

SARE S.A.



Price target: PLN 28.10

Update

Rating: BUY

SARE's (SAR) 9M/16 results improved y-o-y on top-line, however showed weaker profitability than we had anticipated. While sales increased by 4.4% y-o-y to PLN 28.7m (EVRe: PLN 26.1m), EBIT (13.8% vs. 16% in 9M/15 and our estimate of 16.8%) and net margin (9% vs. 10.1% in 9M/15 and our estimate of 11.5%) were both lower y-o-y and compared to our forecasts. However, net cash improved q-o-q from PLN 2.4m to PLN 3.4m.

In 9M/16, the by far largest segment INIS/mr Target improved both its revenues (+1.7% to PLN 21.4m) and net margin y-o-y (29.4% vs. 24.3%). The second-largest segment SARE showed flat sales y-o-y of PLN 6.1m, however in contrast to last year reported a loss of PLN -388k (9M/15: PLN 408k). While the segment Salelifter was the top performer in terms of sales growth (+219.2% to PLN 1.3m), its consolidated net loss further increased from PLN 602k to PLN 1.7m. At the subsidiary Teletarget, where SARE initiated a restructuring program, sales declined by 83.9% y-o-y to PLN 12k and the net loss reached PLN 406k (9M/15: PLN 297k).

In H1/16, the online advertising segments in Poland (+19.9% y-o-y to PLN 1.7bn) and Europe (+13.4% to EUR 18.6bn) showed strong growth according to IAB AdEX. Radicatti Group has confirmed the importance of email as a means of communication. By 2020E, it expects that the number of email users worldwide will increase at a CAGR of 3.3% to 3bn and the number of sent/received emails per day to 257.7bn (CAGR of 4.6%).

Despite model adjustments, our 12-months PT (80% DCF, 20% peer-group-based fair value) for SARE of PLN 28.10 and the BUY rating remain unchanged. As the 9M/16 results showed stronger top-line growth but higher shares of depreciation and personnel expenses than we had expected, we have increased our sales forecasts and lowered the margin estimates for 2016. This also affects our forecasts for the following years. In our view, SARE remains an interesting investment opportunity due to its cash-generating business model, which should allow it to pay out attractive dividends in the long run. As main risk factors, we see strong competition and foreign expansion. SARE's German subsidiary has so far not generated any revenues and reported a net loss of PLN 71k for 9M/16. However, although the German market is challenging, we believe that it will likely sign first contracts with clients in H1/17E.

in PLNm	2014	2015	2016E	2017E	2018E	2019E
Net sales	25.02	38.26	39.57	43.44	47.07	51.08
EBITDA	3.00	6.79	6.23	8.80	9.39	9.84
EBIT	2.61	6.25	5.42	7.91	8.43	8.80
Net income	1.07	3.79	3.78	6.07	6.48	6.78
EPS	0.48	1.71	1.65	2.65	2.83	2.96
DPS	0.00	0.00	0.00	1.32	1.41	1.48
Dividend yield	0.00%	0.00%	0.00%	7.22%	7.71%	8.06%
RoE	11.82%	23.19%	18.31%	24.80%	23.48%	21.92%
Net gearing	-16.54%	-19.02%	-28.88%	-32.81%	-37.90%	-42.15%
EV/Sales	1.55x	1.01x	0.98x	0.89x	0.82x	0.76x
EV/EBITDA	12.91x	5.69x	6.21x	4.40x	4.12x	3.93x
P/E	39.44x	11.10x	11.11x	6.93x	6.49x	6.21x

Company profile

SARE S.A. has developed own software that increases the effectiveness of email and performance marketing campaigns. The company plans to expand into Big Data and Mobile solutions in the near future. It also develops several start-ups, which are complementary to its core business.

Website	www.saresa.pl
Sector	Online Advertising
Country	Poland
ISIN	PLSARE000013
Reuters	SARP.WA
Bloomberg	SAR.PW

Share information

Last price	18.35
Number of shares (m)	2.29
Market cap. (PLNm)	42.05
Market cap. (EURm)	9.47
52-weeks range	PLN 29.50 / PLN 16.10
Average volume	523

Performance

4-weeks	-2.60%
13-weeks	10.67%
26-weeks	-9.30%
52-weeks	-34.12%
YTD	-32.74%

Shareholder structure

WS Investments Ltd.	34.98%
Tomasz Pruszczyński	26.23%
Krzysztof Debowski	10.50%
Damian Rutkowski	5.90%
Vasto Investments S.a.r.l	5.33%
Free float	17.06%

Financial calendar

Annual report 2016 (exp.)	March 17, 2017
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Analyst

Adrian Kowollik
a.kowollik@eastvalueresearch.com

9M 2016 results

Revenues and Profitability

In 9M/16, SARE generated total revenues of PLN 28.7m, which corresponded to a y-o-y growth of 4.4%. We had expected PLN 26.1m or 10.1% less. The growth driver was the 99% subsidiary Salelifter, which reported 219.2% higher consolidated revenues y-o-y. While the two largest business segments INIS/mr Target and SARE showed top-line growth of 1.7% and 0.1% y-o-y respectively, revenues of the provider of call center services Teletarget declined by 83.9%. During the online conference on 15 November SARE's management mentioned that the subsidiary would undergo a restructuring. If its situation does not improve in 2017E, we believe that SARE will abandon it.

in PLNm	9M/16	9M/15
SARE	6.06	6.05
<i>(% of sales)</i>	<i>21.1%</i>	<i>22.0%</i>
Net margin	-6.4%	6.7%
INIS, mr Target	21.36	21.00
<i>(% of sales)</i>	<i>74.3%</i>	<i>76.3%</i>
Net margin	29.4%	24.3%
Salelifter	1.31	0.41
<i>(% of sales)</i>	<i>4.6%</i>	<i>1.5%</i>
Net margin	-131.8%	-146.8%
Teletarget	0.01	0.08
<i>(% of sales)</i>	<i>0.0%</i>	<i>0.3%</i>
Net margin	-3324.9%	-390.9%
Total sales	28.73	27.53

Source: Company information, East Value Research GmbH

in PLNm	9M/16	9M/16E	9M/15	9M/16 vs. change	
				9M/16E	(%)
Net sales	28.73	26.10	27.53	10.1%	4.4%
EBITDA	4.57	4.85	4.77	-5.9%	-4.2%
<i>EBITDA margin</i>	<i>15.9%</i>	<i>18.6%</i>	<i>17.3%</i>		
EBIT	3.98	4.38	4.40	-9.2%	-9.7%
<i>EBIT margin</i>	<i>13.8%</i>	<i>16.8%</i>	<i>16.0%</i>		
Net income	2.59	3.01	2.79	-14.0%	-7.2%
<i>Net margin</i>	<i>9.0%</i>	<i>11.5%</i>	<i>10.1%</i>		

Source: Company information, East Value Research GmbH

In the first nine months of this year, SARE's EBIT margin was significantly lower both compared to the previous year and versus our estimate, which resulted from a weaker cost structure y-o-y (e.g. the share of personnel costs in total sales increased from 19.2% in 9M/15 to 21%). The net margin also did not reach the level from 9M/15 and which we had expected, however declined less than EBIT due to a better net financial result (PLN -106k vs. PLN -623k), which in 9M/15 was impacted by a loss from the sale of 33.3% in eMagenio Sp. z.o.o. In terms of business segments, the main profitability driver was INIS/mr Target, where the net margin improved from 24.3% in 9M/15 to 29.4%. However, this was more than offset by a strong drop of profitability at SARE (net margin of -6.4% vs. 6.7% in 9M/15) and Teletarget (net loss of PLN -406k vs. PLN -297k).

According to SARE's management, the main reason for the relatively weak profitability in 9M/16 was a disappointing Q1/16, which is also the weakest quarter in the advertising industry. However, they mentioned that Q2 and Q3 results had already showed an improvement, which should also be visible in Q4/16.

Balance sheet and Cash flow

At the end of September 2016, SARE had equity of PLN 20.4m (75.4% ratio). While intangible assets amounted to PLN 10.8m, we estimate that working capital was worth PLN 6.9m. As of 30 September 2016, SARE had cash of PLN 3.4m and interest-bearing debt of PLN 70k.

Between January and September 2016, SARE generated an operating cash flow of PLN 381k compared to PLN 2.5m in 9M/15. The reason, why it declined, were higher investments in working capital y-o-y (PLN 3.2m vs. PLN 1.9m). Cash flow from investing equaled PLN -1.2m compared to PLN -1.6m in 9M/15. Cash flow from financing amounted to PLN 622k (PLN -80k) and was impacted by a capital increase worth PLN 777.7k in January 2016 (31.7k new shares at PLN 24.50 per share). In 9M/16, SARE's cash position went down by PLN 162k.

In February 2016, SARE announced the sale of neronIT Sp. z.o.o, a software developer, for PLN 250k. The transaction, which did not have any effect on SARE's balance sheet or results, had strategic reasons. Moreover, in 9M/16 SARE took over an additional stake worth PLN 400k in Teletarget Sp. z.o.o (acquisition price was offset against company loans) and bought the mailing and customer relationship system of mailPro Sp. z.o.o, which resulted in a one off profit of PLN 246k.

Changes to our forecasts

Revenues and Profitability

As SARE's 9M/16 results showed stronger top-line growth but higher shares of depreciation and personnel expenses than we had expected, we have increased our sales forecast and lowered the margin estimates for 2016. This also affects our forecasts for the following years. Our new estimates for full-year 2016 are PLN 39.6m for revenues (previously: PLN 37.5m), EBIT of PLN 5.4m (PLN 6.3m) and net income of PLN 3.8m (PLN 4.5m). We have also lowered our assumption regarding the revenue CAGR between 2016 and 2024E from 8.5% before to 7.5%.

Below are our detailed assumptions for SARE's business segments:

SARE: For the SARE software, we now assume that the average monthly fee per client and average number of clients will reach PLN 1,560 (previously: PLN 1,560) and 435 (PLN 449) respectively in full-year 2016. We believe that the average number of users will increase at a CAGR 16-24E of 5.8% (5.4%) and the average monthly fee at 3% (3%) in the coming years. In our view, the net margin in full-year 2016 will reach -6.4% (0.2%), while in the long run it should increase to c. 1%.

INIS/mr Target: While INIS, the email affiliate network, generates revenues from monthly subscriptions, mr Target is a project-based performance marketing agency. In our model, we now assume that in 2016 INIS will have on average 120 clients (105), who will pay an average monthly fee of PLN 13,269 (PLN 13,269). These figures should increase at a CAGR 16-24E of 3.4 (5.6%) and 3% (3%) respectively by 2024E. For mr Target, we maintain our estimates of revenues of PLN 10.5m in 2016, while the CAGR 16-24E of now amounts to 7.5% (previously: 7.9%). Regarding profitability, our new forecast is 24.1% in full-year 2016 (previously: 21.3%) due to strong 9M/16, which however should decline to 13%-14% in the long run due to competition.

Salelifter: Salelifter specializes in building, managing and monetizing email databases as well as generation of leads (contact data of prospective clients). Following a weak 9M/16, we now assume that the subsidiary will generate PLN 1.8m of revenues (previously: PLN 1.8m) in full-year 2016 and a net loss of PLN 2.3m (PLN 1m). However, we believe that in 2017E it should again be profitable.

We have maintained our expectation that Salelifter will grow on top-line at an average rate of 7.5% in the long run, while generating net margins of 11.5%-12%.

Teletarget: Teletarget is a telemarketing company. Although its results were very weak in 9M/16, we believe that it has the potential to develop well in the long run as it complements SARE's offering very well.

We now expect that the subsidiary will report revenues of PLN 18k (previously: PLN 30k) and a net loss of PLN 530k (PLN 300k) in full-year 2016. By 2024E, we forecast that it will exhibit a revenue CAGR of 47.8% (48.2%) and generate net margins of 4.5%-5%. Nevertheless, we believe that SARE will only develop Teletarget further if its current restructuring shows positive effects in 2017E.

in PLNm	2016E	2017E	2018E	2019E
SARE	8.14	9.26	10.30	11.40
(% of sales)	20.6%	21.3%	21.9%	22.3%
Net margin	-6.4%	-1.8%	0.1%	0.3%
Average number of clients	435	481	519	558
Average monthly fee (in PLN)	1,560	1,606	1,655	1,704
INIS, mr Target	29.61	32.13	34.46	37.14
(% of sales)	74.8%	74.0%	73.2%	72.7%
Net margin	24.1%	19.6%	18.6%	17.8%
Average number of clients INIS	120	121	124	128
Average monthly fee INIS (in PLN)	13,269	13,668	14,078	14,500
Yearly revenues mr Target (in PLN)	10,500	12,285	13,514	14,865
Salelifter	1.80	1.97	2.15	2.34
(% of sales)	4.5%	4.5%	4.6%	4.6%
Net margin	-127.8%	1.0%	3.5%	6.0%
Number of campaigns	1,200	1,272	1,348	1,429
Average remuneration per campaign (in PLN)	1,500	1,545	1,591	1,639
Teletarget	0.02	0.08	0.17	0.20
(% of sales)	0.0%	0.2%	0.4%	0.4%
Net margin	-2944.4%	-100.0%	0.1%	3.0%
Number of campaigns	90	400	800	920
Average remuneration per campaign (in PLN)	200	206	212	219
Total sales	39.57	43.44	47.07	51.08
change y-o-y	3.4%	9.8%	8.4%	8.5%

Source: East Value Research GmbH

in PLNm	2016E		2017E		2018E		2019E	
	new	old	new	old	new	old	new	old
Net sales	39.57	37.50	43.44	41.52	47.07	46.04	51.08	50.93
EBITDA	6.23	6.94	8.80	8.53	9.39	9.21	9.84	9.81
<i>EBITDA margin</i>	15.8%	18.5%	20.3%	20.5%	20.0%	20.0%	19.3%	19.3%
EBIT	5.42	6.26	7.91	7.79	8.43	8.38	8.80	8.90
<i>EBIT margin</i>	13.7%	16.7%	18.2%	18.8%	17.9%	18.2%	17.2%	17.5%
Net income	3.78	4.52	6.07	6.02	6.48	6.49	6.78	6.91
<i>Net margin</i>	9.6%	12.1%	14.0%	14.5%	13.8%	14.1%	13.3%	13.6%

Source: East Value Research GmbH

in PLNm	Q1/14	Q2/15	Q3/16	Q4/14	2014
Net sales	6.17	5.76	6.02	7.07	25.02
<i>change y-o-y</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	72.0%
EBITDA	1.31	0.42	0.86	0.40	3.00
<i>EBITDA margin</i>	21.3%	7.3%	14.4%	5.7%	12.0%
EBIT	1.21	0.33	0.77	0.30	2.61
<i>EBIT margin</i>	19.6%	5.7%	12.7%	4.3%	10.4%
Net income	0.82	0.08	0.39	-0.23	1.07
<i>Net margin</i>	13.3%	1.5%	6.5%	-3.3%	4.3%

in PLNm	Q1/15	Q2/15	Q3/15	Q4/15	2015	Q1/16	Q2/16	Q3/16	Q4/16E	2016E
Net sales	7.42	11.87	8.24	10.73	38.26	7.65	10.85	10.23	10.83	39.57
<i>change y-o-y</i>	20.3%	105.9%	36.8%	51.8%	52.9%	3.1%	-8.6%	24.2%	1.0%	3.4%
EBITDA	1.05	2.41	1.30	2.03	6.79	0.99	2.49	1.09	1.67	6.23
<i>EBITDA margin</i>	14.2%	20.3%	15.8%	18.9%	17.8%	12.9%	23.0%	10.6%	15.4%	15.8%
EBIT	0.95	2.29	1.17	1.85	6.25	0.78	2.31	0.88	1.44	5.42
<i>EBIT margin</i>	12.7%	19.3%	14.1%	17.2%	16.3%	10.2%	21.3%	8.6%	13.3%	13.7%
Net income	0.52	1.49	0.78	1.00	3.79	0.52	1.55	0.51	1.20	3.78
<i>Net margin</i>	7.0%	12.6%	9.5%	9.3%	9.9%	6.8%	14.3%	5.0%	11.0%	9.6%

Source: Company information, East Value Research GmbH

CAPEX and Working capital

We now expect that gross CAPEX in 2016 will reach PLN 1.4m (previously: PLN 1.3m) and 2.5% (2.4%) of yearly sales in the long run. Regarding working capital, we now assume that due to business expansion its share will equal 14.3% (previously: 14.2%) in the future compared to 9.7% in 2015. The cash conversion cycle should reach 20 days (20 days) vs. 4 days last year.

During the recent online presentation SARE's management have confirmed that they want to focus in the next three years on the following main strategic areas: (1) Organic growth of the three largest subsidiaries (SARE S.A., INIS S.A. and mr Target Sp. z.o.o) through the introduction of new proprietary solutions (2) foreign expansion, which is supposed to be SARE's main growth driver in the long run and (3) expansion into Mobile and Big Data Analytics, mainly through acquisitions. More details are supposed to be published in December 2016.

Valuation

We have valued SARE 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 stock of PLN 28.10 and the BUY rating remain unchanged. Our PT implies an upside of 53.1% at current level.

DCF model

in PLNm	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net sales	39.57	43.44	47.07	51.08	54.62	58.26	62.20	66.35	70.35
(y-o-y change)	3.4%	9.8%	8.4%	8.5%	6.9%	6.7%	6.8%	6.7%	6.0%
Operating profit	5.42	7.91	8.43	8.80	9.13	9.14	9.33	9.40	9.49
(Operating margin)	13.7%	18.2%	17.9%	17.2%	16.7%	15.7%	15.0%	14.2%	13.5%
NOPLAT	4.39	6.41	6.82	7.12	7.39	7.40	7.56	7.61	7.68
+ Depreciation & amortisation	0.81	0.89	0.97	1.05	1.12	1.19	1.28	1.36	1.44
= Net operating cash flow	5.20	7.30	7.79	8.17	8.51	8.60	8.83	8.97	9.13
= Total investments (Capex and WC)	-3.48	-2.51	-2.16	-2.30	-2.04	-2.08	-2.20	-2.29	-2.23
Capital expenditures	-1.39	-1.64	-1.59	-1.71	-1.60	-1.64	-1.73	-1.80	-1.79
Working capital	-2.09	-0.87	-0.57	-0.59	-0.44	-0.44	-0.47	-0.48	-0.45
= Free cash flow	1.72	4.78	5.63	5.88	6.48	6.51	6.63	6.68	6.89
PV of FCFs	1.70	4.16	4.31	3.95	3.83	3.39	3.03	2.69	2.44
PV of FCFs in explicit period	29.50								
PV of FCFs in terminal period	22.57								
Enterprise value (EV)	52.07								
+ Net cash / - net debt (30 September 2016)	3.36								
Shareholder value	55.43								
Number of shares outstanding (m)	2.29								
WACC	13.7%								
Cost of equity	13.7%								
Pre-tax cost of debt	6.0%								
Normal tax rate	19.0%								
After-tax cost of debt	4.9%								
Share of equity	100.0%								
Share of debt	0.0%								
Fair value per share in PLN (today)	24.19								
Fair value per share in PLN (in 12 months)	27.51								
		Terminal EBIT margin							
		10.5%	11.5%	12.5%	13.5%	14.5%	15.5%	16.5%	
		9.7%	36.00	37.77	39.53	41.30	43.06	44.83	46.60
		10.7%	32.29	33.74	35.20	36.65	38.10	39.56	41.01
		11.7%	29.33	30.54	31.76	32.97	34.18	35.39	36.60
		12.7%	26.91	27.93	28.96	29.98	31.00	32.03	33.05
	# WERT!	13.7%	24.90	25.77	26.64	27.51	28.38	29.25	30.12
		14.7%	23.19	23.93	24.68	25.43	26.18	26.93	27.67
		15.7%	21.72	22.37	23.01	23.66	24.31	24.95	25.60

Source: East Value Research GmbH

Peer Group Analysis

We have compared SARE to both listed international advertising companies and local peers.

International peers (50% weight):

- (1) *WPP PLC*: WPP, which is based in London/UK, is engaged in providing communication services. The Group operates in >110 countries (incl. Poland) through four segments: Advertising and Media Investment Management, Data Investment Management, Public Relations & Public Affairs, Branding & Identity, Healthcare and Specialist Communications. Its brands include Bates CHI&Partners, Grey, JWT, Ogilvy & Mather Advertising, Y&R and GroupM. In 2015, WPP generated revenues of GBP 12.2bn.
- (2) *Dentsu Inc.*: Dentsu, which is based in Tokyo/Japan, is a provider of communication services with a focus on advertising. The Advertising segment provides advertising and content services. The Information Services segment includes the development and operation of IT systems, the sale of software products, and the provision of general network and consulting services. The Others segment comprises the rental management of buildings, the trading and brokerage of real estate and the non-life insurance agency business. In 2015, Dentsu, which is also present in Poland, generated revenues of JPY 659.8bn.
- (3) *Publicis Groupe*: Publicis, which is based in Paris/France, offers local and international clients marketing, communication and digital transformation services. Its brands include Leo Burnett, Saatchi & Saatchi, Bartle Bogle Hegarty (BBH), Prodigious and MSLGROUP (communication agencies), Starcom MediaVest Group, ZenithOptimedia and VivaKi (media agencies), Razorfish, DigitasLBi, SapientNitro and Sapient Consulting (digital agencies), Digitas Health and Publicis Health Media (healthcare communication). In 2015, Publicis Groupe, which also operates in Poland, generated revenues of EUR 9.6bn.
- (4) *Havas SA*: Havas, which is headquartered in Puteaux/France, has two business units: Havas Worldwide and Havas Media, through which it offers e.g. integrated communications, traditional advertising, direct marketing, media planning and buying, healthcare advertising and communication, corporate communication, sales promotion, design, social media, TV sponsorship, multimedia interactive communication and PR. Its brands include among others Planning Group SA, BETC Euro RSCG, Euro RSCG C&O, Havas Media France, Havas Arnold Worldwide, LLC, Euro RSCG Healthview Inc., Euro RSCG New York Inc., Havas Worldwide, Work Club, Bizkit Wisely AB, Bird & Schulte, EGC & Associates, Beebop Media AG and TP1. In 2015, Havas, which is also present in Poland, had revenues of EUR 2.2bn.

- (5) *Omnicom Group Inc.:* Omnicom Group, which is based in New York/US, provides advertising, marketing and corporate communication services e.g. brand consultancy, content marketing, corporate social responsibility consulting, crisis communication, custom publishing, data analytics, database management, environmental design, graphic arts/digital imaging, healthcare communication, interactive and mobile marketing, IR, marketing research, media planning and buying, multi-cultural and non-profit marketing, organizational communication and package design. In 2015, Omnicom, which is also active in Poland, generated total sales of USD 15.1bn.
- (6) *Interpublic Group of Companies Inc.:* Interpublic, which is headquartered in New York/US, is an advertising and marketing services company. IPG's companies are engaged e.g. in consumer advertising, digital marketing, communication planning and media buying as well as PR. Its brands include McCann Worldgroup, Foote, Cone & Belding (FCB), MullenLowe Group, IPG Mediabrands, Weber Shandwick, Cassidy, DeVries, Golin, FutureBrand, Jack Morton and Octagon Worldwide. In 2015, Interpublic Group generated revenues of USD 7.6bn. The company is also present in Poland.
- (7) *Syzygy AG:* Syzygy, which is headquartered in Bad Homburg/Germany, is a holding company engaged in the digital communication and marketing industry. Syzygy operates in Germany, UK, the US and Poland. It divides its operations into the brands Syzygy (digital marketing agency), Unique (performance marketing and media management), Hi-Res! (multi-disciplinary design studio), Ars Thanea (Warsaw-based design studio) and USEEDS (consultancy for digital services and products). In 2015, Syzygy generated total sales of EUR 57.3m.

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	
WPP PLC (GBP)	2.18x	1.92x	1.78x	13.31x	11.49x	10.41x	19.07x	17.51x	14.47x	2.58x	15.90%	55.25%	
Dentsu Inc. (JPY)	2.98x	2.40x	2.27x	13.97x	11.40x	10.67x	21.66x	18.00x	16.46x	1.88x	7.77%	59.78%	
Publicis Groupe (EUR)	1.63x	1.59x	1.54x	9.39x	9.08x	8.48x	13.95x	14.34x	13.17x	2.09x	17.30%	30.79%	
Havas SA (EUR)	1.49x	1.44x	1.39x	9.64x	8.79x	8.31x	18.40x	16.76x	15.40x	1.94x	16.50%	6.27%	
Omnicom Group Inc. (USD)	1.63x	1.59x	1.53x	11.14x	10.69x	10.23x	19.72x	18.56x	17.22x	8.97x	14.60%	162.87%	
Interpublic Group Inc. (USD)	1.42x	1.37x	1.33x	9.81x	9.52x	8.90x	21.93x	17.77x	16.79x	4.98x	13.50%	58.06%	
Syzygy AG (EUR)	2.44x	2.15x	1.90x	18.93x	17.56x	15.27x	32.96x	30.49x	27.10x	3.22x	12.30%	-32.26%	
Median	1.63x	1.59x	1.54x	11.14x	10.69x	10.23x	19.72x	17.77x	16.46x	2.58x	14.60%	55.25%	
SARE S.A. (PLN)	1.01x	0.98x	0.89x	5.69x	6.21x	4.40x	10.73x	11.11x	6.93x	2.06x	17.76%	-16.43%	
Premium/discount	-37.8%	-38.6%	-42.1%	-48.9%	-41.9%	-57.0%	-45.6%	-37.5%	-57.9%				
Fair value SARE (PLN)	33.40												

Source: Thomson Reuters Eikon, East Value Research GmbH

Polish peers (50% weight):

- (8) *Mediacap S.A.*: Mediacap, which is based in Warsaw, is a leading Polish advertising and market research company. It operates under the brands Scholz & Friends Warszawa (traditional advertising services), EM LAB (event advertising), IQS (market research & surveys), The Digitals (digital advertising agency), EDGE Technology (own software solutions for different sectors) and MCP Publica (integrated solutions relating to research, IT and marketing for public and institutional clients). In 2015, Mediacap generated revenues of PLN 71.5m.
- (9) *K2 Internet S.A.*: K2 Internet, which is based in Warsaw, offers digital advertising, SEM/SEO, media buying & planning, hosting, social media marketing and video animation. It also provides cloud computing services (OctaWave brand). In 2015, K2 Internet generated revenues of PLN 87.6m.

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
Mediacap S.A. (PLN)	0.72x	n.a	n.a	6.99x	n.a	n.a	10.77x	n.a	n.a	2.84x	10.32%	-11.95%
K2 Internet S.A. (PLN)	0.41x	0.40x	0.37x	5.77x	5.40x	4.35x	18.65x	23.60x	13.11x	1.24x	7.05%	26.66%
Median	0.56x	0.40x	0.37x	6.38x	5.40x	4.35x	14.71x	23.60x	13.11x	2.04x	8.69%	7.36%
SARE S.A. (PLN)	1.01x	0.98x	0.89x	5.69x	6.21x	4.40x	10.73x	11.11x	6.93x	2.06x	17.76%	-16.43%
Premium/discount	79.2%	143.9%	138.6%	-10.8%	15.0%	1.2%	-27.0%	-52.9%	-47.1%			
Fair value SARE (PLN)	20.15											

Source: Thomson Reuters Eikon, East Value Research GmbH

Price target calculation

Valuation method	Fair value	Weight
DCF model	24.19	80%
Peer-group-based fair value	26.78	20%
Weighted average (present value)	24.71	
In 12-months (PV * (1+WACC))	28.10	

Source: East Value Research GmbH

Non-listed peers in Poland:

The Polish market for online advertising is still very dispersed. Below are SARE's most important non-listed local competitors:

- (10) *optivo GmbH*: optivo, which since 2013 has been part of German postal and logistics services giant Deutsche Post DHL, is one of largest providers of email and omni-channel marketing services in Europe. Its cloud-based modular software optivo broadmail provides omni-channel solutions and services for marketing via email, print, push, SMS, mobile, Fax, social media and the internet. The offering is complemented by consulting services. Optivo has more than 1,300 clients and has offices in Berlin, Amsterdam, Warsaw and Istanbul.
- (11) *LeadR Sp. z o.o.*: LeadR is headquartered in Warsaw and a portfolio company of the Polish Venture Capital fund Dirlango. The company owns a mailing network called Email Network Sp. z.o.o, which comprises database publishers from around the world and currently consists of >300m email addresses. It supports its customers in the areas of mailing, newsletter and SMS campaigns, targeting of users, ad creation, copywriting as well as analytics.
- (12) *zjednoczenie.com sp. z o.o.*: zjednoczenie.com, which is based in Gdansk/Poland, offers IT and online advertising services e.g. usability of web sites, social media consulting and marketing, email marketing with an own tool, creation of web sites, online marketing campaigns, hosting, own CMS systems and software outsourcing services. Among its clients are such well-known companies as LPP S.A., MTV Networks Polska, Vistula & Wolczanka and TUI.
- (13) *FreshMail Sp. z o.o.*: Freshmail, which has offices in Krakow/Poland, London/UK and Reading/UK, is an email advertising agency. FreshMail offers an own solution for email, newsletter and SMS marketing (however apparently without analytics) as well as consulting. The company has been present on the market since 2008 and has among others Neckermann, Burda International and InPost as clients.
- (14) *GetResponse Sp. z.o.o.*: Getresponse is an international email marketing company with offices in Gdansk/Poland, Warsaw/Poland, Moscow/Russia, Halifax/Kanada, Wilmington/US, Kuala Lumpur/Malaysia and Bengaluru/India. According to the company's website, in 2015 it had 350k clients from 183 countries. The SaaS-based platform GetResponse, which is available in 21 languages, is a tool for email marketing and management of online advertising campaigns. It allows targeting of subscribers, sending of pre-defined newsletters/emails or video mails. It also offers the possibility to analyze the effectiveness of campaigns.

(15) *ExpertSender Inc.*: ExpertSender is a technology and consulting company, which is based in the US. It provides email marketing deliverability services, email campaign analytics and automation, creative services and subscriber segmentation. The company has offices in New York/US, Los Angeles/US, Rio de Janeiro/Brazil, Moscow/Russia, Beijing/China, Singapore and Gdynia/Poland. Among its clients are TUI, National Geographics Learning, DaWanda, Michelin, ING and Ergo/Hestia.

Profit and loss statement

in PLNm	2014	2015	2016E	2017E	2018E	2019E
Revenues	25.02	38.26	39.57	43.44	47.07	51.08
Cost of goods sold	-15.84	-24.14	-23.34	-24.02	-25.99	-28.35
Gross profit	9.18	14.12	16.22	19.42	21.09	22.73
Other operating income	0.21	0.25	0.55	0.56	0.57	0.58
Personnel costs	-5.75	-7.23	-8.31	-9.12	-9.89	-10.73
Other operating expenses	-0.65	-0.34	-2.23	-2.06	-2.38	-2.74
EBITDA	3.00	6.79	6.23	8.80	9.39	9.84
Depreciation	-0.39	-0.55	-0.81	-0.89	-0.97	-1.05
Operating income	2.61	6.25	5.42	7.91	8.43	8.80
Net financial result	-0.60	-0.96	-0.26	0.10	0.12	0.14
EBT	2.01	5.29	5.17	8.01	8.55	8.94
Income tax	-0.62	-1.24	-0.98	-1.52	-1.62	-1.70
Minorities	-0.32	-0.26	-0.40	-0.42	-0.44	-0.46
Net income / loss	1.07	3.79	3.78	6.07	6.48	6.78
EPS	0.48	1.71	1.65	2.65	2.83	2.96
DPS	0.00	0.00	0.00	1.32	1.41	1.48
Share in total sales						
Revenues	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Cost of goods sold	-63.30 %	-63.10 %	-59.00 %	-55.30 %	-55.20 %	-55.50 %
Gross profit	36.70 %	36.90 %	41.00 %	44.70 %	44.80 %	44.50 %
Other operating income	0.82 %	0.66 %	1.39 %	1.29 %	1.22 %	1.14 %
Personnel costs	-22.96 %	-18.91 %	-21.00 %	-21.00 %	-21.00 %	-21.00 %
Other operating expenses	-2.58 %	-0.89 %	-5.64 %	-4.74 %	-5.07 %	-5.37 %
EBITDA	11.98 %	17.76 %	15.75 %	20.25 %	19.95 %	19.27 %
Depreciation	-1.55 %	-1.43 %	-2.05 %	-2.05 %	-2.05 %	-2.05 %
Operating income	10.43 %	16.33 %	13.70 %	18.20 %	17.90 %	17.22 %
Net financial result	-2.41 %	-2.51 %	-0.64 %	0.23 %	0.25 %	0.27 %
EBT	8.02 %	13.81 %	13.06 %	18.43 %	18.15 %	17.49 %
Income tax	-2.50 %	-3.23 %	-2.48 %	-3.49 %	-3.45 %	-3.33 %
Minorities	-1.26 %	-0.68 %	-1.01 %	-0.97 %	-0.93 %	-0.90 %
Net income / loss	4.26 %	9.90 %	9.56 %	13.97 %	13.77 %	13.27 %

Balance Sheet

in PLNm	2014	2015	2016E	2017E	2018E	2019E
Cash and equivalents	2.44	3.59	6.71	8.54	11.09	13.75
Financial assets	0.13	0.04	0.04	0.04	0.05	0.05
Inventories	0.00	0.00	0.00	0.00	0.00	0.00
Trade accounts and notes receivables	5.30	8.51	9.76	10.71	11.61	12.60
Other current assets	1.07	1.31	1.58	1.74	1.88	2.04
Current assets, total	8.94	13.46	18.09	21.03	24.62	28.44
Property, plant and equipment	0.47	0.79	0.81	0.83	0.85	0.87
Other intangible assets	9.57	10.25	11.00	11.73	12.33	12.98
Goodwill	0.45	0.41	0.21	0.21	0.21	0.21
At-equity investments	0.08	0.11	0.11	0.11	0.12	0.12
Other long-term assets	0.05	0.07	0.07	0.08	0.09	0.10
Deferred tax assets	0.24	0.34	0.00	0.00	0.00	0.00
Non-current assets, total	10.85	11.97	12.21	12.97	13.60	14.28
Total assets	19.78	25.42	30.30	34.00	38.23	42.71
Trade payables	3.39	5.09	4.48	4.61	4.98	5.44
Other short-term liabilities	0.62	0.89	0.92	1.01	1.09	1.18
Short-term financial debt	0.05	0.05	0.06	0.00	0.00	0.00
Pension provision	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	0.21	0.18	0.80	0.88	0.95	1.03
Current liabilities, total	4.27	6.21	6.25	6.49	7.02	7.65
Long-term financial debt	0.03	0.04	0.02	0.02	0.01	0.01
Other long-term liabilities	0.24	0.15	0.16	0.17	0.19	0.20
Deferred tax liabilities	0.08	0.11	0.00	0.00	0.00	0.00
Long-term liabilities, total	0.36	0.30	0.18	0.19	0.20	0.21
Total liabilities	4.63	6.51	6.43	6.68	7.22	7.86
Shareholders equity, total	14.30	18.39	22.95	25.98	29.22	32.61
Minority interests	0.86	0.52	0.92	1.34	1.78	2.24
Total equity and liabilities	19.78	25.42	30.30	34.00	38.23	42.71

Cash Flow Statement

in PLNm	2014	2015	2016E	2017E	2018E	2019E
Net income / loss	1.07	3.79	3.78	6.07	6.48	6.78
Depreciation & Amortization	0.39	0.55	0.81	0.89	0.97	1.05
Change of working capital	-0.77	-2.17	-2.09	-0.87	-0.57	-0.59
Others	1.07	1.07	-0.84	-0.08	-0.07	-0.08
Net operating cash flow	1.76	3.23	1.66	6.01	6.81	7.16
Cash flow from investing	-1.10	-1.99	-1.39	-1.64	-1.59	-1.71
Free cash flow	0.66	1.24	0.27	4.37	5.22	5.45
Cash flow from financing	0.01	-0.09	2.85	-2.53	-2.67	-2.78
Change of cash	0.67	1.15	3.12	1.83	2.55	2.66
Cash at the beginning of the period	1.77	2.44	3.59	6.71	8.54	11.09
Cash at the end of the period	2.44	3.59	6.71	8.54	11.09	13.75

Financial ratios

Fiscal year	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E
Profitability and balance sheet quality								
Gross margin	36.70%	36.90%	41.00%	44.70%	44.80%	44.50%	43.50%	42.50%
EBITDA margin	11.98%	17.76%	15.75%	20.25%	19.95%	19.27%	18.76%	17.73%
EBIT margin	10.43%	16.33%	13.70%	18.20%	17.90%	17.22%	16.71%	15.68%
Net margin	4.26%	9.90%	9.56%	13.97%	13.77%	13.27%	12.89%	12.10%
Return on equity (ROE)	11.82%	23.19%	18.31%	24.80%	23.48%	21.92%	20.49%	18.60%
Return on assets (ROA)	8.44%	18.69%	13.33%	17.55%	16.64%	15.54%	14.53%	13.19%
Return on capital employed (ROCE)	11.59%	24.92%	18.26%	23.29%	21.87%	20.32%	18.92%	17.17%
Economic Value Added (in PLNm)	-0.33	2.15	1.09	2.63	2.54	2.31	2.03	1.49
Net debt (in PLNm)	-2.36	-3.50	-6.63	-8.52	-11.08	-13.75	-16.89	-20.09
Net gearing	-16.54%	-19.02%	-28.88%	-32.81%	-37.90%	-42.15%	-46.74%	-50.65%
Equity ratio	72.27%	72.33%	75.74%	76.41%	76.45%	76.35%	76.30%	76.17%
Current ratio	2.09	2.17	2.89	3.24	3.51	3.72	3.93	4.12
Quick ratio	1.84	1.95	2.64	2.97	3.24	3.45	3.67	3.86
Net interest cover	4.33	6.50	21.26	-79.06	-70.22	-62.83	-57.04	-50.75
Net debt/EBITDA	-0.79	-0.51	-1.06	-0.97	-1.18	-1.40	-1.65	-1.94
Tangible BVPS	6.24	8.11	9.92	11.24	12.66	14.14	15.67	17.21
CAPEX/Sales	40.35%	3.96%	3.50%	3.77%	3.38%	3.35%	2.93%	2.82%
Working capital/Sales	8.43%	9.66%	14.63%	15.34%	15.36%	15.30%	15.11%	14.92%
Cash Conversion Cycle (in days)	-1	4	20	20	20	20	20	20
Trading multiples								
EV/Sales	1.55	1.01	0.98	0.89	0.82	0.76	0.71	0.66
EV/EBITDA	12.91	5.69	6.21	4.40	4.12	3.93	3.78	3.75
EV/EBIT	14.83	6.19	7.14	4.89	4.59	4.40	4.24	4.24
P/Tangible BVPS	2.94	2.26	1.85	1.63	1.45	1.30	1.17	1.07
P/E	39.44	11.10	11.11	6.93	6.49	6.21	5.97	5.97
P/FCF	63.43	33.95	154.49	9.63	8.06	7.72	6.95	6.91

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Bundesanstalt für Finanzdienstleistungsaufsicht
Lurgiallee 12
60439 Frankfurt