

Morizon S.A.



Price target: PLN 1.75

Initiating Coverage

Rating: BUY

Morizon S.A. (MZN) is the No 1 independent Polish publisher of web services and search engines in the area of real estate with >1m offers. The company has >900k unique users and works together with c. 4,000 registered real estate agents and developers. After the acquisition of FinPack Sp. z.o.o in April 2016, Morizon has become the first one-stop-shop in Poland, where clients can place and search for real estate offers, check their credit score and get the best possible mortgage loan.

Morizon has positioned itself as a full-service provider in the area of real estate with well-diversified revenues streams, which reduce its dependence on search engines. Its most important revenue sources are fees for classified ads, which it receives from real estate agents, developers and private individuals on a monthly basis, as well as remuneration for online (display) advertising campaigns. In addition, Morizon distributes own SaaS-based software products for real estate agents, developers and financial consultants and provides credit intermediary services.

According to ZenithOptimedia, online marketing in Poland, which IAB estimates at PLN >3bn, will grow at 12% y-o-y in 2016. PwC/IAB forecast that by 2018E online will become the dominant advertising channel in Poland. The mobile segment, where Morizon has a strong presence, is expected to be the main growth driver. The general prospects for the Polish real estate sector remain solid due to strong economic growth, increasing incomes and record-low interest rates. Moreover, in Poland there is a deficit of at least 400k apartments.

We recommend to BUY Morizon with a 12-months PT (80% DCF, 20% peer group) of PLN 1.75, which implies an upside of 20.1%. We like the company due to its strong market position, sound strategy and diversified revenue streams, which are mostly recurring and reduce the dependence on search engines. As main risk factors, we see the focus on Poland, competition by portals, which are part of large media or internet groups and plans of the Polish government relating to construction of affordable housing, which could in our view have a negative impact on the private real estate market in the future.

in PLNm	2014	2015	2016E	2017E	2018E	2019E
Net sales	13.83	14.59	17.36	27.90	35.47	44.55
EBITDA	3.51	1.69	2.31	4.38	6.34	8.50
EBIT	3.14	1.33	1.87	3.68	5.46	7.40
Net income	2.66	1.30	1.53	3.00	4.45	6.03
EPS	0.08	0.04	0.04	0.08	0.11	0.15
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	36.11%	8.40%	7.92%	12.53%	16.08%	18.30%
Net gearing	-18.90%	-14.58%	-7.16%	-11.67%	-20.59%	-28.08%
EV/Sales	3.95x	3.74x	3.14x	1.96x	1.54x	1.23x
EV/EBITDA	15.54x	32.27x	23.66x	12.47x	8.60x	6.42x
P/E	21.48x	43.83x	37.33x	19.02x	12.83x	9.48x

Company profile

Morizon S.A. is a leading publisher of online portals and search engines relating to real estate. The company also offers own software for real estate agents, developers and financial consultants and provides credit intermediary services.

Website	www.morizon.pl
Sector	Online Services
Country	Poland
ISIN	PLMORZNO0016
Reuters	MZN.WA
Bloomberg	MZN.PW

Share information

Last price	1.46
Number of shares (m)	39.12
Market cap. (PLNm)	57.11
Market cap. (EURm)	12.91
52-weeks range	PLN 1.59 / PLN 1.13
Average volume (shares)	918

Performance

4-weeks	0.69%
13-weeks	0.69%
26-weeks	2.10%
52-weeks	5.04%
YTD	4.29%

Shareholder structure

Altus TFI	22.30%
Jaroslav Swiecicki	19.90%
Tomasz Swiecicki	18.05%
Sui Generis Investments Ltd	6.95%
Wondelay Investments Ltd	8.83%
Alterium Holding	8.64%
Dariusz Piszczatowski	4.07%
Free float	11.26%

Financial calendar

Q2/16 report	August 12, 2016
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Analyst

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Investment Case

- Morizon S.A. (MZN) is the No 1 independent Polish publisher of web services and search engines in the area of real estate with >1m offers. According to PBI/Gemius, the company's portals, which are also available in a mobile version, have >10m monthly page impressions. Only those competitors have a higher ranking, who are controlled by large internet or media groups.
- After the acquisition of FinPack Sp. z.o.o in April 2016, Morizon has become the first one-stop-shop in Poland, where clients can place and search for real estate offers, check their credit score and get the best possible mortgage loan. The company has well-diversified revenue streams, which reduce its dependence on search engines. Its most important revenue sources are fees for classified ads, which it receives from real estate agents, developers and private individuals on a monthly basis, as well as remuneration for online (display) advertising campaigns. In addition, Morizon distributes own SaaS-based software products for real estate agents, developers and financial consultants and provides credit intermediary services.
- According to ZenithOptimedia, online advertising in Poland, which IAB estimates at PLN >3bn, will grow at 12% y-o-y in 2016. PwC/IAB forecast that by 2018E online will become the dominant advertising channel in Poland. The mobile segment, where Morizon has a strong presence, is expected to be the main growth driver. The general prospects for the Polish real estate sector remain solid due to strong economic growth, increasing incomes and record-low interest rates. Moreover, in Poland there is currently a deficit of at least 400k apartments.
- In Q1/16, Morizon generated revenues of PLN 3.6m (-0.6% y-o-y), EBIT of PLN 0.5m (-22.7%) and net income of PLN 0.4m (-14.9%). Between January and March 2016, results were negatively affected by investments in the usability of the portal Morizon.pl as well as advertising campaigns (online, outdoor and social media). In April 2016, Morizon acquired FinPack Sp. z.o.o for in total PLN 6.8m, a leader in the area of software for financial consultants in Poland. Due to the acquisition and integration costs we expect that in full-year 2016 revenues will increase by 19% y-o-y to PLN 17.4m, EBIT by 41.2% to PLN 1.9m and net income by 17.4% to PLN 1.5m. In 2017E, they should however advance to PLN 27.9m (+60.7%), PLN 3.7m (+96.4%) and PLN 3m (+96.3%) respectively. We believe that MZN's credit intermediary business will reach at least PLN 12.5m of sales in the period May 17-May 18 and min. PLN 18m in May 18-May 19 as set in the incentive scheme for FinPack's management.
- We recommend to BUY Morizon with a 12-months PT (80% DCF, 20% peer group) of PLN 1.75 (upside of 20.1%). We like the company due to its strong market position, sound strategy and diversified revenue streams, which are mostly recurring and reduce the dependence on search engines. As main risk factors, we see the focus on Poland, competition by portals, which are part of large media or internet groups and plans of the Polish government relating to construction of affordable housing, which could in our view have a negative impact on the private real estate market in the future.

SWOT Analysis

Strengths

- No 1 independent publisher of web services and search engines for real estate in Poland with >1m offers
- Only leading player in his segment in Poland, who is listed on a stock exchange
- Proprietary software, which supports real estate agents, and developers in their daily work; after acquisition of Fin-Pack also SaaS-based software for financial consultants
- Diversified revenues sources: fee for placing ads, online advertising sales, software licenses, commissions from the sale of mortgage loans; no client accounts for 10% or more of total sales
- Management & founders own 66.4%; largest shareholder is institutional investor Altus TFI with 22.3%

Opportunities

- Value-accretive acquisitions in the area of real estate, which would complement Morizon's offering
- The online advertising market in Poland is expected to increase by 12% in 2016 and become the most important ad channel by 2018E; Programmatic buying, Mobile and Online Video are the main growth drivers
- The prospects for the Polish property market remain positive due to robust economic growth, increasing incomes, record-low interest rates and a high deficit relating to available apartments (more than 400k)
- Highly scalable, cash generating business model allows for significant dividend payouts in the long run
- Takeover by larger competitor

Weaknesses

- Focus on operations in Poland
- Listing in the illiquid NewConnect segment

Threats

- Risk relating to a change of search engine algorithms
- Dependence on the condition of the real estate sector
- Largest competitors gratka.pl, otodom.pl and domiporta.pl are all backed by large media companies, which are far better able to compete for online traffic
- Low market entry barriers
- Loss of key employees

Valuation

We have valued Morizon S.A. by using a weighted average of our DCF model (80%) and peer-group-based fair value (20%). Our 12-months price target for the company's shares is PLN 1.75, which implies an upside of 20.1% at present.

DCF model

in PLNm	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E				
Net sales	17.36	27.90	35.47	44.55	49.58	54.57	60.13	63.95	68.02				
(y-o-y change)	19.0%	60.7%	27.1%	25.6%	11.3%	10.1%	10.2%	6.4%	6.4%				
Operating profit	1.87	3.68	5.46	7.40	8.73	10.39	11.42	12.11	12.85				
(Operating margin)	10.8%	13.2%	15.4%	16.6%	17.6%	19.0%	19.0%	18.9%	18.9%				
NOPLAT	1.52	2.98	4.42	5.99	7.07	8.42	9.25	9.81	10.41				
+ Depreciation & amortisation	0.43	0.69	0.88	1.11	1.23	1.36	1.50	1.59	1.69				
= Net operating cash flow	1.95	3.68	5.31	7.10	8.30	9.77	10.74	11.40	12.10				
- Total investments (Capex and WC)	-7.60	-2.39	-2.19	-3.25	-2.57	-2.43	-2.70	-2.51	-2.65				
Capital expenditures	-7.24	-1.09	-1.22	-2.09	-1.91	-1.77	-2.01	-2.04	-2.15				
Working capital	-0.36	-1.31	-0.97	-1.16	-0.66	-0.66	-0.69	-0.48	-0.51				
= Free cash flow (FCF)	-5.65	1.28	3.12	3.84	5.73	7.35	8.04	8.89	9.45				
PV of FCFs	-5.31	1.07	2.29	2.49	3.28	3.72	3.60	3.51	3.30				
PV of FCFs in explicit period	17.95												
PV of FCFs in terminal period	32.22												
Enterprise value (EV)	50.17												
+ Net cash / - net debt (31 December 2016)	1.61												
Shareholder value	51.78												
Number of shares outstanding (m)	39.12												
							Terminal EBIT margin						
WACC	13.2%						15.9%	16.9%	17.9%	18.9%	19.9%	20.9%	21.9%
Cost of equity	13.2%	9.2%	2.36	2.47	2.58	2.69	2.80	2.90	3.01				
Pre-tax cost of debt	6.0%	10.2%	2.01	2.10	2.19	2.28	2.36	2.45	2.54				
Normal tax rate	19.0%	11.2%	1.74	1.81	1.88	1.96	2.03	2.10	2.17				
After-tax cost of debt	4.9%	12.2%	1.52	1.58	1.64	1.70	1.76	1.82	1.88				
Share of equity	100.0%	13.2%	1.35	1.40	1.45	1.50	1.55	1.60	1.65				
Share of debt	0.0%	14.2%	1.20	1.24	1.28	1.33	1.37	1.41	1.46				
Fair value per share in PLN (today)	1.32	15.2%	1.07	1.11	1.15	1.19	1.22	1.26	1.30				
Fair value per share in PLN (in 12 months)	1.50												

Source: East Value Research GmbH

Peer Group Analysis

We have compared Morizon to some listed companies, which operate in the area of classified advertising. Moreover, we have looked at valuations of some relevant M&A deals, which have been conducted in the US in the last two years.

Listed peers:

- (1) *Zillow Group Inc.:* Zillow Group, which is based in Seattle, operates real estate and home-related online and mobile marketplaces (e.g. Zillow, Trulia, StreetEasy and HotPads), which help people find information about homes and connect with local professionals. In addition, it provides advertising services and technology solutions to real estate agents, and rental and mortgage professionals. The company's database includes over 110 million homes in the US, which are either for sale or for rental. In 2015, Zillow Group generated revenues of USD 644.7m.
- (2) *CoStar Group Inc.:* CoStar Group Inc., which is based in Washington/US, is a provider of information, analytics and online marketplaces to the commercial real estate industry in North America, United Kingdom, Spain and France. In 2015, CoStar generated revenues of USD 711.8m.
- (3) *Reis Inc.:* Reis Inc., which is headquartered in New York/US, is engaged in providing commercial real estate market information and analytical tools to real estate professionals. In 2015, Reis had revenues of USD 50.9m.
- (4) *Rightmove PLC:* Rightmove PLC, which is based in London/UK, has the following segments: Agency, New Homes and Other. The Agency segment provides resale and lettings property advertising services. The New Homes segment provides property advertising services to new home developers and housing associations. The Other segment consists of overseas and commercial property advertising and non-property advertising services, which include its third-party and consumer services, as well as data and valuation services. In 2015, Rightmove generated total sales of GBP 192.1m.
- (5) *Scout24 AG:* Scout24 AG, which is headquartered in Munich/Germany, operates digital classified advertisement platforms in Germany and other European countries e.g. scout24.com, immobilienScout24.de, autoscout24.com, my-next-home.de and immodirekt.at. In 2015, the company generated revenues of EUR 393.6m, thereof 68% with its real estate portal immobilienscout24.de.

Company	EV/Sales			EV/EBITDA			P/E			P/BVPS	EBITDA margin	Net gearing
	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	Latest	2015	Latest
Zillow Group Inc. (USD)	5.80x	4.50x	3.71x	neg	28.67x	18.18x	neg	neg	neg	1.51x	-2.70%	-10.66%
CoStar Group Inc. (USD)	9.22x	7.81x	6.85x	23.52x	30.78x	23.16x	neg	83.67x	53.38x	4.26x	12.60%	-7.15%
Reis Inc. (USD)	4.80x	4.37x	3.88x	9.12x	12.69x	10.79x	27.44x	42.37x	34.50x	2.70x	34.80%	-28.53%
Rightmove plc (GBP)	18.12x	16.20x	14.67x	25.14x	21.46x	19.17x	32.83x	27.97x	24.53x	526.18x	72.10%	-187.05%
Scout24 AG (EUR)	11.20x	10.03x	9.09x	26.41x	21.29x	17.83x	61.38x	47.09x	31.54x	3.96x	42.40%	76.02%
Median	9.22x	7.81x	6.85x	24.33x	21.46x	18.18x	32.83x	44.73x	33.02x	3.96x	34.80%	-10.66%
Morizon S.A. (PLN)	3.74x	3.14x	1.96x	32.27x	23.66x	12.47x	40.04x	35.71x	19.02x	3.44x	11.59%	-15.26%
Premium/Discount	-59.4%	-59.7%	-71.5%	32.6%	10.2%	-31.4%	22.0%	-20.2%	-42.4%			
Fair value Morizon (PLN)	2.45											

Source: Thomson Reuters Eikon, East Value Research GmbH

Price target calculation

Valuation method	Fair value	Weight
DCF model	1.32	80%
Peer Group Analysis	2.45	20%
Weighted average (present value)	1.55	
In 12-months (PV * (1+WACC))	1.75	

Source: East Value Research GmbH

M&A transactions of comparable companies:

In our view, there is a clear trend towards consolidation in the area of real estate portals as in the long run only those companies will be able to survive, which are part of larger media or internet groups. Below are the statistics of two transactions, which have been conducted in the US in the last years.

Buyer	Target	Date of completion	Deal Enterprise Value	Implied EV/Sales	MZN's current EV/Sales 2015
Zillow Inc.	Trulia Inc.	Feb 15	USD 2.79bn	13.4x	3.7x
News Corp.	Move Inc.	Nov 14	USD 869m	3.6x	3.7x

Source: Thomson Reuters Eikon, East Value Research GmbH

Recent results

Revenues and Profitability

In Q1/16, which did not include the results of FinPack Sp. z.o.o, Morizon generated total revenues of PLN 3.6m (-0.6% y-o-y). However, profitability deteriorated due to costs relating to improvements of the portal Morizon.pl (optimization of the contact formular, graphics and the mobile version of the service) as well as outdoor, online and social media campaigns. These measures were conducted in order to strengthen the brand recognition of Morizon.pl, which is MZN's main portal.

in PLNm	Q1/16	Q1/15	change (%)
Net sales	3.58	3.60	-0.6%
EBITDA	0.60	0.79	-23.8%
<i>EBITDA margin</i>	<i>16.7%</i>	<i>21.8%</i>	
EBIT	0.52	0.68	-22.7%
<i>EBIT margin</i>	<i>14.6%</i>	<i>18.8%</i>	
Net income	0.44	0.51	-14.9%
<i>Net margin</i>	<i>12.2%</i>	<i>14.2%</i>	

Source: Company information, East Value Research GmbH

Net income (-14.9% y-o-y to PLN 435k) delined less than EBIT due to a significantly lower effective tax rate y-o-y, which went down from 25.9% in Q1/15 to 17.5%.

Balance sheet and Cash flow

At the end of March 2016, Morizon had equity of PLN 16.6m, which corresponded to a ratio of 90.8%. Apart from equity, the largest balance sheet position was goodwill of PLN 9.4m, which stemmed from the acquisitions of Media Nieruchomosci S.A. and Melog.com Sp. z.o.o. As of 31 March 2016, Morizon had cash of PLN 2.8m, while its interest-bearing debt equaled PLN 283k.

Between January and March 2016, Morizon generated an operating cash flow of PLN 490k compared to PLN 599k in Q1/15, which stemmed from a lower net profit. Cash flow from investing equaled PLN -315k (Q1/15: PLN -475k) and from financing PLN -12k (PLN 0k). In Q1/16, Morizon's cash position increased by PLN 163k.

On 27 April 2016 (thus already in Q2/16), Morizon announced the acquisition of FinPack Sp. z.o.o from Alterium Holding Sp. z.o.o and the Polish Entrepreneurs Foundation. Both companies complement each other very well as Morizon has the users, which FinPack targets with its solutions and services. The transaction price consisted of cash totaling PLN 2.08m and MZN's shares worth PLN 4.77m (3.38m new shares at PLN 1.41 per share). At the same time, Alterium Holding and FinPack's management offered Morizon a call option, meaning they will transfer 1.06m of MZN's shares for free if FinPack's business relating to credit intermediary services does not reach certain financial figures within 12 months.

In addition, Morizon and three of FinPack's management members agreed on an incentive scheme, whereby each of them will have the right to obtain 907k shares of MZN at PLN 0.50 per share if FinPack's business relating to credit intermediary services reaches at least 12.5m of revenues and PLN 2.45m of net profit in the period May 2017-May 2018 and min. PLN 18m of revenues and PLN 5.2m of net profit in May 2018-May 2019.

Financial forecasts

Revenues and Profitability

While Morizon only has one reporting segment, we have based our sales model on four areas, which reflect the company's revenue sources: "Fees for classified ads", "Online advertising", "Software" and "Mortgage loans".

The main risks, which we see for Morizon's business, are changes of search engine algorithms, competition by portals, which are part of larger (online) media groups as well as a deteriorating property market in Poland.

Fees for classified ads: This is Morizon's main revenue source and includes monthly fees, which the company receives from real estate agents, developers and individuals for placing ads on its portals. The packages, which the company sells to its customers, include a certain number of ads per month.

In our model, we have assumed that in the coming years the segment's revenue CAGR 16-24E of 7.5% will derive from both an increasing number of subscribers and higher average monthly fee, which currently is very low compared to Western markets. While we forecast that by 2024E the number of average users will advance from 4,000 in 2016 to 5,194 (CAGR of 3.3%), we estimate that the average monthly fee, which currently equals PLN 250, will increase at a CAGR 16-24E of 4%.

Online advertising: Assuming that the average price per campaign will remain constant at PLN 10k, we estimate that revenues from online advertising will increase at a CAGR 16-24E of 3%. We believe that by 2024E Morizon will have 256 paying clients compared to 202 this year.

Software: Morizon has c. 300 clients, who have subscribed to its Agencja5000 software for real estate agents and developers. However, with the acquisition of FinPack in April 2016, who is the leader in the area of software for financial consultants in Poland, the total number of licenses increased significantly. For the period 2016-2024E, we have assumed that from 2,100 in 2016 the average number of licenses will grow at a CAGR of 10.9%, while the average license fee should remain at PLN 50.

Mortgage loans: This is a new business line for Morizon and was acquired with FinPack, which operates an own network of 70 financial consultants in the largest Polish cities. We expect that this segment will develop most dynamically over the next years and forecast a revenue CAGR 16-24E of 45.3%, which should also improve MZN's operating margin to c. 19%. In our view, the volume of mortgage loans will increase from PLN 130m in 2016 to PLN 2.6bn, while the average commission for Morizon should remain constant at 1.6%.

in PLNm	2016E	2017E	2018E
Fees for classified ads	12.00	13.54	14.45
<i>(% of sales)</i>	<i>69.1%</i>	<i>48.5%</i>	<i>40.7%</i>
Average number of real estate agents & developers	4,000	4,340	4,453
Average monthly fee (in PLN)	250	260	270
Online advertising	2.02	2.08	2.14
<i>(% of sales)</i>	<i>11.6%</i>	<i>7.5%</i>	<i>6.0%</i>
Average number of real estate agents & developers	202	208	214
Average fee (in PLN)	10,000	10,000	10,000
Software	1.26	1.56	1.80
<i>(% of sales)</i>	<i>7.3%</i>	<i>5.6%</i>	<i>5.1%</i>
Average number of licenses	2,100	2,600	3,000
Average monthly fee (in PLN)	50	50	50
Mortgage loans	2.08	10.72	17.08
<i>(% of sales)</i>	<i>12.0%</i>	<i>38.4%</i>	<i>48.2%</i>
Volume (in PLNk)	130,000	670,000	1,067,500
Average commission (in %)	1.6%	1.6%	1.6%
Total net sales	17.36	27.90	35.47
<i>(change y-o-y)</i>	<i>19.0%</i>	<i>60.7%</i>	<i>27.1%</i>

Source: East Value Research GmbH

in PLNm	2016E	2017E	2018E
Net sales	17.36	27.90	35.47
EBITDA	2.31	4.38	6.34
<i>EBITDA margin</i>	<i>13.3%</i>	<i>15.7%</i>	<i>17.9%</i>
EBIT	1.87	3.68	5.46
<i>EBIT margin</i>	<i>10.8%</i>	<i>13.2%</i>	<i>15.4%</i>
Net income	1.53	3.00	4.45
<i>Net margin</i>	<i>8.8%</i>	<i>10.8%</i>	<i>12.6%</i>

Source: East Value Research GmbH

in PLNm	Q1/14	Q2/14	Q3/14	Q4/14	2014	Q1/15	Q2/15	Q3/15	Q4/14	2015	Q1/16
Net sales	2.85	3.85	3.80	3.34	13.83	3.60	3.62	3.71	3.67	14.59	3.58
<i>y-o-y change</i>	269.3%	407.1%	403.4%	297.9%	342.9%	26.4%	-5.8%	-2.5%	10.0%	5.5%	-0.6%
EBITDA	0.46	0.91	1.03	1.10	3.51	0.79	0.30	0.46	0.15	1.69	0.60
<i>EBITDA margin</i>	16.3%	23.7%	27.1%	33.0%	25.4%	21.8%	8.3%	12.5%	4.0%	11.6%	16.7%
EBIT	0.36	0.82	0.90	1.06	3.14	0.68	0.21	0.37	0.07	1.33	0.52
<i>EBIT margin</i>	12.6%	21.2%	23.6%	31.8%	22.7%	18.8%	5.7%	10.0%	2.0%	9.1%	14.6%
Net income	0.33	0.70	0.76	0.87	2.66	0.51	0.27	0.37	0.16	1.30	0.44
<i>Net margin</i>	11.6%	18.1%	20.0%	26.0%	19.2%	14.2%	7.3%	10.0%	4.3%	8.9%	12.2%

Source: Company information, East Value Research GmbH

CAPEX and Working capital

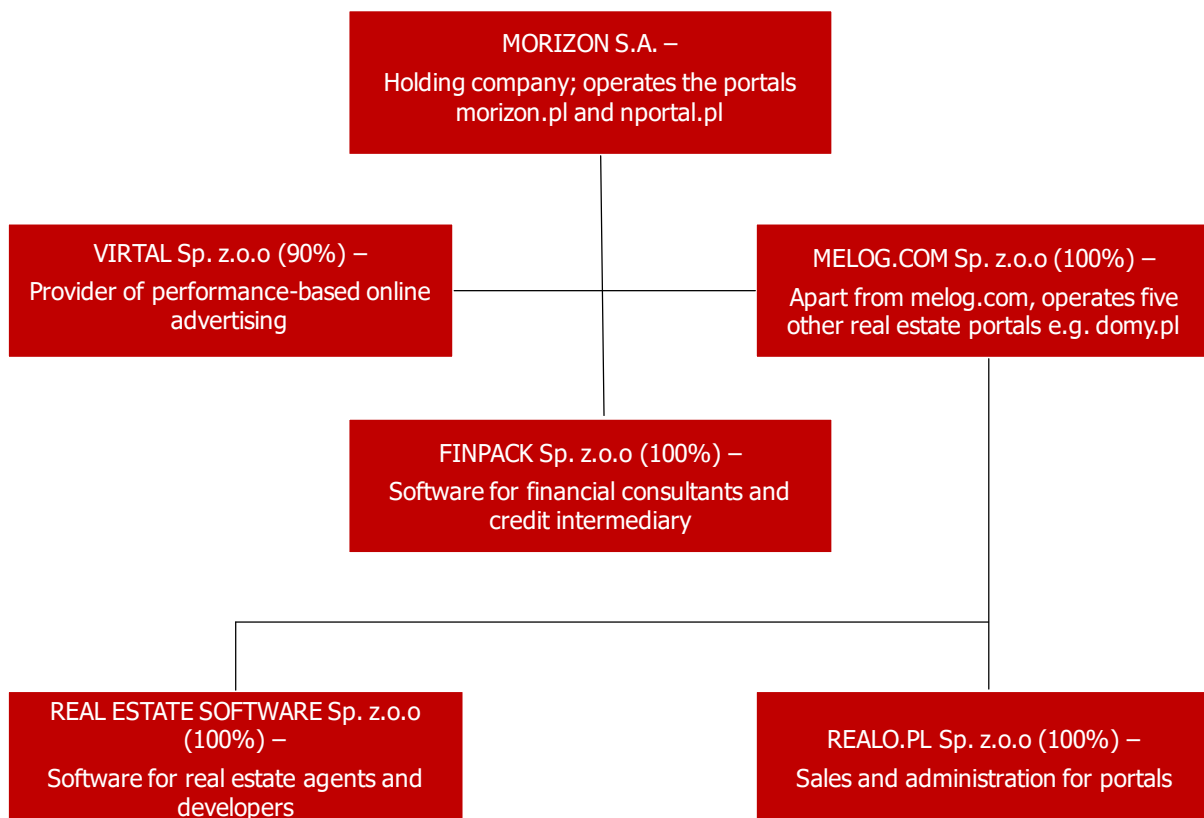
We expect that due to the acquisition of FinPack gross CAPEX in 2016 will reach PLN 7.2m. However, in the long run we forecast a CAPEX/sales ratio of 3.2%. Regarding working capital, we have assumed that its share will reach 12.5% in the future, while the cash conversion cycle should amount to 27 days.

Business description

Morizon S.A., which is based in Warsaw, is the leading independent Polish publisher of portals and search engines in the area of real estate. It currently has >900k unique users and works together with c. 4,000 real estate agents and developers. Apart from morizon.pl, the company also owns the portals domy.pl, nportal, oferty.net, melog.com, noweinvestycje.pl and komercyjne.pl. Morizon's websites are also available on mobile devices. Its mobile app, which can be used on both iOS and Android devices, is currently rated 4+ on Apple's iTunes.

In April 2016, the company acquired FinPack Sp. z.o.o, which since 2012 has become the undisputed Polish leader in the area of software solutions for financial intermediaries and also operates a network comprising 70 own agents. Thus, Morizon is now able to offer a full spectrum of services relating to real estate offering, searching and financing. The company has been listed in the NewConnect segment of the Warsaw Stock Exchange since 2010 and has c. 58 employees.

Organizational structure



Source: Company information, East Value Research GmbH

Company history

1996: Melog.com, which today is part of Morizon S.A., was founded as a software developer and IT consultancy.

1998: Melog.com started operations in the property sector.

1999: Melog.com completes the first version of its software for real estate agents called Agencja2000.

2000: Launch of the property portal oferty.net.

2004: Melog.com already works together with more than 100 real estate agents.

2008: Foundation of Morizon and capital increase from PLN 50k to PLN 150k.

CEO Monika Rudnicka resigns.

Restructuring due to consequences of the global financial crisis.

2009: Focus on building critical mass of real estate agents and number of ads with minimum costs.

2010: Market conditions improve. Morizon receives a subsidy of c. PLN 700k from the EU.

The company gains a new investor and converts debt into shares.

Boleslaw Drapella becomes Morizon's new CEO. Previously, he was Director of Development at one of the largest Polish providers of classified ads gratka.pl.

In Warsaw, Morizon creates a sales team. The company also hires the co-founder of its Polish competitor otodom.pl as IT project leader.

Morizon becomes a joint-stock company.

2011: IPO in the NewConnect segment of the Warsaw Stock Exchange, which was accompanied by a capital increase worth PLN 3.1m gross (1.6m new shares at PLN 2 per share)

2013: Morizon acquires 100% in the company Media Nieruchomosci S.A. for PLN 2.8m, which was financed by a capital increase of 1.4m new shares at PLN 2 per share. Media Nieruchomosci owns Nportal.pl, a real estate search engine, which has been on the market since 2008 and has c. 250k monthly real users.

Morizon acquires Melog.com Sp. z.o.o, which is the largest independent publisher of services for the real estate sector in Poland. The transaction price is c. PLN 12m, thereof 48.7% in cash and 51.3% in MZN's shares. Due to the acquisition Morizon's portals now also include domy.pl, oferty.net, komercyjne.pl and noweinvestycje.pl.

Morizon's yearly revenues reach PLN 3.1m.

2014: Grupa Nokaut S.A., the leading operator of price comparison portals in Poland, takes over 8m of Morizon's new shares for PLN 5.9m (PLN 0.74 per share).

Boleslaw Drapella resigns as CEO. Jaroslaw Swiecicki, the founder of Melog.com, becomes his successor.

The company's yearly sales reach PLN 13.8m.

2015: Grupa Nokaut sells all its 8m shares in Morizon (22.4% stake) to investment firm Altus TFI at a price of PLN 0.75 per share (PLN 6m in total).

2016: In April, Morizon acquires 100% in FinPack Sp. z.o.o for PLN 2.1m in cash and PLN 4.8m in stock (3.4m new shares at PLN 1.41 per share).

FinPack, which was founded in 2012, is the market leader in Poland, when it comes to software solutions for financial consultants. The company also owns a network of 70 credit consultants. With the transaction, Morizon becomes the first one-stop-shop for real estate agents and developers in Poland.

How does Morizon generate revenues?

While Morizon is showing only one segment in its financial reports, we have created the following business areas in order to present the company's revenue sources properly. We estimate that in 2015 >90% of Morizon's total sales came from placing ads as well as sale of leads (contact data). However, sale of leads is not a source of revenue, on which management want to put a focus in the future as it is a highly competitive area.

Fees for classified ads: In contrast to many other comparison portals, Morizon does not rely on a cost-per-click or cost-per-lead model, which is strongly dependent on a website's position in search engines and its user traffic. Instead, Morizon has chosen to charge real estate agents, developers and individuals a monthly fee for placing ads on its website, which can vary between PLN <100 to PLN >1,000. Currently, the company works together with c. 4,000 clients, which corresponds to c. 60% of all real estate agents and developers in Poland.

Online advertising: Morizon also generates revenues through offering online (display) advertising on its portals. The revenues stemming therefrom are one-off and usually amount to PLN >10,000. We estimate that in 2015 this service was used by c. 200 customers.

Software: This business area sums up revenues relating to Morizon's software products, which the company sells in the SaaS model. So far, sales have been generated with Agencja5000, which is a software product that supports real estate agents and developers in their daily work (creating property ads, sending them to different portals etc.). Due to the recent acquisition of FinPack Sp. z.o.o from May 2016 they also include proceeds relating to FinBroker, FinPartner, FinLead, FinRate and FinCRM, which are software products for financial consultants that combine the functionality of a comparison of financial products and Customer Relationship Management (CRM) system. They allow to choose a loan, which fits a client's credit score, and improve cost efficiency.

Mortgage loans: With the takeover of FinPack, Morizon also entered a new area of business, which allows the company to offer different kinds of services relating to real estate, ranging from placing ads, searching for offers, advertising, software but also provision of financing solutions. In the last years, FinPack has created a network of 70 own financial consultants in the largest Polish cities, who help end-customers to assess their credit worthiness and find the best possible mortgage financing.

How do Morizon's web portals perform compared to their main competitors?

Morizon currently operates eight web portals. The table below shows the web and social media statistics of Morizon's portals as well as the most important peers. While the whole market is highly competitive, we would like to emphasize that Morizon regards itself as a premium provider, with a focus on real estate agents and property developers.

Portal	Owner	SimilarWeb.com		Social Media Statistics	
		Estim. visits per month	Country rank*	Share of search engines in total traffic	Facebook Likes
Morizon.pl	Morizon S.A.	1.5m	826	41.8%	51,959
Melog.com	Morizon S.A.	6.6k	88,903	2.8%	n.a
Domy.pl	Morizon S.A.	761.4k	1,372	33.7%	7,127
Oferty.net	Morizon S.A.	177.3k	4,824	61.8%	2,459
Nportal.pl	Morizon S.A.	32.8k	24,723	62.0%	1,109
Noweinwestycje.pl	Morizon S.A.	19.2k	34,902	63.4%	n.a
Bezposrednie.com	Morizon S.A.	16.2k	61,180	13.7%	n.a
Nieruchomosci.pl	Morizon S.A.	27.4k	21,717	47.8%	n.a
Otodom.pl	Naspers Group (South Africa)	8.3m	106	40.0%	n.a
Gratka.pl	Polska Press Sp. z.o.o	9.4m	111	49.9%	72,881
Szybko.pl	Szybko.pl Sp. z.o.o	620.7k	1,731	61.3%	6,433
Nieruchomosci-online.pl	NNV AG	1.7m	455	69.0%	7,922
Najdom.pl	Wirtualna Polska S.A.	16.7k	36,118	74.8%	n.a
Domiporta.pl	Agora S.A.	1.3m	575	49.7%	166
Gumtree.pl	Ebay Inc.	7.8m	122	33.3%	134,240
Trovit.pl	Trovit Search, S.L	1.8m	897	71.6%	n.a
Gazetadom.pl	Agora S.A.	24.4k	47,276	28.4%	194

* Country rank: rank among all web portals in Poland; the lower the value, the better

Source: Similarweb.com, East Value Research GmbH

Management

Jaroslav Swiecicki (CEO): Jaroslav Swiecicki has been CEO of Morizon S.A. since 2014. He is co-founder of Melog.com. In the past, he has created one of the first CMS (Content Management Systems) in Poland and one of the first price comparison portals called toczyto. He worked as consultant and leader of internet and intranet projects at such well-known companies as QXL Ricardo (Allegro.pl), PZU, Allianz and Baker McKenzie. Mr Swiecicki graduated with degrees in Computer Science and International Relations from the University of Warsaw.

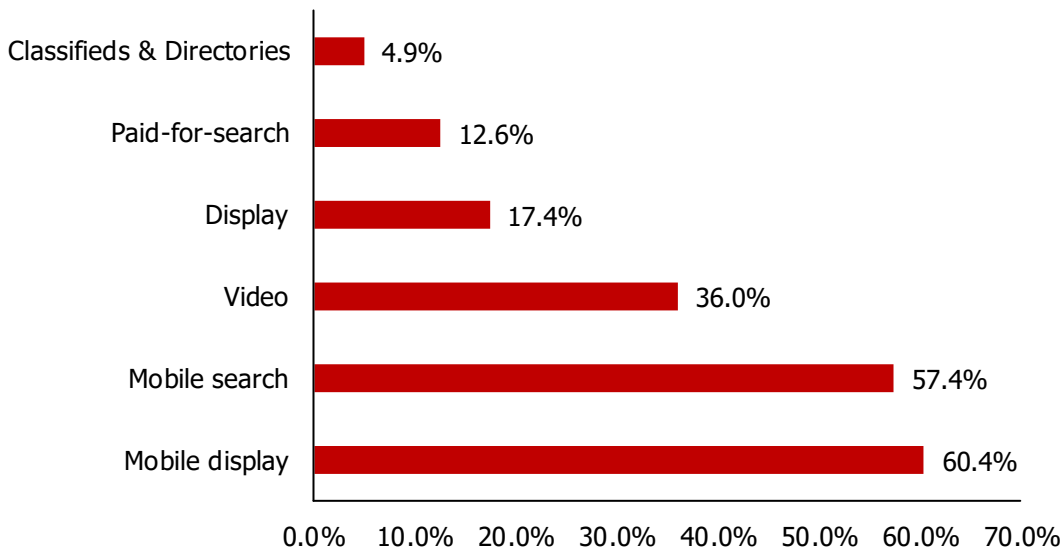
Slawomir Topoloewski (Vice President of the Board): Slawomir Topczewski has been Vice President of the Board of Morizon S.A. since 2014. Earlier, he was among others CEO at Grupa Nokaut S.A., a leading Polish price comparison, as well as Director of IT at ITI Neovision, Polpharma and Philips. Mr Topczewski graduated with a degree in Organization and Management from the Technical University in Warsaw.

Market environment

Online advertising in Poland

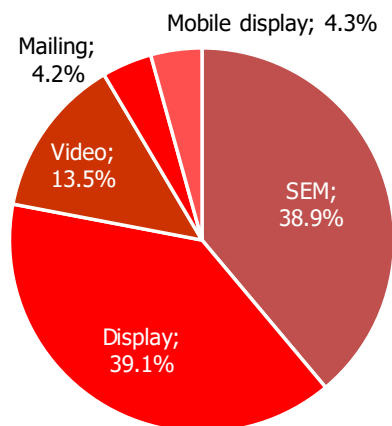
According to ZenithOptimedia, the total advertising market in Poland will grow by 3.2% y-o-y to PLN 6.9bn net in 2016. The online segment, which IAB Poland estimates at PLN >3bn, is expected to advance by 12% y-o-y and thus at the highest rate of all channels. With regard to online advertising, the share of programmatic buying through Real-Time Bidding platforms is expected to increase c. 2.5 times compared to 2015. Investments in video and mobile ads are also set to grow rapidly. According to PwC/IAB, the online segment in Poland will outpace TV by 2018E. In whole Europe, it already became the most dominant advertising channel last year.

Yearly growth of the different online advertising segments in Europe in 2015



Source: IAB Europe/IHS, East Value Research GmbH

Share of different forms of online advertising in Poland in 2015

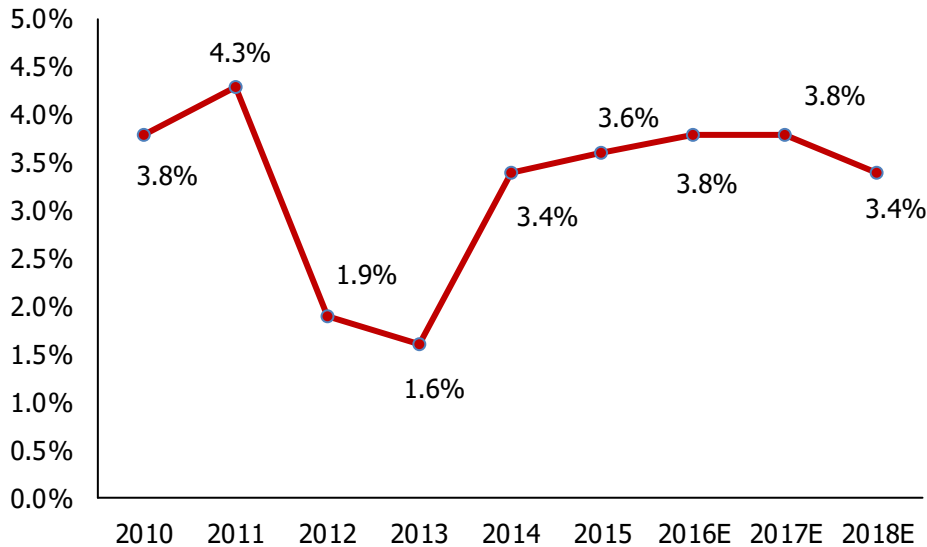


Source: Starcom MediaVest Group, East Value Research GmbH

The Polish real estate market

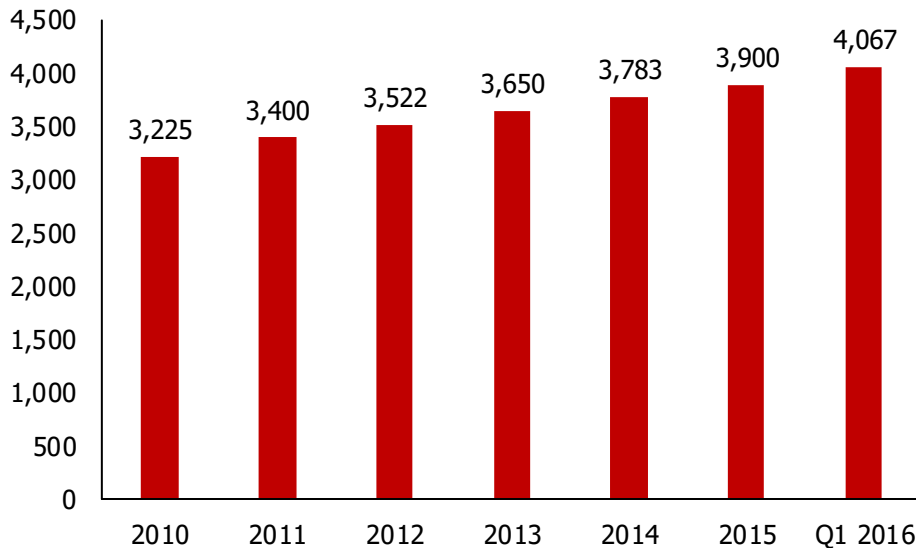
The Polish real estate market has strong fundamentals, especially due to robust economic growth, record-low interest rates and increasing incomes. The central bank NBP estimates that in 2015 60% of all apartment purchases were conducted without debt financing. Moreover, government officials reckon that there is a deficit of >400k apartments, which is significantly above the c. 150k, which are currently constructed every year.

GDP growth in Poland 2010-2018E



Source: Central Statistical Office GUS, Central Bank NBP, East Value Research GmbH

Average salary in Poland 2010-Q1 2016 (in PLN)

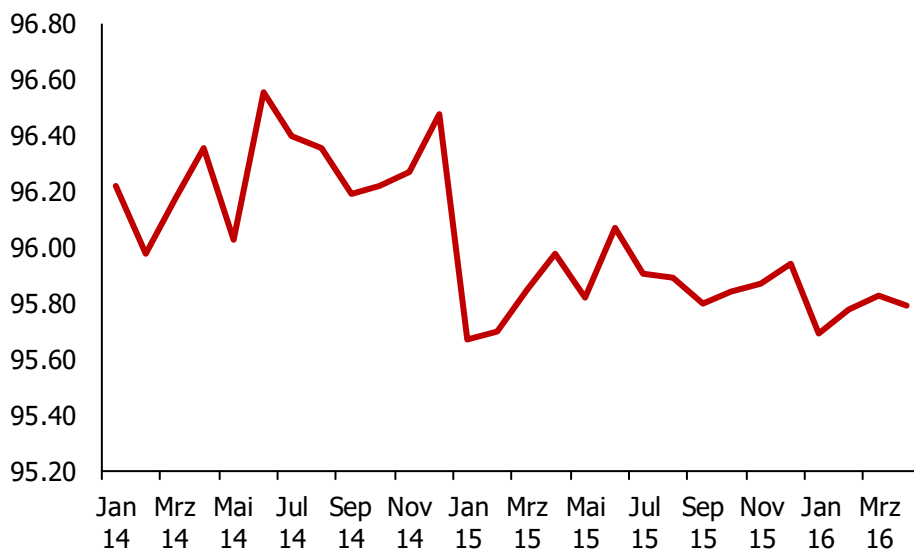


Source: Central Statistical Office GUS, East Value Research GmbH

According to GUS (Central Statistical Office), in the period Jan-May 2016 there were 77.3k approvals of new apartments or 10.3% more than last year. At the same time, the number of apartments, whose construction was initiated, increased by 4.3% y-o-y to 68.7k.

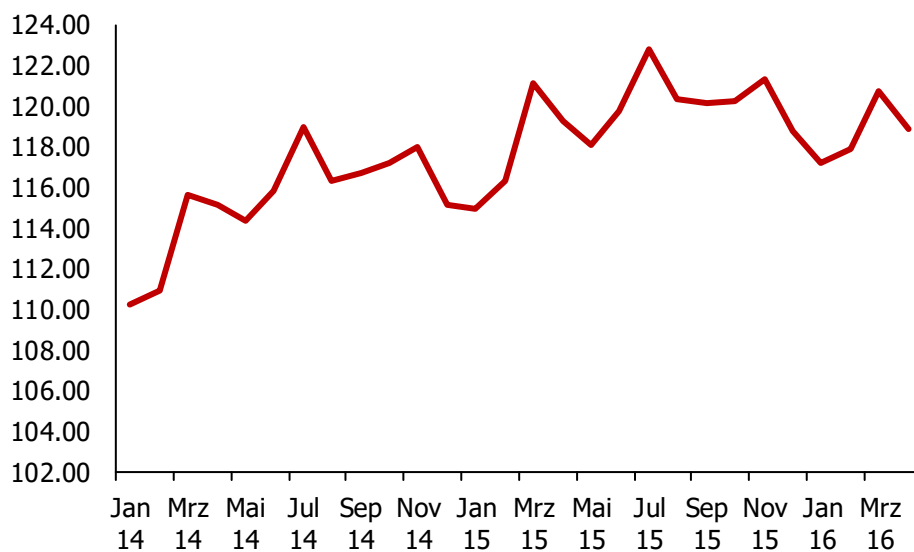
Bankier.pl and the Central Bank NBP estimate that prices for new and used apartments in Poland in Q1/16 were stable. Only rents showed a small increase. However, when it comes to the sale of building land, 68% of market experts forecast worsening market conditions due to a new law, which limits the sale of farmland in order to prevent increasing foreign ownership.

BCN price index – Apartment sales



Source: Puls Biznesu, Bankier.pl, Cenatorium, East Value Research GmbH

BCN price index – Sales of building land



Source: Puls Biznesu, Bankier.pl, Cenatorium, East Value Research GmbH

There are some risk factors, which on the one hand could negatively affect property sales in Poland going forward, however on the other positively impact the rental market. First of all, there is the new tax on financial institutions, which was introduced in February 2016. Because of that, the average credit margin for mortgage loans has increased by 1/6 since the end of 2015. Moreover, market experts forecast that banks will now focus their sales efforts on higher-margin, short-term consumer loans. A second risk factor is the government's long-term plan to build affordable housing at PLN 2.5k to PLN 3k per sqm ("Mieszkanie Plus"). As in most Polish cities market prices are currently significantly higher, this would urge many private real estate developers from the market.

Sales of consumer and mortgage debt

According to the Office for Loan Information (BIK), in Q1/16 Polish banks granted 1.6m consumer loans worth PLN 18.9bn. The number of loans went down by 6.5% y-o-y and the volume by 1.3%, which resulted especially from weaker demand for lower-volume loans.

Despite a higher obligatory downpayment compared to last year (15% of the property price vs. 10%), the number of granted mortgage loans in Q1/16 increased by 4.5% to 47.1k and the volume by 5.7%. However, the positive trend significantly weakened in March. Market insiders expect to see the full impact of the new tax on financial institutions in the coming months. Additional negative factors for the Polish mortgage market will likely be a further increase of the minimum required downpayment to 20% from 2017E and potentially higher interest rates (currently, the reference rate, which is set by NBP, equals only 1.5%).

Profit and loss statement

in PLNm	2014	2015	2016E	2017E	2018E	2019E
Revenues	13.83	14.59	17.36	27.90	35.47	44.55
Cost of goods sold	-3.00	-9.63	-11.00	-17.05	-20.93	-25.62
Gross profit	10.84	4.96	6.36	10.85	14.54	18.93
Other operating income	0.73	0.23	0.24	0.25	0.27	0.28
Personnel costs	-3.91	-3.03	-3.61	-5.80	-7.37	-9.26
Other operating expenses	-4.14	-0.47	-0.69	-0.93	-1.09	-1.45
EBITDA	3.51	1.69	2.31	4.38	6.34	8.50
Depreciation	-0.37	-0.36	-0.43	-0.69	-0.88	-1.11
Operating income	3.14	1.33	1.87	3.68	5.46	7.40
Net financial result	-0.01	0.01	0.01	0.02	0.03	0.04
EBT	3.13	1.34	1.89	3.71	5.50	7.44
Income taxes	-0.50	-0.03	-0.36	-0.70	-1.04	-1.41
Minorities	0.03	0.00	0.00	0.00	0.00	0.00
Net income / loss	2.66	1.30	1.53	3.00	4.45	6.03
EPS	0.08	0.04	0.04	0.08	0.11	0.15
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	-21.65 %	-66.01 %	-63.34 %	-61.10 %	-59.00 %	-57.50 %
Gross profit	78.35 %	33.99 %	36.66 %	38.90 %	41.00 %	42.50 %
Other operating income	5.25 %	1.57 %	1.39 %	0.90 %	0.75 %	0.62 %
Personnel costs	-28.27 %	-20.78 %	-20.78 %	-20.78 %	-20.78 %	-20.78 %
Other operating expenses	-29.94 %	-3.19 %	-3.98 %	-3.34 %	-3.08 %	-3.25 %
EBITDA	25.39 %	11.59 %	13.29 %	15.69 %	17.89 %	19.09 %
Depreciation	-2.70 %	-2.49 %	-2.49 %	-2.49 %	-2.49 %	-2.49 %
Operating income	22.68 %	9.10 %	10.80 %	13.20 %	15.40 %	16.60 %
Net financial result	-0.09 %	0.05 %	0.08 %	0.09 %	0.10 %	0.10 %
EBT	22.59 %	9.15 %	10.88 %	13.29 %	15.50 %	16.70 %
Income taxes	-3.61 %	-0.23 %	-2.07 %	-2.52 %	-2.94 %	-3.17 %
Minorities	0.24 %	0.01 %	0.00 %	0.00 %	0.00 %	0.00 %
Net income / loss	19.22 %	8.93 %	8.81 %	10.76 %	12.55 %	13.53 %

Balance Sheet

in PLNm	2014	2015	2016E	2017E	2018E	2019E
Cash and equivalents	3.13	2.65	1.66	3.03	6.22	10.15
Inventories	0.00	0.00	0.00	0.00	0.00	0.00
Trade accounts and notes receivables	2.07	2.06	2.45	3.94	5.00	6.29
Other current assets	0.35	0.59	0.70	1.13	1.44	1.80
Current assets, total	5.55	5.31	4.81	8.09	12.66	18.24
Property, plant and equipment	0.15	0.14	0.84	0.85	0.85	0.86
Other intangible assets	1.57	2.57	8.68	9.07	9.40	10.38
Goodwill	9.36	9.36	9.36	9.36	9.36	9.36
Other long-term assets	0.01	0.00	0.00	0.01	0.01	0.01
Deferred tax assets	0.06	0.11	0.00	0.00	0.00	0.00
Non-current assets, total	11.14	12.18	18.89	19.28	19.62	20.61
Total assets	16.69	17.49	23.70	27.38	32.28	38.85
Trade payables	0.51	0.64	0.74	1.14	1.40	1.71
Other short-term liabilities	0.89	0.28	0.33	0.54	0.68	0.86
Short-term financial debt	0.01	0.25	0.00	0.00	0.00	0.00
Pension provision	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	0.08	0.09	0.10	0.17	0.21	0.27
Current liabilities, total	1.49	1.26	1.17	1.84	2.29	2.84
Long-term financial debt	0.31	0.05	0.05	0.05	0.06	0.06
Other long-term liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Deferred tax liabilities	0.01	0.00	0.00	0.00	0.00	0.00
Long-term liabilities, total	0.32	0.05	0.05	0.05	0.06	0.06
Total liabilities	1.81	1.31	1.22	1.90	2.35	2.90
Shareholders equity, total	14.86	16.17	22.46	25.47	29.92	35.95
Minority interests	0.01	0.01	0.01	0.01	0.01	0.01
Total equity and debt	16.69	17.49	23.70	27.38	32.28	38.85

Cash Flow Statement

in PLNm	2014	2015	2016E	2017E	2018E	2019E
Net income / loss	2.66	1.30	1.53	3.00	4.45	6.03
Depreciation	0.37	0.36	0.43	0.69	0.88	1.11
Change of working capital	-3.50	-0.54	-0.36	-1.31	-0.97	-1.16
Others	2.31	-0.15	-0.13	-0.06	-0.05	-0.05
Net operating cash flow	1.85	0.98	1.48	2.33	4.32	5.92
Cash flow from investing	-4.65	-1.35	-7.24	-1.09	-1.22	-2.09
Free cash flow	-2.80	-0.38	-5.77	1.24	3.10	3.83
Cash flow from financing	5.65	-0.10	4.77	0.13	0.09	0.11
Change of cash	2.85	-0.47	-0.99	1.37	3.19	3.93
Cash at the beginning of the period	0.28	3.13	2.65	1.66	3.03	6.22
Cash at the end of the period	3.13	2.65	1.66	3.03	6.22	10.15

Financial ratios

	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E
Profitability and balance sheet quality								
Gross margin	78.35%	33.99%	36.66%	38.90%	41.00%	42.50%	43.60%	44.70%
EBITDA margin	25.39%	11.59%	13.29%	15.69%	17.89%	19.09%	20.09%	21.53%
EBIT margin	22.68%	9.10%	10.80%	13.20%	15.40%	16.60%	17.60%	19.04%
Net margin	19.22%	8.93%	8.81%	10.76%	12.55%	13.53%	14.34%	15.52%
Return on equity (ROE)	36.11%	8.40%	7.92%	12.53%	16.08%	18.30%	18.00%	17.91%
Return on assets (ROA)	16.00%	7.41%	6.40%	10.88%	13.69%	15.40%	15.26%	15.28%
Return on capital employed (ROCE)	17.35%	7.98%	6.74%	11.68%	14.76%	16.63%	16.39%	16.31%
Economic Value Added (in PLNm)	0.64	-0.84	-1.45	-0.38	0.48	1.25	1.39	1.63
Net debt (in PLNm)	-2.81	-2.36	-1.61	-2.97	-6.16	-10.09	-15.89	-23.32
Net gearing	-18.90%	-14.58%	-7.16%	-11.67%	-20.59%	-28.08%	-36.91%	-45.25%
Equity ratio	89.06%	92.46%	94.79%	93.03%	92.69%	92.52%	93.10%	93.69%
Current ratio	3.72	4.21	4.10	4.39	5.52	6.43	8.00	9.81
Quick ratio	3.48	3.74	3.50	3.78	4.89	5.80	7.36	9.16
Net interest cover	261.42	-189.71	-133.92	-153.46	-160.67	-168.08	-161.60	-162.36
Net debt/EBITDA	-0.80	-1.39	-0.70	-0.68	-0.97	-1.19	-1.60	-1.98
Tangible BVPS	0.17	0.19	0.35	0.41	0.53	0.68	0.86	1.08
Capex/Sales	75.97%	9.29%	41.73%	3.90%	3.44%	4.70%	3.86%	3.24%
Working capital/Sales	7.35%	11.83%	12.00%	12.15%	12.29%	12.39%	12.46%	12.54%
Cash Conversion Cycle (in days)	-8	3516437	27	27	27	27	27	27
Trading multiples								
EV/Sales	3.95	3.74	3.14	1.96	1.54	1.23	1.10	1.00
EV/EBITDA	15.54	32.27	23.66	12.47	8.60	6.42	5.48	4.65
EV/EBIT	17.40	41.10	29.11	14.82	9.99	7.38	6.25	5.25
P/Tangible BVPS	8.82	7.66	4.17	3.55	2.78	2.15	1.69	1.35
P/E	21.48	43.83	37.33	19.02	12.83	9.48	8.03	6.74
P/FCF	-20.37	-151.09	-9.91	46.05	18.42	14.93	9.95	7.75

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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
Lurgiallee 12
60439 Frankfurt