



20/2008/RR (56) March 3, 2008

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PGF

Sector: Pharmaceuticals
Fundamental rating: Buy (→)
Market relative: Neutral (→)
Price: PLN 76.0
12M EFV: PLN 88.8 (↓)

Market Cap.: US\$ 410 m
Reuters code: MDCI.WA
Av. daily turnover: US\$ 0.36 m
Free float: 77%
12M range: PLN 72.00-123.00

Quarterly results corner; 4Q07 review

The Company's 4Q07 results were above both our forecast and the market consensus at the top line, however below expectations at the NP level (regarding the details, please refer to *Figure 1*). The differences in the actual results and expectations stemmed mainly from underestimation of the Group's expansion impact on the financial results. The Company finalized the Lithuanian entities and Apexim acquisitions in 4Q07. Additionally, there were conducted works to acquire Aptekarz (this acquisition was finalized in January 2008).

The changes in the Group's scale resulted in consolidated top line yoy growth of 19% in 4Q07 (it is worth to stress that the organic growth reached c. 12% in 4Q07 being above the whole pharmaceutical market dynamic; the domestic pharmacies market went up by c. 9% with the hospitals up by more than 10% yoy in 4Q07). The Company's gross margin on sales was almost flat yoy reaching 11% and being 1.6pp up qoq. However, due to higher dynamics of general administration and selling costs, the margin on sales went down in 4Q07 to 1.2%, that is by 0.5pp (partially, it stemmed from relatively higher costs at newly acquired entities). Due to high net debt position, which almost doubled at the end of 2007 yoy, the Company reported higher financial costs in 4Q07. However, lower effective tax rate, allowed the Company to report 4Q07 consolidated NP at PLN 26 million, 13% up yoy. The Company's 4Q07 results were supported by a one-off sale of real estate generating net result of PLN 17 million. However, it is worth stressing that 4Q06 results were also distorted by one-offs; PGF reported other operating income of PLN 13.6 million in 4Q06 vs. PLN 18.7 million in 4Q07 (in line with our expectations).

Event: management 2008E guidance

The Company's management forecasts PGF's consolidated sales to exceed PLN 5 billion in 2008 with double digit yoy NP growth. Additionally, it maintains ambitious acquisition plans with entrance into two new foreign markets. The acquisitions will be financed via gaining investors at least to one of PGF's subsidiaries (it could happen most likely in 2H08). Additionally, PGF plans to introduce its subsidiary Pharmena into a NewConnect in order to finance clinical tests of new molecule (it could happen rather in 1H08).

Financial forecasts

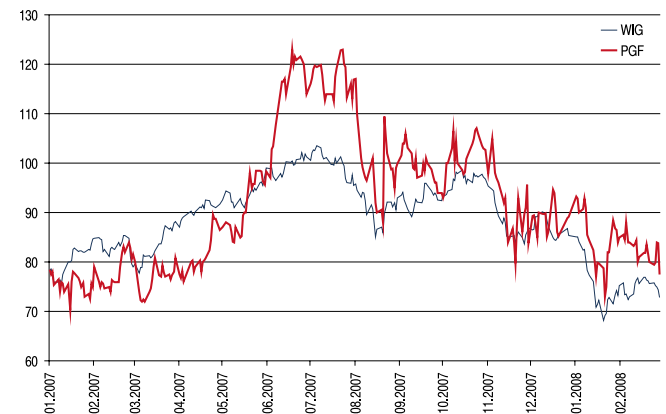
After announcement of FY2007 results, we have updated our financial forecasts for the Company. We keep the top line forecasts unchanged. We forecast 7% organic growth with consolidated sales up by almost 20%. PGF should consolidate Aptekarz as

Key data

IFRS consolidated		2007	2008E	2009E	2010E
Sales	PLN m	4,410.3	5,277.7	5,645.0	6,017.6
EBITDA	PLN m	114.3	139.1	149.9	160.3
EBIT	PLN m	93.3	114.6	123.1	131.8
Net Income	PLN m	74.6	84.4	93.0	103.0
EPS	PLN	5.92	6.71	7.39	8.10
EPS yoy change	%	18	13	10	10
Net debt	PLN m	361.8	364.1	323.6	276.3
P/E	x	12.8	11.3	10.3	9.4
P/CE	x	10.0	8.8	8.0	7.3
EV/EBITDA	x	11.5	9.5	8.5	7.8
EV/EBIT	x	14.1	11.5	10.4	9.4
Gross dividend yield	%	3.2	3.9	4.4	4.8
Number of shares (eop)	ths.	12,591	12,587	12,587	12,711

Source: Company, DM IDMSA estimates

Stock performance



Source: www.money.pl

Upcoming events

1. Release of 1Q08 results: 15 May 2008
2. Release of audited consolidated 2007 report: 14 May 2008

Catalysts

1. Demand for building materials in the region
2. Launch of production at newly constructed/acquired factories – capacity increase in LCCs
3. Financial results improvement
4. Announcement of further projects

Risk factors

1. Regulatory risk
2. Interest rate and currency risk
3. Political risk due to operations abroad
4. Development of parallel import and logistics centers

of January 2008 and the Lithuanian entities and Apexim for the FY2008 vs. only two months of 2007. The Company's top line will be also supported by the smaller acquisitions on the local market, which took place in 2007.

However, we have revised profitability forecasts. The Company's profitability will be affected on the one hand by economies of scale and already restructured Apteki Polskie and Cefarm Łódź, and on the other hand by consolidation of acquired companies

Fig. 1 PGF's 4Q07 financial results compared to expectations

IFRS consolidated	4Q07A	4Q07E (IDM)	4Q07E (consensus)	4Q07A compared to expectations IDM's/consensus	4Q06A	yoy change	FY2007	FY2006	yoy change
PLN m									
Sales	1,211.5	1,127.6	1,145.0	↑↑	1,020.4	19%	4,410.3	4,007.6	10%
EBITDA	38.5	48.2	n.a.	↓↓	36.2	6%	113.9	108.4	5%
EBIT	32.8	42.1	44.2	↓↓	31.0	6%	93.3	87.0	7%
Pre-tax profit	29.8	41.2	n.a.	↓↓	29.6	0%	88.8	81.3	9%
Net profit	26.4	33.6	33.7	↓↓	23.3	13%	74.6	62.5	19%

Source: Company, PAP, DM IDMSA estimates

(Apexim, Aptekarz, and the Lithuanian Limedika and Gintarine Vaistine). Additionally, the Company, which has a net debt position close to PLN 400 million at the end of 2007, will have to operate in an environment of higher interest rates. It should be stressed, however, that PGF offers financial services to pharmacies in the loyalty program; therefore, its net financial costs are smaller than would appear exclusively from the debt level. Taking these factors into account, we forecast PGF's consolidated 2008 bottom line at PLN 84.4 million, up 13% yoy. We forecast the 2008 net margin of 1.6%, compared to 1.7% in 2007.

Given PGF's strong position on the local market and plans for expansion abroad, we believe that the Company should deliver growth above the pharmaceutical market dynamic in the mid to long run. The profitability should improve, as a result of: (i) effects of scale, (ii) market consolidation, (iii) converging processes towards European levels, and (iv) and strengthening of the retail arm. However, we assume in our forecasts that PGF's profitability will remain at a lower level than its peers in the longer run.

Valuation

On the back of aforementioned forecast update our 12M EFV for PGF's shares went down from PLN 95.3 to PLN 88.8 per share.

Recommendation

With a 12M absolute-value-based EFV above the current price, we keep our LT fundamental Buy recommendation on PGF. We believe that there will be visible positive effects of Group's expansion in the 1-2 years term. Although 4Q07 results are below the market consensus, it seems that the Company's market price already went down in its expectations, therefore we keep a Neutral ST bias in the market-relative context.

Investment story

PGF, after recent acquisitions, is still the biggest domestic pharmaceutical distributor, enjoying (after the merger with Aptekarz) c. 21-22% market share in Poland. Additionally, via investments already made abroad and with plans for further acquisitions in CEE (PGF hopes to make more than one acquisition in 2008, not concentrating exclusively on the domestic market), it offers exposure to the pharmaceutical distribution sector in the region, which according to PMR is worth EUR 23 billion. The Company's target is to become a leader in the CEE, operating in all countries

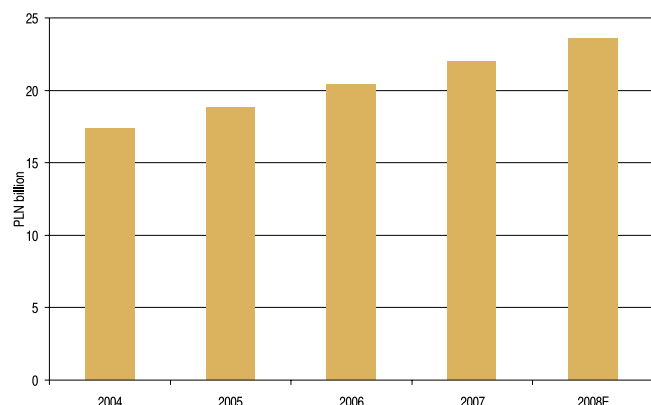
in the region. Investments abroad should support the Company's financial results, especially given that development in Poland is capped by strict regulations on expansion of pharmacy chains, and that the Company already has a strong position on the local market.

Drivers

▲ 1. *Pharmaceutical market growth – the base for pharmaceutical distributor development.* Based on IMS Health data, the value of the Polish pharmaceutical market in January – October 2007 went up by 8.6% yoy, to PLN 13.4 billion in net producer prices. The Rx market moved up by 7.6% yoy in January-October 2007 with sales of state-subsidized medicines growing by 8.7% in the period. The OTC market went up by 15.9% yoy in January – October 2007, to PLN 3.4 billion.

IMS Health forecasted the Polish pharmaceutical market growth to be at 7.5% yoy in FY2007, compared to 8.5% growth reported in 2006. However, the actual growth could exceed IMS forecasts and reach even c. 10% in 2007 yoy. The value of the

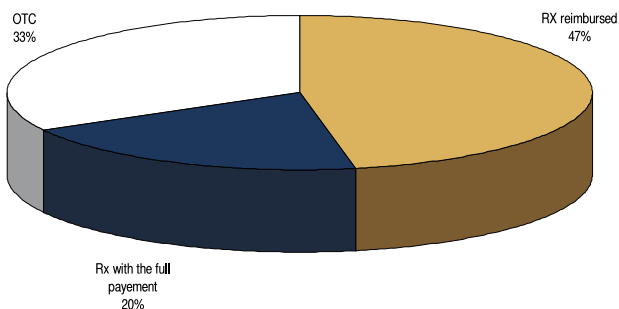
Fig. 2 Pharmaceutical market in Poland (retail prices)



Source: IMS Health, IS, DM IDMSA

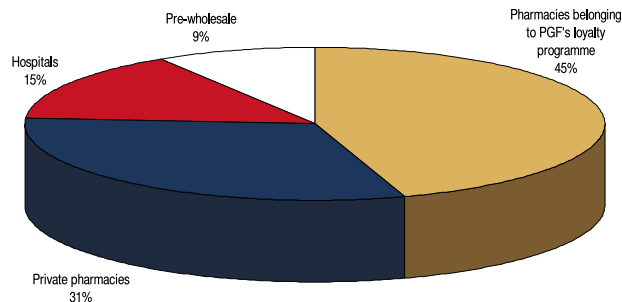
pharmaceutical market should have reached c. PLN 21 billion in 2007 (and PLN 17.6 billion in producer prices). It is worth stressing that 2007 witnessed a lower value of reimbursement yoy; it is estimated at PLN 6.5 billion vs. PLN 6.7 billion – 6.8 billion in 2006. This means that the reimbursement level was c. 31% of total spending on medicines in 2007E (seven years ago the figure was 38%, and since then has oscillated around c. 33% – 36%), which is the lowest level among EU countries. Sales of Rx oscillated around 50-51% of the pharmaceutical

Fig. 3 Profile of pharmaceutical market in 1H07



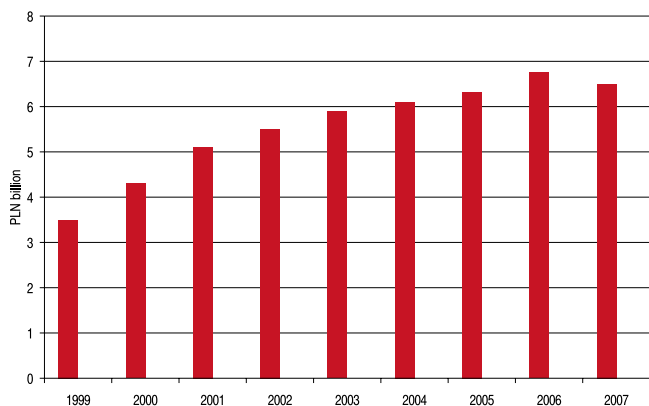
Source: PMR

Fig. 6 PGF, 1-3Q07 sales structure



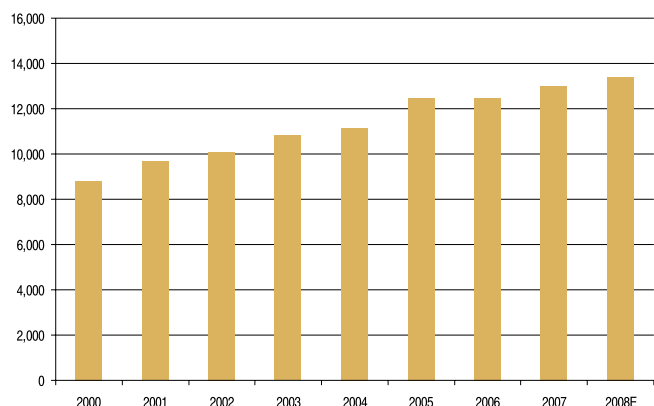
Source: Company

Fig. 4 Poland – the reimbursement value



Source: IMS Health, IS, DM IDMSA

Fig. 5 Number of pharmacies in Poland



Source: Pharma Expert, DM IDMSA

market in the previous years while this ratio dropped to 46% in 2007E. These statistics clearly show that the value of the pharmaceutical market will depend not only on the reimbursement level, but also and most importantly to an increasing extent on consumer spending. Thus, dropping unemployment, rising average disposable income and aging society well bode to the pharmaceutical market development.

This year could witness slightly lower than last year growth of the pharmaceutical distribution market, in our view, due to: (i) high last year base, (ii) intensifying competition among producers (the average price per dose has been falling), and (iii) further changes in the reimbursement lists. Additionally, parallel imports (the parallel import practice, widespread throughout the EU, is based on differences in medicine prices between EU members), which adversely affect the market value, should grow further. Specialists estimate that prices of some pharmaceuticals in Poland exceed average EU prices by some 5%. Parallel imports force drug manufacturers to slash prices on more expensive markets. For example, in Germany parallel imports drove a nearly 5%-6% drop in pharmaceutical prices. Savings attributable to parallel imports of pharmaceuticals are c. EUR 630 million p.a. in Denmark, the Netherlands, Germany, Sweden and the UK. The parallel market value is close to 4% of the EU25 pharmaceutical market. In order to operate on that market, distributors need to obtain special licenses. Parallel import development in particular harms producers of brand medicines. In our view big pharmaceutical distributors are unlikely to engage in parallel imports, as this could damage their relations with drug manufacturers.

Pharmaceutical market growth in the mid- to long-term will be propelled by numerous factors, such as: (i) advancement of medicine enabling faster diagnosis, which should facilitate treatment of a wider range of diseases, (ii) the growing number of civilization-induced diseases, (iii) rising healthcare awareness, (iv) easier access to more advanced treatments, and (v) population aging (in 2020E one fourth of Polish citizens will be over 60 years old, which is about 50% above the current level). The pharmaceutical market growth rate in Poland should exceed that of the European market as a whole in the mid- to long run, largely due to the discrepancy in treatment quality between the two regions.

The pharmaceutical market value in the longer run will also be affected by the pharmaceutical producers' more and more active role on the distribution market, reducing the role of wholesalers to logistics operations only. This is a prelude

to direct distribution. Additionally, it is worth stressing that at least so far, the scale is still very small in Poland.

Taking all of these factors into account, we believe that the pharmaceutical market growth will reach c. 6%-7% in 2008E and will continue to expand with similar dynamic in the next few years.

PGF, as the biggest pharmaceutical distributor, should capitalize on the domestic pharmaceutical market development. Although the large distributors are likely to increase their positions at the cost of smaller ones, the market share changes stemming from organic growth will be rather small. Acquisitions, described in more details below, will definitely have the greatest influence on the condition of the market.

- ▲ *2. Organic development on the local market - loyalty programs, internet sales.* Given extremely strong competition in the pharmaceutical distribution sector and quite similar offerings of various distributors, there are only a few methods supporting organic growth of pharmaceutical distributors.

Obviously, the ideal situation for a pharmaceutical distributor would be to have its own retail network, that is, pharmacies. However, due to local regulations, development of a distributor's own chain of pharmacies is capped. Currently, some 13,000 pharmacies operate in Poland, of which c. 800 are located in hospitals. The number of patients per pharmacy in Poland stands at c. 3,000, which is below the EU average of 4,500. Therefore, it is unlikely that PGF will increase significantly the number of its own pharmacies, which is currently above 330 (c. 3% of all pharmacies in Poland). However, we cannot exclude small acquisitions.

With limited possibilities for developing their own retail chains, distributors put pressure on development of loyalty programs, striving not to differentiate their own pharmacies from others belonging to the program. The number of pharmacy chains went up, with pharmacies belonging to chains up from 5% a year ago to 8% currently (data for chains with at least 20 pharmacies). There are pharmacy chains connected with distributors (c. 900) and independent ones. PGF's loyalty program "*I take care of my health*" covers 1,759 pharmacies (1.6 million patients are registered in the program). Currently c. 45% of PGF's sales are generated by pharmacies belonging to PGF's loyalty program, which shows its importance. Development of loyalty programs is a major weapon in the hands of distributors, enabling not only sales improvement, but also strengthening the relationship with clients, thus making sales less volatile. The Company's management hopes to increase the number of pharmacies in the program to 2,400-2,500 within the next two years.

The next way for the distributor to grow organically is the internet, as we see it. We believe that the proliferation of internet pharmacies should not be underestimated. Currently, there are about 200 internet pharmacies in Poland, with two to three new companies opening every month. Annual revenues of an internet pharmacy are PLN 2 million, compared

to some PLN 1.6 million achieved by a traditional pharmacy. Internet pharmacies are expected to gain a 5% share in the pharmaceuticals distribution market within the next five years due to competitive price offering (sometimes 15%-20% lower than in traditional pharmacy chains). The market value of online medicine sales is estimated at PLN 50 million. PGF aims to be active in this field, launching in 3Q07 the portal www.doz.pl. The portal gives internet users information about drugs and health, enabling them to obtain expert advice and buy drugs online (to be picked up personally in one of the PGF-affiliated pharmacies). The e-pharmacy is ready to introduce home deliveries, however its expansion will depend on local regulations.

- ▲ *3. Growth via acquisitions – market consolidation.* Last year brought intensification of consolidation processes and changes in the market share of the biggest players. After finalization of negotiations with Multi Pharme, Aptekarz and Panaceum (previously there were Galenica-Silfarm, Optima-Radix and several smaller distributors), the market share of the five biggest distributors reached 73%, up 10pp. The top 20 distributors control 95% of the domestic pharmaceutical distribution market. It should be expected that although there is still room for small niche distributors, their market share will diminish.

The most active on this field was Torfarm, which in 2007 acquired wholesale pharmacies Panaceum, Galenica-Silfarm, Optima-Radix and Itero. The acquisitions allowed Torfarm to capture c. 20-21% market share on the domestic pharmaceutical distribution market and become the second-largest player, with market share close to PGF's.

PGF also made some acquisitions on the local market last year, which should allow it to keep its leading position on the domestic pharmaceutical distribution market, increasing its market share to 21-22%. PGF acquired stakes in several small pharmacy companies, among others Apteka Rodzinna and APT Wola for PLN 3 million and PLN 1.9 million, respectively. Additionally, the Company acquired an 82.23% stake in Apexim, which operates over 30 pharmacies in Poland, for PLN 27 million. PGF took a stake in local wholesaler Aptekarz, which holds a 1.8% share in the domestic pharmaceutical distribution market and is one of the strongest wholesalers in southern and eastern Poland, cooperating with 550 pharmacies (c. 4% of all pharmacies in Poland). Total PGF investments connected with acquisition of Aptekarz are estimated at PLN 56 million (PLN 18 million spent in 2007; in February 2008 PGF increased Aptekarz's capital by PLN 26 million, increasing its stake to 58%).

Following last year's acquisitions, we believe that pharmaceutical distributors will concentrate this year on restructuring of their groups and improving their profitability. Torfarm's management has already confirmed that it aims to concentrate on improving profitability this year. However, some privatizations are not excluded. The Ministry of the State Treasury announced plans to sell stakes in Cefarm units. Cefarm Białystok seems to be the most interesting acquisition

target. The State Treasury, which has a 100% in both Cefarm Białystok and Centrala Farmaceutyczna Cefarm, hopes to sell its stakes in 2H08.

CF Cefarm does not seem to be very attractive due to high sales in the pre-wholesale market, it also supplies its own branded pharmacy chain (c. 16% of total sales are to pharmacies) with a rising number of pharmacies associated under its “Everybody’s Pharmacy” brand, which currently includes 50 pharmacies. CF Cefarm holds interesting land in Warsaw. The Company generates sales of c. PLN 600 million – 700 million with an expected bottom line of c. PLN 2 million this year.

Cefarm Białystok looks much more interesting, as it is the biggest pharmaceutical distributor in northeastern Poland (50% share in the local market) with 48 pharmacies, c. 2% market share, quite high profitability and the internet shop Cefarm24, which was launched in January 2007. According to unofficial estimates Cefarm Białystok’s acquisition value might reach c. PLN 60 million – 70 million, however given expected strong competition among buyers, the price might be higher. Although PGF expressed its interest in this privatization, it is not highly determined to acquire Cefarm Białystok at every price. It seems that PGF’s management believes more in its development abroad.

- ▲ 4. *Investments abroad – Lithuania, Great Britain, Ireland.* Given PGF’s already strong position in Poland, quite restrictive local pharmaceutical laws, and the limited number of acquisition targets, the Company decided to start penetration of foreign markets with the first step in Lithuania, where the pharmacy law is much more liberal than in Poland, allowing for much

faster development of pharmacy chains. According to IMS Health, the value of the Lithuanian pharmaceutical market will grow by double digits p.a. over the next four years.

At the beginning of November 2007 PGF closed the acquisition of a majority stake in Lithuanian-based distributors Limedika and Gintarine Vaistine. The larger of the two, Limedika, conducts wholesale in Lithuania, holding the third position on the local market with c. 18% market share in Lithuania and servicing more than 1,000 pharmacies. Gintarine manages a chain of more than 350 pharmacies. The value of this transaction in the first stage was EUR 22.5 million. PGF has a call option in 3-5 years for the remaining stakes in both entities with the price dependent on the financial results of both entities. Sales of Limedika were EUR 74 million in 2006 with a bottom line of EUR 3.4 million. Gintarine Vaistine had sales of EUR 25 million in 2006, with a loss of EUR 1 million, however its bottom line should be positive in FY2007. The Lithuanian retail entity is still in the development phase.

Except of investments in Lithuania, the Company’s management has been considering acquisitions in other CEE countries in the south –east direction.

Additionally, PGF decided to enter Western European markets. The Company opened the first pharmacy in Great Britain in 2007 and the next two will be opened in 1Q08 (the Company’s management target is to have 10 pharmacies in UK by the end of this year). PGF’s management will decide about investments in Ireland this year. However, it should be emphasized that the scale of this project is quite small and will not have a visible impact on the Company’s financials at least over the next few years.



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 IDM 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) + 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 IDMSA'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.

LT fundamental recommendation tracker

Recommendation	Issue date	Reiteration date	Expiry date	Performance	Relative performance	Price at issue/reiteration (PLN)	12M EFV (PLN)
PGF							
Buy	21.02.2008	-	Not later than 21.02.2009	-7%	-1%	81.9	95.3
-	→	03.03.2008	-	-	-	76.0	88.8 ↓

Market-relative recommendation tracker

Relative recommendation	Issue date	Reiteration date	Expiry date	Price at issue/reiteration (PLN)	Relative performance
PGF					
Neutral	21.02.2008	-	Not later than 21.02.2009	81.9	-1%
-	→	03.03.2008	-	76.0	-

Distribution of IDM's current recommendations

	Buy	Hold	Sell	Suspended	Under revision
Numbers	19	15	5	0	0
Percentage	49%	38%	13%	0%	0%

Distribution of IDM's current recommendations for companies that were within the last 12M IDM customers in investment banking

	Buy	Hold	Sell	Suspended	Under revision
Numbers	2	2	1	0	0
Percentage	40%	40%	20%	0%	0%

Distribution of IDM's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	15	16	8	0	0
Percentage	38%	41%	21%	0%	0%

Distribution of IDM's current market relative recommended weightings for the companies that were within the last 12M IDM customers in investment banking

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	2	2	1	0	0
Percentage	40%	40%	20%	0%	0%

Banks

Net Interest Margin (NIM) = net interest income/average assets
NIM Adjusted = (net interest income adjusted for SWAPs)/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 + other operating costs)/(profit on banking activity + other operating income)
ROE = net profit/average equity
ROA = net income/average assets
Non performing loans (NPL) = loans in 'substandard', 'doubtful' and 'lost' categories
NPL coverage ratio = loan loss provisions/NPL
Net provision charge = provisions created – provisions released

DM IDM 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.

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