

# Arena.pl S.A.



Fair value: PLN 2.40

Initiating Coverage

Rating: n.a.

**Arena.pl S.A. (ARE), whose management team consists of experienced former executives of the No 1 E-Commerce company in CEE Allegro, is a Polish online retail platform, which is based on purchasing trends.** The company currently has 500k buyers and 50k-70k offers (only the best) in 69 different product categories. According to SimilarWeb.com, Arena.pl has 153.6k user visits per month through desktop and mobile devices.

**Arena.pl offers features, which clearly differentiate it from the leader Allegro that has a market share in PL of 35%.** First, it is a marketplace, which is owned by Polish investors and offers its most active users the possibility to become shareholders. Second, Arena.pl's own software knows exactly, for which products there is the highest demand on its platform, and chooses the sellers accordingly. In contrast to Allegro, which allows everyone to register, Arena.pl only works together with professional sellers. And third, with fees always being 50% lower than Allegro's, Arena.pl is significantly cheaper for sellers. Arena.pl's management are currently discussing options to raise PLN 40m of additional capital (including a potential share issue) in 2017E. These funds are supposed to be used for investments in marketing and the service offering (especially payment options and same-day-delivery).

**ARE currently operates in Poland, however does not exclude an expansion to other European markets in the next 3-5 years.** In Poland, Gemius estimates the value of the E-Commerce sector in 2016 at c. PLN 36bn, while PwC expects a CAGR of 13.6% to PLN 60bn by 2020E. For Europe, Ecommerce Europe expects that the E-Commerce sector will grow from c. EUR 510bn in 2016 to EUR 660bn by 2018E (CAGR of 13.8%).

**We initiate coverage of Arena.pl with a 12-months DCF-based fair value of PLN 2.40 per share, which accounts for the planned capital raise.** We like the company's experienced management team and the interesting business strategy, which targets clients that are unsatisfied with Allegro. Management's goal is to reach a 5% share in the area of online marketplaces in Poland by 2020E. Risks, which we see, are inability to raise the PLN 40m, which Arena.pl needs for investments in marketing and the service offering, as well as the market power of Allegro.

in PLNm	2016E*	2017E	2018E	2019E	2020E	2021E
Net sales	1.00	4.90	18.49	29.19	37.67	47.65
EBITDA	0.04	-17.02	-9.25	-3.08	1.71	8.24
EBIT	0.02	-17.09	-9.53	-3.52	1.14	7.53
Net income	-0.62	-14.19	-8.03	-3.13	0.68	5.88
EPS	-0.03	-0.49	-0.19	-0.07	0.02	0.14
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
RoE	-6.09%	-63.98%	-25.84%	-12.27%	2.79%	21.35%
Net gearing	-9.40%	-37.69%	14.11%	45.12%	43.53%	15.00%
EV/Sales	40.45x	8.22x	2.18x	1.38x	1.07x	0.85x
EV/EBITDA	900.43x	neg	neg	neg	23.62x	4.89x
P/E	neg	neg	neg	neg	60.77x	7.00x

\* unaudited figures from the Q4/16 report

## Company profile

Arena.pl operates an online retail platform in Poland. The company offers its most active users the possibility to become shareholders.

Website	www.arena.pl
Sector	Online Retail
Country	Poland
ISIN	PLCRBON00018
Reuters	AREP.WA
Bloomberg	ARE GR

## Share information

Last price	1.90
No of shares (m)	21.66
Market cap. (PLNm)	41.16
Market cap. (EURm)	9.77
52-week range	PLN 2.50 / PLN 0.76
Average volume	1,326

## Performance

4-weeks	-5.00%
13-weeks	38.69%
26-weeks	25.00%
52-weeks	58.33%
YTD	-17.39%

## Shareholder structure

LMB fund (directly and indirectly)	91.95%
Free float	8.05%

## Financial calendar

Audited 2016 report	April 21, 2017
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## Analyst

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## Investment Case

- Arena.pl S.A. (ARE), whose management team consists of experienced top executives of the No 1 E-Commerce company in CEE Allegro, is a Polish online retail platform, which is based on purchasing trends. The company currently has 500k buyers and 50k-70k offers (only the best) in 69 product categories. According to SimilarWeb.com, it has 153.6k user visits per month.
- Arena.pl offers features, which clearly differentiate it from the leader Allegro that has a market share of 35% in Poland. First, it is a marketplace, which is owned by Polish investors and offers its most active users the opportunity to become shareholders. Second, Arena.pl's software knows exactly, for which products there is the highest demand on its platform, and chooses the sellers accordingly. In contrast to Allegro, which allows everyone to register, Arena.pl only works together with professional sellers, who are usually more reliable than private ones. And third, with transaction fees always being 50% lower than Allegro's, Arena.pl is significantly cheaper for sellers. Arena.pl's management are currently discussing options to raise PLN 40m of additional capital (including a potential share issue) in 2017E. These funds are supposed to be used for investments in marketing and the service offering e.g. more flexible payment options such as installments, same-day-delivery, purchase of discounted goods from producers.
- Arena.pl currently operates on the Polish market, however does not exclude an expansion to other European markets in the future. In Poland, where according to UKE there are 7.1m users of desktop and 6.7m of mobile internet, Gemius estimates the value of the E-Commerce sector in 2016 at PLN 36bn. Due to a significant catch-up potential compared to the most-developed markets in Europe UK and Germany PwC forecasts a CAGR of 13.6% to PLN 60bn by 2020E. For Europe, Ecommerce Europe expects that the E-Commerce sector will grow from c. EUR 510bn to EUR 660bn by 2018E (CAGR of 13.8%).
- In 2016, which was its first year of operations, Arena.pl generated revenues of PLN 996k, an EBIT of PLN 19k and net income of PLN -625k. Over the course of 2016, the number of total visits grew every month to 250k in December 2016. While in 2017E-2019E, the company will likely report losses due to the planned investments, we expect a continuous improvement of margins due to the significant operating leverage of the company's business model and the rapidly growing E-Commerce sector. Our estimates for 2017E are PLN 4.9m (+392% y-o-y) for sales, PLN -17.1m for EBIT and PLN -14.2m for net income. By 2025E, we expect a sales CAGR of 44.1% and EBIT margins of c. 33%.
- We initiate coverage of Arena.pl with a 12-months DCF-based fair value of PLN 2.40. We like the company's experienced management team and the interesting business strategy, which targets clients, who are unsatisfied with Allegro. Management's goal is to reach a 5% share in the area of online marketplaces in Poland by 2020E. Risks, which we see, are inability to raise the required PLN 40m, which Arena.pl needs for investments in marketing and the service offering, and Allegro's market power.

## SWOT Analysis

### Strengths

- Experienced management team with long track record in leadership roles at Allegro Group, the largest E-Commerce company in the CEE region with a market share of 35% in Poland
- Arena.pl's proprietary software allows to determine in real-time, which products on the marketplace are most popular
- Other USP's compared to Allegro: (1) only professional and verified sellers are allowed to register on the platform (2) fees are always 50% lower than Allegro's (3) Most active sellers can exchange their points into Arena.pl's shares and (4) majority owner is a Polish institution
- Close co-operation with Mastercard in the area of payment solutions

### Opportunities

- Introduction of new customer-friendly services e.g. deferred payments and installments, same-day-delivery, option to purchase discounted goods directly from producer's stock
- Fast-growing market, rapid growth of users from a low base (vs. Allegro) and high operating leverage should translate into growing sales, margins and free cash flows in the future
- Gemius estimates the value of the Polish E-Commerce sector at PLN 36bn. According to PwC, it will grow at a CAGR of 13.6% to PLN 60bn by 2020E. In Poland, the share of online sales in total retail spend equaled 3.7% in 2016 vs. 16.8% in UK and 13.5% in Germany
- The E-Commerce sector in Europe is estimated at EUR 510bn and is expected to grow at a CAGR 16-18E of 13.8% to EUR 660bn
- Takeover by a larger player in the long run

### Weaknesses

- Small size and market share compared to dominant player Allegro
- Arena.pl only started generating revenues in Feb 2016; the company is currently dependent on financing from its main shareholder
- High goodwill of PLN 4.9m, which corresponded to 53.2% of equity as of 31/12/2016

### Threats

- Dominant market player Allegro has 97% of all sellers and 88% of all online buyers in Poland as clients. The company is backed by the international private equity funds Cinven, Permira and Mid Europa Partners
- Inability to raise the necessary PLN 40m, which Arena.pl needs for the planned investments
- Changes to the Google search algorithm; 58.7% of Arena's traffic stems from search engines
- Loss of key employees
- Low market entry barriers

## Valuation

We have valued Arena.pl by using our DCF model only as this method is in our view the most appropriate for a company, which has no financial history and only recently started generating revenues. Our 12-months fair value for the stock is PLN 2.40 per share compared to a market price of PLN 1.90 at present. Our model accounts for the issue of 21.1m new shares in 2016 at PLN 1.90 per share.

### DCF model

Below are the key assumptions of our DCF valuation:

- (1) *Risk-free rate*: Current yield of Polish long-term government bonds with maturity in 2037 is 4.04% (Source: www.boerse-stuttgart.de)
- (2) *Beta*: Average unlevered beta for companies from the Online Retail sector, which are based in Emerging Markets, is 1.28x (Source: www.damodaran.com)
- (3) *Equity risk premium (Poland)*: 6.90% (Source: www.damodaran.com)
- (4) *Target equity ratio*: 100%
- (5) *WACC = Equity cost*: 12.9%
- (6) *Sales growth in the terminal period*: 2%
- (7) Free cash flows are discounted to March 30, 2017

in PLNm	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E					
<b>Net sales</b>	<b>4.90</b>	<b>18.49</b>	<b>29.19</b>	<b>37.67</b>	<b>47.65</b>	<b>58.59</b>	<b>70.21</b>	<b>81.32</b>	<b>91.29</b>					
(y-o-y change)	392.0%	277.3%	57.9%	29.0%	26.5%	23.0%	19.8%	15.8%	12.3%					
<b>EBIT</b>	<b>-17.09</b>	<b>-9.53</b>	<b>-3.52</b>	<b>1.14</b>	<b>7.53</b>	<b>14.27</b>	<b>21.45</b>	<b>27.76</b>	<b>30.49</b>					
(EBIT margin)	-348.8%	-51.5%	-12.1%	3.0%	15.8%	24.4%	30.5%	34.1%	33.4%					
<b>NOPAT</b>	<b>-13.84</b>	<b>-7.72</b>	<b>-2.85</b>	<b>0.92</b>	<b>6.10</b>	<b>11.56</b>	<b>17.37</b>	<b>22.48</b>	<b>24.69</b>					
+ Depreciation & amortisation	0.07	0.28	0.44	0.57	0.71	0.88	1.05	1.22	1.37					
= Net operating cash flow	-13.77	-7.44	-2.41	1.49	6.81	12.44	18.42	23.70	26.06					
- Total investments (Capex and WC)	-13.14	-8.92	-3.94	-0.82	-0.13	1.17	0.91	2.32	1.45					
Capital expenditure	-2.07	-1.28	-1.44	-0.57	-0.72	-0.88	-1.06	-1.23	-1.38					
Working capital	-11.07	-7.64	-2.50	-0.24	0.59	2.05	1.97	3.55	2.83					
= Free cash flow (FCF)	-26.91	-16.36	-6.35	0.67	6.68	13.61	19.33	26.03	27.52					
<b>PV of FCFs</b>	<b>-24.56</b>	<b>-13.22</b>	<b>-4.55</b>	<b>0.43</b>	<b>3.76</b>	<b>6.78</b>	<b>8.53</b>	<b>10.17</b>	<b>9.53</b>					
PV of FCFs in explicit period	-3.13													
PV of FCFs in terminal period	80.59													
<b>Enterprise value (EV)</b>	<b>77.46</b>													
+ Net cash / - net debt (31 December 2017)	13.22													
<b>Shareholder value</b>	<b>90.68</b>													
<b>Post-money number of shares (m)</b>	<b>42.72</b>													
							<b>Terminal EBIT margin</b>							
<b>WACC</b>	<b>12.9%</b>						<b>30.4%</b>	<b>31.4%</b>	<b>32.4%</b>	<b>33.4%</b>	<b>34.4%</b>	<b>35.4%</b>	<b>36.4%</b>	
Cost of equity	12.9%						8.9%	4.72	4.86	5.00	5.14	5.28	5.41	5.55
Pre-tax cost of debt	6.0%						9.9%	3.84	3.95	4.06	4.17	4.28	4.39	4.50
Normal tax rate	19.0%						10.9%	3.16	3.25	3.34	3.43	3.52	3.62	3.71
After-tax cost of debt	4.9%						11.9%	2.63	2.71	2.78	2.86	2.93	3.01	3.08
Share of equity	100.0%						12.9%	2.21	2.27	2.33	2.40	2.46	2.52	2.59
Share of debt	0.0%						13.9%	1.86	1.91	1.97	2.02	2.08	2.13	2.18
<b>Fair value per share in PLN (today)</b>	<b>2.12</b>						<b>14.9%</b>	1.57	1.62	1.67	1.71	1.76	1.80	1.85
<b>Fair value per share in PLN (in 12 months)</b>	<b>2.40</b>													

Source: East Value Research GmbH

## Peer Group Analysis

We have decided to exclude the peer group from our fair value calculation as in contrast to its listed peers Arena.pl is a company at a very early stage of development. Arena.pl's only local competitor Allegro is a privately-owned company.

### International listed operators of online marketplaces:

- (1) *MercadoLibre Inc.:* MercadoLibre, which is based in Buenos Aires/Argentina, is an online commerce platform in Latin America. The company offers its users an eco-system of over six related E-Commerce services: the MercadoLibre Marketplace, The MercadoLibre Classifieds Service, the MercadoPago payments solution, the MercadoLibre Advertising program (MercadoClics), the MercadoShops online Webstores solution and the Mercado Envios shipping service. In 2016, Mercadolibre generated revenues of USD 844.4m and a gross margin of 63.6%.
- (2) *Ebay Inc.:* eBay, which is headquartered in San Jose/US, provides online platforms, tools and services to help individuals and merchants engage in online and mobile commerce as well as payments. In fiscal-year 2016, eBay generated revenues of USD 9bn and a gross margin of 77.6%.
- (3) *Alibaba Group Holding Ltd.:* Alibaba, which is headquartered in Hangzhou/China, provides the technological infrastructure for facilitating digital commerce e.g. online marketplaces. It operates in both retail and wholesale. In fiscal-year 2016, Alibaba had revenues of USD 14.7bn and a gross margin of 66%.
- (4) *Etsy Inc.:* Etsy, which is based in New York/US, operates a marketplace to connect people for making, selling and buying goods. The company's communities include Etsy sellers, Etsy buyers, wholesale partners, manufacturers and Etsy employees. Etsy offers a range of services to help Etsy sellers build their personal brands, engage customers and complete transactions. In fiscal-year 2016, the company had revenues of USD 365m and a gross margin of 66.2%.
- (5) *Rakuten Inc.:* Rakuten, which is based in Tokyo/Japan, is an online marketplace that offers >18m products and serves >20m customers. In fiscal-year 2016, Rakuten generated revenues of JPY 781.9bn and a gross margin of 13.3%.
- (6) *Auto Trader Group PLC:* Auto Trader Group, which is based in Manchester/UK, is a digital automotive marketplace in UK and Ireland. In fiscal-year 2016, it generated revenues of GBP 281.6m.

Company	EV/Sales			EV/EBITDA			P/E			P/BVPS	EBITDA margin	Net gearing
	2016	2017E	2018E	2016	2017E	2018E	2016	2017E	2018E	Latest	Last FY	Latest
Mercadolibre Inc. (USD)	11.08x	8.00x	6.25x	41.80x	32.33x	24.54x	69.83x	49.95x	37.07x	22.21x	26.50%	-40.55%
Ebay Inc. (USD)	4.28x	4.09x	3.87x	12.79x	10.91x	10.17x	5.26x	20.94x	18.42x	3.48x	33.50%	17.36%
Alibaba Group Inc. (USD)	18.36x	11.91x	9.08x	51.32x	25.97x	20.43x	25.89x	47.58x	36.10x	6.97x	35.80%	-1.91%
Etsy Inc. (USD)	2.59x	2.13x	1.78x	23.27x	15.49x	10.21x	neg	524.00x	47.64x	3.53x	11.10%	-78.31%
Rakuten Inc. (JPY)	2.60x	2.28x	2.04x	13.75x	12.49x	10.79x	41.37x	22.85x	18.75x	2.31x	18.90%	67.68%
Auto Trader Group PLC (GBP)	14.69x	13.31x	12.46x	23.06x	19.57x	17.93x	29.85x	25.18x	22.57x	neg	63.70%	neg
<b>Median</b>	<b>7.68x</b>	<b>6.05x</b>	<b>5.06x</b>	<b>23.16x</b>	<b>17.53x</b>	<b>14.36x</b>	<b>29.85x</b>	<b>36.38x</b>	<b>29.34x</b>	<b>3.53x</b>	<b>30.00%</b>	<b>-1.91%</b>

Source: Thomson Reuters Eikon, East Value Research GmbH

#### Private local competitors:

(7) *Allegro.pl*: Allegro.pl is managed by Grupa Allegro (Allegro Group), which was established in 1999 and subsequently purchased by online auction site QXL Ricardo plc in March 2000. QXL was soon acquired by Tradus, which in turn was bought by the South African company Naspers Ltd. in 2008. In October 2016, Naspers sold the Allegro Group to the international private equity funds Cinven, Permira and Mid Europa Partners for USD 3.3bn (= value of items sold), which in our view implies an EV/Sales 2015 of c. 3x. Allegro.pl has >20m users and 1.2bn page impressions per month in Poland. It acts as intermediary in 15m transactions per month. The Group has established similar web services in the Czech Republic, Slovakia, Hungary, Russia, Ukraine, Bulgaria, Belarus, Romania, Moldova, Kazakhstan, Serbia, Bosnia and Turkey.

## Recent results

### Revenues and Profitability

In 2016, which was the first year of operations of the marketplace, Arena.pl generated total revenues of PLN 996k. According to SimilarWeb.com, the number of total user visits per month increased over the course of 2016 to 250k. At the end of 2016, the portal had 400 registered sellers.

in PLNm	2016
<b>Net sales</b>	<b>1.00</b>
<b>EBITDA</b>	<b>0.04</b>
<i>EBITDA margin</i>	<i>4.5%</i>
<b>EBIT</b>	<b>0.02</b>
<i>EBIT margin</i>	<i>1.9%</i>
<b>Net income</b>	<b>-0.62</b>
<i>Net margin</i>	<i>-62.7%</i>

Source: Company information, East Value Research GmbH

Between January and December 2016, Arena.pl's EBIT and net income reached PLN 19k and PLN -625k respectively. Since the launch of the marketplace in February 2016, the company had generated a gross margin of 51.5%. According to management, Arena.pl's monthly cash burn remains stable at c. PLN 500k per month.

### Balance sheet and Cash flow

At the end of December 2016, Arena.pl had equity of PLN 9.3m, which corresponds to a ratio of 41.6%. While fixed assets were neglectable (PLN 56k) as is typical for that kind of business, goodwill, which reflects the reversed takeover of Arena.pl Sp. z.o.o by listed BLU ONE IPO S.A. in 2015, equaled PLN 4.9m (thus 53.2% of total equity). We estimate that working capital as of 31/12/2016 amounted to PLN 3.3m.

Between January and December 2016, Arena.pl generated an operating cash flow of PLN -6.8m. The main reasons were investments in working capital of PLN 6.2m. While cash flow from investing amounted to PLN 9.2k, cash flow from financing reached PLN 6.6m as the company raised new debt. Between January and December, Arena.pl's cash position declined by PLN 168.9k to PLN 5.1k.



## Financial forecasts

### Revenues and Profitability

Our model is based on the assumption that Arena.pl will generate revenues only from transaction fees, meaning each time a transaction is completed on its platform. Moreover, it assumes that the company will raise the PLN 40m, which is needed for investments in marketing and additional services. Management want to invest especially in new payment and logistics options such as deferred payments, installments and same-day-delivery. According to e.g. Ipsos, these aspects are very important for E-Commerce clients.

Our revenue estimates for Arena.pl are derived from different assumptions regarding the growth of the Polish E-Commerce sector, Arena.pl's share in the total market and its transaction fees. We would like to emphasize that we have not accounted for the market entry in any other European market, which apart from the translation of the platform would also require significant investments in marketing.

With a conservative CAGR 16-25E of 9.1% for the value of the Polish E-Commerce sector, we have assumed that Arena.pl will reach a share in the total market of 0.2% in 2017E and increase it to 1.3% in 2020E and 2.8% by 2025E. This will be at the expense of Allegro's market share, which currently controls c. 35% of the Polish E-Commerce sector. Although management's' goal is a share of 5% by 2020E, we have decided to be more conservative given Allegro's dominant market position and much higher brand recognition. Regarding transaction fees, we have assumed that they will decrease from currently 4.9% (vs. 7.8% net at Allegro) by 0.1% y-o-y over time due to increasing competition. For the gross margin, we have forecast that it will reach 54.5% in 2017E and increase to c. 60% in the long run vs. average gross margins of peers such as Ebay, Etsy and Alibaba of 60-80%.

For 2017E, our model derives total revenues of PLN 4.9m or PLN 408k per month. Until 2025E, they are supposed to grow at a CAGR of 44.1%, which is however dependent on the increasing brand recognition of Arena.pl and the attractiveness of its service offering and pricing. In 2016, average monthly sales equaled PLN 90.5k (Arena.pl started operations in February).

in PLNm	2017E	2018E	2019E	2020E
Value of the E-Commerce sector (in PLNm)	41,500	53,500	56,000	60,000
thereof: Share of Allegro.pl	34.8%	34.3%	33.9%	33.6%
thereof: Share of Arena.pl	0.2%	0.7%	1.1%	1.4%
Transaction fee of Arena.pl	4.9%	4.8%	4.7%	4.6%
<i>Gross margin</i>	<i>54.5%</i>	<i>57.5%</i>	<i>60.5%</i>	<i>60.6%</i>
<b>Total sales</b>	<b>4.90</b>	<b>18.49</b>	<b>29.19</b>	<b>37.67</b>
change y-o-y	392.0%	277.3%	57.9%	29.0%

Source: East Value Research GmbH

in PLNm	2017E	2018E	2019E	2020E
<b>Net sales</b>	<b>4.90</b>	<b>18.49</b>	<b>29.19</b>	<b>37.67</b>
<b>EBITDA</b>	<b>-17.02</b>	<b>-9.25</b>	<b>-3.08</b>	<b>1.71</b>
<i>EBITDA margin</i>	<i>-347.3%</i>	<i>-50.0%</i>	<i>-10.6%</i>	<i>4.5%</i>
<b>EBIT</b>	<b>-17.09</b>	<b>-9.53</b>	<b>-3.52</b>	<b>1.14</b>
<i>EBIT margin</i>	<i>-348.8%</i>	<i>-51.5%</i>	<i>-12.1%</i>	<i>3.0%</i>
<b>Net income</b>	<b>-14.19</b>	<b>-8.03</b>	<b>-3.13</b>	<b>0.68</b>
<i>Net margin</i>	<i>-289.5%</i>	<i>-43.4%</i>	<i>-10.7%</i>	<i>1.8%</i>

Source: East Value Research GmbH

in PLNm	Q1/16	Q2/16	Q3/16	Q4/16	2016
<b>Net sales</b>	<b>0.58</b>	<b>0.29</b>	<b>0.10</b>	<b>0.02</b>	<b>1.00</b>
<i>y-o-y change</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>
<b>EBITDA</b>	<b>0.43</b>	<b>-0.29</b>	<b>0.00</b>	<b>-0.09</b>	<b>0.04</b>
<i>EBITDA margin</i>	<i>73.6%</i>	<i>-99.4%</i>	<i>-4.1%</i>	<i>-485.0%</i>	<i>4.5%</i>
<b>EBIT</b>	<b>0.42</b>	<b>-0.30</b>	<b>-0.01</b>	<b>-0.10</b>	<b>0.02</b>
<i>EBIT margin</i>	<i>72.7%</i>	<i>-101.7%</i>	<i>-10.8%</i>	<i>-521.9%</i>	<i>1.9%</i>
<b>Net income</b>	<b>0.23</b>	<b>-0.43</b>	<b>-0.17</b>	<b>-0.25</b>	<b>-0.62</b>
<i>Net margin</i>	<i>38.7%</i>	<i>-145.7%</i>	<i>-169.4%</i>	<i>-1380.2%</i>	<i>-62.7%</i>

Source: Company information, East Value Research GmbH

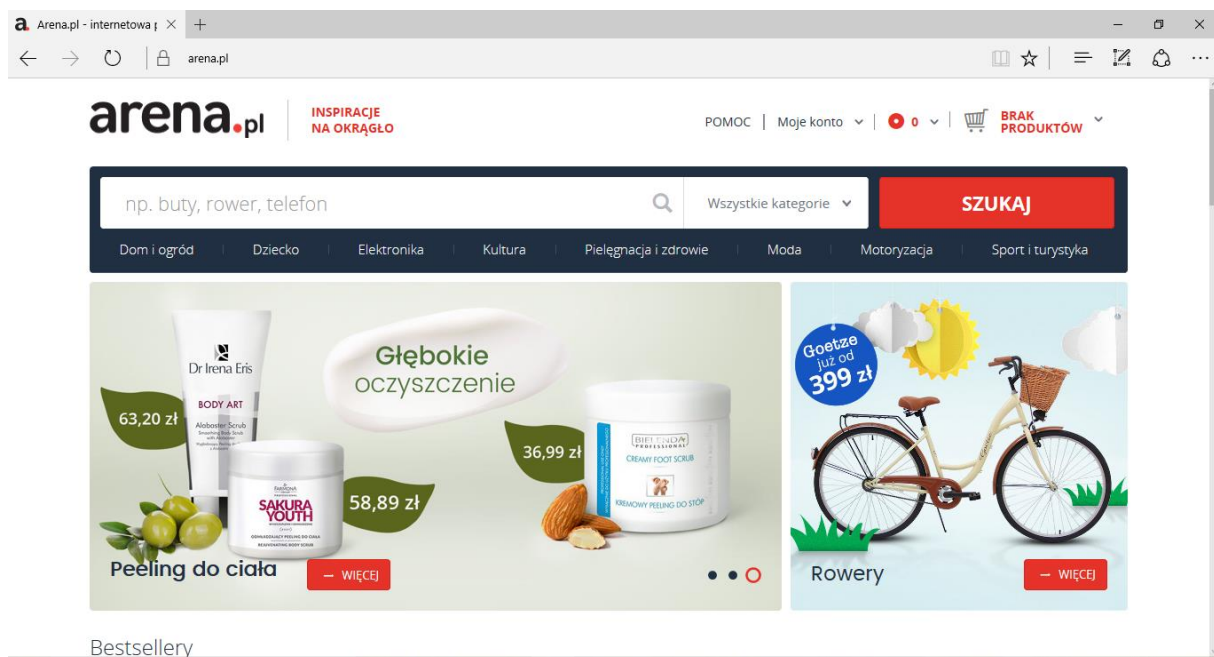
### CAPEX and Working capital

In order to finance the planned investments in marketing and the service offering, Arena.pl, which so far has been financed by loans of its main shareholder LMB, wants to raise PLN 40m of additional capital in 2017E. Management are currently discussing several options how to do it, one of which being a share issue. In our model, we have assumed that Arena.pl will spent PLN 5.4m for gross CAPEX in 2017E-2020E, which will impact other intangible assets (includes mostly software and licenses). Regarding the working capital and the cash conversion cycle, we have forecast that they will reach 15.1% of total sales and 30 days respectively in the long run.

## Business description

Arena.pl S.A., which is based in Poznan, is an online marketplace, which aspires to be an alternative for users, who are unsatisfied with the services of the quasi-monopolist Allegro. According to management, the marketplace currently has 500k buyers and 50k-70k (only the best) products in 69 product categories. The company has been listed in the NewConnect segment of the Warsaw Stock Exchange since February 2016 and currently has 30 employees (thereof 12 software specialists). Its main shareholder LMB Capital is 50% owned by the Polish Cooperative Bank Group SGB.

## Arena.pl's website



Source: Company information, East Value Research GmbH

## Company history

- 2000: Foundation of Arena.pl. The portal was owned by VC fund CentralEuropa.com (99%) as well as the founders Rafal Plutecki, Wojciech Plutecki, Marcin Slomkowski and Leszek Bogdanowicz (previously co-founded Wirtualna Polska, the largest online portal in Poland today).
- 2001: Dissolution of the company after a failed IPO. Following the takeover of the search engine Polski Infoseek as well as the introduction of the dial-in independent internet service E-connections, Arena.pl became heavily indebted.
- 2012: Acquisition of the arena.pl domain by Mr Michal Kowalski and foundation of Arena.pl Sp. z.o.o. In the following years, the company develops its software, which allows to monitor product sales on its platform.
- 2015: BLU PRE IPO fund acquires 100% in Arena.pl Sp. z.o.o for PLN 10.2m.
- 2016: Through listed BLU PRE IPO, Arena.pl becomes member of the NewConnect segment of the Warsaw Stock Exchange. After Mr Kowalski left the company for personal reasons, two previous top executives from Allegro Group become Arena.pl's CEO and Vice President.

## Arena.pl vs. Allegro

As an online marketplace, which matches buyers and sellers of different products, Arena.pl is a direct competitor of Allegro, the largest E-Commerce platform in the CEE region with 67 product categories, 16m monthly page impressions and 15m transactions per day. However, as a dominant market player with PLN >3bn sales per year and >120k sellers, Allegro is a very inflexible organization with no control over its content. Arena.pl's management team, which has worked at Allegro for many years, wants to benefit exactly from these shortcomings. By introducing services and functionalities, which clients are missing at Allegro, they want to persuade them to offer their products on their platform instead. In our view, given the size and growth potential of the Polish E-Commerce sector, taking away only a few percentage points of the market leader's current sales would translate into significant revenues for Arena.pl.

	<b>Arena.pl</b>	<b>Allegro.pl</b>
Average fee	4.90%	7.80%
Number of sellers	400	120k-150k
Number of buyers	0.5m	>20m
Average transaction value	PLN >100	c. PLN 100

Source: Arena.pl, Allegro.pl, SimilarWeb.com, East Value Research GmbH

Portal	Owner	SimilarWeb.com		Social Media Statistics	
		Estim. user visits per month	Country rank*	Share of search engines in total traffic	Facebook Likes
Arena.pl	Arena.pl S.A.	153.6k	5,610	58.7%	13,890
Allegro.pl	PE funds Cinven, Permira and Mid Europa Partners	190.6m	5	23.4%	1.75m

Source: SimilarWeb.com (data as of March 30, 2017), Facebook, East Value Research GmbH

We believe that Arena.pl's main asset is its proprietary software, which the company has been developing since 2014. The software allows Arena.pl to monitor in real-time, which products on its platform sell the most, which is why the marketplace is able to show its buyers much better search results than Allegro. Arena.pl only allows sellers to register, who offer products, for which there is demand on its platform. Moreover, in contrast to Allegro, which also has private sellers, they have to be professional. In our view, this should markedly lower the number of complaints by buyers in the long run.

Another major advantage of Arena.pl are its costs. While according to our research Allegro.pl currently charges a fee of 7.8%, on Arena.pl it only amounts to 4.9%. Management want the ratio to be 50% in the future.

## Marketing

In order to increase the brand recognition of its portal, Arena.pl is heavily investing in marketing campaigns, especially SEM/SEO, TV and cinema advertising. It is also using ambassadors: a well-known Polish rally driver and a hockey player. In our view, high investments in marketing will be crucial if the company wants to increase the monthly visits on its website (which ultimately results in higher sales).

## Payment and delivery methods

Today, delivery and payment methods are becoming increasingly important for E-Commerce clients. Currently, in contrast to Allegro, Arena.pl's users can only pay for goods by electronic money transfer (Przelewy24), credit cards (Visa, Mastercards) and Electronic wallet (MasterPass), while delivery is only possible by courier and mail. However, management, which co-founded the most popular online payment service in Poland PayU (part of Allegro Group), have ambitious plans in this regard. In the area of payments, they want to develop an own online payment solution and introduce innovative payment options such as deferred payment and installments. When it comes to delivery options, their plans include the introduction of same-day-delivery, which is already common in online retail in Western Europe, but not yet in Poland.

## **Management**

*Marcin Jablonski (CEO):* Marcin Jablonski is CEO of Arena.pl. Previously, he was co-founder and Managing Director of PayU Group, an online payment service, which is part of the largest E-Commerce company in Eastern Europe Allegro Group. At PayU, Mr Jablonski was in charge of the development strategy in Europe and international development.

*Slawomir Kubicki (Member of the Board):* Slawomir Kubicki is Member of the Board of Arena.pl. Previously, he was Member of the Management Board of Allegro Group and as such in charge of finance, legal, purchasing, administration and special projects. Mr Kubicki graduated from the Economic University in Poznan and won the prestigious Finance Director of the Year award in 2010.

## Market environment

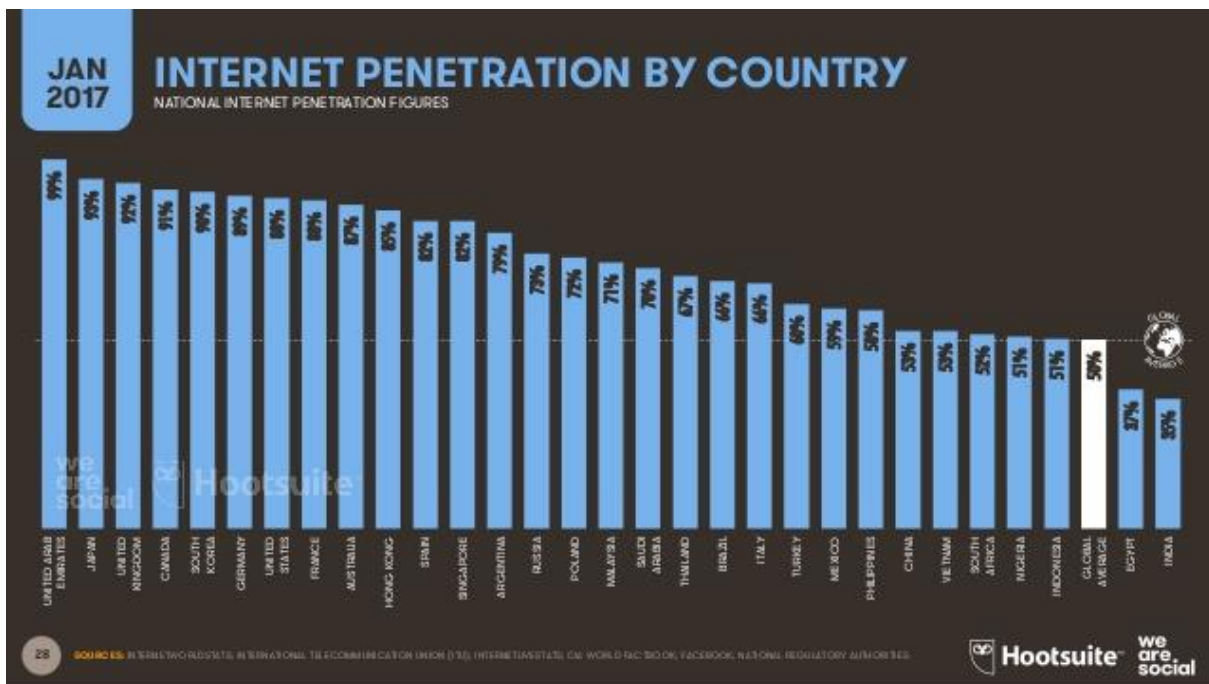
### Facts about the internet in Poland and Western Europe

According to the latest market report by Polish Office for Electronic Communication (UKE), the value of the Polish market for internet access in 2015 equaled PLN 5.1bn (-0.5% y-o-y). Compared to the previous year, it was negatively affected by decreasing sales of operators of xDSL connections. Mobile had the largest share in the total (33%), while operators of fiber lines reported the highest growth y-o-y (+58%).

In 2015, the number of internet users in Poland amounted to 14m, thereof 7.1m of stationary and 6.67m of mobile internet. While the number of mobile internet users increased by 0.9m y-o-y, the speed of internet connections further improved as c. 61% of users had access with >10 Mbit/s.

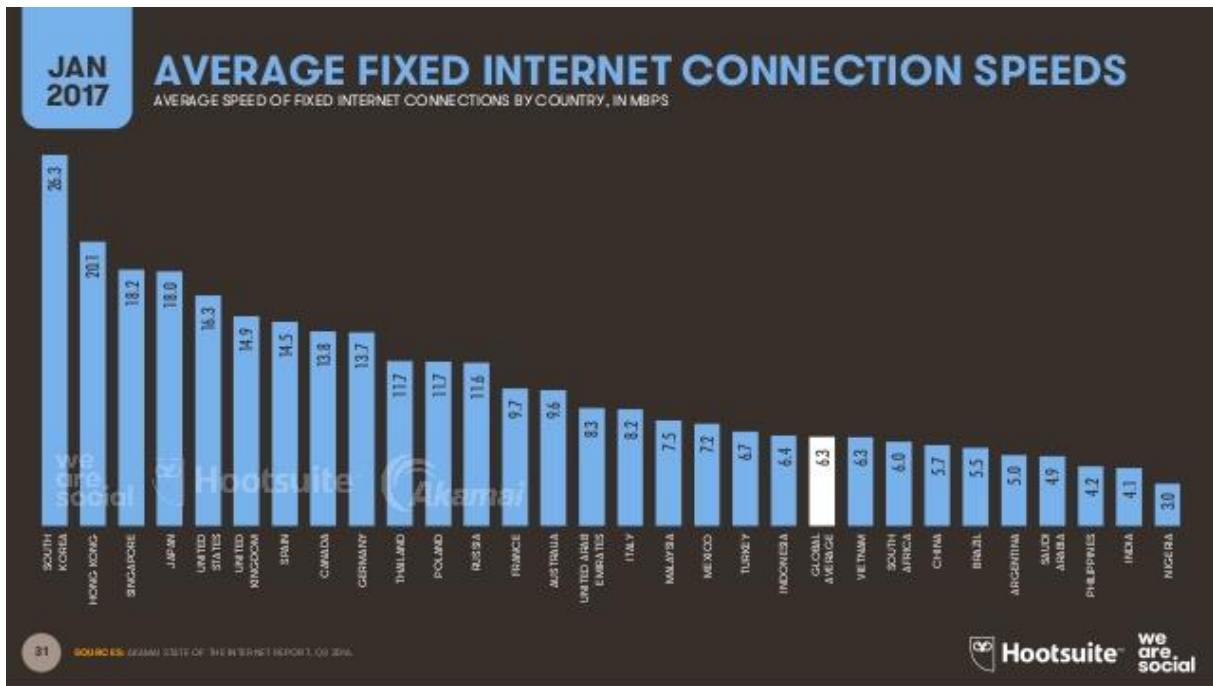
According to „Digital in 2017” report by We Are Social, at 84% the internet penetration in Western Europe is the second-highest worldwide. In Eastern Europe, it equals 67% and in Poland 72%. While the average net connection speed in Poland is relatively low (11.7 Mbps), it will likely increase significantly over the next years as the Polish government invests heavily to guarantee all Poles access to high-speed data connections with min. 30 Mbps by 2020E (EU program “Digital Agenda”).

When it comes to mobile internet, Poland is one of the best-developed countries in Europe. While mobile internet penetration is 74% (total mobile penetration of 141%), average speed of mobile internet is 9.7 Mbps.

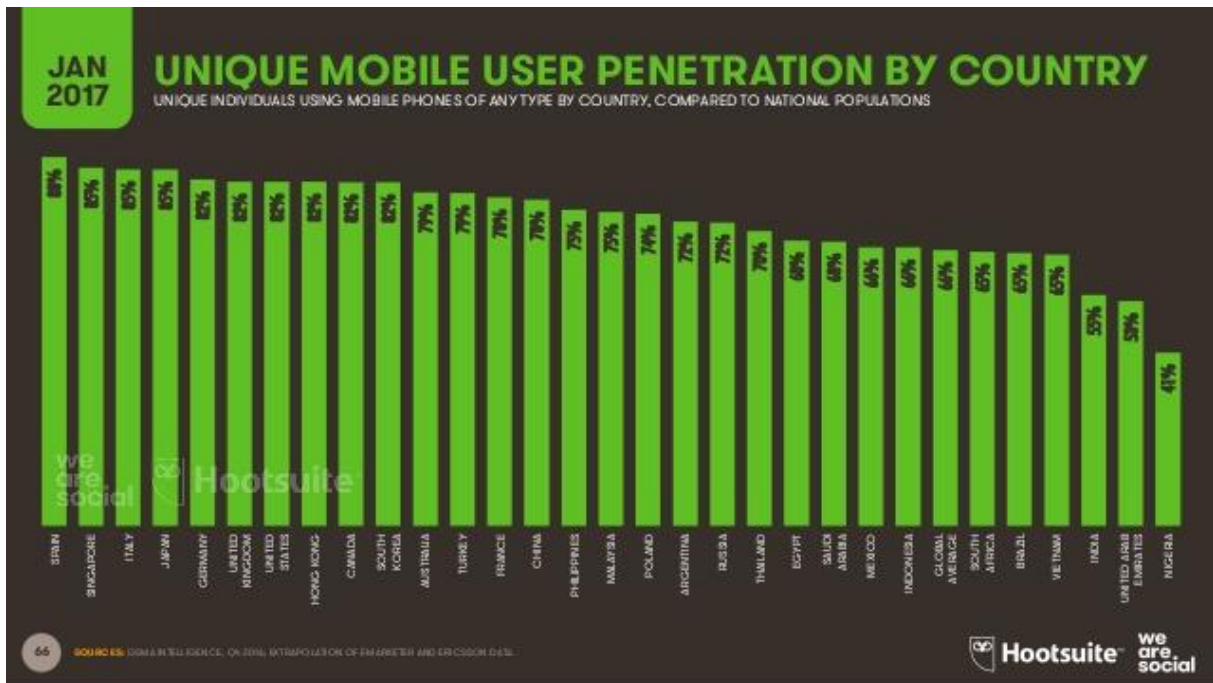


Source: “Digital 2017” by We Are Social, East Value Research GmbH



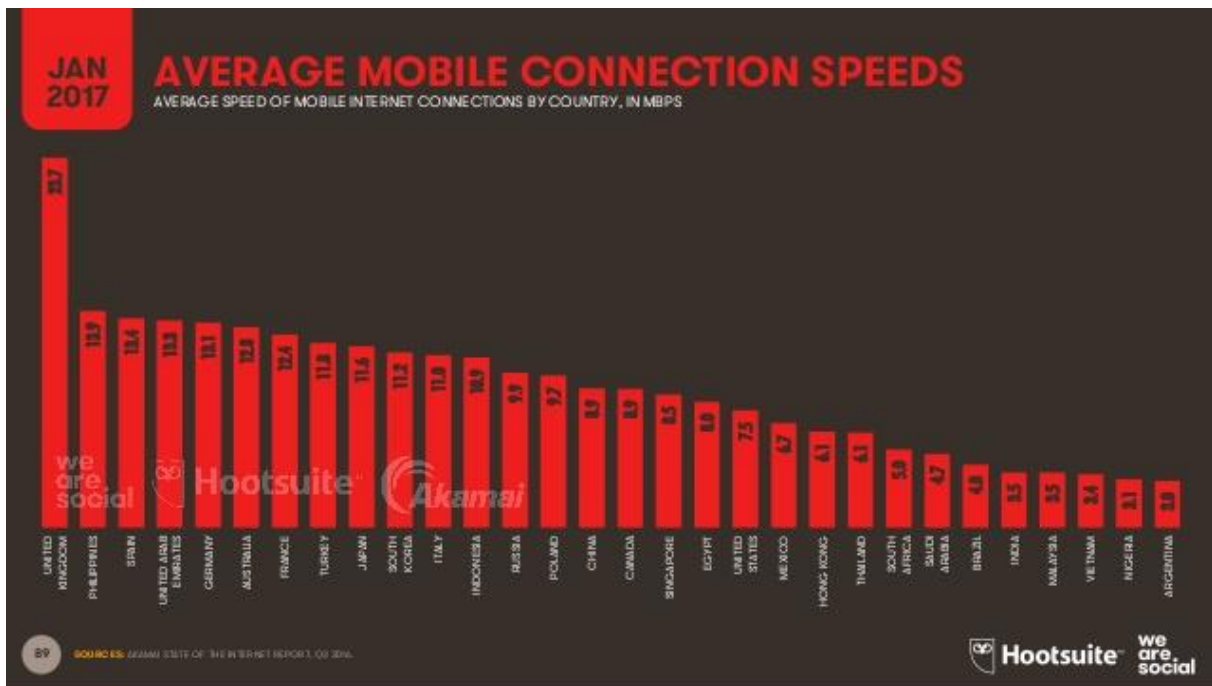


Source: "Digital 2017" by We Are Social, East Value Research GmbH



Source: "Digital 2017" by We Are Social, East Value Research GmbH





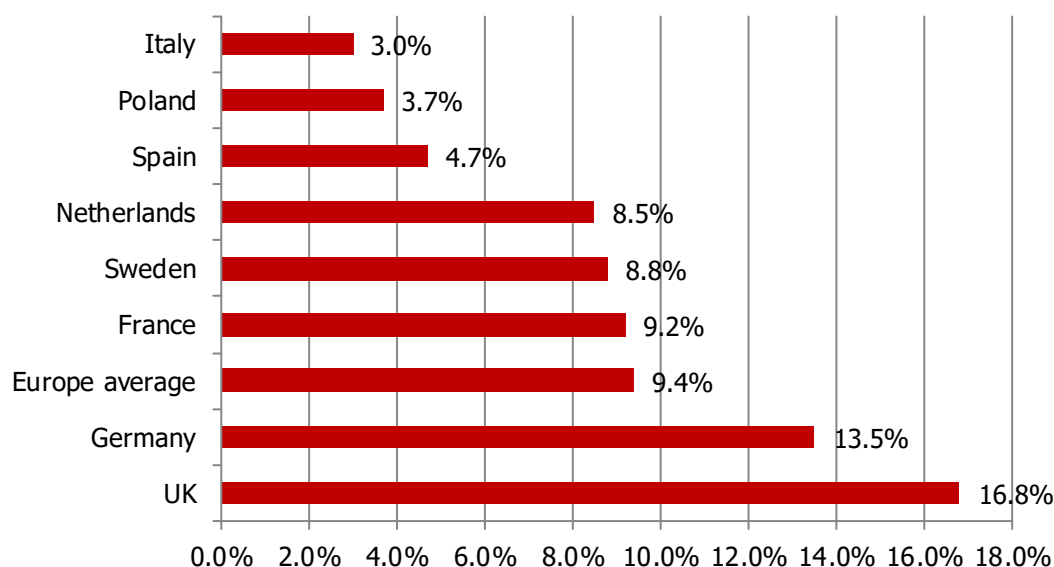
Source: "Digital 2017" by We Are Social, East Value Research GmbH

## E-Commerce in Europe and Poland

According to Ecommerce Europe, the value of total online sales of goods and services in 2016 in Europe equaled c. EUR 510bn (+12% y-o-y), of which UK, France and Germany accounted for >60%. While the largest online retail market was UK with a value of EUR 157.1bn, Germany was the No 1 in terms of the number of online shoppers (51.6m). The research firm reckons that 43% of >15 year old Europeans shop online, of which 16% also abroad. In case of small- and medium sized companies (SMEs), the respective shares are estimated at 16% and 50%. Ecommerce Europe forecasts that the sector will grow in 2017E by 17.3% to EUR 598bn and in 2018E by 10.4% to EUR 660bn. As main challenges for merchants, it regards legal fragmentation across countries, taxation issues and logistics/distribution.

In case of Poland, Gemius estimates the value of the E-Commerce sector in 2016 at c. PLN 36bn. In 2017E, it expects it to grow to PLN >40bn (+11% y-o-y). By 2020E, the research firm PMR forecasts that online sales in Poland will reach a volume of PLN 60bn, or 10% of total retail sales. According to Center for Retail Research, in 2016 the share of online sales in total retail spend in Poland only equaled 3.7% compared to e.g. >16% in the UK.

## Share of E-Commerce in total retail sales, 2016



Source: Center for Retail Research, East Value Research GmbH

According to [wirtualnemedi.pl](http://wirtualnemedi.pl) and Sofort, the main factors, which are shaping the E-Commerce industry today, are (1) expectation of customers that the delivery should be as cheap, reliable and fast as possible (2) need for reliable, secure and innovative payment options (3) sales through different channels including mobile (4) need for personalized content, whereby Big Data Analysis plays an important role and (5) increasing use of virtual reality and augmented reality technologies in online shops.

## Profit and loss statement

in PLNm	2016E*	2017E	2018E	2019E	2020E	2021E
<b>Revenues</b>	<b>1.00</b>	<b>4.90</b>	<b>18.49</b>	<b>29.19</b>	<b>37.67</b>	<b>47.65</b>
Cost of goods sold	-0.48	-2.23	-7.86	-11.54	-14.83	-18.69
<b>Gross profit</b>	<b>0.51</b>	<b>2.67</b>	<b>10.63</b>	<b>17.65</b>	<b>22.84</b>	<b>28.96</b>
Other operating income	0.02	0.02	0.02	0.02	0.03	0.03
Personnel costs	-0.18	-0.90	-3.39	-5.35	-5.46	-5.56
Marketing expenses	0.00	-18.50	-16.00	-14.70	-14.40	-13.68
Other operating expenses	-0.31	-0.31	-0.51	-0.71	-1.30	-1.50
<b>EBITDA</b>	<b>0.04</b>	<b>-17.02</b>	<b>-9.25</b>	<b>-3.08</b>	<b>1.71</b>	<b>8.24</b>
Depreciation & amortisation	-0.03	-0.07	-0.28	-0.44	-0.57	-0.71
<b>Operating income</b>	<b>0.02</b>	<b>-17.09</b>	<b>-9.53</b>	<b>-3.52</b>	<b>1.14</b>	<b>7.53</b>
Net financial result	-0.46	-0.42	-0.38	-0.34	-0.30	-0.26
Write-down of goodwill	-0.26	0.00	0.00	0.00	0.00	0.00
<b>EBT</b>	<b>-0.70</b>	<b>-17.51</b>	<b>-9.91</b>	<b>-3.86</b>	<b>0.84</b>	<b>7.26</b>
Income taxes	0.08	3.33	1.88	0.73	-0.16	-1.38
Minorities	0.00	0.00	0.00	0.00	0.00	0.00
<b>Net income</b>	<b>-0.62</b>	<b>-14.19</b>	<b>-8.03</b>	<b>-3.13</b>	<b>0.68</b>	<b>5.88</b>
EPS	-0.03	-0.49	-0.19	-0.07	0.02	0.14
DPS	0.00	0.00	0.00	0.00	0.00	0.00
<b>Share in total sales</b>						
Revenues	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Cost of goods sold	-48.53 %	-45.53 %	-42.53 %	-39.53 %	-39.38 %	-39.23 %
Gross profit	51.47 %	54.47 %	57.47 %	60.47 %	60.62 %	60.77 %
Other operating income	2.10 %	0.45 %	0.12 %	0.08 %	0.07 %	0.06 %
Personnel costs	-18.32 %	-18.32 %	-18.32 %	-18.32 %	-14.48 %	-11.68 %
Marketing expenses	0.00 %	-377.55 %	-86.54 %	-50.35 %	-38.23 %	-28.71 %
Other operating expenses	-30.76 %	-6.33 %	-2.76 %	-2.43 %	-3.45 %	-3.15 %
EBITDA	4.49 %	-347.28 %	-50.02 %	-10.55 %	4.53 %	17.29 %
Depreciation & amortisation	-2.56 %	-1.50 %	-1.50 %	-1.50 %	-1.50 %	-1.50 %
Operating income	1.93 %	-348.78 %	-51.52 %	-12.05 %	3.03 %	15.79 %
Net financial result	-46.63 %	-8.66 %	-2.08 %	-1.18 %	-0.81 %	-0.55 %
Write-down of goodwill	-26.08 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
EBT	-70.77 %	-357.44 %	-53.60 %	-13.23 %	2.22 %	15.24 %
Income taxes	8.04 %	67.91 %	10.18 %	2.51 %	-0.42 %	-2.90 %
Minorities	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Net income	-62.74 %	-289.53 %	-43.41 %	-10.72 %	1.80 %	12.34 %

\* detailed, audited full-year 2016 report will be published on April 21, 2017

## Balance Sheet

in PLNm	2016E*	2017E	2018E	2019E	2020E	2021E
Cash and equivalents	0.01	12.34	1.28	1.29	0.35	5.47
Financial assets	0.87	0.88	0.90	0.92	0.94	0.96
Inventories	0.00	0.00	0.00	0.00	0.00	0.00
Trade accounts and notes receivables	1.04	4.44	14.23	18.47	20.22	21.00
Other current assets	12.72	10.91	9.28	7.88	6.70	5.70
<b>Current assets, total</b>	<b>14.63</b>	<b>28.58</b>	<b>25.69</b>	<b>28.56</b>	<b>28.21</b>	<b>33.13</b>
Property, plant and equipment	0.06	0.06	0.06	0.06	0.06	0.06
Other intangible assets	0.00	2.00	3.00	4.00	4.01	4.01
Goodwill	4.93	4.93	4.93	4.93	4.93	4.93
Long-term receivables	0.00	0.00	0.00	0.00	0.00	0.00
Other long-term assets	2.65	2.78	2.92	3.06	3.22	3.38
Deferred tax assets	0.00	0.00	0.00	0.00	0.00	0.00
<b>Non-current assets, total</b>	<b>7.64</b>	<b>9.77</b>	<b>10.91</b>	<b>12.06</b>	<b>12.22</b>	<b>12.39</b>
<b>Total assets</b>	<b>22.27</b>	<b>38.35</b>	<b>36.60</b>	<b>40.61</b>	<b>40.43</b>	<b>45.51</b>
Trade payables	9.70	0.18	0.65	0.95	1.22	1.54
Other short-term liabilities	0.12	0.13	0.15	0.16	0.18	0.19
Short-term financial debt	0.00	0.00	0.00	0.00	0.00	0.00
Pension provision	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	2.57	2.31	2.08	1.87	1.68	1.51
<b>Current liabilities, total</b>	<b>12.39</b>	<b>2.62</b>	<b>2.87</b>	<b>2.98</b>	<b>3.08</b>	<b>3.24</b>
Long-term financial debt	0.00	0.00	6.00	13.00	12.00	11.00
Other long-term liabilities	0.61	0.65	0.68	0.71	0.75	0.78
Deferred tax liabilities	0.00	0.00	0.00	0.00	0.00	0.00
<b>Long-term liabilities, total</b>	<b>0.61</b>	<b>0.65</b>	<b>6.68</b>	<b>13.71</b>	<b>12.75</b>	<b>11.78</b>
<b>Total liabilities</b>	<b>13.00</b>	<b>3.27</b>	<b>9.55</b>	<b>16.69</b>	<b>15.82</b>	<b>15.03</b>
<b>Shareholder's equity, total</b>	<b>9.27</b>	<b>35.08</b>	<b>27.05</b>	<b>23.92</b>	<b>24.60</b>	<b>30.48</b>
Minority interests	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total equity and liabilities</b>	<b>22.27</b>	<b>38.35</b>	<b>36.60</b>	<b>40.61</b>	<b>40.43</b>	<b>45.51</b>

\* detailed, audited full-year 2016 report will be published on April 21, 2017

## Cash Flow Statement

in PLNm	2016E	2017E	2018E	2019E	2020E	2021E
Net income / loss	-0.62	-14.19	-8.03	-3.13	0.68	5.88
Depreciation	0.03	0.07	0.28	0.44	0.57	0.71
Change in working capital	-6.22	-11.07	-7.64	-2.50	-0.24	0.59
Others	0.00	0.26	0.23	0.21	0.19	0.17
<b>Net operating cash flow</b>	<b>-6.82</b>	<b>-24.93</b>	<b>-15.16</b>	<b>-4.98</b>	<b>1.18</b>	<b>7.35</b>
<b>Cash flow from investing</b>	<b>0.01</b>	<b>-2.07</b>	<b>-1.28</b>	<b>-1.44</b>	<b>-0.57</b>	<b>-0.72</b>
Free cash flow	-6.81	-27.00	-16.44	-6.42	0.61	6.63
<b>Cash flow from financing</b>	<b>6.64</b>	<b>39.33</b>	<b>5.38</b>	<b>6.42</b>	<b>-1.55</b>	<b>-1.52</b>
Change of cash	-0.17	12.33	-11.06	0.00	-0.93	5.12
Cash at the beginning of the period	0.21	0.01	12.34	1.28	1.29	0.35
Cash at the end of the period	0.04	12.34	1.28	1.29	0.35	5.47

\* detailed, audited full-year 2016 report will be published on April 21, 2017

## Financial ratios

in PLNm	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
<b>Profitability and balance sheet quality</b>								
Gross margin	51.47%	54.47%	57.47%	60.47%	60.62%	60.77%	60.92%	60.82%
EBITDA margin	4.49%	-347.28%	-50.02%	-10.55%	4.53%	17.29%	25.86%	32.04%
EBIT margin	1.93%	-348.78%	-51.52%	-12.05%	3.03%	15.79%	24.36%	30.54%
Net margin	-62.74%	-289.53%	-43.41%	-10.72%	1.80%	12.34%	19.42%	24.53%
Return on equity (ROE)	-6.09%	-63.98%	-25.84%	-12.27%	2.79%	21.35%	31.46%	34.12%
Return on assets (ROA)	-0.72%	-35.89%	-20.88%	-6.86%	2.43%	13.50%	20.67%	23.95%
Return on capital employed (ROCE)	0.17%	-38.75%	-22.87%	-7.57%	2.47%	14.42%	21.94%	25.19%
Economic Value Added (in PLNm)	-1.25	-18.44	-12.06	-7.69	-3.88	0.66	4.78	8.50
Net debt (in PLNm)	-0.87	-13.22	3.82	10.80	10.71	4.57	-8.53	-27.41
Net gearing	-9.40%	-37.69%	14.11%	45.12%	43.53%	15.00%	-20.39%	-46.38%
Equity ratio	41.62%	91.48%	73.92%	58.91%	60.86%	66.98%	74.56%	81.30%
Current ratio	1.18	10.89	8.95	9.59	9.16	10.21	12.60	16.09
Quick ratio	0.15	6.73	5.72	6.94	6.99	8.45	11.20	14.99
Net interest cover	0.04	-40.27	-24.78	-10.22	3.75	28.46	63.60	116.30
Net debt/EBITDA	-19.47	0.78	-0.41	-3.50	6.28	0.56	-0.56	-1.22
Tangible BVPS	0.20	1.05	0.52	0.44	0.46	0.60	0.86	1.27
CAPEX/Sales	503.61%	42.34%	6.91%	4.93%	1.52%	1.51%	1.51%	1.51%
Working capital/Sales	333.93%	293.76%	119.18%	84.03%	65.77%	50.76%	37.78%	28.72%
Cash Conversion Cycle (in days)	-6945	301	251	201	166	131	96	71
<b>Trading multiples</b>								
EV/Sales	40.45	8.22	2.18	1.38	1.07	0.85	0.85	0.69
EV/EBITDA	900.43	-2.37	-4.36	-13.08	23.62	4.89	4.89	1.43
EV/EBIT	2093.58	-2.36	-4.23	-11.45	35.32	5.35	5.35	2.82
P/Tangible BVPS	9.50	1.81	3.67	4.27	4.13	3.18	2.20	1.50
P/E	-65.88	-2.90	-5.13	-13.15	60.77	7.00	7.00	3.62
P/FCF	-6.04	-1.52	-2.50	-6.41	67.05	6.20	5.20	3.09

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