Integer.pl S.A.

Price target: PLN 192.20 | Initiating Coverage | Rating: BUY

Integer.pl S.A. (ITG), whose origins go back to 2001, is the No 1 private provider of postal services in Poland with a market share of 15%. In addition, the company operates the largest global network of fully-automated parcel lockers. Since 2010, ITG has already installed >3,000 such machines including >1,000 Poland and c. 2,000 in 12 foreign countries. Upon gaining the necessary financing, it plans to install additionally c. 5,000 pack machines by 2016.

The two themes that are driving ITG's growth are the liberalization of postal services in Poland and the rapid growth of E-Commerce worldwide. Most Poles consider the services of the state-owned operator Poczta Polska expensive and unreliable, which constitutes a great opportunity for Integer's subsidiary InPost, especially in high-volume government tenders. As provider of a technology, which makes the delivery of parcels to customers significantly cheaper and flexible, the company could also be a major beneficiary of the dynamic E-Commerce market, whose CAGR 14-18E is expected at 17.8% worldwide.

All this sounds very exciting, however there are risks. In order to become a global player, ITG, which until 2011 only operated on the Polish market, must adjust and expand its organizational structure. This and the costs of investments in the pack station network is negatively affecting results and cash flow. At the same time, competition is growing, with an increasing number of mail and parcel companies starting to install parcel lockers. While ITG is still No 1 in that area, it will only maintain its competitive advantage if it finally raises at least EUR 100m of fresh capital and completes its ambitious investment plan. Although we think the sale of a minority stake in InPost in H1/15 will be a success, the closing of the next financing round at easyPack takes more time than management had expected.

We recommend to BUY ITG with a 12-months DCF-based PT of PLN 192.20, which implies an upside of 12.7% at present. We think that due to its high operating leverage ITG's investment story is very interesting and the company has strong competitive advantages (the largest global network; a very innovative technology). However, its future growth depends on the outcomes of the capital increase at easyPack and the spin-off of InPost.

in PLNm	2013	2014	2015E	2016E	2017E	2018E
Net sales	347.32	604.07	858.84	1,019.14	1,116.35	1,208.03
EBITDA	49.54	34.83	50.14	103.30	130.90	157.49
EBIT	24.23	-5.16	-3.11	40.62	62.80	84.40
Net income	23.58	-9.47	-3.16	17.45	34.40	50.89
EPS	3.58	-1.28	-0.41	2.25	4.43	6.55
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%	-0.52%	2.84%	5.37%	7.45%
Net gearing	25.99%	21.99%	90.40%	105.52%	106.37%	101.88%
EV/Sales	4.20x	2.41x	1.70x	1.43x	1.31x	1.21x
EV/EBITDA	29.43x	41.85x	29.08x	14.11x	11.14x	9.26x
P/E	47.63x	neg	neg	75.85x	38.48x	26.01x

Company profile

Integer.pl is the No 1 private provider of postal services in Poland with a network of >8,000 own and shared service points. Also, it operates >3,000 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	170.50
Number of shares (m)	7.76
Market cap. (PLNm)	1323.80
Market cap. (EURm)	329.30
52-weeks range	PLN 273 / PLN 148
Average volume	15,448

Performance

4-weeks	-7.57%
13-weeks	7.55%
26-weeks	-20.47%
52-weeks	-34.48%
YTD	11.04%

Shareholder structure

A&R Investments Ltd.	29.99%
Generali OFE	8.69%
L.S.S. Holdings Ltd.	5.39%
AEGON OFE	5.11%
Free float	50.82%

Financial calendar

Q1 2015 report	May 14, 2015

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Content

Investment Case

- The Integer.pl Group is a holding company that provides mail and parcel services in Poland and globally. While its 100% subsidiary InPost is the No 1 private provider of postal services in Poland, 53.7% subsidiary easyPack, which is a JV with US-based private equity investor PineBridge, operates the currently largest global network of fully-automated pack machines.
- InPost, which recently acquired the No 2 company in its sector PGP for PLN 47.5m, had a market share of 15% in 2014. After market liberalization, which became law in January 2013, it is strongly benefitting from its attractive pricing and weak service quality of state-owned operator Poczta Polska. That allowed it to already win some larger public tenders e.g. together with PGP from the Polish Ministry of Justice worth PLN 496m gross over two years, the Government Center for Common Services and KRUS (public insurance for farmers).
- However, ITG's most attractive asset is subsidiary easyPack. The joint-venture, in which ITG and PineBridge invested EUR 58m respectively EUR 50m in 2011, is in charge of the global expansion of the pack machines, of which it plans to install c. 8,000 by 2016. The fully-automated pack machines, which are available 24 hours/7 days per week, are a highly interesting business as they make the delivery of parcels much cheaper and flexible. According to eMarketer, global E-Commerce sales are set to grow at a CAGR 14-18E of 17.8% to USD 2.5tr with Asia exhibiting the highest growth. Since 2009, ITG and easyPack have installed >3,000 pack machines in 13 countries worldwide e.g. Poland, UK, Ireland, France, Italy, Canada, Malaysia.
- In 2014, ITG's revenues grew by 73.9% to PLN 604.1m, which resulted especially from the contract with the Polish Ministry of Justice. However, profitability was heavily impacted by investments in the pack station network and marketing expenses, with EBITDA and net income decreasing by 29.7% to PLN 34.8m and 140.2% to PLN -9.5m respectively. For 2015, we again expect dynamic sales growth (+42.2% to PLN 858.8m), which will be additionally driven by the co-operation with Allegro.pl. Upon the completion of the planned funding round, we forecast that Integer.pl will install 3,900 more machines this year, thereof 550 new ones in PL. Nevertheless, as easyPack reaches break-even in more and more countries (apart from PL, CZ and SL, we expect that at least UK will have positive EBITDA in 2015), ITG should be able to improve both EBITDA and net income significantly.
- We recommend to BUY Integer.pl with a 12-months DCF-based PT of PLN 192.20, which implies an upside of 12.7% at present. While the long-term prospects of the company are extremely interesting due to the dynamic global E-Commerce sector, the next months will be decisive as it will only be able to continue the international roll-out of its pack station network as planned if it raises at least EUR 100m through the capital increase at easyPack and the spin-off of subsidiary InPost. Although we are optimistic that the transactions will be successful, we believe potential investors at easyPack will push management to focus only on the most promising countries and locations in order to reach profitability as soon as possible.

SWOT Analysis

Strengths

- No 1 private provider of postal services in Poland; only one with a Poland-wide network of >8,000 own and shared service points
- Integer.pl operates the largest global network of currently >3,000 fully-automated pack machines; it has developed the technology and control software itself; the IP is secured by patents relating to 4 utility model applications and 47 industrial designs (in all countries except Germany)
- Structured and disciplined approach when it comes to entering new markets with pack machines. This will only be done if ITG first (1) secures locations and (2) signs contracts with local logistic companies and online retailers
- CEO and founder is the largest shareholder with a share of 30%

Weaknesses

- Small size compared to peers such as Poczta Polska, UPS, DHL or FedEx
- The international roll-out of pack stations has a negative impact on results
- The completion of the next funding round at easyPack takes much more time than guided by management

Opportunities

- Postal market is characterised by high entry barriers; a countrywide presence is crucial
- Weak service quality and relatively high prices of Polish market leader Poczta Polska
- Attractive pricing plus solid track record e.g. the two-year contract with the Polish Ministry of Justice, contract with the Center for Common Services and KRUS should allow InPost to win more public tenders
- Pack machines allow ITG to benefit from the dynamic E-Commerce market at a high operating leverage; according to eMarketer, the global E-Commerce market will grow at a CAGR 14-18E of 17.8% in the coming years
- Takeover by a large international mail/parcel or E-Commerce company

Threats

- Risk that Polish government will continue to favour Poczta Poczta
- Decreasing mail volumes due to the popularity of email and other forms of digital messaging
- Failure to raise the necessary capital for investments through a capital increase at easyPack and spin-off of InPost
- Organisational and management issues relating to the fast international expansion
- Increasing competition as other providers of mail and parcel services also start to install pack machines
- Loss of key employees

Valuation

As there is no other listed company, which is comparable to Integer.pl in terms of business model and growth dynamics, we have valued ITG by using a DCF model only. Our 12-months price target for the stock is PLN 192.20, which implies an upside of 12.7% at present.

DCF model

in PLNm	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Revenues	**858.84**	**1,019.14**	**1,116.35**	**1,208.03**	**1,299.32**	**1,379.53**	**1,483.11**	**1,548.94**	**1,627.04**
(y-o-y change)	42.2%	18.7%	9.5%	8.2%	7.6%	6.2%	7.5%	4.4%	5.0%
Operating profit	**-3.11**	**40.62**	**62.80**	**84.40**	**110.42**	**133.13**	**162.39**	**210.23**	**230.32**
(operating margin)	-0.4%	4.0%	5.6%	7.0%	8.5%	9.7%	10.9%	13.6%	14.2%
NOPLAT	**-2.52**	**32.91**	**50.87**	**68.37**	**89.44**	**107.84**	**131.53**	**170.28**	**186.56**
+ Depreciation & amortisation	53.25	62.68	68.10	73.09	77.96	82.08	87.50	90.61	94.37
= Net operating cash flow	50.73	95.58	118.96	141.45	167.40	189.92	219.04	260.90	280.93
- Total investments (Capex and WC)	-455.60	-199.25	-156.86	-160.56	-157.82	-153.48	-159.40	-150.82	-142.31
Capital expenditures	-408.61	-171.35	-158.63	-163.27	-167.80	-171.59	-176.67	-179.45	-182.88
Working capital	-46.99	-27.90	1.77	2.71	9.99	18.11	17.27	28.64	40.57
= Free cash flow (FCF)	-404.87	-103.67	-37.89	-19.11	9.58	36.44	59.64	110.08	138.62
PV of FCF's	**-386.28**	**-92.52**	**-31.63**	**-14.93**	**7.00**	**24.90**	**38.12**	**65.82**	**77.53**

PV of FCFs in explicit period	-311.99
PV of FCFs in terminal period	2,022.30
Enterprise value (EV)	**1,710.30**
+ Net cash / - Net debt (31 December 2014)	-133.95
+ Investments / - Minorities	-180.46
Shareholder value	**1,395.89**
Number of shares outstanding (m)	**7.76**
WACC	**6.9%**
Cost of equity	8.0%
Pre-tax cost of debt	9.0%
Normal tax rate	19.0%
After-tax cost of debt	5.2%
Share of equity	60.0%
Share of debt	40.0%
Fair value per share in PLN	**179.79**
Fair value per share in PLN (in 12 months)	**192.20**

WACC \ Terminal EBIT margin	**10.6%**	**11.6%**	**12.6%**	**13.6%**	**14.6%**	**15.6%**	**16.6%**
3.9%	1014.67	1162.82	1310.96	1459.10	1607.24	1755.38	1903.53
4.9%	395.57	460.28	524.99	589.70	654.41	719.12	783.83
5.9%	204.22	243.28	282.35	321.41	360.48	399.54	438.60
6.9%	111.87	138.65	165.42	**192.20**	218.97	245.75	272.53
7.9%	57.93	77.58	97.24	116.89	136.55	156.21	175.86
8.9%	22.84	37.91	52.97	68.04	83.11	98.18	113.24
9.9%	-1.61	10.29	22.19	34.09	45.99	57.89	69.79

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.

<u>Mail and Parcel companies:</u>

(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 2014, Deutsche Post had revenues of EUR 56.6bn.

Deutsche Post DHL has been recently expanding its network of parcel lockers called Packstationen, which already comprises >3,000 machines. Originally only installed in Germany, these machines are now also available in Italy (Milan), Dubai and the Netherlands (Amsterdam). 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 2014, Österreichische Post reported total sales of EUR 2.4bn.

Österreichische Post operates a network of c. 130 pack stations in Austria, which is supposed to increase to 200 by the end of 2015 and 400 by 2016.

(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. For fiscal-year 2014, FedEx, which is also active in Poland, reported sales of USD 45.6bn.

On April 7, 2015, FedEx announced that it would buy Dutch TNT Express NV for USD 4.4bn or EUR 8 per share. The deal is supposed to strengthen the company's European foothold. Moreover, it makes very much sense from an operational point of view as FedEx is market leader in airfreight, while TNT Express is very strong when it comes to logistics on the road. In 2012, UPS also wanted to acquire TNT Express, however the deal was rejected by EU authorities due to antitrust concerns. Since then, TNT Express has only generated losses.

(4) *United Parcel Services Inc.:* United Parcel Service, Inc. (UPS), which is headquartered in Atlanta/US, is a package delivery company that operates worldwide, among others in Poland (it acquired local companies Stolica and Poltraf there). In 2014, UPS had total revenues of USD 58.2bn.

UPS operates a network of currently >15,000 UPS Access Points in North America and Europe e.g. in France 4,000, Germany >2,900, UK >2,800 and in Poland c. 700.

(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, Singapore Post generated sales of SGD 821.1m.

Singapore Post operates a network of c. 100 parcel lockers called POPStation throughout Singapore.

(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 fiscal-year 2014, PostNL had total revenues of EUR 4.3bn.

PostNL operates a network of currently 9 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, 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. In fiscal-year 2014, 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 fiscal-year 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, the company had total revenues of MYR 1.4bn.

	EV/EBITDA			EBITDA margin	Net gearing	P/BVPS
Company	**2014**	**2015E**	**2016E**	**2014**	**Latest**	**Latest**
Deutsche Post AG (EUR)	8.76x	8.29x	7.57x	7.60%	24.67%	3.81x
Österreichische Post AG (EUR)	8.68x	9.44x	9.24x	13.60%	-35.91%	4.49x
FedEx Corp. (USD)	8.20x	7.17x	6.24x	13.30%	11.97%	3.12x
United Parcel Service Inc. (USD)	10.34x	9.74x	9.02x	11.90%	351.28%	40.22x
Singapore Post Ltd. (SGD)	18.67x	18.38x	16.46x	25.70%	-25.17%	5.99x
PostNL NV (EUR)	4.69x	4.60x	4.68x	11.50%	neg	neg
Royal Mail PLC (GBP)	5.35x	6.71x	7.35x	10.00%	24.31%	1.86x
Bpost SA (EUR)	8.57x	8.26x	8.20x	22.60%	-71.37%	7.66x
CTT Portugal SA (EUR)	6.22x	5.90x	5.73x	25.50%	-264.97%	6.02x
Pos Malaysia Bhd (MHR)	8.15x	8.84x	8.14x	19.90%	-49.18%	2.73x
Median	***8.39x***	***8.27x***	***7.86x***	***13.45%***	***-25.17%***	***4.49x***
Integer.pl S.A. (PLN)	41.85x	29.08x	14.11x	5.77%	21.99%	2.17x
Premium/Discount	***399.0%***	***251.4%***	***79.6%***			

Source: Thomson Reuters Eikon, East Value Research GmbH

Manufacturers of parcel lockers:

(11) *ByBox*: ByBox, which is based in Coventry/UK, installs and maintains lockers and dropboxes and has developed software platforms in order to manage them. Apart from the UK, the company has customers in 20 other countries worldwide e.g. myHermes in UK, La Poste in France, Bpost in Belgium. We estimate that in 2014 ByBox had revenues of GBP >70m and employed >450 people.

In January 2015, ByBox announced that it decided to shut down myByBox, its B2C parcel locker services 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.

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, 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.

E-Commerce companies:

(15) *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 >10 locations in the US and UK. In 2014, Amazon generated yearly sales of USD 89bn.

(16) *Zalando SE*: Zalando, which is based in Berlin/Germany, is an online shoes and fashion retailer, which is available in c. 15 countries Europe-wide. In fiscal-year 2014, it had revenues of EUR 2.2bn.

(17) *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, Alibaba had revenues of USD 12.2bn.

(18) *Overstock.com Inc.*: Overstock.com Inc., which is based in Salt Lake City/US, is an online retailer, which offers discount brand name, non-brand name and closeout merchandise. In fiscal-year 2014, it generated revenues of USD 1.5bn.

(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 fiscal-year 2014, eBay generated revenues of USD 17.9bn.

	EV/Sales			EBITDA margin	Net gearing	P/BVPS
Company	**2014**	**2015E**	**2016E**	**2014**	**Latest**	**Latest**
Amazon Inc. (USD)	1.93x	1.67x	1.43x	5.70%	-45.87%	16.43x
Zalando SE (EUR)	2.84x	2.30x	1.89x	4.00%	-86.40%	6.44x
Alibaba Group Ltd. (USD)	17.27x	12.74x	9.77x	50.60%	32.55%	9.14x
Overstock.com Inc. (USD)	0.27x	0.24x	n.a	2.00%	-140.63%	4.56x
eBay Inc. (USD)	3.63x	3.42x	3.09x	27.90%	-12.27%	3.38x
Median	***2.84x***	***2.30x***	***2.49x***	***5.70%***	***-45.87%***	***6.44x***
Integer.pl S.A. (PLN)	2.41x	1.70x	1.43x	5.77%	21.99%	2.17x
Premium/Discount	***-14.9%***	***-26.4%***	***-42.6%***			

Source: Thomson Reuters Eikon, East Value Research GmbH

Recent results

Revenues and Profitability

In fiscal-year 2014, Integer.pl generated total sales of PLN 604.1m compared to PLN 347.3m last year. This corresponded to a growth rate of 73.9% y-o-y. The fastest growing business area was Postal services, which includes the subsidiary InPost. In 2014, it increased its revenues by 91.9% y-o-y to PLN 396m, which mainly resulted from the two-year contract with the Polish Ministry of Justice for PLN 496m gross (thereof InPost' share of PLN c. 200m), that led to an increase of the number of sent items from 146m in 2013 to 282m.

In the area Automatic Parcel Machines (Operations), which includes pack machines that the Integer.pl Group operates both in Poland and abroad, sales improved by 76.5% to PLN 75.2m. This resulted from an increase of the number of installed & active machines from c. 1,800 in the previous year to c. 3,000.

Export sales of APMs as well as other revenues (components for APMs etc.) amounted to PLN 118.3m (+68.5% y-o-y), respectively PLN 14.5m (-48.5% y-o-y).

In 2014, ITG's profitability was hit hard by costs associated with the Poland-wide expansion of the postal network as well as international expansion of the APMs, especially those relating to marketing, material and external services. EBIT deteriorated from PLN 24.2m in 2013 to PLN -5.2m. Net income (PLN -9.5m vs. PLN 23.6m in 2013) was also affected by higher net financial expenses (PLN -13.8m vs. PLN -8.1m) as well as result from minorities of PLN 22.5m (2013: PLN 15m), which stemmed from a loss of 53.7% subsidiary easyPack.

in PLNm	2014	2013	change (%)
Net sales	**604.07**	**347.32**	73.9%
EBITDA	**34.83**	**49.54**	-29.7%
EBITDA margin	*5.8%*	*14.3%*	
EBIT	**-5.16**	**24.23**	-121.3%
EBIT margin	*-0.9%*	*7.0%*	
Net income	**-9.47**	**23.58**	-140.2%
Net margin	*-1.6%*	*6.8%*	

Source: Company information, East Value Research GmbH

in PLNm	2014	2013
Postal services	**396.02**	**206.32**
(% of sales)	65.6%	59.4%
APM (Operations)	**75.24**	**42.62**
(% of sales)	12.5%	12.3%
APM (Export sales)	**118.28**	**70.19**
(% of sales)	19.6%	20.2%
Others	**14.53**	**28.20**
(% of sales)	2.4%	8.1%
Total net sales	**604.07**	**347.32**

Source: Company information, East Value Research GmbH

Balance sheet and Cash flow

At the end of December 2014, Integer.pl had equity of PLN 609.2m, which corresponded to a share of 50.4% in the balance sheet total. Fixed assets, which comprise the equipment of InPost and the APMs, equaled PLN 453.7m compared to PLN 339.5m in the previous year. Intangible assets (PLN 125.7m vs. PLN 91.9m in 2013) and goodwill (PLN 51.4m vs. PLN 6.1m) reflected ITG's software, licenses and patents, respectively the completed acquisition of PGP S.A. by InPost in Q4/14. We estimate that working capital amounted to PLN 242.4m compared to PLN 136.7m in 2013.

Between January and December 2014, Integer.pl generated an operating cash flow of PLN -155m compared to PLN 2.3m in 2013. Apart from the net loss, the reason were especially investments in working capital of PLN 162.2m (2013: PLN 66.3m). While cash flow from investing (PLN -202m vs. PLN -239.1m in 2013) reflected the investments in the APM network, cash flow from financing (PLN 353.6m vs. PLN 221.2m) was impacted by a capital increase of PLN 222m as well as two bond issues worth PLN 30m and PLN 60.4m respectively. In total, Integer.pl's cash position went down since January 2014 by PLN 3.4m to PLN 81m (including financial assets liquid funds equaled PLN 86.2m). With interest-bearing debt of PLN 220.1m (thereof PLN 164.7m short-term), ITG's net debt was PLN 134m (net gearing of 22%) at the end of 2014. As the company breached the covenants of its bonds as of December 31, 2014 (net debt/EBITDA of 3.9x instead of 3.5x), it will in our view have to pay some extra margin on them.

Financial forecasts

Revenues and Profitability

We have based our financial model of Integer.pl on the segments Postal services, APM (Operations), APM (Export sales) and Others. While due to the dynamic E-Commerce market ITG considers international sales and operation of pack machines its core business, we think that "Postal services" will be negatively affected by the following trends in the coming years: (1) a decreasing popularity of normal mail due to email and other forms of digital messaging e.g. WhatsApp and (2) increasing competition stemming from both government-owned former monopolist Poczta Polska as well as other private operators.

Postal services: In that segment, we have accounted for Integer.pl's fully-consolidated subsidiary InPost S.A. (incl. PGP, which was acquired in Q4/14 for PLN 47.5m against offset receivables). Through a Poland-wide network, it offers registered and normal mail, parcels and basic financial services.

We have based our revenue assumptions for Postal services on three sources: registered mail, normal mail and financial services. While financial services should amount to PLN 10.5m in 2015 and increase by 5% y-o-y afterwards, InPost' mail volumes should grow quite significantly despite a declining market. The reasons are: (1) InPost's superior service quality and pricing, which allows it to successfully compete for high-volume government and business contracts (2) with a share of currently 15%, InPost still has enough market potential to capture in Poland and (3) a much higher volume of parcels due to the growth of the E-Commerce market and the co-operation with Allegro.pl.

Due to investments in courier services we expect an EBITDA margin of 9% in 2015, which however should again increase to >11% by 2016. However, in the long run we forecast that pricing and profitability will decrease due to strong competition.

We would like to emphasize that there would be quite significant upside to our forecasts if ITG's subsidiary PGP (which has already filed the application) was to become "assigned operator" for 10 years in 2015. The reasons are (1) the preferred status of the "assigned operator" and (2) access to some large public contracts e.g. with the state-owned social insurance ZUS.

Operation of APMs: This segment comprises the results of both the Polish parcel lockers and those in other countries, which Integer.pl/easyPack are renting out to their E-Commerce and logistics clients. We think that by 2016 Integer.pl/easyPack will operate 8,000 pack machines, up from c. 3,000 at the end of 2014. By 2023, we forecast that they will have 15,000 active machines worldwide. We are relatively conservative in this regard as in our view ITG will put a stronger focus on efficiency and profitability of its network in the near future due to pressure from investors.

When it comes to new machines, we think that ITG will mainly concentrate on the expansion of the network in Poland (550 new machines) due to the so far very successful co-operation with the E-Commerce platform Allegro.pl, UK (200 new machines), France (700 new machines) and Italy (600).

The next on the priority list will be in our view Canada, Spain and Brazil, however this will depend on how much capital easyPack will raise from new investors and whether the break-even in one of its core markets UK, Russia, France or Italy will be reached. Although according to eMarketer Asia is set to outpace North America as the largest E-Commerce market soon, we believe that due to cultural differences easyPack will focus its investment activities on Europe and the Americas.

In terms of profitability, we expect that in 2015 the parcel locker network will generate a loss on the EBITDA level of PLN 31.2m, however in our view a positive EBITDA for the whole easyPack project should be reachable in 2016 as guided by ITG's management. In the long run, we expect that the operation of pack stations will generate EBITDA margins of up to 40%, although we have assumed that prices per parcel will decrease as more and more mail and courier companies start to install parcel lockers.

Sale of APMs: This area relates to export sales of parcel lockers, which ITG produces in its own manufacturing facility and which generate an EBITDA margin of 25%. So far, the company has sold them to postal operators in Australia, the Caribbean, the Baltics, Saudi-Arabia, Cyprus, Romania, Chile, Island and Ireland. In our model, we have assumed that the price, which ITG charges per device (currently EUR 21,000), will decrease in the future due to increasing competition especially from manufacturers from Asia.

Other revenues: In this business area, we have summed up all other sales e.g. of components for pack machines. We have assumed flat revenues going forward and an EBITDA margin of 10%.

in PLNm	2015E	2016E	2017E	2018E
Postal services	**645.53**	**767.53**	**836.36**	**910.63**
(% of sales)	*75.2%*	*75.3%*	*74.9%*	*75.4%*
Number of registered mail	115,000,000	135,350,000	147,350,000	159,350,000
Revenue per registered mail (PLN)	2.70	2.67	2.64	2.61
Number of normal mail	185,000,000	202,350,000	211,150,000	219,950,000
Revenue per normal mail (PLN)	1.10	1.09	1.08	1.07
Number of parcels	19,000,000	27,624,100	33,148,920	39,778,704
Revenue per parcel (PLN)	6.40	6.34	6.27	6.21
Revenues from financial services (PLN)	10,500,000	11,025,000	11,576,250	12,155,063
EBITDA margin	9.0%	10.7%	11.5%	11.5%
APM (Operations)	**111.49**	**171.75**	**200.31**	**239.35**
(% of sales)	*13.0%*	*16.9%*	*17.9%*	*19.8%*
Year-end number of active pack stations (in units)	6,920	8,000	9,000	10,000
Average number of active pack stations (in units)	4,960	7,460	8,500	9,500
Parcels per APM (annually)	7,971	8,181	8,390	8,988
Average revenue per parcel (PLN)	2.82	2.81	2.81	2.80
EBITDA margin	-28.0%	2.0%	8.5%	17.0%
APM (Export sales)	**87.15**	**65.04**	**64.71**	**42.92**
(% of sales)	*10.1%*	*6.4%*	*5.8%*	*3.6%*
Number of exported machines	1,000	750	750	500
Average ARPU (EUR)	21,000	20,895	20,791	20,687
Average EUR/PLN exchange rate	4.15	4.15	4.15	4.15
EBITDA margin	25.0%	25.0%	25.0%	25.0%
Others	**14.68**	**14.82**	**14.97**	**15.12**
(% of sales)	*1.7%*	*1.5%*	*1.3%*	*1.3%*
EBITDA margin	10.0%	10.0%	10.0%	10.0%
Total net sales	**858.84**	**1,019.14**	**1,116.35**	**1,208.03**
(change y-o-y)	42.2%	18.7%	9.5%	8.2%

Source: East Value Research GmbH

in PLNm	2015E	2016E	2017E	2018E
Net sales	**858.84**	**1019.14**	**1116.35**	**1208.03**
EBITDA	**50.14**	**103.30**	**130.90**	**157.49**
EBITDA margin	*5.8%*	*10.1%*	*11.7%*	*13.0%*
EBIT	**-3.11**	**40.62**	**62.80**	**84.40**
EBIT margin	*-0.4%*	*4.0%*	*5.6%*	*7.0%*
Net income	**-3.16**	**17.45**	**34.40**	**50.89**
Net margin	*-0.4%*	*1.7%*	*3.1%*	*4.2%*

Source: East Value Research GmbH

We think that ITG had solid results in Q1/15, which were driven especially by the co-operation with Allegro and public contracts of subsidiary InPost. Also, we expect an improvement q-o-q on the profit level as most of the new pack machines will be installed in H2/15. In our view, the consulting expenses relating to the IPO of InPost and capital increase at easyPack in H1/15 of up to PLN 6m will be booked in Q2/15. We forecast Q1/15 revenues of PLN 157.6m (+30% y-o-y), an EBITDA of PLN 6m (-38.5% y-o-y) and net income of PLN -1m (Q1/14: PLN 2.2m).

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*	Q1/15E
Net sales	**121.23**	**151.62**	**163.88**	**167.34**	***604.07***	**157.60**
y-o-y change	*46.1%*	*112.1%*	*92.3%*	*55.5%*	*73.9%*	*30.0%*
EBITDA	**9.76**	**11.45**	**0.45**	**13.17**	***34.83***	**6.00**
EBITDA margin	*8.1%*	*7.6%*	*0.3%*	*7.9%*	*5.8%*	*3.8%*
EBIT	**2.51**	**2.92**	**-8.33**	**-2.26**	***-5.16***	**-0.90**
EBIT margin	*2.1%*	*1.9%*	*-5.1%*	*-1.3%*	*-0.9%*	*-0.6%*
Net income	**2.20**	**3.35**	**3.94**	**-18.96**	***-9.47***	**-1.00**
Net margin	*1.8%*	*2.2%*	*2.4%*	*-11.3%*	*-1.6%*	*-0.6%*

Source: Company information, East Value Research GmbH

CAPEX and Working capital

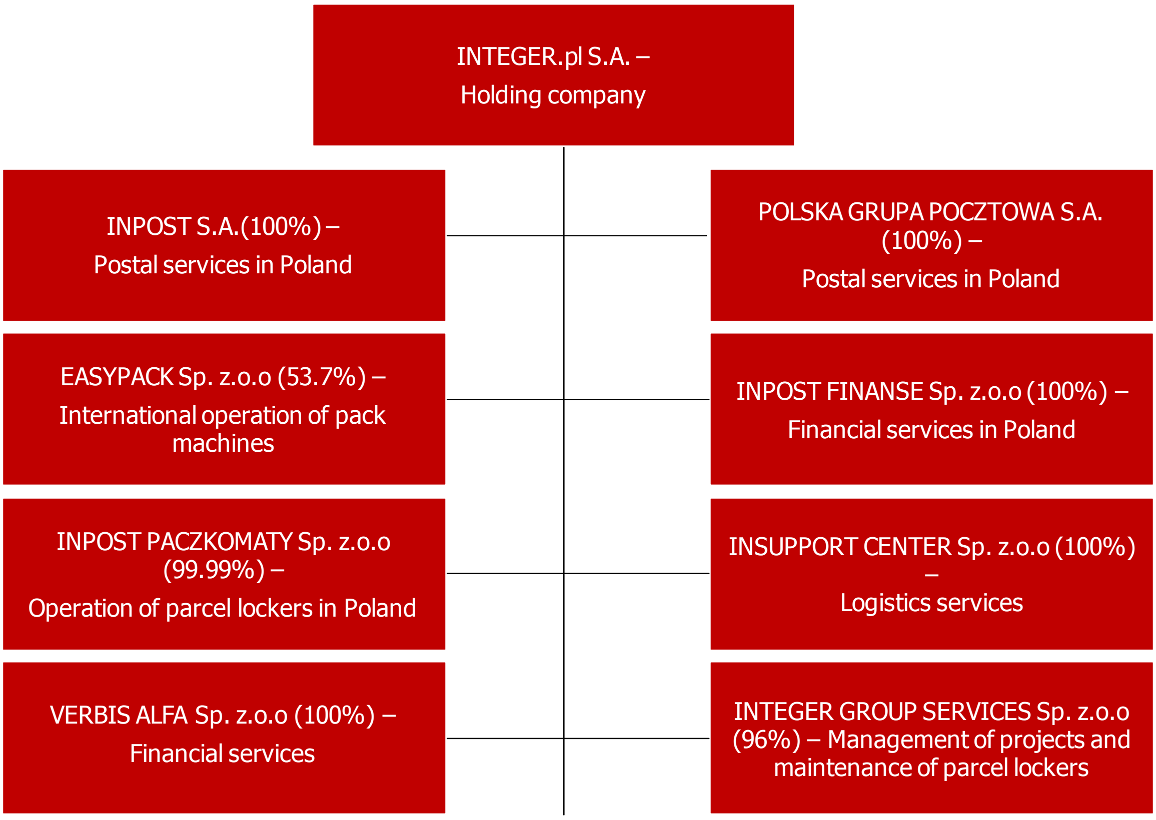
As 2015 is supposed to be the year of the largest expansion of the APM network. Integer.pl announced that relating CAPEX would amount to EUR 60m/PLN 246m. In our model, we have forecast gross CAPEX (including D&A and investments in intangible assets) of PLN 408.6m in 2015 and PLN 171.4m in 2016. Given slower-than-expected installations in UK (c. 1,000 machines by now vs. 2,000, which were originally planned), we believe that by year-end 2016 ITG's global network will comprise no more than 8,000 active parcel lockers.

When it comes to working capital management, we have assumed that it will improve in the years to come, with the share of WC in total sales decreasing from 40.1% in 2014 to c. 12% in the long run. For 2015 and 2016, we expect working capital investments of PLN 47m and PLN 27.9m respectively. In our view, the cash conversion cycle will decrease to 30 days in the future.

Business description

Integer.pl S.A., which is based in Cracow, is a holding company that provides mail and parcel as well as basic financial services (loans, payments, credit cards, insurance products). Its subsidiary InPost is the No 1 private provider of postal services in Poland with a market share of 15% (as of 31/12/2014). Moreover, together with the US-based private equity fund PineBridge Investments the company develops and operates a global network of fully-automated parcel machines that provide customers with significant advantages (24/7 availability; delivery of parcels within max. 2 business days; several payment options). Integer.pl has been listed on the Warsaw Stock Exchange since 2007 and currently has c. 6,000 employees (EVRe).

Organizational structure



Source: Company information, East Value Research GmbH

Company history

2001: Foundation as Integer s.c. (civil partnership) in Cracow by Mr Rafal Brzoska, his wife Mrs Anna Izydorek-Brzoska and a business partner. Within two years, Integer became the largest distributor of marketing material in Poland.

2003: Change of the name to Integer.pl Sp. z.o.o (limited partnership), in which Mr Brzoska took 100% of the shares.

2006: Foundation of InPost Sp. z.o.o, the first private provider of postal services in Poland.

2007: Creation of joint-stock company Integer.pl S.A. IPO in the main market of the Warsaw Stock Exchange, which was accompanied by a capital increase worth PLN 20.9m (1.55m new shares at PLN 13.50 per share). The IPO proceeds were used to finance the expansion of InPost (new Points-of-Sale (POS), IT and two new sorting machines).

Annual revenues reach PLN 62.1m.

2009: Installation of first 150 "Paczkomaty" pack machines in Poland.

Annual revenues reach PLN 135.9m.

2012: Sale of Kolportaz Rzetelny Sp. z.o.o, ITG's subsidiary in charge of distribution of marketing material, to Austrian Post for EUR 12.5m + earn-out (EV/EBITDA 2011 of 8x).

Acquisition of 100% in AQ-Tech Sp. z.o.o, a supplier of APM (Automated Parcel Machines) solutions, for PLN 43m. Before, ITG was dependent on external suppliers.

Foundation of easyPack Sp. z.o.o together with the US-based private equity fund PineBridge Investments. Integer.pl invests EUR 58m over two years and takes over 53.2% of the shares, while PineBridge pays EUR 50m for a stake of 46.8%.

The number of installed and active pack stations reaches 424, thereof 409 in Poland. The machines are available in 4 countries worldwide (incl. those, which were sold and are not operated by easyPack).

2013: ITG opens an own production facility for APMs in Zabierzow, near the city of Cracow.

Acquisition of patents relating to parcel lockers from Deutsche Post for EUR 7m in order to avoid potential lawsuits due to unclear global patent rules.

The Polish postal market opens up to private operators. Integer.pl is now able to deliver all kinds of letters (not just those with a weight of >50 g). However, the Polish state maintains some regulations, which favor Poczta Polska until at least 2015: (1) Poczta Polska's stamps are treated the same as government stamps and (2) the services, which it is obliged to deliver as the "assigned operator", continue to be exempt from VAT.

The number of installed and active APMs reaches 698 in 3 countries, thereof 589 in Poland, where they reach the break-even on the EBITDA level.

Integer.pl conducts a capital increase of PLN 147m (589.7k shares at PLN 250 per share) in order to finance the further expansion of its pack station network.

Annual revenues reach PLN 347.3m.

2014: Cooperation agreement with the largest E-Commerce platform in Poland Allegro.pl. Integer.pl expects the co-operation to generate PLN 240m of sales by 2016.

Capital increase of PLN 222m (888.9k new shares at PLN 250 per share) for financing the further expansion of the pack machine network.

At the end of the year, the number of pack stations reaches >2,900 in 12 countries, thereof almost 1,000 in Poland. In addition to Poland, the operation of pack stations breaks-even in Q4/14 in the Czech Republic and Slovakia.

Due to the two-year contract with the Polish Ministry of Justice ITG's yearly revenues reach PLN 604.1m.

Business segments

Postal services: Integer.pl's subsidiary InPost, which has been on the market since 2006, is the No 1 private provider of mail and parcel services in Poland. Between 2009 and 2013, the number of mail, which it processed, grew from 75m to 282m. Due to the takeover of number 2 Polska Grupa Pocztowa S.A. (acquisition price amounted to PLN 47.5m) and a co-operation with the largest Polish press distributor RUCH and savings bank SKOK the subsidiary operates a countrywide network of >8,000 own and shared POS (Poczta Polska currently has 7,884). InPost delivers normal and registered mail and parcels to private and business clients as well as government institutions. In addition, it sells basic financial products (money transfers, loans, insurance, credit cards) of co-operation partners e.g. Western Union, Link4, Generali, Liberty Direct.

	No of InPost' POS	No of communities
Urban	3,934	306
Mixed	1,339	602
Country	2,781	1,571
Total	**8,054**	**2,479**
thereof: InPost' own ones	1,310	

Source: Company information, East Value Research GmbH

InPost' competitive advantage is its service quality as well as pricing, which is significantly lower than of the state-owned operator Poczta Polska S.A. and courier companies such as DHL, DPD and UPS. Moreover, we believe that the probability that a new party will enter the Polish market for postal services is rather small as the postal business requires a large countrywide POS network and despite the liberalization of the market in 2013 the regulatory situation in Poland remains pretty complicated.

	Normal letter	Registered letter	Parcel
InPost	PLN 1.40-6.40 gross	PLN 3.50-8.40 gross	PLN 8.30-11 gross
Poczta Polska	PLN 1.75-10.90 gross	PLN 4.20-14.50 gross	PLN 9.50-26 gross
Prices for courier services such as DPD or DHL start at PLN 16-20			

Source: Company websites, East Value Research GmbH

In H2/15, the Polish regulator UKE will again decide, which postal company will be the "assigned operator" for the next 10 years and we believe that ITG's chances are quite good. While he is obliged to guarantee the mail and parcel delivery to every corner of Poland, an assigned operator has several advantages: (1) his stamps are treated the same as of government institutions and (2) the services, which he delivers as the assigned operator, are exempt from the 23% VAT.

In our view, an additional growth trigger for InPost will be the co-operation with the largest Polish E-Commerce platform Allegro.pl that was signed in 2014. Under the agreement, InPost offers Allegro.pl's clients two options: a parcel to APMs for PLN 6.50 and a registered letter for PLN 3.20. According to ITG's management, currently 340k of Allegro's total 13.5m products are offered with the InPost' option, which results in a number of parcels/registered letters of 6,400 per day. With 4m available products, which are expected by the end of 2015, the number of parcels/registered letters could reach c. 75k per day, resulting in additional sales per day of c. PLN 12m.

Although InPost develops very dynamically, Integer.pl plans to conduct a spin-off of the subsidiary in H1/15, during which it wants to sell max. 49% of its shares (we have not accounted for that in our valuation model). The main reason is that ITG needs money in order to further expand its international pack station network. Based on our estimates for InPost's EBITDA in 2014-2016E and median EV/EBITDA multiples of the peers, the subsidiary could be worth PLN 431.8m-PLN 645.3m.

Operation of APMs: This segment comprises the business of ITG's joint venture with the PE fund PineBridge Investments. In 2011, ITG and PineBridge announced that they planned to install 16,000 parcel lockers Europe-wide by 2016. In order to do that, they founded easyPack, in which the Integer.pl Group took over 53.2% of the shares and PineBridge the rest. Until today, both parties have contributed c. PLN 620m/EUR 150m of capital and assets into the JV. Until now, easyPack has located >3,000 pack machines in 13 countries worldwide.

Source: Company information, East Value Research GmbH

The pack machines are operated by easyPack in three models:

(1) Rental – rental of lockers e.g. to postal companies or couriers. For exclusivity, they get a certain number of lockers. EasyPack receives a fixed fee per parcel. This model is mainly used in Poland, Czech Republic and Slovakia.

(2) End-to-End – easyPack's local sales team sells full parcel delivery service to online retailers. Logistics operations are outsourced to local delivery companies. EasyPack receives fixed fee per parcel. The model is used in Russia and will be introduced in other large countries.

(3) Mixed – client commits himself that he will fill in the parcel lockers to e.g. 20%. In addition, lockers are rented in order to increase capacity utilization. This model is currently used in the UK and is to be introduced e.g. in France and Spain.

In order to enter a new market, easyPack's international team (currently 38 people in charge of locations, 14 of marketing) first secures locations in the target country e.g. at shopping malls, railway or petrol stations. The pack stations will only be deployed if the team gains a logistics and retail partner in that country. According to our estimates, easyPack has so far contracted and approved c. 5,500 locations.

Although ITG was a first-mover in that area and has clear competitive advantages (IT system, high-quality components and service), we have to emphasize that APMs have been recently installed by many other postal operators and courier companies in the world e.g. US Post in Chicago and New York, UPS in North America and Europe, Deutsche Post in several European countries, Itela in Finland and Estonia, La Poste in France, Singapore Post in Singapore. While they are mostly supplied by Austrian KEBA and Estonian Cleveron, we think it is only a matter of time that someone from Asia starts producing these machines at lower prices. Thus, we see a risk that both fees per parcel and market prices of APMs will decline in the future.

Number of installed and active APMs

	Feb 12	Feb 13	Feb 14	Feb 15
Poland*	409	589	975	1,093
UK***			569	991
Russia***	15	77	185	341
Czech Republic**			100	100
Slovakia**		32	50	50
France***				90
Italy***				145
Hungary				78
Canada				42
Ukraine				40
Malaysia				140
Netherlands				10
APMs installed & active	**424**	**698**	**1,879**	**3,120**

* reached break-even at EBITDA level in 2013

** reached break-even at EBITDA level in Q4/14

*** at least one of these countries is expected to reach the break-even in 2015

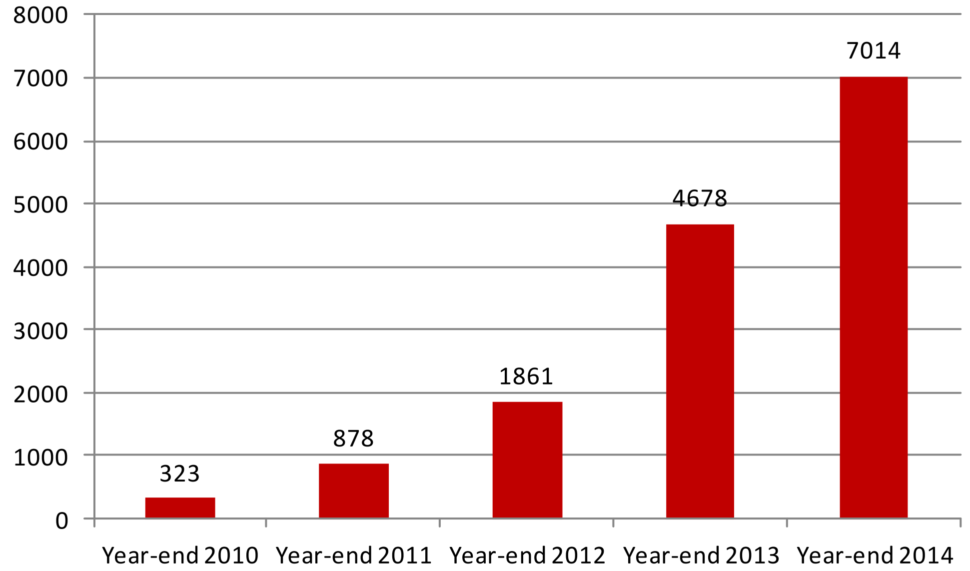
Source: Company information, East Value Research GmbH

Capacity utilization of APMs in Poland

Feb 11 - last 12 months	Feb 12 - last 12 months	Feb 13 - last 12 months	Feb 14 - last 12 months	Feb 15 - last 12 months
12.2%	22.1%	28.5%	23.6%	41.5%

Source: Company information, East Value Research GmbH

Number of online retailers worldwide, with whom ITG works together



Source: Company information, East Value Research GmbH

Export sales of APMs: Apart from operating pack machines itself, ITG also sells them to postal companies or couriers in countries, which are not interesting for its easyPack project. In the past, the machines have been deployed to clients in Europe, the Americas, Australia and the Middle East, who operate them under their own label.

Number of APMs sold

Australia	250
Estonia	99
Latvia	47
Lithuania	45
Ireland	100
Island	18
Romania	no details available
Saudi-Arabia	no details available
Cyprus	no details available
Colombia	100
El Salvador, Costa Rica, Guatemala	100

Source: Company information, East Value Research GmbH

Other revenues: Under this segment, all other revenues of ITG are summed up e.g. components of pack stations.

Management

Rafal Brzoska (CEO): Mr Brzoska is founder, CEO and (indirectly) the largest shareholder of Integer.pl S.A. He graduated with a degree in Management and Marketing studies from the Cracow University of Economics.

Krzysztof Kolpa (Vice President of the Management Board): Mr Kolpa, who is also indirectly the company's second-largest shareholder, has been ITG's Board member since 2006. From 1989 to 1996, he worked with the largest marketing distribution company in Austria Feibra Werbung and from 1996 was the owner of a similar company in Poland.

Rossen Hadijev (Member of the Management Board): Mr Hadijev has been with Integer.pl since October 2013 and its Board member since December 2013. He is in charge of financial and strategic initiatives as well as the international expansion of the APMs. Previously, he was Managing Director at PineBridge Investments, where he was involved in structuring, negotiating, and monitoring several investments in CEE, including EasyPack, Work Service, Czerwona Torebka, JetFinance, Orange Romania and Orange Slovensko. Mr Hadijev graduated with a B.A. in Business Administration from the American University in Bulgaria. He also holds an MBA degree from IESE Business School in Spain.

Market environment

The Mail and Parcel market in Poland

The mail and parcel market in Poland is regulated by the postal law, which was introduced in November 2012 and implemented the III EU directive 2008/6/WE. The new law defined the rules governing the postal market in Poland after its liberalization at the beginning of 2013. The Polish government decided to open the market (as one of 10 EU countries) at the latest possible date in order to allow the state-owned postal operator Poczta Polska to adjust to new market conditions.

According to the Polish Office for Electronic Communication (UKE), the number of mail in Poland grew at 1% on average between 2008 and 2013 to 2.1bn units. The value of the total mail market increased at a CAGR 06-13 of 6.9% to PLN 7.4bn. Since 2006, the importance of private postal operators has increased strongly, with their share in total volume and revenue growing from 4% to 19.5% and from 17% to 33.5% respectively.

Apart from state-owned Poczta Polska, which accounted for c. PLN 5bn of the total postal market, in 2013 there were 160 active alternative postal operators in Poland (out of 274, which were registered). As global mail and parcel companies have conducted many acquisitions in PL in the last years, most of them were backed by foreign capital. Only 76 of the alternative operators offered their services Poland-wide or in Poland and abroad and just 4 operated in all segments of the postal market and had >1,000 POS. In contrast to the alternative operators, which concentrated on cities (just 24.4% of their 19,191 POS were located in villages), Poczta Polska's network better covered rural areas (38.6% of in total 7,884 POS). Also, Poczta Polska owned >32k mail boxes, which significantly reduced its delivery costs especially in rural areas.

When it comes to the segments of the postal market, Poczta Polska was by far the No 1 in the area of Letter Mail (80% share in total revenues), Mail Transfers (98.8%) and Marketing Mail (92.8%). The alternative operators dominated the areas Courier Services (95.1% share in total revenues), Parcel (70.4%) and Unaddressed Mail (75.8%). However, the strategy of Poczta Polska, which plans an IPO in 2016, foresees large investments in the parcel segment by 2020, including the installation of 1,000 pack machines in PL.

The Polish Postal Institute (Instytut Pocztowy) estimates that the total mail market could decline even by 10% y-o-y in the following years, which in our view results from the popularity of email and increasing use of digital documents. On the other hand, due to the dynamic E-Commerce market the segment of parcel and courier services is expected to grow at a CAGR of up to 20%.

Share in the parcel, courier and express mail market in PL

	Volume (%)	Revenues (%)
DPD (La Paste) + Siodemka	29	26
Poczta Polska	18	15
UPS	14	18
DHL	12	17
GLS (Royal Mail)	10	8
FedEx	5	4
InPost	5	2
K-ex	4	3
TNT	3	6

Source: Instytut Pocztowy, East Value Research GmbH

Statistics relating to the Polish mail market 2008-2013

	2008	2009	2010	2011	2013	CAGR 08-13
Number of registered postal operators	182	209	244	247	274	*8.5%*
thereof: active ones	106	125	152	154	160	*8.6%*
Total mail volume (bn units; excl. unaddressed ones)	2.00	2.00	2.00	2.00	2.10	*1.0%*
thereof: of alternative operators	0.08	0.14	0.21	0.26	0.41	*38.7%*
Total revenues (in bn; excl. unaddressed mail)	5.30	5.60	5.60	5.80	7.40	*6.9%*
thereof: of alternative operators	0.90	1.00	1.20	1.40	2.50	*22.7%*

Source: UKE, East Value Research GmbH

The Mail and Parcel market in Europe

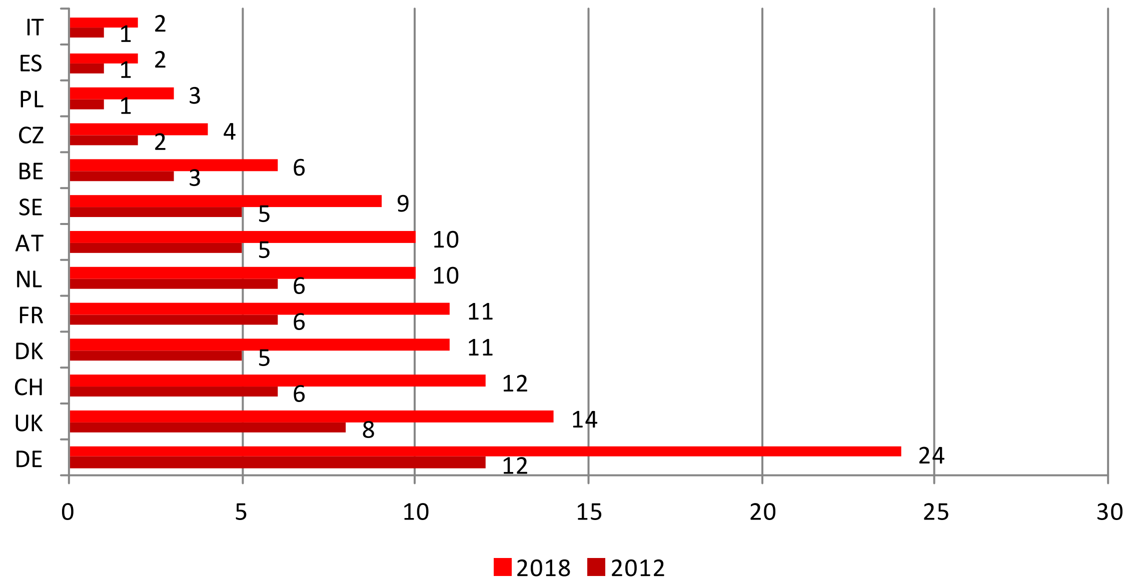
Most EU member states liberalized their postal markets at the end of 2010. However, only in Germany, the Netherlands, Sweden, Finland, Slovakia, Estonia and UK there is unlimited competition in the postal sector.

According to the EU, the postal market in Europe is worth c. EUR 90bn and handles c. 135bn items per year. We estimate that approximately 45% of it is generated by letters; however that share has been declining by 4%-5% y-o-y over the last years. The largest postal markets in terms of revenues are Germany, UK and France. For the next years, the Copenhagen Institute for Future Studies estimates a further decrease of mail volumes in Europe of 2-3% per year.

According to WikConsult, the European parcel and express market is worth EUR 37bn (thereof c. 2/3 B2B), with Germany, UK and France being the leaders. The market is dominated by the largest international mail & parcel companies (UPS, DHL, FedEx and TNT Express), which according to AT Kearney make up 87% of its volume.

Although B2B still accounts for 65-70%, the growth of the parcel and express segment should be driven by E-Commerce sales in the coming years. Geopost, the parcel & express subsidiary of French La Poste, estimates that the B2C segment will grow on average by 6-8% per year by 2020, while it expects the B2B segment to increase at a CAGR of 2%.

Number of parcels per capita

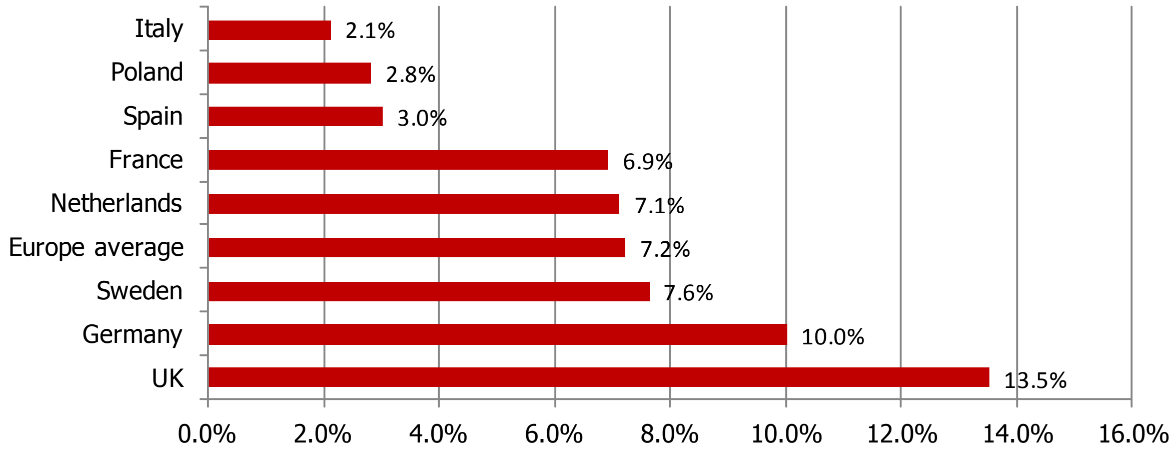


Source: Deutsche Post DHL, East Value Research GmbH

The E-Commerce market in Poland and worldwide

The research firm PMR estimates that the online retail market in Poland grew by 15% y-o-y in 2014 to PLN 27.3bn. The most dynamic areas were Food, Clothing and Shoes. According to PMR, online retail sales are positively impacted by the growing popularity of smartphones and tablets as well as new cheap or cost-free methods of Internet access e.g. HotSpots. The research firm expects that the Polish E-Commerce market will double over the next five years. In our view, the growth potential of online sales in Poland is still significant as its share in total retail spending remains very low compared to e.g. UK or Germany. Moreover, the share of people, who buy online, is just 47% vs. 62% on average in EU (Source: Eurostat).

Share of E-Commerce in total retail sales (2014)



Source: Center for Retail Research, East Value Research GmbH

According to eMarketer, the global B2C E-Commerce market in 2014 was worth USD 1.3tr, which corresponded to a y-o-y growth of 22.2% and a share in total retail spending of 5.9%. China and the US were by far the world's largest E-Commerce markets, accounting for more than 55% of global online retail sales. eMarketer forecasts that by 2018, when the global online retail market will reach a volume of USD 2.5tr (8.8% of total retail spending), China's share will exceed USD 1tr (>40% of the global market). The US will be No 2 with USD 493.9bn and UK number 3 with USD 125bn. By 2018, the share of E-Commerce sales in total retail spending is expected to be highest in UK (18%), China (16.6%) and Finland (11.5%).

Profit and loss statement

in PLNm	2013	2014	2015E	2016E	2017E	2018E
Revenues	**347.32**	**604.07**	**858.84**	**1,019.14**	**1,116.35**	**1,208.03**
Cost of goods sold	-223.76	-435.88	-635.54	-715.44	-779.21	-815.42
Gross profit	**123.56**	**168.19**	**223.30**	**303.71**	**337.14**	**392.61**
Other operating income	8.83	9.39	9.58	9.77	9.97	10.17
Personnel costs	-62.19	-93.71	-133.23	-158.10	-173.18	-187.40
Other operating expenses	-20.66	-49.04	-49.51	-52.08	-43.03	-57.89
EBITDA	**49.54**	**34.83**	**50.14**	**103.30**	**130.90**	**157.49**
Depreciation	-25.30	-39.99	-53.25	-62.68	-68.10	-73.09
Operating income	**24.23**	**-5.16**	**-3.11**	**40.62**	**62.80**	**84.40**
Net financial result	-8.07	-13.84	-16.84	-17.84	-18.84	-19.84
EBT	**16.17**	**-19.00**	**-19.96**	**22.78**	**43.95**	**64.56**
Income taxes	-7.54	-12.99	3.79	-4.33	-8.35	-12.27
Minorities	14.96	22.52	13.00	-1.00	-1.20	-1.40
Net income / loss	**23.58**	**-9.47**	**-3.16**	**17.45**	**34.40**	**50.89**
EPS	3.58	-1.28	-0.41	2.25	4.43	6.55
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 %	-74.00 %	-70.20 %	-69.80 %	-67.50 %
Gross profit	35.58 %	27.84 %	26.00 %	29.80 %	30.20 %	32.50 %
Other operating income	2.54 %	1.55 %	1.12 %	0.96 %	0.89 %	0.84 %
Personnel costs	-17.91 %	-15.51 %	-15.51 %	-15.51 %	-15.51 %	-15.51 %
Other operating expenses	-5.95 %	-8.12 %	-5.76 %	-5.11 %	-3.85 %	-4.79 %
EBITDA	14.26 %	5.77 %	5.84 %	10.14 %	11.73 %	13.04 %
Depreciation	-7.29 %	-6.62 %	-6.20 %	-6.15 %	-6.10 %	-6.05 %
Operating income	6.98 %	-0.85 %	-0.36 %	3.99 %	5.63 %	6.99 %
Net financial result	-2.32 %	-2.29 %	-1.96 %	-1.75 %	-1.69 %	-1.64 %
EBT	4.65 %	-3.15 %	-2.32 %	2.24 %	3.94 %	5.34 %
Income taxes	-2.17 %	-2.15 %	0.44 %	-0.42 %	-0.75 %	-1.02 %
Minorities	4.31 %	3.73 %	1.51 %	-0.10 %	-0.11 %	-0.12 %
Net income / loss	6.79 %	-1.57 %	-0.37 %	1.71 %	3.08 %	4.21 %

Balance Sheet

in PLNm	2013	2014	2015E	2016E	2017E	2018E
Assets						
Cash and equivalents	84.36	80.96	7.02	1.97	2.03	1.66
Other financial assets	23.68	5.23	5.28	5.33	5.39	5.44
Inventories	12.84	21.85	26.12	29.40	32.02	33.51
Trade accounts and notes receivables	181.63	287.20	390.68	442.66	461.94	475.05
Other current assets	67.14	107.99	109.07	110.16	111.26	112.37
Current assets, total	**369.65**	**503.23**	**538.17**	**589.52**	**612.64**	**628.04**
Property, plant and equipment	339.53	453.68	795.31	888.96	975.24	1061.09
Other intangible assets	91.90	125.74	138.32	152.15	155.19	158.29
Goodwill	6.05	51.40	51.40	51.40	51.40	51.40
Long-term financial assets	25.33	58.14	59.30	60.48	61.69	62.93
Other assets	6.52	0.14	0.14	0.14	0.15	0.15
Deferred tax assets	16.27	16.88	17.48	14.16	7.62	0.00
Non-current assets, total	**485.59**	**705.97**	**1061.94**	**1167.29**	**1251.29**	**1333.86**
Total assets	**855.24**	**1209.19**	**1600.10**	**1756.81**	**1863.93**	**1961.89**
Liabilities						
Trade payables	84.99	123.53	177.72	197.35	212.00	218.77
Other short-term liabilities	39.89	51.08	58.75	67.56	77.69	89.34
Short-term financial debt	163.86	164.65	400.00	410.00	350.00	340.00
Pension provision	0.01	0.02	0.02	0.03	0.03	0.03
Other provisions	18.45	4.99	7.09	8.42	9.22	9.98
Current liabilities, total	**307.19**	**344.27**	**643.58**	**683.36**	**648.94**	**658.12**
Long-term financial debt	35.13	55.37	160.00	255.00	357.00	389.00
Pension provision	0.06	0.11	0.15	0.18	0.20	0.21
Other provisions	0.71	0.46	0.65	0.78	0.85	0.92
Other long-term liabilities	24.09	19.32	22.22	25.55	29.38	33.79
Deferred tax liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Long-term liabilities, total	**59.98**	**75.26**	**183.02**	**281.51**	**387.43**	**423.92**
Total liabilities	**367.17**	**419.53**	**826.60**	**964.86**	**1036.37**	**1082.04**
Shareholders equity, total	**350.15**	**609.21**	**606.04**	**623.50**	**657.90**	**708.79**
Minority interests	137.92	180.46	167.46	168.46	169.66	171.06
Total liabilities and equity	**855.24**	**1209.19**	**1600.10**	**1756.81**	**1863.93**	**1961.89**

Cash Flow Statement

in PLNm	2013	2014	2015E	2016E	2017E	2018E
Net income / loss	23.58	-9.47	-3.16	17.45	34.40	50.89
Depreciation & Amortization	25.30	39.99	53.25	62.68	68.10	73.09
Change of working capital	-66.25	-162.22	-46.99	-27.90	1.77	2.71
Others	19.70	-23.26	-1.70	-4.76	-7.41	-8.45
Net operating cash flow	**2.34**	**-154.96**	**1.40**	**47.46**	**96.86**	**118.23**
Cash flow from investing	**-239.12**	**-202.03**	**-408.61**	**-171.35**	**-158.63**	**-163.27**
Free cash flow	-236.78	-357.00	-407.21	-123.88	-61.77	-45.04
Cash flow from financing	**221.18**	**353.60**	**333.27**	**118.83**	**61.82**	**44.67**
Change of cash	-15.60	-3.40	-73.94	-5.05	0.05	-0.37
Cash at the beginning of the period	99.96	84.36	80.96	7.02	1.97	2.03
Cash at the end of the period	84.36	80.96	7.02	1.97	2.03	1.66

Financial ratios

Fiscal year	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E
Profitability and balance sheet quality								
Gross margin	35.58%	27.84%	26.00%	29.80%	30.20%	32.50%	33.80%	34.80%
EBITDA margin	14.26%	5.77%	5.84%	10.14%	11.73%	13.04%	14.50%	15.60%
EBIT margin	6.98%	-0.85%	-0.36%	3.99%	5.63%	6.99%	8.50%	9.65%
Net margin	6.79%	-1.57%	-0.37%	1.71%	3.08%	4.21%	5.46%	6.40%
Return on equity (ROE)	8.58%	-1.97%	-0.52%	2.84%	5.37%	7.45%	9.53%	10.72%
Return on assets (ROA)	3.70%	0.36%	0.85%	2.01%	2.86%	3.61%	4.45%	5.10%
Return on capital employed (ROCE)	2.36%	-1.00%	-0.26%	3.07%	4.19%	5.24%	6.42%	7.15%
Economic Value Added (in PLNm)	-24.91	-68.40	-68.56	-41.21	-33.02	-21.65	-6.70	3.69
Net debt (in PLNm)	91.01	133.95	547.87	657.90	699.82	722.15	723.56	698.26
Net gearing	25.99%	21.99%	90.40%	105.52%	106.37%	101.88%	92.79%	80.44%
Equity ratio	40.94%	50.38%	37.88%	35.49%	35.30%	36.13%	37.79%	40.14%
Current ratio	1.20	1.46	0.84	0.86	0.94	0.95	0.95	0.99
Quick ratio	0.94	1.08	0.63	0.66	0.72	0.73	0.73	0.76
Net interest cover	3.00	-0.37	-0.18	2.28	3.33	4.25	5.30	6.10
Net debt/EBITDA	1.84	3.85	10.93	6.37	5.35	4.59	3.84	3.24
Tangible BVPS	52.24	75.39	71.44	73.68	78.12	84.67	93.81	105.19
CAPEX/Sales	70.11%	44.06%	47.58%	16.81%	14.21%	13.52%	12.91%	12.44%
Working capital/Sales	39.37%	40.13%	33.70%	31.13%	28.26%	25.90%	23.31%	20.64%
Cash Conversion Cycle (in days)	73	88	79	73	67	61	54	48
Trading multiples								
EV/Sales	4.20	2.41	1.70	1.43	1.31	1.21	1.12	1.06
EV/EBITDA	29.43	41.85	29.08	14.11	11.14	9.26	7.74	6.77
EV/EBIT	60.16	-282.73	-468.27	35.88	23.21	17.27	13.20	10.95
P/Tangible BVPS	3.26	2.26	2.39	2.31	2.18	2.01	1.82	1.62
P/E	47.63	-133.20	-418.34	75.85	38.48	26.01	18.66	14.98
P/FCF	-5.59	-3.71	-3.25	-10.69	-21.43	-29.39	-136.13	81.59

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