Integer.pl S.A.

Fair Value: PLN 136.80 | Update | Rating: n.a

Integer.pl (ITG) disappointed investors in 2015 and will likely report a significant operating loss. While ITG raised in total PLN 474.8m for easyPack from new investors and the spin-off of InPost, the company lost the contract from the Polish Ministry of Justice and did not deliver on the promises it made relating to the expansion of the APM network and its profitability in the key markets UK, Italy, France and Russia. We believe there is very low visibility at the company and thus decided to show only a fair value for the stock.

In the postal business, InPost has suffered two significant setbacks: First, its main competitor state-owned Poczta Polska was named the new assigned operator until 2025E and will maintain a preferred position in the area of postal services for the public sector. Second, Poczta Polska also won the new tender of the Ministry of Justice, however InPost plans to appeal as in its opinion Poczta Polska offered a price, which does not cover its costs. In our view, the loss of the contract will reduce revenues of ITG's Postal services segment in 2016E by PLN 132.3m, however by 2018E it should in our opinion be able to offset this due to rapidly growing courier and parcel delivery services in Poland.

In the APM business, Integer.pl likely had 4,000 machines at the end of 2015, thus the company installed just 1,200 new APMs in the whole year, thereof 600 in PL. However, although the global expansion of APMs goes much slower than planned, we think that at least the UK business will finally be profitable in H2/16. In our view, this should allow ITG to install 2,000 new APMs this year, thereof 1,200 outside PL. Parcel lockers are becoming an increasingly popular concept, with global E-Commerce leader Amazon having recently announced plans to create an own network in Europe.

Our DCF model of ITG derives a 12-months fair value of PLN 136.80 per share compared to PLN 192.20 before. Although the new conservative government wants to prefer Poczta Polska in public tenders, ITG's Polish business should nevertheless exhibit rapid growth due to its parcel business as well as courier services, which reached the break-even after just seven months. In the international APM business, we believe that ITG is now focusing on profitability instead of network expansion, which should allow it to reach the break-even on EBITDA level in 2017E. In our view, this is realistic given rapid growth of E-Commerce worldwide.

in PLNm	2013	2014	2015E	2016E	2017E	2018E
Net sales	347.32	604.07	708.15	602.92	721.37	854.57
EBITDA	49.54	34.83	21.93	34.50	74.61	106.99
EBIT	24.23	-5.16	-45.35	-29.41	7.53	36.06
Net income	23.58	-9.47	2.11	-10.30	-2.10	20.99
EPS	3.58	-1.28	0.27	-1.33	-0.27	2.70
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	8.58%	-1.97%	0.35%	-1.70%	-0.35%	3.44%
Net gearing	25.99%	21.99%	46.52%	77.80%	109.16%	130.25%
EV/Sales	2.79x	1.60x	1.37x	1.60x	1.34x	1.13x
EV/EBITDA	19.53x	27.78x	44.13x	28.05x	12.97x	9.04x
P/E	24.58x	neg	323.95x	neg	neg	32.55x

Company profile

Integer.pl is the No 1 private provider of postal services in Poland with a network of >7,000 service points. Also, it operates c. 4,000 fully-automated pack stations in Poland and 12 foreign countries.

Website	www.integer.pl
Sector	Postal Services
Country	Poland
ISIN	PLINTEG00011
Reuters	ITGP.WA
Bloomberg	ITG PW

Share information

Last price	88.00
Number of shares (m)	7.76
Market cap. (PLNm)	683.25
Market cap. (EURm)	158.06
52-weeks range	PLN 194.85 / PLN 60.01
Average volume	1,992

Performance

4-weeks	15.03%
13-weeks	30.95%
26-weeks	-28.74%
52-weeks	-51.22%
YTD	6.02%

Shareholder structure

A&R Investments Ltd.	29.99%
Generali OFE	8.69%
L.S.S. Holdings Ltd.	5.38%
AEGON OFE	8.37%
AVIVA OFE	5.49%
Free float	42.08%

Financial calendar

Annual report 2015	March 21, 2016

Analyst

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9M/15 results

Revenues and Profitability

Between January and September 2015, Integer.pl generated total sales of PLN 495.1m, which corresponded to a y-o-y growth of 13.4%. The growth drivers were the segments APM operations (+63.4% y-o-y to PLN 83.3m) and Postal services (+21.4% y-o-y to PLN 343.8m). In Postal services, the contract with the Polish Ministry of Justice contributed PLN 149.3m of revenues alone.

At the end of September, Integer.pl operated 3,600 parcel lockers in 13 countries worldwide. Since the beginning of 2015, the company installed 700 new pack machines, thereof 300 in Poland, 200 in France and 200 in Italy. We believe that with >50% the average capacity utilization of APMs in Poland was by far the highest. The main reason were strongly increasing volumes of registered mail and parcel from the largest E-Commerce platform in CEE Allegro.pl, which according to our estimates equaled 1.6m/1.9m respectively in 9M/15. After only four months of operations, ITG's Smart Courier service gained >1,300 clients and reached a volume of >24k parcels per day at the end of September 2015.

in PLNm	9M/15	9M/14	change (%)
Net sales	**495.07**	**436.73**	13.4%
EBITDA	**21.05**	**21.66**	-2.8%
EBITDA margin	*4.3%*	*5.0%*	
EBIT	**-30.60**	**-2.90**	956.1%
EBIT margin	*-6.2%*	*-0.7%*	
Net income	**8.85**	**9.49**	-6.8%
Net margin	*1.8%*	*2.2%*	

Source: Company information, East Value Research GmbH

in PLNm	9M/15	9M/14
Postal services	**343.77**	**283.27**
(% of sales)	69.4%	64.9%
APM (Operations)	**83.27**	**50.97**
(% of sales)	16.8%	11.7%
APM (Export sales)	**50.59**	**72.51**
(% of sales)	10.2%	16.6%
Others	**17.43**	**29.99**
(% of sales)	3.5%	6.9%
Total net sales	**495.07**	**436.73**

Source: Company information, East Value Research GmbH

Between January and September 2015, ITG's profitability was hit hard especially by a significantly higher share of personnel costs (22.3% vs. 16.1% in 9M/14) and depreciation expenses (10.4% vs. 5.6%), which resulted from a higher number of full-time employees (mainly due to the new Smart Courier service and larger processed volumes) and installed & active parcel lockers as well as a write-down of the contract with the Polish Ministry of Justice, which was taken over with the acquisition of PGP in Q4/14. Net income (PLN 8.9m vs. PLN 9.5m in 9M/14) was affected by a higher tax refund (PLN 18.7m vs. PLN 3.3m) and result from minorities (PLN 27.6m vs. PLN 15.7m), which was related to 53.3% subsidiary easyPack.

Balance sheet and Cash flow

As of 30 September 2015, Integer.pl had equity of PLN 680.3m, which corresponded to a share of 49.1% in the balance sheet total. Fixed assets, which comprise the equipment of InPost and the parcel lockers, equaled PLN 532.3m compared to PLN 444.7m in September 2014. Intangible assets (PLN 145.2m vs. PLN 105.9m in 9M/14) and goodwill (PLN 44.5m vs. PLN 6.1m) reflected ITG's software, licenses and patents, respectively the acquisition of PGP S.A. We estimate that working capital amounted to PLN 235.8m compared to PLN 234.2m in 9M/14.

In 9M/15, Integer.pl generated an operating cash flow of PLN 31.5m compared to PLN -67.6m in the previous year. The reason were significantly higher D&A expenses (PLN 51.6m vs. PLN 24.6m in the previous year) and a reduction of working capital (PLN 17.4m vs. investments of PLN 93.1m). While cash flow from investing (PLN -156.2m vs. PLN -186.2m in 9M/14) reflected the investments in the APM network, cash flow from financing (PLN 160.4m vs. PLN 313.1m) was lower y-o-y despite the spin-off of InPost as in 9M/14 ITG conducted a share and bond issue. In total, Integer.pl's cash position increased since January 2015 by PLN 35.6m to PLN 116.6m (including financial assets liquid funds equaled PLN 121.7m). With interest-bearing debt of PLN 235m (thereof PLN 68m short-term), ITG's net debt was PLN 113.4m (net gearing of 16.7%) as of 30/09/2015.

In May 2015, Integer.pl signed an agreement with PZU and Templeton for the financing of easyPack. Both parties were supposed to provide EUR 60m, while ITG EUR 21.7m in cash and assets. Moreover, in September respectively October the company sold 42% of InPost S.A. and listed the subsidiary on the Warsaw Stock Exchange, which resulted in gross proceeds of PLN 121m.

Changes to our forecasts

In our view, the only two objectives, which Integer.pl reached in 2015, were the capital increase at easyPack and the spin-off at InPost. The remaining ones, especially the installation of up to 5,000 new APMs and the achievement of break-even in at least one of easyPack's key markets (UK, France, Russia and Italy) were not delivered.

Revenues and Profitability

2015 turned to be a much more difficult year for Integer.pl than we had originally expected. The company likely missed both our revenue and EBITDA forecasts by far. This resulted from three main factors: (1) The quality of InPost's mail delivery services suffered from problems with partner RUCH, with whom the co-operation agreement was canceled in July 2015 (2) in May InPost introduced a new courier service, which only reached the break-even on EBITDA level at the end of 2015 and (3) outside Poland, where they are performing very well especially due to the co-operation with Allegro.pl, ITG's parcel lockers are increasing their capacity utilization at a much slower rate than expected and thus continue to generate significant costs. From 2016E, InPost's results will be impacted by the loss of the contract with the Polish Ministry of Justice to Poczta Polska, which contributed a volume of 100m registered mail in the period 2014-2015. Moreover, a potential risk factor for ITG is also the planned introduction of sales tax in Poland, which could negatively affect not just the business of traditional retailers but also online shops.

Below are our new estimates for ITG's business areas:

Postal services: We think that in full-year 2015 this segment had revenues of PLN 509m (previously: PLN 645.5m) and an EBITDA margin of 4.5% (9%). After just seven months, the courier business likely reached c. PLN 45m of revenues and break-even on EBITDA level. For 2016E, we now expect that due to the lost contract with the Polish Ministry of Justice the segment's revenues will decline to PLN 376.7m (delivery of mail to courts by ITG was terminated in March 2016, however delivery to prosecutors, which accounts for 10% of the c. PLN 200m/year contract, will continue until year-end 2016). However, the EBITDA margin should increase to 8% as there will be no negative impact from Smart Courier services anymore. While we think that the volume of registered mail will go down from 90.9m in 2015 to 25m, that should be partially offset by higher volumes of parcels (18.6m vs. 13.8m in 2015) and higher sales from financial & courier services (PLN 68.3m vs. PLN 56m).

Due to its experience from 2015 and statements by government officials suggesting that they would prefer Poczta Polska in government tenders InPost now wants to focus especially on services for the E-Commerce sector, small- and medium-sized corporate clients and bailiffs. Consequently, in the mail business we now forecast a CAGR 15-24E of -7.2% for registered mail and 1.8% for normal mail. However, in the parcel and financial services/courier business we expect a CAGR 15-24E of 16% and 12.5% respectively. We forecast that the segment's EBITDA margin will reach 11.5%-12% in the long run.

Operation of APMs: We expect that at the end of 2015 Integer.pl had 4,000 installed and active pack machines, up from 2,800 as of 31 December 2014, but significantly below the previous target of up to 8,000 APMs. Roughly 600 of them were installed in PL, where ITG is benefitting strongly from its co-operation with Allegro.pl (we think that the InPost registered letter, courier and parcel option is now available for 15% of Allegro's 30m daily auctions). Due to very strong Christmas season our revenue estimate for 2015 is now slightly higher than before (PLN 112.2m vs. PLN 111.5m) and we expect a less negative EBITDA margin (-17.3% vs. -28%) as ITG installed much less new machines than we had previously expected (1,200 vs. 3,920).

For 2016E, we expect that ITG will install additional 2,000 machines (the company should still have c. 3,800 on stock). In our view, 800 thereof will be installed in Poland and 700 in Canada. While operations in UK, Russia, France or Italy should finally reach the break-even in 2016E, we only expect that the whole segment will be profitable on EBITDA level in 2017E. As the company is under pressure from investors to focus on profitability and competition from other APM operators is intensifying, we now expect that by 2024E ITG's global network will grow to 13,500 parcel lockers (previously: 15,000 in 2023E). In terms of profitability, we think that after 2017E it will grow quickly and reach c. 40% on EBITDA level in the long run. Although prices per parcel will likely decrease, that should be reachable given the rapid growth of E-Commerce worldwide and the increasing popularity of the APM concept. Moreover, ITG has announced that it planned to introduce first machines for distribution of food soon, which market research firms consider the most promising area of the E-Commerce segment.

Sale of APMs: We think that in this business segment Integer.pl generated revenues of PLN 64.9m with 740 machines sold in 2015 (previously: 1,000 machines and PLN 87.2m). However, as ITG wants to focus on operation of APMs and competition from Asian manufacturers increases, we forecast that by 2024E sales will decline at a CAGR of 14.6%.

Other revenues: In this business area, we have assumed that revenues reached PLN 22m in 2015 at an EBITDA margin of 10%. In the coming years, we expect them to be flat.

in PLNm	2015E	2016E	2017E	2018E
Postal services*	**509.00**	**376.69**	**438.77**	**514.21**
(% of sales)	*71.9%*	*62.5%*	*60.8%*	*60.2%*
Number of registered mail	90,909,091	25,000,000	28,600,000	32,200,000
Revenue per registered mail (PLN)	2.70	2.68	2.67	2.65
Number of normal mail	109,090,909	112,490,909	115,890,909	119,290,909
Revenue per normal mail (PLN)	1.10	1.09	1.09	1.08
Number of parcels	13,750,000	18,562,500	24,131,250	31,370,625
Revenue per parcel (PLN)	6.40	6.37	6.34	6.30
Other revenues (financial services, Smart Courier etc	56,000,000	68,320,000	83,350,400	101,687,488
EBITDA margin	4.5%	8.0%	9.5%	10.5%
APM (Operations)**	**112.21**	**144.63**	**202.08**	**260.89**
(% of sales)	*15.8%*	*24.0%*	*28.0%*	*30.5%*
Year-end number of active pack stations (in units)	4,000	6,000	8,000	10,000
Average number of active pack stations (in units)	3,500	5,000	7,000	9,000
Parcels per APM (annually)	11,369	10,278	10,278	10,341
Average revenue per parcel (PLN)	2.82	2.81	2.81	2.80
EBITDA margin	-17.3%	-8.9%	8.0%	14.0%
APM (Export sales)	**64.94**	**59.38**	**58.08**	**56.81**
(% of sales)	*9.2%*	*9.8%*	*8.1%*	*6.6%*
Number of exported machines	740	680	680	680
Average ARPU (EUR)	21,000	20,790	20,582	20,376
Average EUR/PLN exchange rate	4.18	4.20	4.15	4.10
EBITDA margin	25.0%	25.0%	25.0%	25.0%
Others	**22.00**	**22.22**	**22.44**	**22.67**
(% of sales)	*3.1%*	*3.7%*	*3.1%*	*2.7%*
EBITDA margin	10.0%	10.0%	10.0%	10.0%
Total net sales	**708.15**	**602.92**	**721.37**	**854.57**
(change y-o-y)	17.2%	-14.9%	19.6%	18.5%

* Integer.pl owns a 52% stake in InPost, which has been a listed company since October 2015

** Integer.pl owns 53.3% in easyPack

Source: East Value Research GmbH

	2015E		2016E		2017E		2018E	
in PLNm	new	old	new	old	new	old	new	old
Net sales	**708.15**	**858.84**	**602.92**	**1019.14**	**721.37**	**1116.35**	**854.57**	**1208.03**
EBITDA	**21.93**	**50.14**	**34.50**	**103.30**	**74.61**	**130.90**	**106.99**	**157.49**
EBITDA margin	*3.1%*	*5.8%*	*5.7%*	*10.1%*	*10.3%*	*11.7%*	*12.5%*	*13.0%*
EBIT	**-45.35**	**3.11**	**-29.41**	**40.62**	**7.53**	**62.80**	**36.06**	**84.40**
EBIT margin	*-6.4%*	*0.4%*	*-4.9%*	*4.0%*	*1.0%*	*5.6%*	*4.2%*	*7.0%*
Net income	**2.11**	**-3.16**	**-10.30**	**17.45**	**-2.10**	**34.40**	**20.99**	**50.89**
Net margin	*0.3%*	*-0.4%*	*-1.7%*	*1.7%*	*-0.3%*	*3.1%*	*2.5%*	*4.2%*

Source: East Value Research GmbH

in PLNm	Q1/13	Q2/13	Q3/13	Q4/13	2013
Net sales	**83.01**	**71.47**	**85.23**	**107.61**	***347.32***
y-o-y change	*9.6%*	*26.6%*	*26.5%*	*30.6%*	*23.2%*
EBITDA	**10.98**	**10.89**	**14.73**	**12.94**	***49.54***
EBITDA margin	*13.2%*	*15.2%*	*17.3%*	*12.0%*	*14.3%*
EBIT	**5.16**	**4.25**	**9.25**	**5.57**	***24.23***
EBIT margin	*6.2%*	*6.0%*	*10.8%*	*5.2%*	*7.0%*
Net income	**7.17**	**4.43**	**10.89**	**1.09**	***23.58***
Net margin	*8.6%*	*6.2%*	*12.8%*	*1.0%*	*6.8%*

in PLNm	Q1/14	Q2/14	Q3/14	Q4/14	2014	Q1/15	Q2/15	Q3/15	Q4/15E	2015E
Net sales	**121.23**	**151.62**	**163.88**	**167.34**	***604.07***	**153.46**	**182.48**	**159.12**	**213.09**	***708.15***
y-o-y change	*46.1%*	*112.1%*	*92.3%*	*55.5%*	*73.9%*	*26.6%*	*20.4%*	*-2.9%*	*27.3%*	*17.2%*
EBITDA	**9.76**	**11.45**	**0.45**	**13.17**	***34.83***	**11.42**	**15.06**	**-5.44**	**0.88**	***21.93***
EBITDA margin	*8.1%*	*7.6%*	*0.3%*	*7.9%*	*5.8%*	*7.4%*	*8.3%*	*-3.4%*	*0.4%*	*3.1%*
EBIT	**2.51**	**2.92**	**-8.33**	**-2.26**	***-5.16***	**-4.73**	**-0.86**	**-25.01**	**-14.75**	***-45.35***
EBIT margin	*2.1%*	*1.9%*	*-5.1%*	*-1.3%*	*-0.9%*	*-3.1%*	*-0.5%*	*-15.7%*	*-6.9%*	*-6.4%*
Net income	**2.20**	**3.35**	**3.94**	**-18.96**	***-9.47***	**8.11**	**3.00**	**-2.26**	**-6.74**	***2.11***
Net margin	*1.8%*	*2.2%*	*2.4%*	*-11.3%*	*-1.6%*	*5.3%*	*1.6%*	*-1.4%*	*-3.2%*	*0.3%*

Source: East Value Research GmbH

CAPEX and Working capital

In our model, we have forecast gross CAPEX (including D&A and investments in intangible assets) of PLN 195.5m in 2015, PLN 252.7m in 2016E and PLN 242.7m in 2017E. After much slower than expected installations in 2015 (1,200 vs. 3,920 new machines) and due to pressure on profitability by investors, we now expect that ITG will install 2,000 new APMs in 2016E and 2017E.

When it comes to the share of working capital in total sales, we have assumed that it will improve in the coming years from 40.1% in 2014 to 17% in 2020E. We expect the cash conversion cycle, which amounted to 88 days in 2014, to go down significantly in the future.

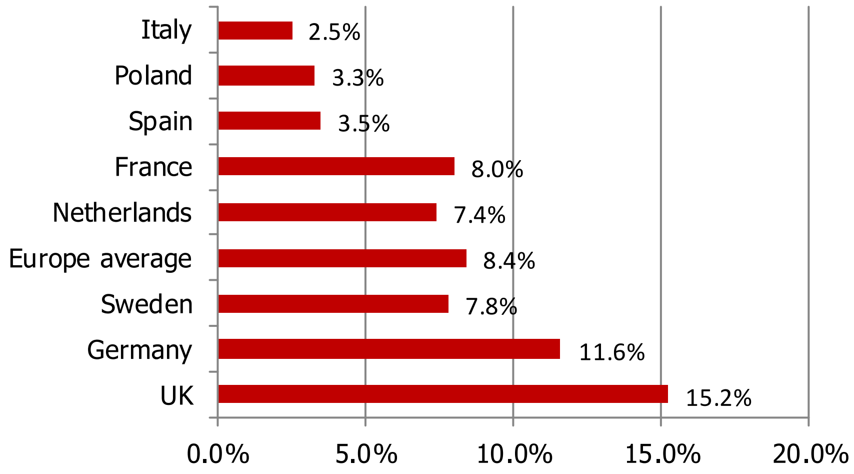
Market update

E-Commerce in Poland and worldwide

EMarketer estimates the global E-Commerce market in 2015 at USD 1.7tr, or 7.3% of total retail sales. This is expected to grow to USD 3.6tr (CAGR of 20.7%) and 12.4% respectively by 2019E. Asia-Pacific, which in 2015 was already the largest online retail market worldwide, will be by far the fastest-growing region in the coming years.

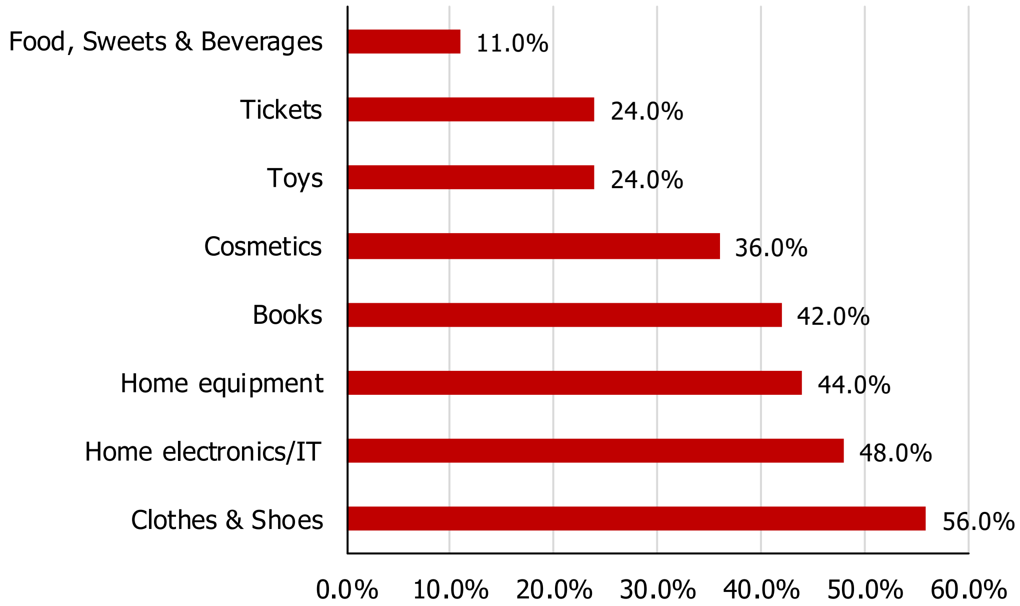
For Poland, PMR expects that the volume of online retail sales reached more than PLN 30bn in 2015 and by 2020E will double to PLN 60bn (CAGR of 14.9%) or c. 10% of total retail sales. In the coming years, online sales of food will likely exhibit the fastest growth as distribution through the internet is only at a very early stage of development (ARC estimates that only 11% of Poles currently buy food online). According to newspaper Rzeczpospolita, in 2015 the segment was worth just PLN 0.5bn, however should grow to PLN 1bn by 2018E (CAGR of 26%).

Share of E-Commerce in total retail sales, 2015



Source: Center for Retail Research, East Value Research GmbH

What Poles are buying online



Source: ARC, Rzeczpospolita, East Value Research GmbH

The postal market in Poland

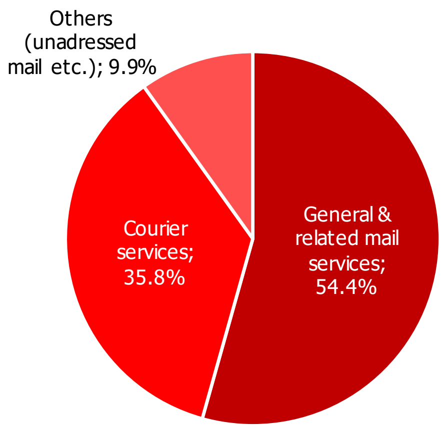
According to the Polish regulator UKE, the market for postal services (excl. unaddressed mail) was worth PLN 7.4bn in 2014, 0.9% more than in the previous year. Poczta Polska accounted for 68.6% of the total volume in the area of general postal services, while InPost (incl. PGP and InPost Paczkomaty), which is by far the largest private operator, for 28.7%. There were in total 165 active private operators in Poland, however thereof only six provided the full scope of postal services in all parts of the country.

Key facts about the Polish postal sector

	2009	2010	2011	2012	2013	2014	CAGR 09-14
Number of registered postal operators	209	244	247	267	274	294	*7.1%*
thereof: active ones	125	152	154	153	163	165	*5.7%*
Total mail volume (bn units; excl. unaddressed ones)	2.01	2.02	2.02	2.00	2.08	1.98	*-0.3%*
thereof: of alternative operators	0.14	0.21	0.26	0.29	0.41	0.45	*26.3%*
Total revenues (in bn; excl. unaddressed mail)	5.61	5.61	5.76	5.80	7.34	7.41	*5.7%*
thereof: of alternative operators	1.04	1.18	1.37	1.47	2.45	2.95	*23.2%*

Source: UKE, East Value Research GmbH

Structure of the Polish postal sector (based on sales, incl. unaddressed mail))



Source: UKE, East Value Research GmbH

The fastest-growing segment of the Polish postal market are courier services, which in 2014 grew by more than 18% to PLN 2.7bn. Alternative operators accounted for 90.9% of revenues and 88.3% of volumes, but lost market share to Poczta Polska y-o-y.

Valuation

We have valued Integer.pl by using our DCF model only. This derives a 12-months fair value of PLN 136.80, 55.5% above ITG's current market price.

DCF model

in PLNm	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Revenues	**602.92**	**721.37**	**854.57**	**917.24**	**990.03**	**1,059.86**	**1,097.61**	**1,149.27**	**1,202.75**
(y-o-y change)	-14.9%	19.6%	18.5%	7.3%	7.9%	7.1%	3.6%	4.7%	4.7%
Operating profit	**-29.41**	**7.53**	**36.06**	**71.92**	**100.87**	**130.17**	**167.18**	**179.12**	**190.35**
(operating margin)	-4.9%	1.0%	4.2%	7.8%	10.2%	12.3%	15.2%	15.6%	15.8%
NOPLAT	**-23.82**	**6.10**	**29.21**	**58.25**	**81.71**	**105.44**	**135.42**	**145.08**	**154.18**
+ Depreciation & amortisation	63.91	67.09	70.93	71.54	72.27	72.07	72.44	72.40	73.37
= Net operating cash flow	40.09	73.18	100.13	129.80	153.98	177.51	207.86	217.49	227.55
- Total investments (Capex and WC)	-214.73	-256.13	-253.80	-149.37	-104.33	-97.68	-90.22	-82.69	-78.17
Capital expenditures	-252.68	-242.74	-244.97	-160.28	-118.83	-118.32	-118.38	-118.05	-118.72
Working capital	37.95	-13.39	-8.83	10.91	14.51	20.64	28.16	35.36	40.55
= Free cash flow (FCF)	-174.65	-182.95	-153.66	-19.57	49.65	79.83	117.64	134.80	149.38
PV of FCF's	**-165.25**	**-161.62**	**-126.75**	**-15.07**	**35.70**	**53.59**	**73.74**	**78.88**	**81.62**

PV of FCFs in explicit period	-145.17
PV of FCFs in terminal period	1,569.67
Enterprise value (EV)	**1,424.51**
+ Net cash / - Net debt (31 December 2015)	-284.39
+ Investments / - Minorities	-148.46
Shareholder value	**991.66**
Number of shares outstanding (m)	**7.76**
WACC	**7.1%**
Cost of equity	8.3%
Pre-tax cost of debt	7.0%
Normal tax rate	19.0%
After-tax cost of debt	5.7%
Share of equity	55.0%
Share of debt	45.0%
Fair value per share in PLN	**127.72**
Fair value per share in PLN (in 12 months)	**136.80**

	Terminal EBIT margin						
WACC	**12.8%**	**13.8%**	**14.8%**	**15.8%**	**16.8%**	**17.8%**	**18.8%**
4.1%	464.24	509.92	555.60	601.29	646.97	692.65	738.34
5.1%	259.35	287.82	316.30	344.77	373.24	401.71	430.18
6.1%	155.30	175.11	194.92	214.74	234.55	254.37	274.18
7.1%	92.79	107.46	122.13	**136.80**	151.47	166.14	180.81
8.1%	51.38	62.69	73.99	85.29	96.60	107.90	119.20
9.1%	22.16	31.11	40.07	49.02	57.98	66.94	75.89
10.1%	0.57	7.82	15.06	22.31	29.55	36.80	44.04

Source: Company information, East Value Research GmbH

Peer Group Analysis

Our peer group comprises listed providers of mail, parcel and courier services as well as private manufacturers of parcel lockers. Moreover, we have also included some E-Commerce companies in order to reflect the high growth dynamics of the sector, from which ITG's easyPack network is benefitting.

Our analysis shows that an increasing number of postal operators is installing parcel lockers in order to benefit from booming online retail sales. We believe that this will also result in more manufacturers of respective machines in the coming years.

Mail and Parcel companies:

(1) *Deutsche Post DHL AG:* Deutsche Post AG, which is based in Bonn/Germany, has four business units: Mail, Express, Global Forwarding, Freight, and Supply Chain. Through its subsidiary DHL, it is also present in Poland, where it acquired Servisco. In 2015, Deutsche Post had revenues of EUR 59.2bn.

Over the last years, Deutsche Post DHL has been expanding its network of parcel lockers called Packstationen, which already comprises >3,000 machines. Originally only installed in Germany, 20 of these machines are now also available in Italy (Milan), Switzerland, Austria and the Netherlands. According to our discussions with Deutsche Post, the company also plans to install them in other countries, where it is present with a B2C offering: Belgium, Luxemburg, Slovenia, Slovakia and Poland.

(2) *Österreichische Post AG:* Österreichische Post AG, which is based in Vienna, is a state-owned Austrian provider of mail and parcel services. The company focuses its operations on Austria, Germany, Eastern Europe incl. Poland and South Eastern Europe. For fiscal-year 2015, Österreichische Post reported total sales of EUR 2.4bn.

Österreichische Post operates a network of c. 200 APMs in Austria, which is supposed to grow to 400 by the end of 2016E.

(3) *FedEx Corp.:* FedEx Corporation, which is based in Memphis/US, has the following business units: Federal Express Corporation (FedEx Express), which offers time-certain delivery; FedEx Ground Package System Inc., a provider of small-package ground delivery service; FedEx Freight Inc. (FedEx Freight), which provides less-than-truckload (LTL) freight services; and FedEx Corporate Services Inc. (FedEx Services) that provides FedEx' other business units with sales, marketing, IT, communications and back-office support. The company is active in more than 220 countries worldwide including Poland. For fiscal-year 2014/15, FedEx reported sales of USD 47.5bn.

(4) *United Parcel Services Inc.:* United Parcel Service, Inc. (UPS), which is headquartered in Atlanta/US, is a package delivery company that is active in >220 countries worldwide, among others in Poland (it acquired local companies Stolica and Poltraf there). In 2015, UPS had total revenues of USD 58.4bn.

UPS operates a network of currently >24,000 UPS Access Points in North America (thereof >8,000 in the US) and Europe.

(5) *Singapore Post Ltd.:* Singapore Post Ltd mainly offers business mail solutions and distribution of mail, electronic printing and dispatching services. It also provides electronic platform and recyclable lockers for distribution of merchandise. The company has three business units: Mail, Logistics and Retail. In fiscal-year 2014/15, Singapore Post generated sales of SGD 919.6m.

Singapore Post operates a network of c. 125 parcel lockers called POPStation throughout Singapore. It plans to grow this number to 200.

(6) *PostNL NV:* PostNL NV, which is based in 'S-Gravenhage/Netherlands, delivers documents, small packages and standard parcels. Apart from the Netherlands, where it operates in total 2,600 post offices, it is also active in Belgium, Germany, UK and Italy. In 2015, PostNL had total revenues of EUR 3.5bn.

PostNL operates a network of currently 10 parcel lockers in the Netherlands.

(7) *Royal Mail PLC*: Royal Mail PLC, which is based in London, is a provider of postal and delivery services in UK. It operates in two divisions: United Kingdom Parcels, International and Letters (UKPIL) and GLS, which acquired Szybka Paczka in Poland. UKPIL collects and delivers parcels and letters through two networks: the Royal Mail Core Network and Parcelforce Worldwide. GLS focuses on deferred parcels and operates in 22 European countries, of which Germany, Italy and France are the largest ones. In fiscal-year 2014/15, Royal Mail had total revenues of GBP 9.5bn.

(8) *Bpost SA*: Bpost SA, which is based in Brussels, is a provider of postal services in Belgium. The company's services include collection, transport, online parcels and doorstep financial transactions. It specializes in inbound and outbound international mail as well as sorting and delivery of letters. Bpost also provides solutions in the area of document management, certified electronic communication and international added-value services. Its network of parcel lockers currently comprises 135 machines. In 2015, BPost had revenues of EUR 2.4bn.

(9) *CTT Correiros de Portugal SA*: CTT is a Lisbon-based provider of postal and other courier services e.g. local goods and parcel delivery. The company also offers financial services such as money orders and transfers, savings, insurances, utilities bill payment. In 2014, CTT had revenues of EUR 703.3m.

(10) *POS Malaysia Bhd*: Pos Malaysia is Malaysia's sole provider of postal services. In fiscal-year 2014/15, the company had total revenues of MYR 1.5bn.

	EV/EBITDA			EBITDA margin	Net gearing	P/BVPS
Company	**2015**	**2016E**	**2017E**	**2015**	**Latest**	**Latest**
Deutsche Post AG (EUR)	7.43x	6.24x	5.82x	7.10%	15.97%	2.58x
Österreichische Post AG (EUR)	7.04x	7.11x	7.03x	12.55%	-44.63%	3.55x
FedEx Corp. (USD)	5.87x	5.34x	4.96x	10.00%	32.34%	2.66x
United Parcel Service Inc. (USD)	10.01x	9.44x	9.02x	16.70%	389.84%	36.10x
Singapore Post Ltd. (SGD)	15.87x	14.04x	13.29x	23.50%	11.83%	2.32x
PostNL NV (EUR)	4.88x	5.51x	5.53x	13.00%	neg	neg
Royal Mail PLC (GBP)	6.54x	6.15x	5.85x	10.90%	10.30%	1.17x
Bpost SA (EUR)	7.37x	7.22x	7.12x	21.90%	-79.12%	6.82x
CTT Portugal SA (EUR)	4.01x	4.00x	3.87x	25.50%	-272.57%	5.17x
Pos Malaysia Bhd (MHR)	2.99x	2.73x	2.52x	17.00%	-52.73%	1.05x
Median	***6.79x***	***6.20x***	***5.84x***	***14.85%***	***10.30%***	***2.66x***
Integer.pl S.A. (PLN)	44.13x	28.05x	12.97x	5.77%	21.99%	1.12x
Premium/Discount	***550.2%***	***352.5%***	***122.1%***			

Source: Thomson Reuters Eikon, East Value Research GmbH

Manufacturers of parcel lockers:

(11) *ByBox*: ByBox, which is based in Harwell/UK, installs and maintains lockers and dropboxes and has developed software platforms in order to manage them. We estimate that in 2015 ByBox had revenues of GBP 80m and employed >450 people.

In January 2015, ByBox announced that it decided to shut down myByBox, its B2C parcel locker service in the UK, which it had operated since 2008. We believe the main reason for the move was the company's focus on B2B customers and increasing competition e.g. by easyPack. In the past, ByBox' network has comprised >1,500 machines.

(12) *Cleveron Ltd.*: Cleveron, which is based in Tallinn/Estonia, is a privately-owned developer and manufacturer of automated parcel lockers as well as corresponding software for control and monitoring. The company has supplied the machines among others to SMARTPost (owned by Finish Itella), which runs a network in Finland and Estonia, hapiick in Spain and Posten in Norway.

According to our research, Cleveron's parcel lockers are cheaper than ITG's, however are of much worse quality.

(13) *TZ Packaged Asset Delivery Inc.*: TZ Packaged Asset Delivery, which is based in Sydney/Australia, provides innovative, electronic parcel logistics solutions that automate "last mile delivery" of package and express deliveries to commercial and residential locations. Its package asset delivery (PAD) solutions feature a system of modular lockers that integrate a network of TZ SMArt locking devices and proprietary system software. Customers include among others Singapore Post. TZ Packaged Asset Delivery is an operating business unit of Telezygology Inc., a subsidiary of TZ Ltd., which is listed on the Australian Stock Exchange.

(14) *KEBA AG*: KEBA, which is based in Linz/Austria, has delivered parcel lockers among others to German DHL, Österreichische Post, Swiss and Lithuanian Post, Neopost in France, LOGIBOX in Russia and PTT in Turkey. Apart from Integer.pl, it is in our view the largest manufacturer and supplier of parcel lockers worldwide.

(15) *Shanghai Baoqing Intelligent Technology*: The Chinese company Shanghai Baoqing Intelligent Technology manufactures parcel lockers of different sizes. According to its website, it has installed parcel locker systems for Yunda Express and a number of Chinese universities.

E-Commerce companies:

(16) *Amazon Inc.*: Amazon, which is based in Seattle/US, is the world's largest online retailer. It operates an own parcel locker network "Amazon Locker", which is available in >300 locations in the US and UK. In a press release on 19 February 2016 Reuters suggested that the company planned to create an own APM network in Europe. In 2015, Amazon generated yearly sales of USD 107bn.

(17) *Zalando SE*: Zalando, which is based in Berlin/Germany, is an online shoes and fashion retailer, which is available in 15 European countries. In fiscal-year 2015, it had revenues of EUR 3bn.

(18) *Alibaba Group 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 2014/15, Alibaba had revenues of CNY 76.2bn.

(19) *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 and payments. In 2015, eBay generated revenues of USD 8.6bn.

	EV/Sales			EBITDA margin	Net gearing	P/BVPS
Company	**2015**	**2016E**	**2017E**	**2015**	**Latest**	**Latest**
Amazon Inc. (USD)	2.45x	2.02x	1.69x	8.20%	-42.03%	20.04x
Zalando SE (EUR)	2.09x	1.66x	1.35x	4.20%	-82.61%	5.69x
Alibaba Group Ltd. (USD)	11.43x	8.78x	6.91x	34.30%	-41.60%	8.27x
eBay Inc. (USD)	3.37x	3.32x	3.19x	33.50%	10.28%	4.31x
Median	***2.91x***	***2.67x***	***2.44x***	***20.85%***	***-41.81%***	***6.98x***
Integer.pl S.A. (PLN)	1.37x	1.60x	1.34x	5.77%	21.99%	1.12x
Premium/Discount	***-53.1%***	***-39.9%***	***-45.1%***			

Source: Thomson Reuters Eikon, East Value Research GmbH

Profit and loss statement

in PLNm	2013	2014	2015E	2016E	2017E	2018E
Revenues	**347.32**	**604.07**	**708.15**	**602.92**	**721.37**	**854.57**
Cost of goods sold	-223.76	-435.88	-506.33	-397.92	-450.86	-521.29
Gross profit	**123.56**	**168.19**	**201.82**	**204.99**	**270.51**	**333.28**
Other operating income	8.83	9.39	9.58	9.77	9.97	10.17
Personnel costs	-62.19	-93.71	-155.79	-147.71	-173.13	-200.82
Other operating expenses	-20.66	-49.04	-33.68	-32.55	-32.74	-35.64
EBITDA	**49.54**	**34.83**	**21.93**	**34.50**	**74.61**	**106.99**
Depreciation	-25.30	-39.99	-67.27	-63.91	-67.09	-70.93
Operating income	**24.23**	**-5.16**	**-45.35**	**-29.41**	**7.53**	**36.06**
Net financial result	-8.07	-13.84	-9.00	-8.00	-7.65	-7.30
EBT	**16.17**	**-19.00**	**-54.35**	**-37.41**	**-0.12**	**28.76**
Income taxes	-7.54	-12.99	24.46	7.11	0.02	-5.46
Minorities	14.96	22.52	32.00	20.00	-2.00	-2.30
Net income / loss	**23.58**	**-9.47**	**2.11**	**-10.30**	**-2.10**	**20.99**
EPS	3.58	-1.28	0.27	-1.33	-0.27	2.70
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Share in total sales						
Revenues	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Cost of goods sold	-64.42 %	-72.16 %	-71.50 %	-66.00 %	-62.50 %	-61.00 %
Gross profit	35.58 %	27.84 %	28.50 %	34.00 %	37.50 %	39.00 %
Other operating income	2.54 %	1.55 %	1.35 %	1.62 %	1.38 %	1.19 %
Personnel costs	-17.91 %	-15.51 %	-22.00 %	-24.50 %	-24.00 %	-23.50 %
Other operating expenses	-5.95 %	-8.12 %	-4.76 %	-5.40 %	-4.54 %	-4.17 %
EBITDA	14.26 %	5.77 %	3.10 %	5.72 %	10.34 %	12.52 %
Depreciation	-7.29 %	-6.62 %	-9.50 %	-10.60 %	-9.30 %	-8.30 %
Operating income	6.98 %	-0.85 %	-6.40 %	-4.88 %	1.04 %	4.22 %
Net financial result	-2.32 %	-2.29 %	-1.27 %	-1.33 %	-1.06 %	-0.85 %
EBT	4.65 %	-3.15 %	-7.67 %	-6.21 %	-0.02 %	3.36 %
Income taxes	-2.17 %	-2.15 %	3.45 %	1.18 %	0.00 %	-0.64 %
Minorities	4.31 %	3.73 %	4.52 %	3.32 %	-0.28 %	-0.27 %
Net income / loss	6.79 %	-1.57 %	0.30 %	-1.71 %	-0.29 %	2.46 %

Balance Sheet

in PLNm	2013	2014	2015E	2016E	2017E	2018E
Assets						
Cash and equivalents	84.36	80.96	1.47	13.17	5.98	7.29
Other financial assets	23.68	5.23	5.28	5.33	5.39	5.44
Inventories	12.84	21.85	20.81	16.35	18.53	21.42
Trade accounts and notes receivables	181.63	287.20	302.66	245.30	278.67	312.56
Other current assets	67.14	107.99	86.39	87.25	88.13	89.01
Current assets, total	**369.65**	**503.23**	**416.61**	**367.41**	**396.68**	**435.73**
Property, plant and equipment	339.53	453.68	540.83	713.39	884.22	1053.34
Other intangible assets	91.90	125.74	146.49	161.14	164.36	167.65
Goodwill	6.05	51.40	44.50	44.50	44.50	44.50
Long-term financial assets	25.33	58.14	78.48	80.05	81.65	83.29
Other assets	6.52	0.14	1.70	1.73	1.77	1.80
Deferred tax assets	16.27	16.88	52.00	53.96	54.36	50.37
Non-current assets, total	**485.59**	**705.97**	**864.00**	**1054.77**	**1230.86**	**1400.95**
Total assets	**855.24**	**1209.19**	**1280.61**	**1422.17**	**1627.54**	**1836.67**
Liabilities						
Trade payables	84.99	123.53	141.58	109.77	122.66	139.85
Other short-term liabilities	39.89	51.08	58.75	67.56	77.69	89.34
Short-term financial debt	163.86	164.65	66.00	130.00	110.00	100.00
Pension provision	0.01	0.02	0.02	0.02	0.02	0.02
Other provisions	18.45	4.99	3.00	2.55	3.06	3.62
Current liabilities, total	**307.19**	**344.27**	**269.35**	**309.89**	**313.43**	**332.84**
Long-term financial debt	35.13	55.37	225.00	356.00	555.00	720.00
Pension provision	0.06	0.11	0.12	0.11	0.13	0.15
Other provisions	0.71	0.46	0.54	0.46	0.55	0.65
Other long-term liabilities	24.09	19.32	16.42	17.24	18.11	19.01
Deferred tax liabilities	0.00	0.00	9.40	9.00	10.96	11.36
Long-term liabilities, total	**59.98**	**75.26**	**251.49**	**382.81**	**584.74**	**751.17**
Total liabilities	**367.17**	**419.53**	**520.83**	**692.70**	**898.17**	**1084.01**
Shareholders equity, total	**350.15**	**609.21**	**611.32**	**601.01**	**598.91**	**619.91**
Minority interests	137.92	180.46	148.46	128.46	130.46	132.76
Total liabilities and equity	**855.24**	**1209.19**	**1280.61**	**1422.17**	**1627.54**	**1836.67**

Cash Flow Statement

in PLNm	2013	2014	2015E	2016E	2017E	2018E
Net income / loss	23.58	-9.47	2.11	-10.30	-2.10	20.99
Depreciation & Amortization	25.30	39.99	67.27	63.91	67.09	70.93
Change of working capital	-66.25	-162.22	32.89	37.95	-13.39	-8.83
Others	19.70	-23.26	27.63	2.88	-2.15	-5.05
Net operating cash flow	**2.34**	**-154.96**	**129.91**	**94.44**	**49.45**	**78.04**
Cash flow from investing	**-239.12**	**-202.03**	**-195.52**	**-252.68**	**-242.74**	**-244.97**
Free cash flow	-236.78	-357.00	-65.61	-158.24	-193.29	-166.93
Cash flow from financing	**221.18**	**353.60**	**-13.88**	**169.94**	**186.10**	**168.25**
Change of cash	-15.60	-3.40	-79.49	11.70	-7.20	1.32
Cash at the beginning of the period	99.96	84.36	80.96	1.47	13.17	5.98
Cash at the end of the period	84.36	80.96	1.47	13.17	5.98	7.29

Financial ratios

Fiscal year	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E
Profitability and balance sheet quality								
Gross margin	35.58%	27.84%	28.50%	34.00%	37.50%	39.00%	41.00%	42.20%
EBITDA margin	14.26%	5.77%	3.10%	5.72%	10.34%	12.52%	15.64%	17.49%
EBIT margin	6.98%	-0.85%	-6.40%	-4.88%	1.04%	4.22%	7.84%	10.19%
Net margin	6.79%	-1.57%	0.30%	-1.71%	-0.29%	2.46%	5.45%	7.42%
Return on equity (ROE)	8.58%	-1.97%	0.35%	-1.70%	-0.35%	3.44%	7.76%	10.40%
Return on assets (ROA)	3.70%	0.36%	0.87%	-0.16%	0.34%	1.54%	2.95%	4.08%
Return on capital employed (ROCE)	2.36%	-1.00%	-2.47%	-2.14%	0.46%	1.94%	3.70%	5.10%
Economic Value Added (in PLNm)	-26.01	-70.14	-96.80	-102.86	-87.28	-77.65	-53.55	-32.08
Net debt (in PLNm)	91.01	133.95	284.39	467.62	653.78	807.44	825.90	775.82
Net gearing	25.99%	21.99%	46.52%	77.80%	109.16%	130.25%	123.28%	104.36%
Equity ratio	40.94%	50.38%	47.74%	42.26%	36.80%	33.75%	34.74%	37.87%
Current ratio	1.20	1.46	1.55	1.19	1.27	1.31	1.26	1.24
Quick ratio	0.94	1.08	1.15	0.85	0.93	0.98	0.95	0.93
Net interest cover	3.00	-0.37	-5.04	-3.68	0.98	4.94	10.35	15.28
Net debt/EBITDA	1.84	3.85	12.97	13.55	8.76	7.55	5.76	4.48
Tangible BVPS	52.24	75.39	73.00	71.68	71.41	74.11	80.55	90.01
CAPEX/Sales	70.11%	44.06%	27.61%	41.91%	33.65%	28.67%	17.47%	12.00%
Working capital/Sales	39.37%	40.13%	29.59%	28.46%	25.64%	22.68%	19.94%	17.01%
Cash Conversion Cycle (in days)	73	88	69	63	57	51	44	38
Trading multiples								
EV/Sales	2.79	1.60	1.37	1.60	1.34	1.13	1.05	0.98
EV/EBITDA	19.53	27.78	44.13	28.05	12.97	9.04	6.75	5.59
EV/EBIT	39.93	-187.67	-21.34	-32.90	128.56	26.84	13.46	9.59
P/Tangible BVPS	1.68	1.17	1.21	1.23	1.23	1.19	1.09	0.98
P/E	24.58	-68.75	323.95	-66.32	-325.36	32.55	13.66	9.30
P/FCF	-2.89	-1.91	-10.41	-4.32	-3.53	-4.09	-20.31	18.67

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It is the sole decision of East Value Research GmbH whether and when a potential update of this research will be made.

Relevant basis and measures of the valuations, which are included in this document:

The valuations, which are the basis for East Value Research‵ investment recommendations, are based on generally-accepted and widely-used methods of fundamental analysis such as the Discounted-Cash-Flow method, Peer Group comparison, or Sum-of-the-Parts models.

The meaning of investment ratings:

Buy: Based on our analysis, we expect the stock to appreciate and generate a total return of more than 10% over the next twelve months

Add: Based on our analysis, we expect the stock to appreciate and generate a total return between 0% and 10% over the next twelve months

Reduce: Based on our analysis, we expect the stock to cause a negative return between 0% and -10% over the next twelve months

Sell: Based on our analysis, we expect the stock to cause a negative return exceeding -10% over the next twelve months

The respective supervisory authority is:

Bundesanstalt für Finanzdienstleistungsaufsicht
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