in 2020 (+6% and +5% with respect to the previous forecast). We assume lower yoy capex, at PLN 45 million not including the acquisitions that are not announced, yet more than likely.

The Group's profitability should be supported by (i) the establishment of a shared services center and a purchasing group, (ii) unification of management boards, (iii) restructuring of overheads, (iv) consolidation of product lines, (v) optimization of patient flow, (vi) higher utilization of equipment, and (vi) improvement of the treatment structure (higher dynamics of a revenue growth from MRI than from CT). However, a steady pressure on the rise of salaries of medical personnel (doctors, nurses) and IT employees prevails. Moreover, new medical facilities need time to achieve expected performance results. We assume the Group's operating margin in 2020 will approach 15.7% vs 16.5% in 2019E.

Fig. 6. Voxel; Changes in DM BOŚ SA forecasts

IFRS consolidated (PLN m)	2019E			2020E			2021E		
	current	previous	change	current	previous	change	current	previous	change
Sales	214.7	206.6	4%	256.8	242.7	6%	266.9	251.8	6%
EBITDA	58.0	58.1	0%	68.4	64.8	6%	73.3	69.3	6%
EBIT	35.4	34.2	4%	40.3	38.1	6%	42.8	40.6	6%
NP	24.4	23.4	4%	27.4	26.2	5%	29.7	28.7	4%
Net debt	109.9	100.4	10%	102.2	81.5	25%	85.6	63.7	34%

Source: DM BOŚ SA estimates

Growth drivers

High demand. The Company is a beneficiary of (i) the lift of funding limits for MRI and CT treatments within NFZ reimbursements, (ii) growing demand from commercial and private customers, (iii) synergies in the Group and economies of scale, (iv) consolidation of acquired entities. To meet the high demand and at the same time participate in the market consolidation, the Group has been increasing the number of its medical centers.

Growing infrastructure. The Group comprised 22 imaging diagnostics centers with 18/ 14 MRI/ CT devices, 8 nuclear medicine centers with 7/ 4 PET-TK/ SPECT devices, 1 hospital, 2 cyclotrons (one leased) at the end of 3Q19. In 4Q19, the Company's infrastructure was increased by 1 MRI and 1 CT device, and in 2020, among others, by (i) 3 MRI, (ii) 1 PET (in Warsaw), (iii) 11 Scanix diagnostic laboratories (4 CT and 3 MRI) in 5 locations in Silesia, (iv) Rezonans Powiśle (expected 3 MRI). Scanix signed 4 contracts with the NFZ in 2019 (2H and 4Q). Rezonans Powiśle signed 2 contracts with NFZ and is likely to sign another one after the launch of a new diagnostic facility.

Voxel; the number of scans. The Company performed 167,000 CT/ MRI/ PET scans in 1-3Q19 (+ 24% yoy) generating revenue of PLN 85 million (+28% yoy). The number of all treatments performed in the discussed period amounted to 202,000. The Company expects a 22% yoy growth in the volume of CT/ MRI/ PET scans, including an increase in MRI/ CT by 28%/ 15%, which would also mean an improvement in the scans mix. In 2020, the number of CT/ MRI/ PET scans is expected to grow by 20% yoy.

Exira expects a 9% yoy increase in the number of scans performed in 2020, which should also translate into better yoy profitability. An exchange of the Gamma Knife source and modernization of an MRI scanner are planned in 2020 albeit this may imply a close-down of the facility during holidays but

should boost efficiency. We assume c. PLN 9 million capex for this undertaking.

Vito-Med should deliver flat yoy revenues but better yoy profitability in 2020E. This entity (i) expanded its diagnostic offer with therapeutic services last year, (ii) opened a neurological rehabilitation unit on July 1, and (iii) has been conducting cost restructuring. Planned capex of Vito-Med amount to PLN 1.2 million in 2020.

Alteris enjoys a diversified portfolio of orders that in 2019 exceeded PLN 60 million. Through cooperation with Radpoint, which offers IT solutions for radiology and uses cloud computing, and CardioCube, which focuses on the patient-doctor interface in hospitals, Alteris has the opportunity to develop its products and achieve synergies such as expanding the offer by integrating the solutions of three entities and improving quality and speed through automation and the use of artificial intelligence.

Acquisitions. The Group analyses subsequent acquisition targets in the area of imaging diagnostics and IT. Through Radpoint (a stake acquired in June last year) Alteris entered the market of IT cloud solutions for radiology, offering products based on AI and Deep Learning. The potential market includes 700-800 hospitals, 400 large units, 3,000 smaller units equipped with X-ray and ultrasound, and 8,000 small units with ultrasound. Recently, the Group has provided US\$200,000 in funding, potentially convertible into up to 10% shares, to CardioCube, a patient-doctor interface company.

In January Voxel purchased a 60% stake in Rezonans Powiśle based in Dąbrowa Górnicza. The transaction price amounted to PLN 6 million but the Company paid 90% for the stake; the final price will be set after the cash position of Rezonans Powiśle has been verified. Rezonans Powiśle offers MRI treatments in two locations, in a hospital in Dąbrowa Tarnowska and Brzesko based on the NFZ contracts. The acquisition is consistent with the Company's strategy.

Financial statements (IFRS consolidated)

Fig. 7. Voxel; Balance sheet

(PLN m)	2016	2017	2018	2019P	2020P	2021P
Fixed assets	177.8	172.7	206.0	262.0	289.7	291.7
Tangible fixed assets	128.8	124.4	136.4	188.5	214.0	218.3
Intangible fixed assets	8.3	8.4	7.9	11.3	13.4	11.1
Goodwill	39.4	39.4	59.4	59.8	59.8	59.8
Financial, other fixed assets	1.3	0.5	2.4	2.5	2.5	2.5
Current trade assets	45.4	66.4	76.3	76.5	79.2	84.7
Inventory	5.6	4.8	6.3	8.0	9.8	10.2
Net trade receivables	26.3	31.5	42.8	54.0	45.2	47.0
Other receivables	1.7	2.5	5.4	6.8	5.7	5.9
ST investments	7.1	8.5	14.2	2.0	2.0	2.0
Cash	4.6	19.1	7.6	5.9	16.5	19.7
Assets	223.1	239.1	282.3	338.6	368.9	376.4
Shareholders' funds	116.4	130.5	143.3	157.3	174.1	191.9
Liabilities	106.7	108.6	139.1	181.3	194.7	184.5
LT liabilities	44.0	51.1	84.8	136.5	144.3	132.9
Interest bearing debt	3.7	11.1	19.2	45.2	45.2	45.2
Bonds	9.9	10.0	34.8	34.8	34.8	20.0
Leasing	0.0	1.7	1.9	23.0	25.9	27.2
Provisions, other	30.4	28.4	28.9	33.6	38.5	40.5
ST liabilities	62.8	57.5	54.3	44.8	50.4	51.6
Interest bearing debt	10.1	13.3	5.7	5.7	5.7	5.7
Bonds	10.2	10.2	0.8	0.8	0.8	0.8
Leasing	0.0	0.7	1.1	6.4	6.4	6.4
Provisions, other	22.2	9.6	22.4	16.6	18.6	19.1
Trading liabilities	20.3	23.7	24.3	15.3	19.0	19.7
Shareholders equity and liabilities	223.1	239.1	282.3	338.6	368.9	376.4
Ratios:						
Debt/Equity	0.3	0.4	0.4	0.7	0.7	0.5
Net WC / Total assets	0.1	0.1	0.1	0.1	0.1	0.1
Current ratio	0.7	1.2	1.4	1.7	1.6	1.6
Quick ratio	0.6	1.1	1.3	1.5	1.4	1.4
Sales / Total assets	0.6	0.7	0.7	0.7	0.7	0.7
Sales / Net WC	11.5	12.6	9.1	6.0	6.2	7.3
Inventory turnover (days)	20	17	17	17	17	19
Average receivable turnover (days)	83	69	80	82	70	63
Average accounts payable period (days)	92	73	72	46	33	36
Cash conversion cycle (days)	11	14	24	53	55	46
ROA	5.1%	8.6%	9.0%	7.9%	7.8%	8.0%
ROE	9.7%	16.0%	17.1%	16.3%	16.6%	16.2%

Source: Company, DM BOŚ SA estimates

Fig. 8. Voxel; Income statement

(PLN m)	2016	2017	2018	2019E	2020E	2021E
Sales	120.7	152.2	170.4	214.7	256.8	266.9
Costs of sales	-85.6	-110.5	-122.1	-157.6	-190.3	-197.3
Gross profit on sales	35.1	41.7	48.3	57.1	66.5	69.6
SG&A costs	-19.5	-18.8	-19.1	-22.7	-27.2	-27.7
Profit on sales	15.6	22.9	29.3	34.4	39.3	41.9
Result on other operating activities	1.1	3.0	1.7	1.1	0.9	0.9
EBITDA	29.2	39.1	45.3	58.0	68.4	73.3
EBIT	16.7	25.8	31.0	35.4	40.3	42.8
Financial income	0.9	0.3	0.7	0.2	0.2	0.3
Financial costs	-2.8	-2.8	-3.1	-5.2	-6.3	-6.1
Profit from associates	0.0	0.0	0.5	0.0	0.0	0.0
Pre-tax profit	14.8	23.3	29.1	30.5	34.2	37.1
Income tax	-3.8	-3.5	-5.7	-6.0	-6.5	-7.0
Minorities	0.0	0.0	0.0	0.0	0.3	0.3
Net income	11.0	19.8	23.4	24.4	27.4	29.7
Margins:						
EBITDA	24.2%	25.7%	26.6%	27.0%	26.6%	27.5%
EBIT	13.8%	17.0%	18.2%	16.5%	15.7%	16.0%
Pre-tax profit	12.3%	15.3%	17.1%	14.2%	13.3%	13.9%
NP	9.1%	13.0%	13.7%	11.4%	10.7%	11.1%
Nominal growth:						
Sales	-8.6%	26.1%	12.0%	26.0%	19.6%	3.9%
EBITDA	43.7%	33.8%	15.8%	27.9%	18.0%	7.2%
EBIT	-17.9%	54.7%	20.0%	14.3%	13.6%	6.4%
Pre-tax profit	-16.7%	57.9%	24.7%	4.7%	12.2%	8.4%
NP	-23.3%	80.0%	18.0%	4.6%	12.2%	8.3%

Source: Company, DM BOŚ SA estimates

Fig. 9. Voxel; Cash flow

(PLN m)	2016	2017	2018	2019E	2020E	2021E
Operating cash flow	22.5	35.3	30.3	35.6	80.4	67.1
Pre-tax income	14.8	23.3	29.1	30.5	34.2	37.1
Depreciation	12.5	13.3	14.3	22.5	28.1	30.5
Change in working capital	-3.2	-0.1	-11.3	-23.2	11.6	-1.7
Other	-1.7	-1.2	-1.9	5.8	6.5	1.2
Net funds from investing activities	-7.1	-6.8	-29.2	-40.8	-44.9	-22.9
Capital expenditures	-9.3	-5.8	-29.2	-40.9	-45.1	-23.2
Other	2.2	-1.0	0.0	0.1	0.2	0.3
Net funds from financial activities	-16.0	-14.1	-12.5	3.4	-24.9	-41.1
Income from shares issue	0.0	0.0	0.0	0.0	0.0	0.0
Net change in debt	-7.4	-6.0	0.0	19.0	-7.7	-22.8
Dividends paid	-5.8	-5.8	-10.5	-10.4	-10.9	-12.2
Other	-2.8	-2.3	-2.0	-5.2	-6.3	-6.1
Change in cash	-0.7	14.4	-11.5	-1.7	10.7	3.2

Source: Company, DM BOŚ SA estimates

Risk factors

1. The decline in public spending on healthcare (high exposure to NFZ)
2. Drop of funding limits for MRI and CT treatments
3. The decline in medical services pricing, in particular, CT, MRI, PET-CT treatments
4. Change in Poland's policy regarding the private medical contractors (e.g. renting hospital premises – the majority of the Company's services location)
5. Changes in the Company's contracts with NFZ (the majority secured to 2023/2024)
6. Changes in legislation regarding the funding of hospitals/treatments
7. The decline in the society's affluence
8. New innovative methods of cancer treatment
9. Medical errors - reputational risk
10. Worse quality of treatment descriptions
11. Low and deteriorating availability of radiologists
12. Loss/low labour supply
13. Salary pressure (in particular of medical and IT staff)
14. Oversized investments
15. Failure in the implementation of production procedure automation projects and technological optimization

Catalysts

1. Ageing society
2. The number of diagnostic imaging treatments below the standards in developed countries
3. High NFZ funding limits for MRI and CT treatments, NFZ shortening of time limit for payments
4. Change of PET funding in hospital treatments
5. Medical services pricing increase
6. Possible change in regulations with respect to indications for PET treatments (compliant with standards in developed countries)
7. Development of the market of private medical services
8. Improvement of the treatment mix (bigger share of these more advanced)
9. New medical services (such as micro-invasive treatments, fusion biopsy, radiofrequency liver ablation)
10. Development of a profitable segment of pharmaceutical research (clinical trials)
11. Organic growth, new centres (high barriers to entry)
12. Acquisitions – economies of scale
13. Cooperation with Warsaw University
14. Consolidation of the sector; potential acquisition target
15. AI development and new algorithms for test descriptions
16. IT software development for cloud diagnostics

BASIC DEFINITIONS

A/R turnover (in days) = $365/(\text{sales}/\text{average A/R})$
Inventory turnover (in days) = $365/(\text{COGS}/\text{average inventory})$
A/P turnover (in days) = $365/(\text{COGS}/\text{average A/P})$
Current ratio = $(\text{current assets} - \text{ST deferred assets})/\text{current liabilities}$
Quick ratio = $(\text{current assets} - \text{ST deferred assets} - \text{inventory})/\text{current liabilities}$
Interest coverage = $(\text{pre-tax profit before extraordinary items} + \text{interest payable})/\text{interest payable}$
Gross margin = $\text{gross profit on sales}/\text{sales}$
EBITDA margin = $\text{EBITDA}/\text{sales}$
EBIT margin = EBIT/sales
Pre-tax margin = $\text{pre-tax profit}/\text{sales}$
Net margin = $\text{net profit}/\text{sales}$
ROE = $\text{net profit}/\text{average equity}$
ROA = $(\text{net income} + \text{interest payable})/\text{average assets}$
EV = $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$
EPS = $\text{net profit}/\text{no. of shares outstanding}$
CE = $\text{net profit} + \text{depreciation}$
Dividend yield (gross) = $\text{pre-tax DPS}/\text{stock market price}$
Cash sales = $\text{accrual sales corrected for the change in A/R}$
Cash operating expenses = $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$

DM BOŠ S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:

Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;
Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;
Sell – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms
Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms
Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM BOŠ S.A.'s recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first.

Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

Distribution of DM BOŠ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision
Numbers	35	40	5	8	0
Percentage	40%	45%	6%	9%	0%

Distribution of DM BOŠ's current recommendations for the companies which DM BOŠ has supplied with material investment services within the last 12 months

	Buy	Hold	Sell	Suspended	Under revision
Numbers	3	5	2	2	0
Percentage	25%	42%	17%	17%	0%

Distribution of DM BOŠ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	33	34	13	8	0
Percentage	38%	39%	15%	9%	0%

Distribution of DM BOŠ's current market relative recommended weightings for the companies which DM BOŠ has supplied with material investment services within the last 12 months

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	2	5	3	2	0
Percentage	17%	42%	25%	17%	0%

Banks

Net Interest Margin (NIM) = $\text{net interest income}/\text{average assets}$
Non interest income = $\text{fees\&commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$
Interest Spread = $(\text{interest income}/\text{average interest earning assets})/(\text{interest cost}/\text{average interest bearing liabilities})$
Cost/Income = $(\text{general costs} + \text{depreciation})/(\text{profit on banking activity} + \text{other net operating income})$
ROE = $\text{net profit}/\text{average equity}$
ROA = $\text{net income}/\text{average assets}$
Non performing loans (NPL) = loans in 'basket 3' category
NPL coverage ratio = $\text{loan loss provisions}/\text{NPL}$
Net provision charge = $\text{provisions created} - \text{provisions released}$

DM BOŠ S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc. Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

LT fundamental recommendation tracker

Analyst	Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Performance	Relative performance	Price at issue/reiteration*	EFV (12 months)	
Voxel										
Sylwia Jaśkiewicz	Buy	21.07.2019	-	22.07.2019	Not later than 21.07.2020	15%	24%	28.00	35.10	-
Sylwia Jaśkiewicz	-	-	30.07.2019	31.07.2019	-	-	-	29.60	35.10	→
Sylwia Jaśkiewicz	-	-	18.08.2019	19.08.2019	-	-	-	29.50	34.10	↓
Sylwia Jaśkiewicz	-	-	21.08.2019	22.08.2019	-	-	-	30.20	34.10	→
Sylwia Jaśkiewicz	-	-	01.09.2019	02.09.2019	-	-	-	30.90	34.10	→
Sylwia Jaśkiewicz	-	-	10.09.2019	11.09.2019	-	-	-	32.00	35.70	↑
Sylwia Jaśkiewicz	-	-	13.10.2019	14.10.2019	-	-	-	31.50	35.70	→
Sylwia Jaśkiewicz	-	-	24.10.2019	25.10.2019	-	-	-	31.00	35.70	→
Sylwia Jaśkiewicz	-	-	17.11.2019	18.11.2019	-	-	-	32.50	35.70	→
Sylwia Jaśkiewicz	-	-	25.11.2019	26.11.2019	-	-	-	34.00	35.70	→
Sylwia Jaśkiewicz	-	-	04.12.2019	05.12.2019	-	-	-	32.40	38.40	↑
Sylwia Jaśkiewicz	-	-	08.12.2019	09.12.2019	-	-	-	31.50	38.40	→
Sylwia Jaśkiewicz	-	-	09.01.2020	10.01.2020	-	-	-	32.70	38.40	→
Sylwia Jaśkiewicz	-	-	02.02.2020	03.02.2020	-	-	-	31.20	39.50	↑

* prices at issue/reiteration are the closing prices at the report or reiteration date

Market-relative recommendation tracker

Analyst	Relative Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Price at issue/reiteration*	Relative performance
Voxel							
Sylwia Jaśkiewicz	Overweight	21.07.2019	-	22.07.2019	Not later than 21.07.2020	28.00	24%
Sylwia Jaśkiewicz	-	-	30.07.2019	31.07.2019	-	29.60	-
Sylwia Jaśkiewicz	-	-	18.08.2019	19.08.2019	-	29.50	-
Sylwia Jaśkiewicz	-	-	21.08.2019	22.08.2019	-	30.20	-
Sylwia Jaśkiewicz	-	-	01.09.2019	02.09.2019	-	30.90	-
Sylwia Jaśkiewicz	-	-	10.09.2019	11.09.2019	-	32.00	-
Sylwia Jaśkiewicz	-	-	13.10.2019	14.10.2019	-	31.50	-
Sylwia Jaśkiewicz	-	-	24.10.2019	25.10.2019	-	31.00	-
Sylwia Jaśkiewicz	-	-	17.11.2019	18.11.2019	-	32.50	-
Sylwia Jaśkiewicz	-	-	25.11.2019	26.11.2019	-	34.00	-
Sylwia Jaśkiewicz	-	-	04.12.2019	05.12.2019	-	32.40	-
Sylwia Jaśkiewicz	-	-	08.12.2019	09.12.2019	-	31.50	-
Sylwia Jaśkiewicz	-	-	09.01.2020	10.01.2020	-	32.70	-
Sylwia Jaśkiewicz	-	-	02.02.2020	03.02.2020	-	31.20	-

* prices at issue/reiteration are the closing prices at the report or reiteration date

This report has been prepared by Dom Maklerski Banku Ochrony Środowiska SA registered in Warsaw (hereinafter referred to as DM BOŚ SA) and commissioned by the Warsaw Stock Exchange SA (hereinafter referred to as WSE SA) pursuant to the agreement on the research report preparation between DM BOŚ SA and WSE SA within the framework of the Analytical Coverage Support Pilot Program described on the WSE SA website: <https://www.gpw.pl/gpwpa> (hereinafter referred to as the Agreement). DM BOŚ SA will receive a remuneration for the research report in accordance with the Agreement.

The production of the report was completed on February 3, 2019 at 8.30 a.m.

The report was distributed on February 3, 2019 at 8.40 a.m.

The report is an investment research within the meaning of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organizational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive. This report constitutes a recommendation within the meaning of Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest. This report is for information purposes only.

This report constitutes neither investment advice nor provides investment service as referred to in Article 76 of the Act on Financial Instruments Trading as of 29 July 2005 (Journal of Laws, 2018, Item 2286 as amended), hereinafter referred to as the Act on Trading; it does not constitute any legal or tax advice, neither does it constitute an indication whether an investment is suitable or appropriate in an individual situation of an investor. In particular this report is not a personal recommendation based on any individual needs or situation of any investor. DM BOŚ SA informs that the investment advice services exclusively consist in the preparation of a personal recommendation based on individual needs and situation of a given client and transferring it to them. To receive this type of a recommendation an agreement on providing investment advice services must be signed with an investments company offering these services.

Neither the information nor the opinions expressed in the report constitute a solicitation or an offer to buy or sell any securities referred herein. The opinions expressed in the report reflect independent, current judgment of DM BOŚ.

This report was prepared with due diligence and scrutiny. The information used in the report is based on all public sources such as press and branch publications, company's financial statements, current and periodic reports, as well as meetings and telephone conversations with company's representatives prior to the date of report's release. We believe the above mentioned sources of information to be reliable, however we do not guarantee their accuracy and completeness. All estimates and opinions included herein represent our judgment as of the date of the issue. All opinions, forecasts, calculations and estimates herein constitute the author's subjective assessment as of the date of the issue and can be modified at any time without prior notice. DM BOŚ SA informs that this report will be updated in the manner as referred to in the Agreement, at least once a year.

DM BOŚ SA is an investment firm within the meaning of the Act on Financial Instruments Trading. The legal entity supervising DM BOŚ SA is Polish Financial Supervision Authority in Warsaw (Komisja Nadzoru Finansowego, KNF in Polish abbreviation).

Institutional sales

Bartosz Janczy
tel.: +48 (22) 504 32 46
b.janczy@bossa.pl

Tomasz Grabowski
tel.: +48 (22) 504 32 47
t.grabowski@bossa.pl

Grzegorz Kołodziejczyk
tel.: +48 (22) 504 33 34
g.kolodziejczyk@bossa.pl

Michał Zawada
tel.: +48 (22) 504 33 36
m.zawada@bossa.pl

Maciej Bąk
tel.: +48 (22) 504 33 78
m.bak@bossa.pl

Bartosz Zieliński
tel.: +48 (22) 504 33 35
b.zielinski@bossa.pl

Marcin Kozerski
tel.: +48 (22) 504 33 35
m.kozerski@bossa.pl

Marcin Stosio
tel.: +48 (22) 504 33 37
m.stosio@bossa.pl

Research

Sobiesław Pająk, CFA
(Equity strategy, TMT)
s.pajak@bossa.pl

Sylwia Jaśkiewicz, CFA
(Construction materials, Consumer staples & discretionary, Health care)
s.jaskiewicz@bossa.pl

Maciej Wewiórski
(Residential construction, Construction, Real estate)
m.wewiorski@bossa.pl

Michał Sobolewski, CFA, FRM
(Financials)
m.sobolewski@bossa.pl

Jakub Viscardi
(Telco, Consumer staples & discretionary, IT – hardware distribution, Utilities)
j.viscardi@bossa.pl

Lukasz Prokopiuk, CFA
(Chemicals, Mining, Mining – machinery, Oil & gas)
l.prokopiuk@bossa.pl

Tomasz Rodak, CFA
(Consumer discretionary, Video games)
t.rodak@bossa.pl

Wojciech Romanowski
(Construction, Construction materials, Consumer discretionary)
w.romanowski@bossa.pl

DM BOŚ SA, its management and supervisory bodies and employees do not take any responsibility for decisions taken on the basis of this report and opinions stated herein. Investors bear all responsibility for investment decisions taken on the basis of the contents of this report. The report is intended solely for private use of investors.

Copyrights to this report belong to the WSE. The rules for use of this report have been specified in the Agreement. This report mustn't be redistributed, reproduced or conveyed in any manner or form conflicting with the rules defined in the Agreement.

This report is made available on the day of its issue in the public domain on the website <https://bossa.pl/analizy-i-informacje/wsparcie-pokrycia-analitycznego-gpw/voxel>

DM BOŚ SA is entitled to conveying or translation of the report into foreign languages on behalf of their clients and this shall not be sooner than making the report available on its website <https://bossa.pl/analizy-i-informacje/wsparcie-pokrycia-analitycznego-gpw/voxel>.

DM BOŚ SA follows internal regulations for handling of conflicts of interest which include in particular internal organizational and administration arrangements as well as information barriers established for prevention and avoidance of conflicts of interest related to recommendations. A special organizational arrangement that constitutes an information barrier is so called Chinese walls prohibiting an uncontrolled flow of information among particular organizational units or employees of DM BOŚ SA. Where justified, DM BOŚ SA can create Chinese walls upon the realization of a particular project. Potential conflicts of interests referring to a specific recommendation which is made available to the public or to a wide range of persons are disclosed either in the recommendation or in the document attached.

The person(s) preparing this report receive(s) variable compensation indirectly based upon the financial results of DM BOŚ which in turn depend – among other factors – on the result on the brokerage activity.

DM BOŚ SA has not held any long or short position net exceeding 0.5% of the issuer's basic capital in total with respect to the company/companies indicated.

Apart from the mentioned above cases, there are neither ties of any kind between DM BOŚ SA, the analyst/ analysts involved in the preparation of the report and the issuer(s) of securities as referred to in the report nor circumstances that can justifiably be expected to have a negative impact on objectivity of the recommendation with regard to interests or conflicts of interests on their part or on the part of any natural person or legal entity which pertains to the financial instrument or the issuer.

The report was not shown to the analyzed company before the distribution of the report.

Copyright © 2020 by DM BOŚ S.A.

Dom Maklerski Banku Ochrony Środowiska Spółka Akcyjna
ul. Marszałkowska 78/80
00-517 Warszawa
www.bossa.pl
Information: (+48) 0 801 104 104