BOŚ DOM MAKLERSKI

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Votum

Sector: Financials – specialty finance
Fundamental rating: Buy (→)
Market relative: Neutral (→)
Price: PLN 14.40
12M EFV: PLN 27.90 (↑)

Market Cap: US$ 44.9 m
Bloomberg code: VOT PW
Av. daily turnover: US$ 0.08 m
12M range: PLN 8.20-14.85
Free float: 37%

4Q20 financial results summary

Revenues on the bright side. 4Q20 revenues at PLN 45 million (up 4% yoy) were close to our forecasts. The quarter turned out significantly better for the segment of pursuing claims from abusive clauses in loan agreements that showed a further considerable sales improvement with truly good performance of the internet sales. The RES segment launched recently performed well generating sales at PLN 8.3 million which supported the Group's 4Q20 revenues. This implies a dynamic progression of Votum's activity in this area and bodes well for the coming quarters. The rehabilitation segment also performed well (4Q20 revenues up 26% yoy). However, the segment of pursuing personal claims lagged behind as the pandemic restrictions limited meetings with prospective clients which affected the client acquisition. Another detrimental factor here was decelerated traffic due to the pandemic which resulted in a smaller number of accidents. The Company curbed its activity in the segment of pursuing property claims domestically and abroad as well (the pandemic escalation).

Stable profitability. 4Q20 EBIT margin stood at 8.0% (flat qoq) which marks a significant yoy dip (15.5% in the base period) prompted by a visible cost increase in the RES segment coupled with a development of the segment of pursuing claims from abusive clauses in loan agreements. EBITDA and EBIT in 4Q20 reached PLN 4.3 million (down 38% yoy) and PLN 3.6 million (down 45% yoy), respectively.

NI improvement. The Group's 4Q20 financial net result reached PLN -0.18 million vs PLN +0.36 million in 4Q19. The effective tax rate was 26% and ultimately NI arrived at PLN 2.6 million which slightly exceeded our expectations.

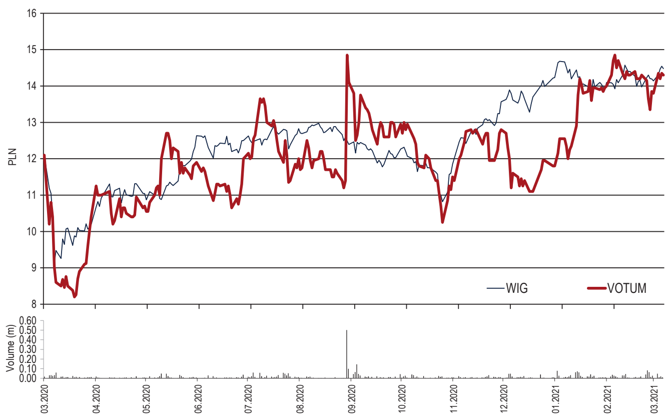
Guide to adjusted profits
No factors necessitating adjustments.

Key data

IFRS consolidated		2020	2021E	2022E	2023E
Sales	*PLN m*	150.1	182.6	202.7	261.1
EBITDA	*PLN m*	14.2	26.0	33.1	42.4
EBIT	*PLN m*	12.0	23.7	30.7	40.1
Net income	*PLN m*	8.8	17.5	22.9	30.3
EPS	*PLN*	0.73	1.46	1.91	2.52
EPS yoy chg	*%*	-49	100	31	32
Net debt	*PLN m*	12.3	-6.1	-25.1	-22.2
Net debt + leasing	*PLN m*	17.0	-1.2	-19.9	-16.8
P/E	*x*	19.7	9.9	7.6	5.7
P/CE	*x*	15.8	8.7	6.9	5.3
EV/EBITDA	*x*	13.1	6.4	4.5	3.6
EV/EBIT	*x*	15.5	7.0	4.8	3.8
DPS	*PLN*	0.00	0.00	0.00	1.91
Gross dividend yield	*%*	0.0	0.0	0.0	13.2
Number of shares (eop)	*m*	12.0	12.0	12.0	12.0

Source: Company, DM BOŚ SA estimates

Stock performance



Source: Bloomberg

Upcoming events

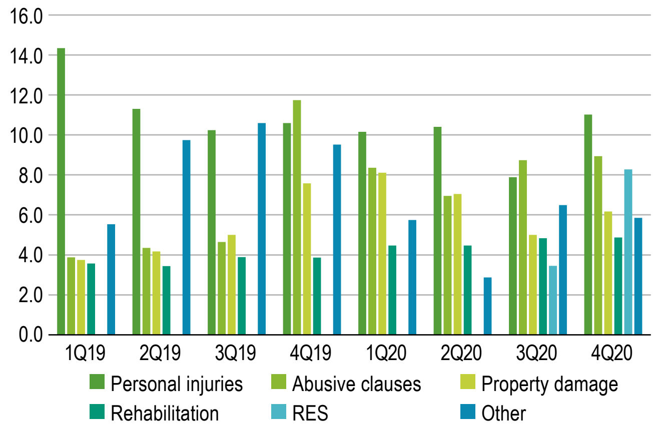
1. Resolution of the Supreme Court Civil Chamber on the CHF mortgage loan agreements: March 25
2. Release of consolidated FY20 financial report: April 30
3. Release of consolidated 1Q21 financial report: May 31
4. Bank shareholders decide on banks' participation in voluntary agreements with clients: 2Q21
5. Release of consolidated 1H21 financial report: September 30
6. Release of consolidated 3Q21 financial report: November 29

Fig. 1. *Votum; 4Q20 financials' forecasts*

IFRS consolidated (PLN m)	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	4Q20 vs forecasts	4Q20E	yoy chg	1-4Q19	1-4Q20	yoy chg	Realization of the FY figures in: 4Q19	4Q20
Sales	34.4	43.3	36.8	31.8	36.4	45.1	→	45.8	4%	141.8	150.1	6%	31%	30%
Profit on sales	5.4	8.3	4.7	0.2	2.9	4.1	→	3.1	-51%	24.5	11.8	-52%	34%	34%
Profit on sales margin	*15.6%*	*19.1%*	*12.8%*	*0.6%*	*7.9%*	*9.0%*	-	*6.8%*	-	*17.3%*	*7.9%*	-	-	-
EBITDA	6.3	6.9	5.8	0.6	3.4	4.3	↑	3.3	-38%	24.7	14.2	-43%	28%	30%
EBITDA margin	*18.2%*	*16.0%*	*15.8%*	*2.0%*	*9.4%*	*9.5%*	-	*7.3%*	-	*17.4%*	*9.4%*	-	-	-
EBIT	5.7	6.5	5.4	0.1	2.9	3.6	↑	2.8	-45%	22.6	12.0	-47%	29%	30%
EBIT margin	*16.7%*	*15.0%*	*14.7%*	*0.2%*	*8.0%*	*8.0%*	-	*6.2%*	-	*15.9%*	*8.0%*	-	-	-
Pre-tax profit	5.7	6.5	5.2	0.0	2.6	3.4	↑	2.5	-48%	22.0	11.2	-49%	30%	30%
Pre-tax profit margin	*16.4%*	*15.1%*	*14.2%*	*0.0%*	*7.0%*	*7.5%*	-	*5.5%*	-	*15.5%*	*7.5%*	-	-	-
Net profit	4.1	4.4	4.0	0.1	2.1	2.6	↑	1.9	-41%	17.3	8.8	-49%	25%	29%
Net profit margin	*12.0%*	*10.1%*	*11.0%*	*0.2%*	*5.7%*	*5.7%*	-	*4.2%*	-	*12.2%*	*5.8%*	-	-	-

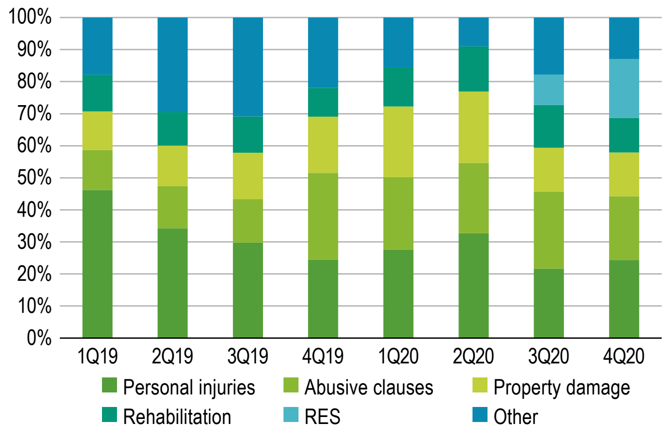
Source: Company, DM BOŚ SA estimates

Fig. 2. *Votum; Quarterly segmental revenues*



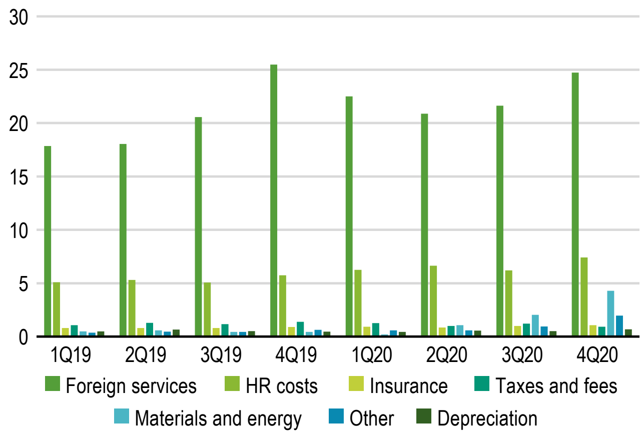
Source: Company, DM BOŚ SA

Fig. 3. *Votum; Quarterly segmental revenues structure*



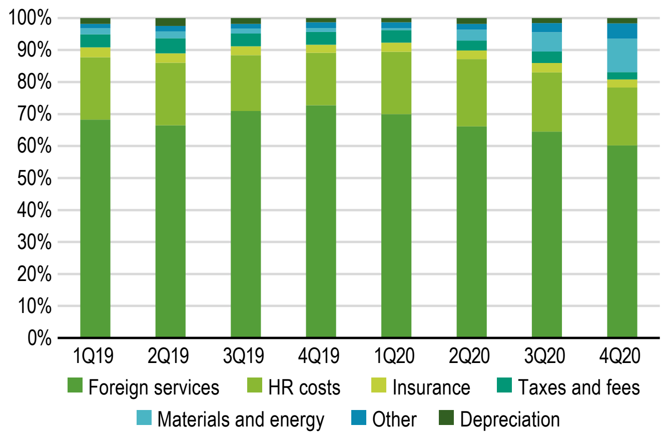
Source: Company, DM BOŚ SA

Fig. 4. *Votum; Quarterly operating expenses*



Source: Company, DM BOŚ SA

Fig. 5. *Votum; Quarterly operating expenses structure*



Source: Company, DM BOŚ SA

Outlook and the Company's expectations

The segment of pursuing personal claims. Votum expects stable levels of both, the revenues and costs. The results can improve via strengthening of the revenue base on the back of a recruiting process of regional representatives started which gains traction because of the current situation on the labor market. Additionally, automation solutions implemented in the customer service may help keep fixed costs stable even when handling an increased number of cases. We believe this particular segment bears the most visible pandemic mark and as long as the pandemic expands, the segment's results are burdened with a short-term risk.

The segment of pursuing property claims. Votum expects a systematic and sustainable revenues growth with costs growth kept at the similar pace. When revenues improve, the Company will want to increase a volume of acquired assignments to expand its revenue base.

The segment of pursuing claims from abusive clauses in loan agreements. Votum expects a mild cost increase and stabilization of the revenues from initial fees; in 2H21 the revenues from success fees should surface exerting a visible impact on the Group's financial results. It is necessary to increase the number of lawyers providing services to clients with respect to pending court proceedings while simultaneously offsetting these costs by the revenues from fees collected for the court representation. The Group takes into consideration an increase in the number of lawyers initiating new cases albeit thanks to organizational and technical improvements and gained experience this will not be as aggressive as in the first stage of this project. Votum assumes that an inflow of new clients may be relatively stable. According to the Company, the resolution of the Supreme Court Civil Chamber on the FX denominated mortgage loans expected to be released on March 25 should help explain potential doubts in this respect.

In 4Q20 the Company reported a qoq clients acquisition increase which implies that in spite of works on the agreements launched by several banks there are still clients who prefer to start litigations and will not wait for details of agreements.

The RES segment. The Company plans a dynamic growth of the revenues from the integration of photovoltaic panels in buildings. The Group intends to increase the efficiency of sale and customer service. Votum hopes that the segment of photovoltaic panels will deliver future revenues that will match those of other segments and moreover it has the potential to become one of two biggest revenue sources this year. With respect to design and commercialization of photovoltaic farms, Votum expects commercialization of the first projects already in 2021 coupled with a cost increase on the back of buying into interesting locations for future photovoltaic farms.

Financial forecasts

We introduce relatively small modifications into our forecasts for the Group; after updating our expectations for particular segments our FY21 sales/EBIT/NI forecasts decline by 9%/6%/5%. We assume gradual but tangible softening of the pandemic impact this year. We modified the expectations of the revenues in the abusive clauses litigation segment incorporating new indications as far as the timing of a success fee inflow. We have become more conservative in assumptions for the revenues in the segments of pursuing personal claims and property claims. The risk for our forecasts is more moderate now and to a great extent depends on the particular segment, we believe; the abusive clauses litigation segment seems to be the most promising one in the medium term as it can surprise on the positive side provided the current judicial trends prevail. Votum recognizes quite a big potential in the RES segment that performed well in the previous quarters; we expect a further improvement of results there in FY21, albeit still remain cautious with regard to the medium term forecasts.

Fig. 6. *Votum; Changes in DM BOŚ SA forecast*

IFRS consolidated	2021P			2022P			2023P		
(PLN m)	current	previous	change	current	previous	change	current	previous	change
Sales	182.6	200.0	-9%	202.7	239.8	-15%	261.1	271.8	-4%
EBITDA	26.0	27.3	-5%	33.1	38.6	-14%	42.4	49.4	-14%
EBIT	23.7	25.3	-6%	30.7	36.3	-15%	40.1	47.5	-16%
Net profit	17.5	18.4	-5%	22.9	27.5	-17%	30.3	32.3	-6%

Source: DM BOŚ SA estimates

Valuation

On the back of a financial forecast update and valuation horizon forward shift our 12M EFV – constituting a 50%- 50% average of the outcomes of DCF and peer-relative valuation approaches – increases by 11% to PLN 27.9 per share (from PLN 25.7). The DCF/peer-relative valuation renders PLN 23.0 (prev. PLN 23.5) per share PLN 32.9 (pre. PLN 27.9) per share.

Fig. 7. *Valuation summary*

DCF	23.0
Peer-relative	32.9
Average implied per share price (PLN)	**27.9**
Market price	**14.4**
Upside	94%

Source: DM BOŚ SA estimates

Fig. 8. *Votum; Model DCF*

	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Cost of equity									
Risk free	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Equity market premium	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Unlevered beta	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Leveraged beta	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Required rate of return	**12.1%**	**12.1%**	**12.1%**	**12.1%**	**12.1%**	**12.1%**	**12.1%**	**12.1%**	**12.1%**
Cost of debt									
Pre-tax cost of debt	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Effective tax rate	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
After-tax cost of debt	**3.2%**	**3.2%**	**3.2%**	**3.2%**	**3.2%**	**3.2%**	**3.2%**	**3.2%**	**3.2%**
WACC									
Equity share	94%	94%	94%	93%	93%	91%	88%	78%	76%
Debt share	6%	6%	6%	7%	7%	9%	12%	22%	24%
Cost of equity	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%
After tax cost of debt	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
WACC	**11.6%**	**11.6%**	**11.6%**	**11.5%**	**11.5%**	**11.3%**	**11.0%**	**10.1%**	**9.9%**
Financial forecasts									
Sales (PLN m)	202.7	261.1	308.3	321.5	327.1	332.9	338.9	343.9	202.6
EBIT (PLN m)	30.7	40.1	57.1	60.9	71.5	72.5	73.5	74.1	14.1
NOPLAT (PLN m)	24.3	31.7	45.1	48.1	56.5	57.3	58.1	58.5	11.1
Depreciation (PLN m)	2.3	2.3	2.3	2.4	2.4	2.4	2.4	2.4	2.5
NWC change (PLN m)	-3.5	-10.7	-8.1	-1.2	0.6	0.6	0.5	0.8	-2.0
Capex (PLN m)	-3.1	-2.6	-2.6	-2.6	-2.6	-2.6	-2.7	-2.7	-2.6
FCFF (PLN m)	20.0	20.7	36.8	46.7	56.8	57.6	58.4	59.0	9.0

Source: DM BOŚ SA

Fig. 9. *Votum; DCF Valuation (PLN m)*

FCFF terminal growth	1.0%
WACC in residual period	10.3%
Residual value	97.5
PV of residual value	38.8
PV of FCFF	231.9
Minorities	0.5
Enterprise value	**270.1**
Net debt, excl. IFRS16	-6.1
Dividends	0.0
Equity value	**276.2**
Number of shares (million)	12.0
12M forward equity value per share (PLN)	**23.0**

Source: DM BOŚ SA

Fig. 10. *Votum; Sensitivity to terminal growth rate and equity market premium*

	Residual WACC				
FCFF residual growth	**9.8%**	**10.1%**	**10.3%**	**10.6%**	**10.8%**
0.0%	22.8	22.8	22.7	22.6	22.6
0.5%	23.0	22.9	22.9	22.8	22.7
1.0%	23.2	23.1	**23.0**	22.9	22.9
1.5%	23.4	23.3	23.2	23.1	23.0
2.0%	23.6	23.5	23.4	23.3	23.2

Source: DM BOŚ SA

Fig. 11. *Votum; Peer-relative valuation*

	P/E			EV/EBITDA			EV/EBIT		
Spółka	**2021E**	**2022E**	**2023E**	**2021E**	**2022E**	**2023E**	**2021E**	**2022E**	**2023E**
Gateley	18.0x	18.9x	19.2x	10.0x	9.4x	8.0x	13.3x	11.6x	9.7x
DWF Group	18.9x	11.2x	9.2x	6.7x	5.5x	5.2x	9.6x	7.4x	7.0x
IPH Limited	18.1x	16.7x	15.5x	11.4x	10.6x	9.9x	13.2x	12.1x	11.1x
Information services	18.3x	16.0x	-	9.1x	8.1x	-	-	-	-
Keystone Law Group	42.4x	38.3x	34.2x	30.7x	27.5x	24.2x	32.7x	29.8x	26.1x
Knights Group Holdings	24.8x	21.0x	19.3x	15.7x	13.3x	11.6x	19.3x	-	-
Mediana	**18.6x**	**17.8x**	**19.2x**	**10.7x**	**10.0x**	**9.9x**	**13.3x**	**11.9x**	**10.4x**
Votum	1.5	1.9	2.5	26.0	33.1	42.4	23.7	30.7	40.1
Implied EFV per share (zł)	27.1	34.0	48.5	23.7	29.7	36.9	26.8	32.5	36.6
Average implied EFV per share (zł)					**32.9**				

Source: Bloomberg, DM BOŚ SA

The segment of pursuing claims from abusive clauses in loan agreements – key issues

In this section we will present our estimates of the abusive clauses litigation market under the assumption the banks and customers enter into agreements and calculate the revenue generation potential of the base of already acquired clients of the Company's segment of pursuing claims from abusive clauses in loan agreements taking into consideration – among others – the advanced stage of works on the agreements undertaken by a group of banks participating in the initiative of the Polish Financial Supervision Authority or a resolution of the full Civil Chamber of the Supreme Court addressing several key issues expected to be released on March 25.

Potential market value under the scenario of agreements. The Polish Financial Supervision Authority indicated costs for the banking sector under various court decisions; these will be the starting point for our calculations of the abusive clauses litigation market potential value. The range of costs is very wide, from PLN 35 million in the case of agreements (this is an option preferred by the regulator) to even PLN 234 billion in the case of other judicial decisions (the agreement revocation scenario). It is obvious that a cost for the bank means a benefit for the client. The full Civil Chamber of the Supreme Court expected on March 25 will weigh a lot on the future court decisions (what direction will prevail). In our exercise we rule out the most extreme options and finally our scenario embraces

3 options: (i) agreements or an average weighted based on two court decisions, (ii) revocation of the agreement and return of the capital paid (the cost for total current and overdue portfolio is estimated at PLN 102 billion), and (iii) option based on PLN + Libor construction (the less popular one; cost estimated at PLN 79 billion).

Agreements are a completely new solution for the client, they will not be that financially advantageous as the litigation, but they will offer a fast-track solution without lengthy court proceedings and lacking the risk of losing. Simultaneously this means the client will not need a court representation which may lead to elimination of law firms pursuing damages claims against FX mortgage loans. We believe that most of the banks will be willing to offer agreements (we assume that 75% of the institutions will opt for the agreements scenario, the remaining 25% will not offer agreements to clients).

As for the banks opting for agreements we assume that 80% of CH borrowers will decide to enter into settlements with banks and the remaining 20% will choose the litigation path. In the case of other institutions the only available path for clients will be court proceedings and we assume that ¾ of this group of clients will go for it.

Under these assumptions the market of damages claims which can be a subject of the court battle is worth over PLN 30 billion; we assume the remuneration for law firms at 20% of the amount adjudged to clients which implies the potential value of the market at PLN 5.8 billion. Given our revenue assumptions with respect to Votum the Company's share in amounts to c. 19%.

Revenues realized on the current clients' portfolio. We estimated also a revenue potential of the clients already acquired. We would like to note that the majority of Votum's revenues is recognized at the moment of a court final judgment which comes actually several years after the client's acquisition. According to our estimates based on the weighted average for the packages which clients selected over last 2 years, after the successful court battle the Company may book PLN 5 of a revenue per PLN 1 of a revenue coming from the initial fee at the moment of the agreement signing. Most court verdicts with regard to abusive clauses in FX mortgage loan agreements is in favor of consumers who have crushing advantage over institutions. That's why, according to our estimates, given 90% efficiency the current client base should allow for generation of PLN 399 million in revenues in the future periods. The examination of the cases at the pre-court and court litigation stage (under the analogic assumption of 90% success) renders similar outcomes. What's interesting, the average success fee has been materially increasing on the last quarters which indicates an additional potential of this revenue source.

Recommended action

Votum pursues damages claims for clients of financial institutions in the area of personal and property claims as well as abusive clauses in FX mortgage loan agreements. In 2020 it started operating in the renewable energy industry (i.e. installing photovoltaic panels). The most promising segment, in our view, is the market of damages claims against FX mortgage loans which, at an early stage of development experiences vigorous expansion. The Company should be an increasing beneficiary of the growing interest of CHF mortgage borrowers in pursuing claims after the precedent judgment of the EU Court of Justice and change of the court line to pro-consumer one.

Revenues in this most promising area are encumbered with the risk which poses the final solution for the FX borrowers that has been worked upon recently. This solution will consist in an FX loan conversion into a PLN one under the assumption it had been taken at the same time. We believe the solution would be a viable alternative to court proceedings for most banks, thus the market for abusive clauses litigation may shrink in the future. With a view to a prospective agreement some customers who might have chosen the court alternative will be more willing to accept the settlement with banks instead of an arduous several-year process with no guarantee of success. Under this scenario the abusive clauses litigation segment will find it more difficult to increase a number of clients, whence its growth rate will be lower than we currently assume. For this reason, wide participation of banks in the initiative of the Polish Financial Supervision Authority, which would allow clients to successfully bypass the court path, emerges as an important factor for future revenues and results of the Company's abusive clauses litigation segment.

On March 25 the full Civil Chamber of the Supreme Court will convene and decide on a few important legal issues concerning FX loans and FX indexed loans to make the case law uniform in this respect. The issues under investigation are, among others, the possibility to replace abusive clauses with other clauses in the loan agreements, possibility to prepare such an agreement without conversion clauses or possibility of pursuing remuneration with regard to provision of cash by the parties of the agreement.

We uphold our recommendations: LT fundamental Buy and ST relative Neutral. We believe that the market waits for the first big batch of revenues in the abusive clauses litigation segment which can be expected in 2H21 at the earliest when Votum is supposed to start recognizing first fees for success. Before that the Company will deliver lower profitability than historical which is also related to the ambitious entry in the RES industry seasonally generating weaker results in winter months.

Financials (IFRS consolidated)

Fig. 12. *Votum; Income statement*

	2018	2019	2020	2021E	2022E	2023E
Sales	**105.2**	**141.8**	**150.1**	**182.6**	**202.7**	**261.1**
Costs of sales	93.1	117.3	138.3	157.8	170.8	219.8
Profit on sales	**12.1**	**24.5**	**11.8**	**24.9**	**31.9**	**41.3**
Result on other operating activities	-0.5	-1.9	0.1	-1.2	-1.2	-1.2
EBITDA	**14.9**	**24.7**	**14.2**	**26.0**	**33.1**	**42.4**
EBIT	**11.7**	**22.6**	**12.0**	**23.7**	**30.7**	**40.1**
Financial income	0.5	1.0	0.2	0.2	0.2	0.5
Financial costs	-1.5	-1.6	-1.0	-1.0	-1.0	-1.0
Profit from associates	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	**10.6**	**22.0**	**11.2**	**22.9**	**29.9**	**39.5**
Income tax	2.2	4.4	2.8	5.0	6.6	8.3
Minorities	0.2	0.3	-0.4	0.4	0.5	0.9
Net profit	**8.3**	**17.3**	**8.8**	**17.5**	**22.9**	**30.3**

Source: Company, DM BOŚ SA estimates

Fig. 13. *Votum; Balance sheet*

(PLN m)	2018	2019	2020	2021E	2022E	2023E
Fixed assets	**53.0**	**57.5**	**60.6**	**64.6**	**67.4**	**73.7**
Tangible fixed assets	24.9	25.6	25.6	27.0	27.0	28.0
Intangible fixed assets	0.5	0.6	1.4	0.6	1.4	0.7
Goodwill	5.8	18.0	18.2	18.2	18.2	18.2
Financial, other fixed assets	21.8	13.3	15.4	18.7	20.8	26.8
Current trade assets	**41.4**	**49.2**	**55.4**	**79.2**	**104.3**	**118.4**
Net trade receivables	28.8	34.8	37.2	40.2	44.6	57.4
Other receivables	3.6	4.8	9.4	11.4	12.7	16.4
Cash	9.1	9.5	8.8	27.6	47.0	44.6
Assets	**94.4**	**106.7**	**116.0**	**143.8**	**171.7**	**192.1**
Shareholders' funds	**41.0**	**55.3**	**64.1**	**81.6**	**104.5**	**111.9**
Liabilities	**53.4**	**51.4**	**51.8**	**62.2**	**67.2**	**80.1**
LT liabilities	**22.6**	**15.7**	**14.5**	**15.8**	**17.0**	**19.6**
Interest bearing debt	16.7	11.0	9.3	9.4	9.6	9.8
Leasing	2.7	1.7	1.7	1.8	1.9	2.0
Provisions, other	3.2	3.0	3.5	4.6	5.5	7.8
ST liabilities	**30.8**	**35.7**	**37.3**	**46.4**	**50.2**	**60.6**
Interest bearing debt	3.8	10.1	11.8	12.0	12.3	12.5
Leasing	0.9	5.5	3.0	3.1	3.3	3.4
Provisions, other	14.2	14.6	13.4	20.1	22.3	28.7
Trading liabilities	11.9	5.6	9.1	11.1	12.3	15.9
Shareholders equity and liabilities	**94.4**	**106.7**	**116.0**	**143.8**	**171.7**	**192.1**

Source: Company, DM BOŚ SA estimates

Fig. 14. *Votum; Cash flow*

	2018	2019	2020	2021E	2022E	2023E
Operating cash flow	**8.5**	**9.4**	**1.0**	**18.8**	**22.4**	**23.5**
Pre-tax income	10.6	22.0	11.2	22.9	29.9	39.5
Depreciation	3.3	2.1	2.2	2.3	2.3	2.3
Change in working capital	1.9	-2.1	-8.5	-1.6	-3.5	-10.4
Other	-7.5	-12.6	-4.0	-4.8	-6.3	-8.0
Net funds from investing activities	**0.0**	**-5.2**	**-1.3**	**-3.0**	**-3.1**	**-2.6**
Capital expenditures	-0.6	-1.2	-2.1	-3.0	-3.1	-2.6
Other	0.6	-4.0	0.7	0.0	0.0	0.0
Net funds from financial activities	**-5.2**	**-3.7**	**-0.4**	**0.4**	**0.4**	**-22.4**
Income from shares issue	0.0	0.0	0.3	0.0	0.0	0.0
Net change in debt	-0.9	0.6	-0.3	0.4	0.4	0.4
Dividends paid	-0.2	-2.4	0.0	0.0	0.0	-22.9
Other	-4.2	-1.9	-0.4	0.0	0.0	0.0
Change in cash	**3.2**	**0.5**	**-0.7**	**16.2**	**19.7**	**-1.5**

Source: Company, DM BOŚ SA estimates

Fig. 15. *Votum; Margins and growth rates*

	2018	2019	2020	2021E	2022E	2023E
Margins:						
EBITDA	14%	17%	9%	14%	16%	16%
EBIT	11%	16%	8%	13%	15%	15%
Pre-tax profit	10%	16%	7%	13%	15%	15%
NP	8%	12%	6%	10%	11%	12%
Nominal growth:						
Sales	12%	35%	6%	22%	11%	29%
EBITDA	102%	65%	-43%	83%	27%	28%
EBIT	135%	93%	-47%	98%	30%	31%
Pre-tax profit	135%	107%	-49%	104%	31%	32%
NP	163%	109%	-49%	100%	31%	32%

Source: Company, DM BOŚ SA estimates

Fig. 16. *Votum; Ratios*

	2018	2019	2020	2021E	2022E	2023E
Balance sheet structure						
Equity / Assets	43%	52%	55%	57%	61%	58%
Net WC / Total assets	18%	29%	29%	25%	23%	26%
Current ratio	1.3	1.4	1.5	1.7	2.1	2.0
Quick ratio	1.3	1.4	1.5	1.7	2.1	2.0
Average receivable turnover (days)	92	82	88	77	76	71
Average accounts payable period (days)	-36	-27	-19	-23	-25	-23
Profitability						
ROA	10.0%	17.2%	7.9%	13.5%	14.5%	16.7%
ROE	24.6%	36.0%	14.7%	24.0%	24.6%	28.0%
ROCE	3.6%	5.8%	2.5%	4.4%	4.8%	5.6%
Sales / Total assets	1.3	1.4	1.3	1.4	1.3	1.4
Operating profit / assets	3.5%	5.6%	2.7%	4.6%	4.9%	5.5%
Effective tax rate	21%	20%	25%	21%	21%	21%
Financial leverage						
Debt/Equity	0.6	0.5	0.4	0.3	0.3	0.2
Financial costs / EBIT	13%	7%	8%	4%	3%	3%
Net debt / EBITDA	77%	47%	87%	-23%	-76%	-52%
EBITDA / financial costs	9.9	15.8	14.6	27.0	34.7	41.5
Per share data						
EPS	0.69	1.44	0.73	1.46	1.91	2.52
BVPS	3.42	4.61	5.35	6.80	8.71	9.33
EBITDA per share	1.24	2.06	1.18	2.17	2.75	3.53
EBIT per share	0.97	1.88	1.00	1.97	2.56	3.34
Net debt per share	0.96	0.96	1.02	-0.51	-2.09	-1.85
DPS	0.00	0.19	0.00	0.00	0.00	1.91
CEPS	0.96	1.62	0.91	1.65	2.10	2.72
Valuation ratios*						
P/E	10.9	6.0	19.7	9.9	7.6	5.7
P/BV	2.2	1.9	2.7	2.1	1.7	1.5
EV per share	8.4	9.6	15.4	13.9	12.3	12.5
EV/EBITDA	6.8	4.7	13.1	6.4	4.5	3.6
EV/EBIT	8.7	5.1	15.5	7.0	4.8	3.8

*Annual average prices used for calculation of ratios on historical years, current price for forecast years.

Source: Company, DM BOŚ SA estimates

Catalysts

1. Continuation of the pro-consumer trend in the jurisprudence of courts with regard to people with foreign currency loans
2. The continued growth of interest of clients in the in claims against banks, reinforced by favorable case law
3. Further depreciation of the PLNCHF exchange rate, increasing the borrowers' tendency to take legal action
4. Acceleration of court processing procedures
5. Maintaining the leading position in the existing markets
6. Faster than assumed organic growth (increase in the number of contracts in the debt assignment segment, improvement of the structure in the personal claims segment)
7. New value-creating acquisitions for minority shareholders
8. Effective implementation of the pandemic optimization programs
9. Long-term success of new ventures (green energy segment, further foreign expansion)

Risk factors

1. Epidemic threat - prolonged lockdown of economy and slowdown in operations of courts
2. Lower than assumed propensity of clients to go to the court (the market is at an early stage of development, popularity of settlements)
3. Lower than expected demand for the Company's services
4. Unfavorable changes in the jurisprudence towards bank customers
5. Growing competition for clients from other law firms (an example is EuCo's entry into the bank segment)
6. Shortage of workforce (rapid development requires an acquisition of qualified employees)
7. Pressure on salaries
8. Adverse FX fluctuations
9. Acquisitions of companies from the main shareholder and their high valuations
10. Lower payouts in pre-trial proceedings
11. Pressure on margins
12. Potential regulation of the market of compensation law firms (currently there are no active legislative bills, but such attempts made their appearances in the past)
13. Draft statutory regulation of the compensation institution
14. Departure of key managerial staff
15. Inclusion of the Company's services by insurers
16. Potential acquisitions of new companies

Competitive advantages

1. Main player on the most important product markets
2. Above-average efficiency compared to the competition coming from the scale effect
3. Good historical track record
4. Motivated and competent management team holding equity position in the Company
5. A pioneer of the rapidly growing market of claims for foreign currency borrowers
6. Operational efficiency
7. Specialization in strictly defined product markets
8. Multi-channel distribution network

BASIC DEFINITIONS
A/R turnover (in days) = 365/(sales/average A/R))
Inventory turnover (in days) = 365/(COGS/average inventory))
A/P turnover (in days) = 365/(COGS/average A/P))
Current ratio = ((current assets – ST deferred assets)/current liabilities)
Quick ratio = ((current assets – ST deferred assets – inventory)/current liabilities)
Interest coverage = (pre-tax profit before extraordinary items + interest payable/interest payable)
Gross margin = gross profit on sales/sales
EBITDA margin = EBITDA/sales
EBIT margin = EBIT/sales
Pre-tax margin = pre-tax profit/sales
Net margin = net profit/sales
ROE = net profit/average equity
ROA = (net income + interest payable)/average assets
EV = market capitalization + interest bearing debt – cash and equivalents
EPS = net profit/ no. of shares outstanding
CE = net profit + depreciation
Dividend yield (gross) = pre-tax DPS/stock market price
Cash sales = accrual sales corrected for the change in A/R
Cash operating expenses = accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes

DM BOŚ S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

Banks
Net Interest Margin (NIM) = net interest income/average assets
Non interest income = fees&commissions + result on financial operations (trading gains) + FX gains
Interest Spread = (interest income/average interest earning assets)/ (interest cost/average interest bearing liabilities)
Cost/Income = (general costs + depreciation)/ (profit on banking activity + other net operating income)
ROE = net profit/average equity
ROA = net income/average assets
Non performing loans (NPL) = loans in 'basket 3' category
NPL coverrage ratio = loan loss provisions/NPL
Net provision charge = provisions created – provisions released

DM BOŚ S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those
related to the residual value calculation. Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc. Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:
Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;
Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;
Sell – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:
Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms
Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms
Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM BOŚ S.A.'s recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first.
Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

Distribution of DM BOŚ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision
Numbers	40	29	5	9	0
Percentage	48%	35%	6%	11%	0%

Distribution of DM BOŚ's current recommendations for the companies which DM BOŚ has supplied with material investment services within the last 12 months

	Buy	Hold	Sell	Suspended	Under revision
Numbers	6	6	0	2	0
Percentage	43%	43%	0%	14%	0%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	34	30	10	9	0
Percentage	41%	36%	12%	11%	0%

Distribution of DM BOŚ's current market relative recommended weightings for the companies which DM BOŚ has supplied with material investment services within the last 12 months

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	3	7	2	2	0
Percentage	21%	50%	14%	14%	0%

LT fundamental recommendation tracker

Analyst	Recommendation		Report date	Reiteration date	Distribution date	Expiry date	Performance	Relative performance	Price at issue/ reiteration*	EFV (12 months)	
Votum											
Michał Sobolewski	Buy	–	02.09.2020	-	03.09.2020	Not later than 02.09.2021	26%	9%	11.40	30.40	–
Michał Sobolewski	-	→	-	15.09.2020	16.09.2020	-	-	-	13.35	30.40	→
Michał Sobolewski	-	→	-	08.10.2020	09.10.2020	-	-	-	12.80	30.40	→
Michał Sobolewski	-	→	-	08.11.2020	09.11.2020	-	-	-	11.40	30.40	→
Michał Sobolewski	-	→	-	19.11.2020	20.11.2020	-	-	-	12.80	30.40	→
Michał Sobolewski	-	→	-	04.12.2020	04.12.2020	-	-	-	12.80	25.70	↓
Michał Sobolewski	-	→	-	06.12.2020	07.12.2020	-	-	-	12.80	25.70	→
Michał Sobolewski	-	→	-	08.12.2020	09.12.2020	-	-	-	12.30	25.70	→
Michał Sobolewski	-	→	-	05.01.2021	05.01.2021	-	-	-	11.80	25.70	→
Michał Sobolewski	-	→	-	28.01.2021	29.01.2021	-	-	-	13.95	25.70	→
Michał Sobolewski	-	→	-	23.02.2021	24.02.2021	-	-	-	14.20	25.70	→
Michał Sobolewski	-	→	-	28.02.2021	01.03.2021	-	-	-	13.65	25.70	→
Michał Sobolewski	-	→	-	14.03.2021	15.03.2021	-	-	-	14.40	27.90	↑

** prices at issue/reiteration are the closing prices at the report or reiteration date*

Market-relative recommendation tracker

Analyst	Relative Recommendation		Report date	Reiteration date	Distribution date	Expiry date	Price at issue/ reiteration*	Relative performance
Votum								
Michał Sobolewski	Overweight	–	02.09.2020	-	03.09.2020	04.12.2020	11.40	4%
Michał Sobolewski	-	→	-	15.09.2020	16.09.2020	-	13.35	-
Michał Sobolewski	-	→	-	08.10.2020	09.10.2020	-	12.80	-
Michał Sobolewski	-	→	-	08.11.2020	09.11.2020	-	11.40	-
Michał Sobolewski	-	→	-	19.11.2020	20.11.2020	-	12.80	-
Michał Sobolewski	Neutral	↓	04.12.2020	-	04.12.2020	Not later than 04.12.2021	12.80	5%
Michał Sobolewski	-	→	-	06.12.2020	07.12.2020	-	12.80	-
Michał Sobolewski	-	→	-	08.12.2020	09.12.2020	-	12.30	-
Michał Sobolewski	-	→	-	05.01.2021	05.01.2021	-	11.80	-
Michał Sobolewski	-	→	-	28.01.2021	29.01.2021	-	13.95	-
Michał Sobolewski	-	→	-	23.02.2021	24.02.2021	-	14.20	-
Michał Sobolewski	-	→	-	28.02.2021	01.03.2021	-	13.65	-
Michał Sobolewski	-	→	-	14.03.2021	15.03.2021	-	14.40	-

** prices at issue/reiteration are the closing prices at the report or reiteration date*

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