

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Pilot Program. This is an excerpt from the Polish version of DM BOŚ SA's research report.

# Votum

14/2020/GPW (64) June 13, 2021

Analyst: Michał Sobolewski, CFA, FRM

Sector: Financials – specialty finance

Fundamental rating: Buy (→)

Market relative: Neutral (→)

Price: PLN 16.30

12M EFV: PLN 27.40 (↓)

Market Cap: US\$ 53.2 m

Bloomberg code: VOT PW

Av. daily turnover: US\$ 0.18 m

12M range: PLN 10.25-20.10

Free float: 37%

## 1Q21 financial results summary

**Revenues improvement continued.** 1Q21 revenues at PLN 43 million (up 17% yoy) were slightly higher than we assumed in our forecasts. The quarter turned out quite good for the segment of pursuing claims from abusive clauses in loan agreements that showed effective new clients acquisition and strong sales. For the first time the Group incorporated the revenues of DSA Investment in the revenues of this segment (before they were reported as other revenues) as in 1Q21 the subsidiary performed distribution services mainly on behalf of the abusive clauses litigation. The rehabilitation segment was in a good shape as well and recorded a 15% revenue yoy growth. 1Q21 revenues of the RES segment stood at PLN 6.2 million which corroborated our expectations that the quarter would lag behind the preceding one.

There were no negative surprises in the segment of pursuing personal claims and the revenues improved by 4% yoy though the detrimental impact of pandemic restrictions is still visible. The segment of pursuing property claims continue to show a yoy decline of revenues which we ascribe to last year's strategy of limiting the assignment of receivables. Effects of the strategy change in this segment should be surface in the upcoming quarters.

**Stable profitability.** 1Q21 EBIT margin stood at 7.7% (better qoq) which still marks a significant yoy dip vs 14.7% in the base period prompted by a material cost increase in the RES segment and development of the segment of pursuing claims from abusive clauses in loan agreements. EBITDA and EBIT in 1Q21 reached PLN 4.0 million (down 32% yoy) and PLN 3.3 million (down 39% yoy), respectively.

### Guide to adjusted profits

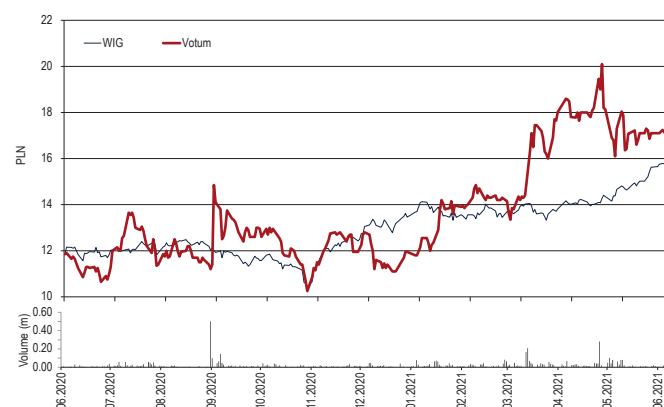
No factors necessitating adjustments.

### Key data

IFRS consolidated		2020	2021E	2022E	2023E
Sales	PLN m	149.8	184.2	207.4	262.3
EBITDA	PLN m	13.6	24.5	33.0	42.8
EBIT	PLN m	11.4	22.0	30.5	40.5
Net income	PLN m	8.7	16.3	23.0	30.6
EPS	PLN	0.72	1.36	1.91	2.55
EPS yoy chg	%	-49	88	41	33
Net debt	PLN m	12.9	4.5	-5.4	-13.4
Net debt + leasing	PLN m	18.2	10.0	0.4	-7.4
P/E	x	22.5	12.0	8.5	6.4
P/CE	x	18.0	10.4	7.7	5.9
EV/EBITDA	x	15.3	8.2	5.8	4.3
EV/EBIT	x	18.3	9.1	6.2	4.5
DPS	PLN	0.00	0.35	0.68	0.96
Gross dividend yield	%	0.0	2.1	4.2	5.9
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

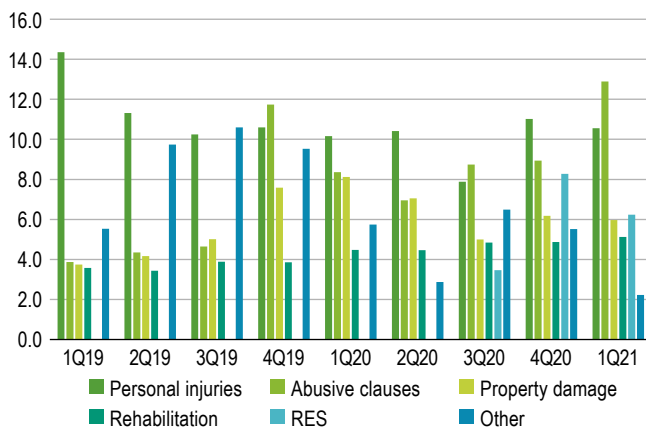
1. General Shareholders Assembly: June 21
2. Ex-dividend date: September 21
3. Release of consolidated 1H21 financial report: September 30
4. Ruling of the civil Chamber of the Supreme Court on the CH mortgage loans: 3Q21 at the earliest
5. Release of consolidated 3Q21 financial report: November 29
6. Bank shareholders decide on banks' participation in voluntary agreements with clients: 2H21
7. Dividend payment: December 15

Fig. 1. 1Q21 financials vs DM BOŚ SA forecasts

IFRS consolidated (PLN m)	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	1Q21 vs forecasts	1Q21E	yoy chg	Realization of the FY figures in:	
										1Q20	1Q21
Sales	43.3	36.8	31.8	36.4	44.8	43.0	↑	39.7	17%	25%	24%
Profit on sales	8.3	4.7	0.2	2.9	3.9	3.2	↓	3.6	-31%	40%	13%
Profit on sales margin	19.1%	12.8%	0.6%	7.9%	8.8%	7.6%	-	6.8%	-	-	-
EBITDA	6.9	5.8	0.6	3.4	3.7	4.0	→	3.8	-32%	43%	15%
EBITDA margin	16.0%	15.8%	2.0%	9.4%	8.3%	9.2%	-	7.3%	-	-	-
EBIT	6.5	5.4	0.1	2.9	3.0	3.3	→	3.3	-39%	47%	14%
EBIT margin	15.0%	14.7%	0.2%	8.0%	6.8%	7.7%	-	6.2%	-	-	-
Pre-tax profit	6.5	5.2	0.0	2.6	2.8	3.3	→	3.1	-37%	49%	14%
Pre-tax profit margin	15.1%	14.2%	0.0%	7.0%	6.3%	7.7%	-	5.5%	-	-	-
Net profit	4.4	4.0	0.1	2.1	2.5	2.5	→	2.4	-38%	47%	14%
Net profit margin	10.1%	11.0%	0.2%	5.7%	5.5%	5.8%	-	4.2%	-	-	-

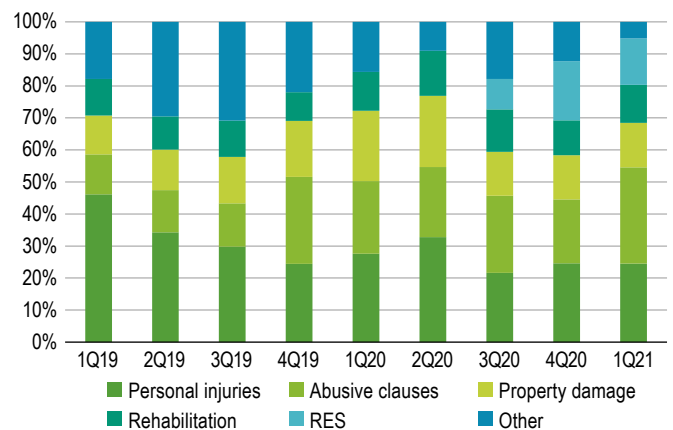
Source: Company, DM BOŚ SA estimates

Fig. 2. Votum; Quarterly segmental revenues



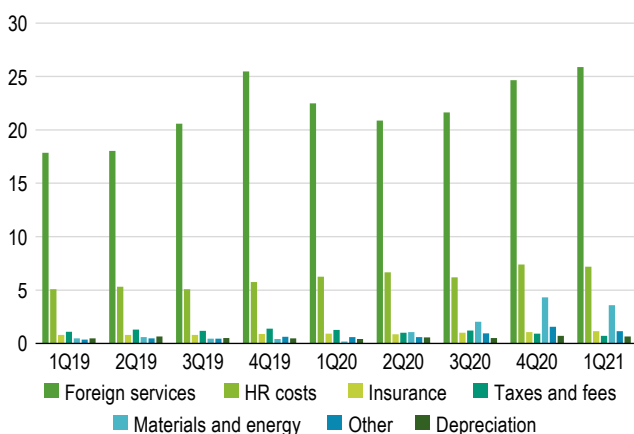
Source: Company, DM BOŚ SA

Fig. 3. Votum; Quarterly segmental revenues structure



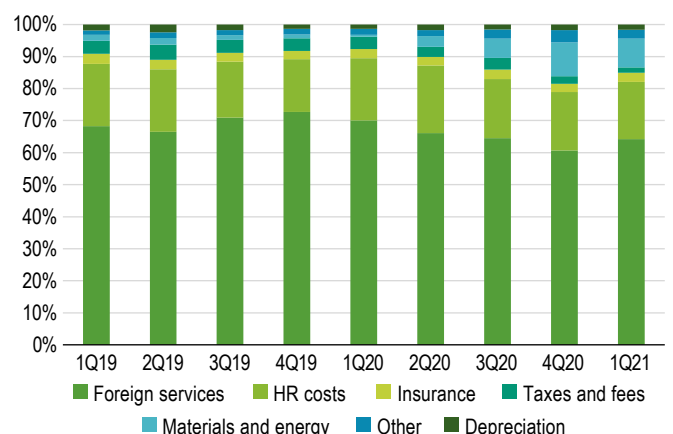
Source: Company, DM BOŚ SA

Fig. 4. Votum; Quarterly operating expenses



Source: Company, DM BOŚ SA

Fig. 5. Votum; Quarterly operating expenses structure



Source: Company, DM BOŚ SA

**NI comparable qoq.** The Group's 1Q21 financial net result reached PLN -0.02 million vs PLN -0.16 million in 1Q20. The effective tax rate was 29% and ultimately NI arrived at PLN 2.5 million which was in line with our expectations and comparable qoq.

### Trends prevailing in the key business segments

**The segment of pursuing personal claims.** A number of the contracts acquired has been declining though improvement has been observed in the foreign markets. We believe the pandemic has hit this segment most (a large contribution of direct selling) and given the covid restrictions being gradually lifted both the new clients acquisition and the segment's financial results should improve. Thanks to efficient selling of services via electronic communication, the Group delivered better sales on the foreign markets that suffered before. We expect positive trends to prevail in the subsequent quarters.

**The segment of pursuing property claims.** In 1Q there is a significant qoq increase in a number of new contracts acquired visible which stems from a change of the conservative strategy pursued last year which focused on the sustainable cash flows and growing number of assignments of receivables. We expect a further improvement of the segment's financials especially given a new approach to acquisitions via B2B channel (car repair shops).

**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. Votum intends to focus on the improvement of profitability of this relatively new segment; in the future increasing success fees should support margins. Simultaneously, this means no price discounts for clients. We believe such a pricing strategy is proper.

Sales data in 1Q21 proved to be good, we deem, as they exceed average quarterly results delivered last year. We believe, they point out that clients still decide to go to the court despite the fact the a group of banks has started working on agreements. This also means that there are clients who are not

interested in agreements but will go for a court battle the more so they have not waited for details of amicable solutions. Besides, currently PKO BP is the only bank that intends to offer agreements while other banks wait for the ruling of the Supreme Court. Therefore, we expect the universal agreement program to be launched at the earliest in the year-end.

Meanwhile, we observe a kind of a slow-down of new clients acquisition in May which is interesting. There are two possible explanations to this, in our view. The first one is related to a discussion and delay of the Supreme Court's ruling which may prevent some clients from making any decision. Given no set date of the final ruling of the full chamber of the Supreme Court regarding the CH loans (we assume the soonest date would be past the summer), we do not expect this delay in the verdict to have any impact on the clients' decisions in the future as in the past no such a connection was detected. The other explanation is related to a seasonally lower number of working days coupled with lifting further pandemic restrictions in May as this may have affected the CH borrowers' decisions which actually means that the summer period may be slower on the turf of clients acquisition. On the other hand, the prevailing judicial approach favors CH borrowers which we believe will have a positive impact on the clients' inclination to use the law firms. In our view, the Group's selling plans for this year in this segment should be achieved.

**The RES segment.** 1Q21 sales indicate growing efficiency of the Group's sale processes and customer services. In March the Green House project has been started in which the Group offers heating systems, recuperation, air-conditioning and comprehensive RES solutions to its clients. We expect a further growth of revenues on photovoltaic micro-installations assembly and services added in the subsequent quarters.

With respect to design and commercialization of photovoltaic farms, Votum proceeds with the attractive land acquisition for the future photovoltaic farms to be located. Due to an almost 2-year period from the moment of the leasehold contract signing, then administration permits acquisition till the commercialization, we expect a bigger batch of revenues to materialize in FY23.

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

IFRS consolidated (PLN m)	2021E			2022E			2023E		
	current	previous	change	current	previous	change	current	previous	change
Sales	184.2	182.6	1%	207.4	202.7	2%	262.3	261.1	0%
EBITDA	24.5	26.0	-6%	33.0	33.1	0%	42.8	42.4	1%
EBIT	22.0	23.7	-7%	30.5	30.7	-1%	40.5	40.1	1%
Net profit	16.3	17.5	-7%	23.0	22.9	0%	30.6	30.3	1%

Source: DM BOŚ SA estimates

## Financial forecasts

We slightly modify our forecasts for the Group due to incorporation of actual 1Q21 financials. The changes has exerted a minor impact on the level of profits in FY21 and onwards.

## 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 –

decreases marginally to PLN 27.4 per share (from PLN 27.9). The DCF/peer-relative valuation renders PLN 22.9 (prev. PLN 23.0) per share/ PLN 31.8 (prev. PLN 32.9) per share.

**Fig. 7. Valuation summary**

DCF	22.9
Peer-relative	31.8
<b>Average implied per share price (PLN)</b>	<b>27.4</b>
<b>Market price</b>	<b>16.3</b>
Upside	68%

Source: DM BOŚ SA estimates

**Fig. 8. Votum; Model DCF**

	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<b>Cost of equity</b>									
Risk free	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Equity market premium	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
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
<b>Required rate of return</b>	<b>10.8%</b>	<b>10.8%</b>	<b>10.8%</b>	<b>10.8%</b>	<b>10.8%</b>	<b>10.8%</b>	<b>10.8%</b>	<b>10.8%</b>	<b>10.8%</b>
<b>Cost of debt</b>									
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%
<b>After-tax cost of debt</b>	<b>3.2%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>3.2%</b>
<b>WACC</b>									
Equity share	93%	93%	93%	93%	93%	92%	90%	86%	87%
Debt share	7%	7%	7%	7%	7%	8%	10%	14%	13%
Cost of equity	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
After tax cost of debt	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
<b>WACC</b>	<b>10.2%</b>	<b>10.3%</b>	<b>10.3%</b>	<b>10.2%</b>	<b>10.2%</b>	<b>10.1%</b>	<b>10.0%</b>	<b>9.7%</b>	<b>9.8%</b>
<b>Financial forecasts</b>									
Sales (PLN m)	207.4	262.3	314.6	328.6	334.2	340.0	345.9	350.8	190.6
EBIT (PLN m)	30.5	40.5	59.6	63.8	74.7	75.8	76.9	77.5	9.5
NOPLAT (PLN m)	24.1	32.0	47.1	50.4	59.0	59.9	60.7	61.2	7.5
Depreciation (PLN m)	2.5	2.3	2.3	2.3	2.4	2.4	2.4	2.4	2.4
NWC change (PLN m)	-4.8	-11.5	-10.4	-1.7	0.5	0.5	0.5	0.8	-2.0
Capex (PLN m)	-3.1	-2.5	-2.5	-2.6	-2.6	-2.6	-2.6	-2.6	-2.5
FCFF (PLN m)	18.7	20.3	36.4	48.5	59.3	60.1	61.0	61.7	5.4

Source: DM BOŚ SA

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

FCFF terminal growth	1.0%
WACC in residual period	9.8%
Residual value	62.6
PV of residual value	27.7
PV of FCFF	247.4
Minorities	0.1
<b>Enterprise value</b>	<b>275.0</b>
Net debt, excl. IFRS16	4.5
Dividends	4.2
<b>Equity value</b>	<b>274.7</b>
Number of shares (million)	12.0
<b>12M forward equity value per share (PLN)</b>	<b>22.9</b>

Source: DM BOŚ SA

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

FCFF residual growth	Residual WACC				
	9.3%	9.5%	9.8%	10.0%	10.3%
0.0%	22.7	22.7	22.6	22.6	22.5
0.5%	22.9	22.8	22.8	22.7	22.7
1.0%	23.0	23.0	<b>22.9</b>	22.8	22.8
1.5%	23.2	23.1	23.0	23.0	22.9
2.0%	23.4	23.3	23.2	23.1	23.1

Source: DM BOŚ SA

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

Company	P/E			EV/EBITDA			EV/EBIT		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Gateley	17.5x	18.5x	18.0x	9.2x	8.7x	7.9x	11.5x	10.4x	9.2x
DWF Group	14.5x	13.2x	11.2x	7.3x	6.4x	5.8x	10.8x	9.0x	8.0x
IPH Limited	19.9x	18.4x	17.1x	12.6x	11.7x	10.9x	14.5x	13.3x	12.3x
Information services	19.0x	18.3x	-	9.7x	8.8x	-	-	-	-
Keystone Law Group	42.7x	35.4x	31.8x	30.7x	25.3x	22.3x	33.0x	27.6x	24.2x
Knights Group Holdings	22.2x	17.8x	15.7x	14.3x	11.5x	9.9x	17.4x	-	-
<b>Mediana</b>	<b>19.5x</b>	<b>18.4x</b>	<b>17.1x</b>	<b>11.1x</b>	<b>10.1x</b>	<b>9.9x</b>	<b>14.5x</b>	<b>11.8x</b>	<b>10.8x</b>
Votum	1.4	1.9	2.6	24.5	33.0	42.8	22.0	30.5	40.5
Implied EFV per share (zł)	26.5	35.1	43.7	22.3	28.2	36.4	26.2	30.5	37.4
<b>Average implied EFV per share (zł)</b>	<b>31.8</b>								

Source: Bloomberg, DM BOŚ SA

## 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, we believe, 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 the 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 grow at slower pace 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.

At the same time, it transpires that banks with the CH loans legacy have been reluctant to offer agreements to their clients and it looks like the

banks' decisive bodies wait for the Supreme Court ruling which has been postponed. In consequence, at the moment there is no actual alternative for CHF borrowers other than to enter the court path and go for the legal help to law firms.

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. This will be an important event for FX borrowers. 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. The release of the Supreme Court's

decision has been delayed as the full Civil Chamber demanded an additional insight and information from several institutions. Thus we do not expect the ruling to be released sooner than after the summer break. Besides, previous rulings of the Supreme Court tend to conform to the prevailing judicial approach which favors clients of the banks and their representatives.

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 the 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.

**Financials (IFRS consolidated)**
**Fig. 12. Votum; Income statement**

	2018	2019	2020	2021E	2022E	2023E
<b>Sales</b>	<b>105.2</b>	<b>141.8</b>	<b>149.8</b>	<b>184.2</b>	<b>207.4</b>	<b>262.3</b>
Costs of sales	93.1	117.3	138.1	162.4	177.2	222.1
<b>Profit on sales</b>	<b>12.1</b>	<b>24.5</b>	<b>11.7</b>	<b>21.8</b>	<b>30.2</b>	<b>40.2</b>
Result on other operating activities	-0.5	-1.9	-0.3	0.1	0.3	0.3
<b>EBITDA</b>	<b>14.9</b>	<b>24.7</b>	<b>13.6</b>	<b>24.5</b>	<b>33.0</b>	<b>42.8</b>
<b>EBIT</b>	<b>11.7</b>	<b>22.6</b>	<b>11.4</b>	<b>22.0</b>	<b>30.5</b>	<b>40.5</b>
Financial income	0.5	1.0	0.3	0.7	0.6	0.6
Financial costs	-1.5	-1.6	-1.1	-1.0	-1.0	-1.1
Profit from associates	0.0	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>10.6</b>	<b>22.0</b>	<b>10.6</b>	<b>21.6</b>	<b>30.0</b>	<b>40.0</b>
Income tax	2.2	4.4	2.5	5.1	6.6	8.4
Minorities	0.2	0.3	-0.5	0.1	0.5	0.9
<b>Net profit</b>	<b>8.3</b>	<b>17.3</b>	<b>8.7</b>	<b>16.3</b>	<b>23.0</b>	<b>30.6</b>

Source: Company, DM BOŚ SA estimates

**Fig. 13. Votum; Balance sheet**

(PLN m)	2018	2019	2020	2021E	2022E	2023E
<b>Fixed assets</b>	<b>53.0</b>	<b>57.5</b>	<b>60.7</b>	<b>64.8</b>	<b>67.7</b>	<b>73.7</b>
Tangible fixed assets	24.9	25.6	25.6	26.8	26.6	27.6
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	15.5	19.1	21.5	27.2
<b>Current trade assets</b>	<b>41.4</b>	<b>49.2</b>	<b>54.0</b>	<b>71.3</b>	<b>88.3</b>	<b>112.8</b>
Net trade receivables	28.8	34.8	34.6	40.5	45.6	57.7
Other receivables	3.6	4.8	10.6	13.1	14.7	18.6
Cash	9.1	9.5	8.8	17.7	28.0	36.5
<b>Assets</b>	<b>94.4</b>	<b>106.7</b>	<b>114.7</b>	<b>136.0</b>	<b>156.0</b>	<b>186.4</b>
<b>Shareholders' funds</b>	<b>41.0</b>	<b>55.3</b>	<b>64.1</b>	<b>76.2</b>	<b>91.0</b>	<b>110.1</b>
<b>Liabilities</b>	<b>53.4</b>	<b>51.4</b>	<b>50.6</b>	<b>59.8</b>	<b>65.1</b>	<b>76.3</b>
<b>LT liabilities</b>	<b>22.6</b>	<b>15.7</b>	<b>13.8</b>	<b>14.7</b>	<b>15.9</b>	<b>18.0</b>
Interest bearing debt	16.7	11.0	9.7	9.9	10.1	10.3
Leasing	2.7	1.7	1.6	1.7	1.8	1.9
Provisions, other	3.2	3.0	2.4	3.1	3.9	5.8
<b>ST liabilities</b>	<b>30.8</b>	<b>35.7</b>	<b>36.8</b>	<b>45.1</b>	<b>49.2</b>	<b>58.3</b>
Interest bearing debt	3.8	10.1	12.0	12.2	12.5	12.7
Leasing	0.9	5.5	3.6	3.8	3.9	4.1
Provisions, other	14.2	14.6	14.1	20.3	22.8	28.9
Trading liabilities	11.9	5.6	7.2	8.8	9.9	12.6
<b>Shareholders equity and liabilities</b>	<b>94.4</b>	<b>106.7</b>	<b>114.7</b>	<b>136.0</b>	<b>156.0</b>	<b>186.4</b>

Source: Company, DM BOŚ SA estimates

**Fig. 14. Votum; Cash flow**

	2018	2019	2020	2021E	2022E	2023E
<b>Operating cash flow</b>	<b>8,5</b>	<b>9,4</b>	<b>0,7</b>	<b>13,6</b>	<b>21,3</b>	<b>22,6</b>
Pre-tax income	10,6	22,0	10,6	21,6	30,0	40,0
Depreciation	3,3	2,1	2,2	2,5	2,5	2,3
Change in working capital	1,9	-2,1	-9,1	-5,6	-4,9	-11,6
Other	-7,5	-12,6	-3,0	-4,9	-6,3	-8,1
<b>Net funds from investing activities</b>	<b>0,0</b>	<b>-5,2</b>	<b>-1,4</b>	<b>-3,0</b>	<b>-3,1</b>	<b>-2,5</b>
Capital expenditures	-0,6	-1,2	-1,6	-3,0	-3,1	-2,5
Other	0,6	-4,0	0,2	0,0	0,0	0,0
<b>Net funds from financial activities</b>	<b>-5,2</b>	<b>-3,7</b>	<b>-0,1</b>	<b>-3,8</b>	<b>-7,7</b>	<b>-11,0</b>
Income from shares issue	0,0	0,0	0,3	0,0	0,0	0,0
Net change in debt	-0,9	0,6	0,7	0,4	0,4	0,5
Dividends paid	-0,2	-2,4	0,0	-4,2	-8,2	-11,5
Other	-4,2	-1,9	-1,1	0,0	0,0	0,0
<b>Change in cash</b>	<b>3,2</b>	<b>0,5</b>	<b>-0,8</b>	<b>6,8</b>	<b>10,5</b>	<b>9,1</b>

Source: Company, DM BOŚ SA estimates

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

	2018	2019	2020	2021E	2022E	2023E
<b>Margins:</b>						
EBITDA	14%	17%	9%	13%	16%	16%
EBIT	11%	16%	8%	12%	15%	15%
Pre-tax profit	10%	16%	7%	12%	14%	15%
NP	8%	12%	6%	9%	11%	12%
<b>Nominal growth:</b>						
Sales	12%	35%	6%	23%	13%	26%
EBITDA	102%	65%	-45%	80%	35%	30%
EBIT	135%	93%	-49%	92%	39%	33%
Pre-tax profit	135%	107%	-52%	103%	39%	33%
NP	163%	109%	-50%	88%	41%	33%

Source: Company, DM BOŚ SA estimates

**Fig. 16. Votum; Ratios**

	2018	2019	2020	2021E	2022E	2023E
<b>Balance sheet structure</b>						
Equity / Assets	43%	52%	56%	56%	58%	59%
Net WC / Total assets	18%	29%	31%	31%	30%	31%
Current ratio	1.3	1.4	1.5	1.6	1.8	1.9
Quick ratio	1.3	1.4	1.5	1.6	1.8	1.9
Average receivable turnover (days)	92	82	85	74	76	72
Average accounts payable period (days)	-36	-27	-17	-18	-19	-18
<b>Profitability</b>						
ROA	10.0%	17.2%	7.8%	13.0%	15.7%	17.9%
ROE	24.6%	36.0%	14.5%	23.3%	27.5%	30.5%
ROCE	3.6%	5.8%	2.5%	4.2%	5.1%	5.9%
Sales / Total assets	1.3	1.4	1.4	1.5	1.4	1.5
Operating profit / assets	3.5%	5.6%	2.6%	4.4%	5.2%	5.9%
Effective tax rate	21%	20%	23%	21%	21%	21%
<b>Financial leverage</b>						
Debt/Equity	0.6	0.5	0.4	0.4	0.3	0.3
Financial costs / EBIT	13%	7%	9%	5%	3%	3%
Net debt / EBITDA	77%	47%	95%	18%	-16%	-31%
EBITDA / financial costs	9.9	15.8	12.9	23.6	31.7	38.0
<b>Per share data</b>						
EPS	0.69	1.44	0.72	1.36	1.91	2.55
BVPS	3.42	4.61	5.34	6.35	7.58	9.18
EBITDA per share	1.24	2.06	1.14	2.04	2.75	3.57
EBIT per share	0.97	1.88	0.95	1.83	2.54	3.38
Net debt per share	0.96	0.96	1.08	0.37	-0.45	-1.12
DPS	0.00	0.19	0.00	0.35	0.68	0.96
CEPS	0.96	1.62	0.91	1.57	2.12	2.74
<b>Valuation ratios*</b>						
P/E	36.6	10.4	16.6	12.0	8.5	6.4
P/BV	7.4	3.3	2.3	2.6	2.1	1.8
EV per share	26.2	16.0	13.1	16.7	15.9	15.2
EV/EBITDA	21.1	7.8	11.5	8.2	5.8	4.3
EV/EBIT	26.9	8.5	13.8	9.1	6.2	4.5

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

Source: Company, DM BOŚ SA estimates



**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)
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

**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)

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

DM BOŠ 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.

## 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 BOŠ 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 BOŠ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision
Numbers	45	25	6	10	0
Percentage	52%	29%	7%	12%	0%

## Banks

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

DM BOŠ 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.

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

	Buy	Hold	Sell	Suspended	Under revision
Numbers	9	4	0	1	0
Percentage	64%	29%	0%	7%	0%

### Distribution of DM BOŠ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	36	30	10	10	0
Percentage	42%	35%	12%	12%	0%

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

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	5	7	1	1	0
Percentage	36%	50%	7%	7%	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)	
<b>Votum</b>										
Michał Sobolewski	Buy	02.09.2020	-	03.09.2020	Not later than 02.09.2021	43%	11%	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	↑
Michał Sobolewski	-	-	16.04.2021	16.04.2021	-	-	-	18.00	27.90	→
Michał Sobolewski	-	-	27.05.2021	27.05.2021	-	-	-	16.86	27.90	→
Michał Sobolewski	-	-	30.05.2021	31.05.2021	-	-	-	17.10	27.90	→
Michał Sobolewski	-	-	13.06.2021	14.06.2021	-	-	-	16.30	27.40	↓

\* 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
<b>Votum</b>							
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	6%
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	-
Michał Sobolewski	-	-	16.04.2021	16.04.2021	-	18.00	-
Michał Sobolewski	-	-	27.05.2021	27.05.2021	-	16.86	-
Michał Sobolewski	-	-	30.05.2021	31.05.2021	-	17.10	-
Michał Sobolewski	-	-	13.06.2021	14.06.2021	-	16.30	-

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

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