

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Pilot Program. This is an excerpt from the Polish version of DM BOŚ SA's research report.

Votum

42/2020/GPW (140) December 4, 2020

Analyst: Michał Sobolewski, CFA, FRM

Sector: Financials – specialty finance

Fundamental rating: Buy (→)

Market relative: Neutral (↓)

Price: PLN 12.80

12M EFV: PLN 25.70 (↓)

Market Cap: US\$ 42 m

Bloomberg code: VOT PW

Av. daily turnover: US\$ 0.09 m

12M range: PLN 8.20-14.95

Free float: 37%

Recommended action

Although the results for 3Q20 improved on a qoq basis, showing a diminishing impact of the pandemic on results, this year is nonetheless significantly weaker than we assumed which prompts us to revise our financial forecasts. At the same time, we incorporate the RES segment in our forecasts and also assume additional costs that will be necessary for its kick-off before an adequate scale of operations is reached. We are conservative in our estimates of this segment's profitability. We still believe that it is appropriate to expand the scale of operations in the segment of investigations related to abusive clauses, which, however, also burdens the results in the short term.

In our opinion, the mid-term prospects for the market of pursuing claims against abusive clauses are crucial for Votum, and they remain favorable which is reflected in the pro-client line of court judgments and rebound of the customer acquisition numbers in the segment. We also understand the Company's approach focused on maximizing the revenue potential of conducted cases which is related to incurring short-term costs in order to build an income base. Therefore, we are reiterating our fundamental Buy recommendation. Simultaneously, we cut our short-term relative rating to Neutral (from Overweight) due to the lack of catalysts in the near term. We believe that the market is waiting for the first higher revenues from the segment of pursuing claims from abusive clauses in FX mortgage loans and this will happen on a larger scale in 2H21 at the earliest, at the time Votum should start to recognize a 'success fee' in bulk. Until then, the profitability will be lower than historically also due to the ambitious entry into the RES segment which has seasonally worse results throughout the winter months. This is the rationale behind the changes we introduce to the forecasts.

Guide to adjusted profits

No factors necessitating adjustments.

Key data

IFRS consolidated		2019	2020E	2021E	2022E
Sales	PLN m	141.8	150.8	200.0	239.8
EBITDA	PLN m	24.7	15.3	27.3	38.6
EBIT	PLN m	22.6	13.3	25.3	36.3
Net income	PLN m	17.3	9.7	18.4	27.5
EPS	PLN	1.44	0.81	1.53	2.29
EPS yoy chg	%	109	-44	90	49
Net debt	PLN m	11.5	-1.0	-11.5	-22.8
Net debt + leasing	PLN m	18.7	6.5	-3.6	-14.5
P/E	x	8.9	15.9	8.3	5.6
P/CE	x	7.9	13.1	7.5	5.2
EV/EBITDA	x	6.7	10.0	5.2	3.4
EV/EBIT	x	7.3	11.5	5.6	3.6
DPS	PLN	0.19	0.00	0.00	0.77
Gross dividend yield	%	1.5	0.0	0.0	6.0
Number of shares (eop)	m	12.0	12.0	12.0	12.0

Source: Company, DM BOŚ SA estimates

Stock performance



Source: Bloomberg

Upcoming events

1. Consolidated financial report for FY20: February – March 2021

Votum pursues damages claims for clients of financial institutions in the area of personal and property claims as well as abusive clauses in foreign currency mortgage loan agreements. It has recently started operating in the renewable energy industry (i.e. installing photovoltaic panels). The most promising segment, in our view, is the market of damages claims against FX mortgage loans which at an early stage of development experiences vigorous expansion. The Company should be an increasing beneficiary of the growing interest of CHF mortgage borrowers in pursuing claims after the precedent judgment of the EU Court of Justice and change of Poland's court line to the pro-consumer one.

3Q20 results overview

Top-line back in shape. Votum's revenues in 3Q20 amounted to over PLN 36 million (a 6% increase yoy). In our forecasts, we expected a similar level of sales. 3Q20 turned out to be a visibly better quarter in the segment of pursuing claims due to abusive clauses in loan agreements that recorded an improvement in sales. Additionally, courts handled the cases concerning abusive clauses without major disruptions which is a significant change compared to weak 2Q20 in this respect. Votum also presented the newly created RES segment which generated PLN 3.5 million in revenues in the quarter. A rebound was also visible in the personal injury segment. The rehabilitation segment turned out to be in good shape as well, with revenues yoy increase

of 24%. Sales declines on qoq basis were visible in the property claims segment, where the number of contracts concluded fell in 3Q20, but this is also a mark of a return to a higher-margin strategy of pursuing claims in court, which is more time-consuming than amicable settlements.

Profitability still under pressure. The 3Q20 EBITDA margin decreased to 9.0% compared to 16.7% in 3Q19, but it is an improvement compared to 2Q20 when the margin was a mere 0.2%. Rebuilding profitability in 3Q20 resulted from the stronger revenues and positive operating leverage due to higher dynamics of revenue growth than costs. On the other hand, the improvement in the currently recorded margin is lower than in the corresponding period of the previous year which is due to a significant increase in costs in the newly created segment of renewable energy sources and in connection with the development of the segment of investigating abusive clauses (including expansion of the field office resources which is reflected in a 18% employment qoq hike. Votum's 3Q20 EBITDA and EBIT reached PLN 3.4 million (-45% yoy) and PLN 2.9 million (-49% yoy), respectively.

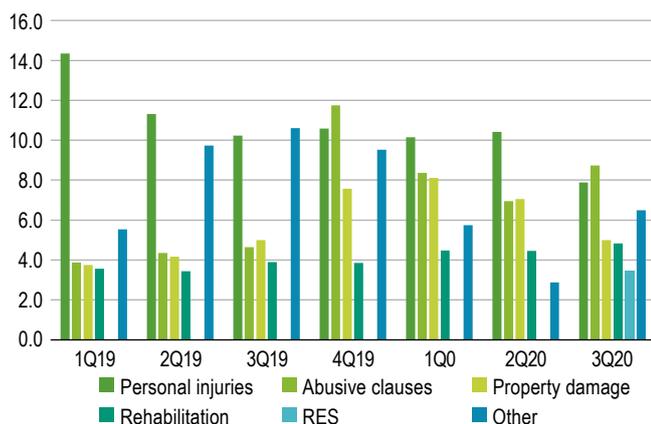
Improving net profit. The Group showed net financial income at the level of PLN -0.35 million in 3Q20 compared to PLN -0.09 million in 3Q19. The effective tax rate in the quarter was 30%. As a result, the net profit of Votum Group stood at c. PLN 2.1 million in 3Q20.

Fig. 1. Votum; 3Q20 financials' forecasts

IFRS consolidated (PLN m)				3Q20 vs			yoy chg	1-3Q19		yoy chg	Realization of the FY figures in:					
	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20		forecasts	3Q20E		1-3Q19	1-3Q20	3Q19	3Q20E	1-3Q19	1-3Q20E
Sales	33.0	34.4	43.3	36.8	31.8	36.4	→	36.6	6%	98.5	105.0	7%	24%	24%	69%	70%
Profit on sales	5.9	5.4	8.3	4.7	0.2	2.9	→	2.8	-47%	16.2	7.8	-52%	22%	22%	66%	60%
Profit on sales margin	17.8%	15.6%	19.1%	12.8%	0.6%	7.9%	-	7.7%	-	16.5%	7.4%	-	-	-	-	-
EBITDA	6.1	6.3	6.9	5.8	0.6	3.4	→	2.9	-45%	17.7	9.9	-44%	25%	22%	72%	65%
EBITDA margin	18.6%	18.2%	16.0%	15.8%	2.0%	9.4%	-	7.9%	-	18.0%	9.4%	-	-	-	-	-
EBIT	5.5	5.7	6.5	5.4	0.1	2.9	→	2.4	-49%	16.1	8.4	-48%	25%	22%	71%	63%
EBIT margin	16.6%	16.7%	15.0%	14.7%	0.2%	8.0%	-	6.6%	-	16.3%	8.0%	-	-	-	-	-
Pre-tax profit	5.2	5.7	6.5	5.2	0.0	2.6	→	2.3	-55%	15.5	7.8	-50%	26%	21%	70%	63%
Pre-tax profit margin	15.7%	16.4%	15.1%	14.2%	0.0%	7.0%	-	6.3%	-	15.7%	7.4%	-	-	-	-	-
Net profit	4.6	4.1	4.4	4.0	0.1	2.1	→	1.8	-50%	13.0	6.2	-52%	24%	22%	75%	64%
Net profit margin	14.0%	12.0%	10.1%	11.0%	0.2%	5.7%	-	4.8%	-	13.2%	5.9%	-	-	-	-	-

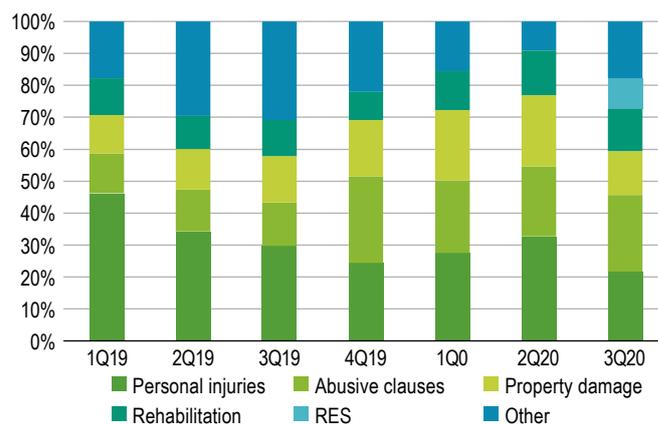
Source: Company, DM BOŚ SA estimates

Fig. 2. Votum; Quarterly segmental revenues



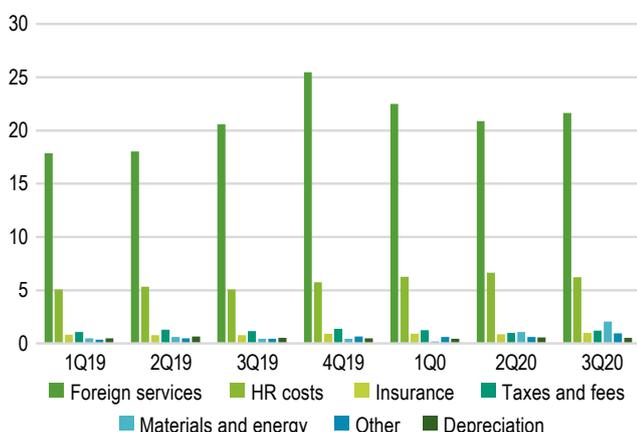
Source: Company, DM BOŚ SA

Fig. 3. Votum; Quarterly segmental revenues structure



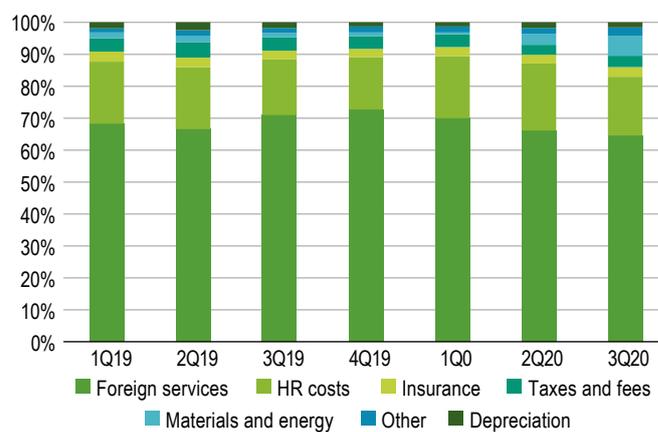
Source: Company, DM BOŚ SA

Fig. 4. Votum; Quarterly operating expenses



Source: Company, DM BOŚ SA

Fig. 5. Votum; Quarterly operating expenses structure



Source: Company, DM BOŚ SA

Financial forecasts

Low realization of our annual forecast made us cut our expectations regarding the Group's sales/ EBIT/ net profits by 6%/ 39%/ 40% vs our previous forecasts. This is a consequence of several factors. The most important are as follows: (i) launch of the RES segment and its start-up costs (Votum expects the breakeven in the spring 2020, by that time the segment will continue to drop profitability); (ii) the impact of the pandemic on revenues (it was predominantly visible in 2Q20, probably the restrictions in 4Q20 may also have an impact, although probably much weaker) and (iii) lower than expected number of lawsuits brought to courts this year, which shifts part of the revenues forward. We assume that 4Q20 will be seasonally better than the

previous quarters in the pandemic period, but still lower yoy. We are also adjusting the assumptions regarding the dividend payout and taking into account the lower than planned net profit this year and the outlays on scaling the business, in growth segments, we assume payments to return in 2022. Next year, we expect the impact of the pandemic developments to be significantly smaller. In our opinion, the risk to our forecasts is now moderate and depends to a large extent on the growth segments of which the segment of pursuing claims under abusive clauses seems to be the most promising in the medium term where positive surprises are possible should the current pro-consumer stance holds in courts. Votum also sees considerable potential in the RES segment which we approach with caution when formulating forecasts.

Fig. 6. Votum; Changes in DM BOŚ SA forecast

IFRS consolidated (PLN m)	2020E			2021E			2022E		
	current	previous	change	current	previous	change	current	previous	change
Sales	150.8	161.0	-6%	200.0	194.0	3%	239.8	231.1	4%
EBITDA	15.3	23.6	-35%	27.3	29.2	-7%	38.6	46.7	-17%
EBIT	13.3	21.7	-39%	25.3	27.3	-7%	36.3	44.4	-18%
Net profit	9.7	16.2	-40%	18.4	19.0	-3%	27.5	34.8	-21%

Source: DM BOŚ SA estimates

Valuation

After financial forecasts update and valuation horizon forward shift, our 12M EFV for the stock, which is a combination (50% -50%) of the DCF FCFF valuation and comparative valuation, declines by 16% to PLN 23.4 (previously at PLN 30.4) per share. The DCF FCFF valuation implies the value of Votum's equities at PLN 22.7 (previously at PLN 27.0), and the comparative method rests at PLN 27.9 (previously at PLN 33.9).

Tabela 7. Votum; Model DCF

	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Cost of equity										
Risk free	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Equity market premium	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Unlevered beta	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Leveraged beta	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Required rate of return	11.6%									
Cost of debt										
Pre-tax cost of debt	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Effective tax rate	20.1%	20.1%	20.1%	20.1%	20.1%	20.1%	20.1%	20.1%	20.1%	20.1%
After-tax cost of debt	3.2%									
WACC										
Equity share	93%	94%	94%	93%	93%	92%	91%	87%	70%	60%
Debt share	7%	6%	6%	7%	7%	8%	9%	13%	30%	40%
Cost of equity	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%
After tax cost of debt	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
WACC	11.1%	11.1%	11.1%	11.1%	11.0%	11.0%	10.8%	10.5%	9.1%	8.3%
Financial forecasts										
Sales (PLN m)	200.0	239.8	271.8	290.5	309.3	328.7	349.7	372.5	396.5	190.0
EBIT (PLN m)	25.3	36.3	47.5	53.6	59.6	75.7	83.1	91.3	99.9	12.4
NOPLAT (PLN m)	20.2	29.0	38.0	42.8	47.6	60.4	66.4	72.9	79.8	9.9
Depreciation (PLN m)	2.0	2.3	2.4	2.4	2.5	2.6	2.7	2.8	2.9	3.0
NWC change (PLN m)	-8.1	-7.0	-5.4	-2.9	-2.8	-2.8	-3.0	-3.2	-3.3	-2.0
Capex (PLN m)	-3.1	-3.2	-3.3	-3.5	-3.6	-3.7	-3.8	-4.0	-4.1	-4.2
FCFF (PLN m)	11.1	21.0	31.6	38.9	43.7	56.6	62.3	68.5	75.3	6.7

Source: DM BOŚ SA

Tabela 8. Votum; DCF Valuation (PLN m)

FCFF terminal growth	1.0%
WACC in residual period	9.5%
Residual value	79.5
PV of residual value	32.5
PV of FCFF	248.7
Minorities	0.0
Enterprise value	281.3
Net debt, excl. IFRS16	-1.0
Dividends	0.0
Equity value	282.3
Number of shares (million)	12.0
12M forward equity value per share (PLN)	23.5

Source: DM BOŚ SA

Tabela 9. Votum; Peer-relative valuation

Spółka	P/E			EV/EBITDA			EV/EBIT		
	2020P	2021P	2022P	2020P	2021P	2022P	2020P	2021P	2022P
Gateley	14.8x	17.9x	14.7x	7.0x	8.1x	7.6x	8.9x	13.4x	10.5x
DWF Group	26.7x	14.0x	10.9x	10.3x	7.8x	6.5x	18.1x	10.3x	8.3x
IPH Limited	19.7x	19.1x	17.4x	13.4x	12.3x	11.2x	14.5x	13.9x	12.6x
Information services	18.0x	16.3x	-	9.9x	8.1x	-	-	-	-
Keystone Law Group	33.3x	36.3x	30.9x	26.4x	26.6x	23.2x	26.8x	30.5x	25.6x
Knights Group Holdings	32.0x	27.4x	22.3x	20.3x	15.3x	13.0x	24.1x	-	-
Mediana	23.2x	18.5x	17.4x	11.9x	10.2x	11.2x	18.1x	13.6x	11.6x
Votum	0.8	1.5	2.3	15.3	27.3	38.6	13.3	25.3	36.3
Implied EFV per share (zł)	18.8	28.4	39.7	15.2	24.2	38.1	20.1	29.7	36.9
Average implied EFV per share (zł)	27.9								

Source: Bloomberg, DM BOŚ SA

Financials (IFRS consolidated)
Fig. 10. Votum; Income statement

	2017	2018	2019	2020E	2021E	2022E
Sales	94.0	105.2	141.8	150.8	200.0	239.8
Costs of sales	88.0	93.1	117.3	137.9	173.5	202.3
Profit on sales	6.0	12.1	24.5	12.9	26.5	37.5
Result on other operating activities	-1.0	-0.5	-1.9	0.3	-1.2	-1.2
EBITDA	7.4	14.9	24.7	15.3	27.3	38.6
EBIT	5.0	11.7	22.6	13.3	25.3	36.3
Financial income	0.6	0.5	1.0	0.1	0.0	0.0
Financial costs	-1.0	-1.5	-1.6	-1.0	-1.2	-1.4
Profit from associates	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	4.5	10.6	22.0	12.4	24.1	34.9
Income tax	1.3	2.2	4.4	2.9	5.3	7.0
Minorities	0.1	0.2	0.3	-0.2	0.4	0.4
Net profit	3.2	8.3	17.3	9.7	18.4	27.5

Source: Company, DM BOŚ SA estimates

Fig. 11. Votum; Balance sheet

(mln zł)	2017	2018	2019	2020E	2021E	2022E
Fixed assets	38.1	53.0	57.5	59.4	65.1	69.7
Tangible fixed assets	28.5	24.9	25.6	26.7	27.7	28.7
Intangible fixed assets	0.7	0.5	0.6	0.6	0.7	0.6
Goodwill	3.7	5.8	18.0	18.0	18.0	18.0
Financial, other fixed assets	5.1	21.8	13.3	14.1	18.7	22.5
Current trade assets	33.5	41.4	49.2	60.8	84.2	106.1
Net trade receivables	24.2	28.8	34.8	33.2	44.0	52.8
Other receivables	3.5	3.6	4.8	5.2	6.8	8.2
Cash	5.8	9.1	9.5	22.5	33.4	45.2
Assets	71.6	94.4	106.7	120.2	149.3	175.8
Shareholders' funds	26.4	41.0	55.3	65.0	83.4	101.7
Liabilities	45.2	53.4	51.4	55.2	65.8	74.2
LT liabilities	19.2	22.6	15.7	16.0	17.7	19.2
Interest bearing debt	15.2	16.7	11.0	11.2	11.4	11.6
Leasing	2.3	2.7	1.7	1.8	1.9	2.0
Provisions, other	1.6	3.2	3.0	3.0	4.4	5.6
ST liabilities	26.1	30.8	35.7	39.1	48.1	55.0
Interest bearing debt	5.4	3.8	10.1	10.3	10.5	10.7
Leasing	1.6	0.9	5.5	5.8	6.0	6.3
Provisions, other	12.5	14.2	14.6	16.6	22.0	26.4
Trading liabilities	6.7	11.9	5.6	6.6	9.6	11.6
Shareholders equity and liabilities	71.6	94.4	106.7	120.2	149.3	175.8

Source: Company, DM BOŚ SA estimates

Fig. 12. Votum; Cash flow

	2017	2018	2019	2020E	2021E	2022E
Operating cash flow	-2.6	8.5	9.4	14.8	13.8	23.9
Pre-tax income	4.5	10.6	22.0	12.4	24.1	34.9
Depreciation	2.4	3.3	2.1	2.0	2.0	2.3
Change in working capital	-2.1	1.9	-2.1	2.9	-7.4	-6.6
Other	-7.5	-7.5	-12.6	-2.6	-4.9	-6.6
Net funds from investing activities	-2.0	0.0	-5.2	-3.0	-3.1	-3.2
Capital expenditures	-1.0	-0.6	-1.2	-3.0	-3.1	-3.2
Other	-1.1	0.6	-4.0	0.0	0.0	0.0
Net funds from financial activities	-0.8	-5.2	-3.7	0.4	0.4	-8.8
Income from shares issue	0.0	0.0	0.0	0.0	0.0	0.0
Net change in debt	9.4	-0.9	0.6	0.4	0.4	0.4
Dividends paid	-8.2	-0.2	-2.4	0.0	0.0	-9.2
Other	-1.9	-4.2	-1.9	0.0	0.0	0.0
Change in cash	-5.4	3.2	0.5	12.2	11.1	11.9

Source: Company, DM BOŚ SA estimates

Fig. 13. Votum; Margins and growth rates

	2017	2018	2019	2020E	2021E	2022E
Margins:						
EBITDA	8%	14%	17%	10%	14%	16%
EBIT	5%	11%	16%	9%	13%	15%
Pre-tax profit	5%	10%	16%	8%	12%	15%
NP	3%	8%	12%	6%	9%	11%
Nominal growth:						
Sales	-5%	12%	35%	6%	33%	20%
EBITDA	-59%	102%	65%	-38%	79%	41%
EBIT	-69%	135%	93%	-41%	91%	44%
Pre-tax profit	-71%	135%	107%	-44%	95%	45%
NP	-75%	163%	109%	-44%	90%	49%

Source: Company, DM BOŚ SA estimates

Tabela 14. Votum; Ratios

	2017	2018	2019	2020E	2021E	2022E
Balance sheet structure						
Equity / Assets	37%	43%	52%	54%	56%	58%
Net WC / Total assets	0.0	0.0	0.0	0.0	0.0	0.0
Current ratio	1.3	1.3	1.4	1.6	1.7	1.9
Quick ratio	1.3	1.3	1.4	1.6	1.7	1.9
Average receivable turnover (days)	71	92	82	82	70	74
Average accounts payable period (days)	-28	-36	-27	-16	-17	-19
Profitability						
ROA	4.6%	10.0%	17.2%	8.5%	13.7%	16.9%
ROE	10.9%	24.6%	36.0%	16.1%	24.8%	29.7%
ROCE	1.6%	3.6%	5.8%	2.7%	4.4%	5.6%
Sales / Total assets	1.4	1.3	1.4	1.3	1.5	1.5
Operating profit / assets	1.8%	3.5%	5.6%	2.9%	4.7%	5.6%
Effective tax rate	28%	21%	20%	20%	20%	20%
Financial leverage						
Debt/Equity	0.9	0.6	0.5	0.4	0.4	0.3
Financial costs / EBIT	20%	13%	7%	7%	5%	4%
Net debt / EBITDA	201%	77%	47%	-7%	-42%	-59%
EBITDA / financial costs	7.3	9.9	15.8	15.5	22.5	26.9
Per share data						
EPS	0.26	0.69	1.44	0.81	1.53	2.29
BVPS	2.20	3.42	4.61	5.42	6.95	8.47
EBITDA per share	0.61	1.24	2.06	1.27	2.28	3.22
EBIT per share	0.41	0.97	1.88	1.10	2.11	3.03
Net debt per share	1.23	0.96	0.96	-0.09	-0.96	-1.90
DPS	0.67	0.00	0.19	0.00	0.00	0.77
CEPS	0.46	0.96	1.62	0.97	1.70	2.48
Valuation ratios*						
P/E	39.8	10.9	6.0	15.9	8.3	5.6
P/BV	4.8	2.2	1.9	2.4	1.8	1.5
EV per share	11.7	8.4	9.6	12.7	11.8	10.9
EV/EBITDA	19.0	6.8	4.7	10.0	5.2	3.4
EV/EBIT	28.2	8.7	5.1	11.5	5.6	3.6

*Annual average prices used for calculation of ratios on historical years, current price for forecast years.

Source: Company, DM BOŚ SA estimates

Risk factors

1. Epidemic threat - prolonged lockdown of economy and slowdown in operations of courts
2. Lower than assumed propensity of clients to go to the court (the market is at an early stage of development)
3. Lower than expected demand for the Company's services
4. Unfavorable changes in the jurisprudence towards bank customers
5. Growing competition for clients from other law firms (an example is EuCo's entry into the bank segment)
6. Shortage of workforce (rapid development requires an acquisition of qualified employees)
7. Pressure on salaries
8. Adverse FX fluctuations
9. Acquisitions of companies from the main shareholder and their high valuations
10. Lower payouts in pre-trial proceedings
11. Pressure on margins
12. Potential regulation of the market of compensation law firms (currently there are no active legislative bills, but such attempts made their appearances in the past)
13. Draft statutory regulation of the compensation institution
14. Departure of key managerial staff
15. Inclusion of the Company's services by insurers
16. Potential acquisitions of new companies

Catalysts

1. Continuation of the pro-consumer trend in the jurisprudence of courts with regard to people with foreign currency loans
2. The continued growth of interest of clients in the in claims against banks, reinforced by favorable case law
3. Further depreciation of the PLNCHF exchange rate, increasing the borrowers' tendency to take legal action
4. Acceleration of court processing procedures
5. Maintaining the leading position in the existing markets
6. Faster than assumed organic growth (increase in the number of contracts in the debt assignment segment, improvement of the structure in the personal claims segment)
7. New value-creating acquisitions for minority shareholders
8. Effective implementation of the pandemic optimization programs
9. Long-term success of new ventures (green energy segment, further foreign expansion)

Competitive advantages

1. Main player on the most important product markets
2. Above-average efficiency compared to the competition coming from the scale effect
3. Good historical track record
4. Motivated and competent management team holding equity position in the Company
5. A pioneer of the rapidly growing market of claims for foreign currency borrowers
6. Operational efficiency
7. Specialization in strictly defined product markets
8. Multi-channel distribution network

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	32	5	9	0
Percentage	43%	40%	6%	11%	0%

Distribution of DM BOŠ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	30	27	15	9	0
Percentage	38%	32%	19%	11%	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.

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	7	0	2	0
Percentage	25%	58%	0%	17%	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	3	7	0	2	0
Percentage	25%	58%	0%	17%	0%

LT fundamental recommendation tracker

Analyst	Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Performance	Relative performance	Price at issue/reiteration*	EFV (12 months)	
Votum										
Michał Sobolewski	Buy	02.09.2020	-	03.09.2020	Not later than 02.09.2021	12%	4%	11.40	30.40	-
Michał Sobolewski	-	→	-	15.09.2020	16.09.2020	-	-	13.35	30.40	→
Michał Sobolewski	-	→	-	08.10.2020	09.10.2020	-	-	12.80	30.40	→
Michał Sobolewski	-	→	-	08.11.2020	09.11.2020	-	-	11.40	30.40	→
Michał Sobolewski	-	→	-	19.11.2020	20.11.2020	-	-	12.80	30.40	→
Michał Sobolewski	-	→	-	04.12.2020	04.12.2020	-	-	12.80	25.70	↓

* 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
Votum							
Michał Sobolewski	Overweight	02.09.2020	-	03.09.2020	04.12.2020	11.40	4%
Michał Sobolewski	-	→	-	15.09.2020	16.09.2020	13.35	-
Michał Sobolewski	-	→	-	08.10.2020	09.10.2020	12.80	-
Michał Sobolewski	-	→	-	08.11.2020	09.11.2020	11.40	-
Michał Sobolewski	-	→	-	19.11.2020	20.11.2020	12.80	-
Michał Sobolewski	Neutral	↓	04.12.2020	-	04.12.2020 Not later than 04.12.2021	12.80	-

* 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 December 4, 2020 at 10.35 p.m.

The report was distributed on December 4, 2020 at 10.45 p.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).

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#votum>

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#votum>.

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 to clients.

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

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

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

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

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