

# PGF

Reuters: MDIC.WA Bloomberg: PGF PW

Poland, Pharmaceutical distribution

22 July 2008

## Getting high on retail

**Initiation of coverage. Overweight, TP of PLN 74.**

Not only is PGF the leading vertically integrated pharmaceutical wholesaler in Poland, commanding a 22% market share, but it is dynamically expanding into CEE retail markets as well. PGF's long term strategy appears appealing to us, since it should lead to greater business profitability ahead. Bearing in mind the experience of PGF's management in post-acquisition restructuring, we believe the current costs of growth (takeovers, restructuring and debt servicing) will only temporarily weigh down the company's financial results. Following a recent slump in PGF's share price, we initiate coverage of PGF with an Overweight recommendation and DCF-implied 12M TP of PLN 74.

PGF's long term goal is to be a Pan-European vertically integrated pharmaceutical wholesaler with a primary focus on CEE markets. The company also plans to grow domestically through the development of its well-known "Apteki DoZ" branded pharmacy chain and acquisitions of smaller domestic players. We find PGF's LT strategy well-thought-out, as expansion into the fast growing CEE retail segment (resulting in international scale of business operations), should yield better profitability in coming years.

On the back of the first-time consolidation of Aptekarz as of Feb'08, combined with booking of Lithuanian wholesale and retail operations, we project PGF's revenues at PLN 5.1bn (16.6% y/y) in 2008. In subsequent years PGF is expected to maintain dynamic sales momentum (PLN 5.6bn/PLN 5.9bn in 2009E/2010E, respectively) owing to further development of the "Apteki DoZ" loyalty program. Net profit is expected to come in at PLN 76m, PLN 81m and PLN 94m in 2008-2010E, respectively (CAGR of 8.1%).

Despite a weak set of 1Q'08 results, PGF's management has maintained its official FY 2008 forecast pointing to revenues of PLN 5bn+ and double digit y/y bottom line improvement, yielding a net profit of PLN 82m+. Bearing in mind core Polish pharmaceutical market development in the January-May period (+13.3% y/y growth in retail prices), the top line target is easily achievable in our view. However, we feel net profit guidance might be optimistic.

Our company business model, including input from UAB Nacionaline and Aptekarz, yields a 12-month Target Price of PLN 74 for PGF, offering 28% upside potential versus the current share price. Following the recent stock price setback (-35% YTD), PGF is trading at 2008-09E P/E of 9.5x and 8.9x, respectively, which represents discounts of 15% and 12% to peer group multiples. In light of 1) dynamic growth of the core Polish pharmaceutical market and 2) ongoing expansion into the CEE retail segment, we initiate coverage of PGF with an Overweight recommendation.

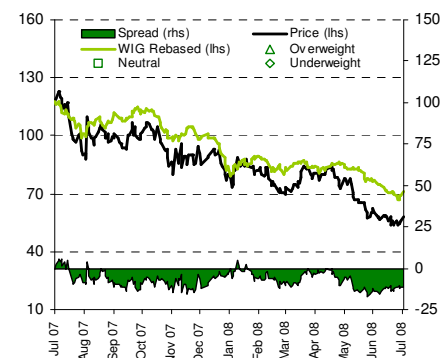
### PGF: Financial summary\*

PLN in millions, unless otherwise stated

	2006	2007	2008E	2009E	2010E
Sales	4,008	4,411	5,142	5,559	5,861
EBITDA	108	114	148	164	187
EBIT	87	93	119	129	143
Net profit	63	74	76	81	94
Net profit adjusted*	50	48	71	82	95
P/E (x)	11.5	9.7	9.5	8.9	7.7
P/E (x) adjusted*	14.4	15.0	10.6	8.7	7.3
EV/EBITDA (x)	10.2	9.8	7.5	6.8	6.0

Source: Company data, DM BZ WBK estimates, adjusted for sale of real estates, sale-lease-back and potential shares dilution from mgmt. stock option scheme and buy-back program

Price (PLN, 21 July 2008)	58
Target price (PLN, 12-month)	74
Market cap. (PLN m)	725
Free float (%)	77%
Number of shares (m)	12.6
Average daily turnover (shares, 3M)	10.5k
EURPLN	3.21
USDPLN	2.02



The price relative chart measures performance against the WIG index. On 21/07/08 the WIG index closed at 39,745.

Main shareholders	% of votes
Jacek Szwajcowski	30.2%
Zbigniew Molenda	15.3%
Julius Baer IM	5.7%
ING NN pension fund	5.0%

### Company description

PGF is leading Polish pharmaceutical distributor controlling ca. 22% market share with rising exposure in retail segment. Recently the company has also kicked off its foreign expansion through acquisitions in Lithuania.

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# Valuation

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## DCF

Consistent with DM BZ WBK methodology, we rely most heavily on a discounted cash flow approach in the valuation process. We based our model for PGF on the following assumptions:

- We use our bottom-up explicit sales estimates for each PGF business segment for the whole forecasting period. We expect a 16.6% increase in sales to PLN 5,142m in 2008E mainly on the back of the full-year consolidation of UAB Nacionaline and first-time consolidation of Aptekarz financials. We forecast sales CAGR of 9.9% in 2008-10E and 1.8% thereafter.
- Additionally, we assume growth in the number of pharmacies in the “Apteki DoZ” branded chain of 200 outlets a year in 2008-2010E.

*(for more details on sales forecasts, please refer to page 8)*

- Bearing in mind the expansion of “Apteki DoZ” pharmacy branded chain as well as planned buyouts of minority shareholders in Aptekarz and UAB Nacionaline, we applied CAPEX/sales ratios of 2.4%, 2.4%, and 2.6% in 2008-2010E. Thereafter we assumed CAPEX/sales at 1% infinitely.

*(for more details on CAPEX forecasts, please refer to page 11)*

- We incorporated additional costs of motivational programme amounting to PLN 1m a year in 2008-2010E, respectively.
- We did not incorporate any benefits stemming from the potential acquisitions the company is eyeing in CEE markets.
- We expect some efficiency enhancement in inventory turnover due to centralization of drug purchases. We employed an improvement in inventory turnover ratio from 53 in 2007 to 52 and 50 days in 2008-2009E, respectively. When it comes to receivables and payables turnover ratios, we do not expect any major developments, thus we have applied the past year's scheme.
- We use a terminal growth rate for FCF of 2.0%.
- In our forecasts, we use a flat 19% corporate income tax rate.
- Our WACC of 9.5% includes a 6.4% risk-free rate, 4.5% equity risk premium, 0.82 unlevered beta for the industry (Damodaran's for European wholesale drug distributors) and a D/E ratio of 102% calculated based on the average amount of debt and equity in the forecasted period.
- We decided to use in our DCF analysis the net debt figure as of 1Q'08. To stay on the side of caution, we decided only to leave out of net debt calculations 85% of loans (PLN 122m) PGF gives to its clients.
- We conservatively included the full number of shares stemming from the management incentive scheme and skip any impact of the buyback program on PGF's number of shares introduced in our DCF model.

- We assumed that PGF will sell its real estate properties in 2008-2011E which are currently up for sale for PLN 35m (book value of PLN 3.7m as of 1Q'08). We conservatively introduced an additional free cash flow of PLN 4.3m a year in 2008-2011E, which is just half of PLN 8.7m that PGF is likely to receive.

**The DCF model, our prime valuation tool, yields a 12-month Target Price of PLN 74.**

**Fig. 1. PGF: WACC calculation**

Risk-free rate	6.4%
Unlevered beta	0.8
Levered beta	1.5
Equity risk premium	4.5%
<b>Cost of equity</b>	<b>13.1%</b>
Risk-free rate	6.4%
Debt risk premium	1.0%
Tax rate	19.0%
<b>After tax cost of debt</b>	<b>6.0%</b>
%D	50%
%E	50%
<b>WACC</b>	<b>9.5%</b>

Source: Company data, DM BZ WBK estimates, Damodaran

**Fig. 2. PGF: DCF analysis**

PLN in millions, unless otherwise stated

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
<b>Net sales</b>	<b>5,142</b>	<b>5,559</b>	<b>5,861</b>	<b>6,120</b>	<b>6,214</b>	<b>6,308</b>	<b>6,393</b>	<b>6,477</b>	<b>6,554</b>	<b>6,627</b>
EBIT	119	128	143	153	155	158	160	162	164	166
Cash taxes on EBIT	23	24	27	29	30	30	30	31	31	32
<b>NOPAT</b>	<b>97</b>	<b>104</b>	<b>116</b>	<b>124</b>	<b>126</b>	<b>128</b>	<b>129</b>	<b>131</b>	<b>132</b>	<b>134</b>
Depreciation	28	36	44	47	52	55	57	59	60	60
Change in operating WC	-39	-11	10	8	3	3	3	3	3	2
<b>Capital expenditure</b>	<b>124</b>	<b>132</b>	<b>150</b>	<b>61</b>	<b>62</b>	<b>63</b>	<b>64</b>	<b>64</b>	<b>65</b>	<b>66</b>
Net investment	57	85	116	22	13	11	10	9	8	8
<b>Free cashflow*</b>	<b>44</b>	<b>24</b>	<b>4</b>	<b>106</b>	<b>113</b>	<b>117</b>	<b>120</b>	<b>122</b>	<b>125</b>	<b>126</b>
WACC	9.5%									
PV FCF 2008-2017	505									
Terminal growth	2.0%									
Terminal Value (TV)	1,716									
PV TV	691									
<b>Total EV</b>	<b>1,195</b>									
Net debt	389									
<b>Equity value</b>	<b>806</b>									
Number of shares (m)	13									
Value per share (PLN, 1 Jan 2008)	62									
Month	7									
<b>Current value per share (PLN)</b>	<b>65</b>									
<b>12-month target price (PLN)</b>	<b>74</b>									
Revenue growth	16.6%	8.1%	5.4%	4.4%	1.5%	1.5%	1.3%	1.3%	1.2%	1.1%
EBIT growth	28.4%	7.6%	11.6%	6.6%	1.5%	1.5%	1.3%	1.3%	1.2%	1.1%
NOPAT growth	28.6%	7.6%	11.6%	6.6%	1.5%	1.5%	1.3%	1.2%	1.2%	1.1%
FCF growth	n.a.	-46.4%	-81.3%	24x	7.2%	3.1%	2.7%	2.0%	2.0%	1.0%
EBIT margin	2.3%	2.3%	2.4%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Nopat margin	1.9%	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Capex/Revenues	2.4%	2.4%	2.6%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Change in WC/Revenues	-0.7%	-0.2%	0.2%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, DM BZ WBK estimates, \*increased by PLN 4.3m a year from real estate disposals in 2008-2011E, respectively

## Peer comparison

We have selected a group of large pharmaceutical distributors with retail exposure, which in our opinion together represent the best proxy of PGF's multiple valuation. At the current stock pricing level, PGF trades at 2008-10E P/E ratios of 9.5x, 8.9x and 7.7x, respectively, which implies a solid discount in valuation when compared to the peer group. Comparing PGF's respective 2008-10E EV/EBITDA of 7.5x, 6.8x and 6.0x to the aforementioned group, we arrive at a discount range of 7.0% to 12.6%. Our comparable valuation yields PGF's 12-month Target Price of PLN 66.2.

**Fig. 3. PGF: Peer comparison valuation**

	Currency	Price (local)	mkt. cap. (local)	P/E (x)			EV/EBITDA (x)		
				2008E	2009E	2010E	2008E	2009E	2010E
CELESIO	EUR	25.1	4,270	12.2	10.6	9.4	8.8	8.0	7.2
ANDREAE-NORIS	EUR	33.1	353	32.4	17.7	15.8	14.1	9.9	9.3
UNITED DRUG	EUR	3.5	798	13.4	12.3	11.7	9.8	8.9	8.4
OPG GROEP	EUR	13.2	769	8.9	8.3	7.3	6.3	6.0	5.6
A&D PHARMA	EUR	2.3	75	4.9	3.4	2.4	3.7	2.9	2.3
FARMACOL	PLN	33.0	772	10.1	9.6	7.6	7.3	6.9	6.2
<b>Median</b>				<b>11.1</b>	<b>10.1</b>	<b>8.5</b>	<b>8.0</b>	<b>7.4</b>	<b>6.7</b>
PGF	PLN	57.9	724.9	9.5	8.9	7.7	7.5	6.8	6.0
<i>disc/prem. to foreign</i>				-14.7%	-12.0%	-9.6%	-6.0%	-8.7%	-11.7%
					65.9			66.5	
<b>implied price</b>						<b>66.2</b>			

Source: Bloomberg, DM BZ WBK estimates

Our valuation sensitivity analysis indicates that a 1% increase in terminal growth rate translate into an 14% increase in PGF's 12-month target price. On the other hand, a 1% growth in WACC implies a 20% decline in our stock valuation.

**Fig. 4. PGF: Valuation sensitivity**

PLN per share

WACC	Terminal growth rate				
	0.0%	1.0%	2.0%	3.0%	4.0%
7.5%	90	102	119	143	181
8.5%	73	82	93	108	131
9.5%	60	66	74	84	99
10.5%	49	54	59	67	77
11.5%	40	44	48	53	60

Source: DM BZ WBK estimates

## Strategy

PGF's long-run goal is to become a Pan-European pharmaceutical distributor focused on CEE markets with significant exposure to the retail segment. The company has been concentrating on development of its business in three main fields, including i) organic growth in the wholesale and retail pharmaceutical business in Poland, ii) further expansion in CEE markets, and iii) providing their customers with a wide range of services supporting their businesses.

### Organic growth

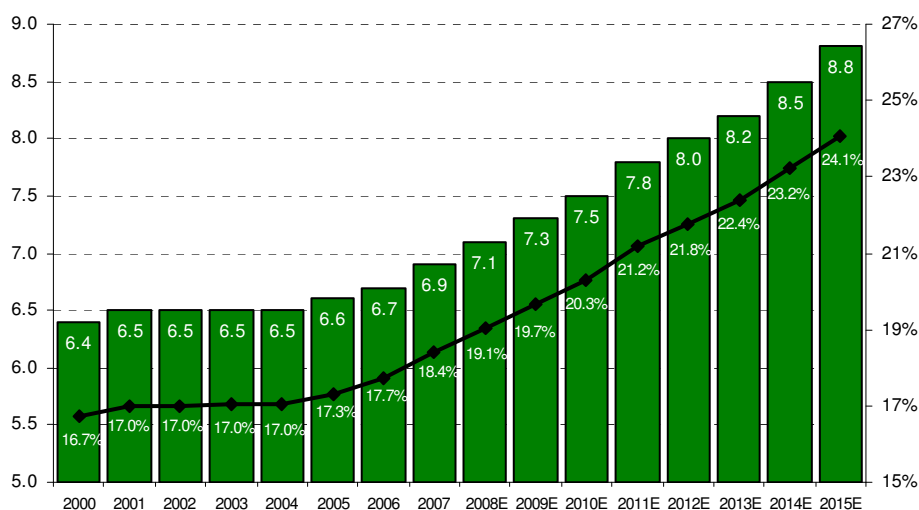
Taking into account that development of the pharmaceutical market is one of the most important factors determining revenues of drug wholesalers, we see the projected further growth of the Polish pharmaceutical market as a fundamental which will bolster PGF's top line in the forecasted period. Below we highlight several factors which will shape Poland's pharmaceutical market value in years to come:

#### Aging population in Poland

Demographic changes in Poland will be the major force influencing the Polish pharmaceutical market in the long run. There is a positive correlation between the proportion of people aged 60 and above and the pharmaceutical market's value, because elderly people usually spend three times more money on health protection than people from younger age groups. The prescription filling ratio is usually determined by the age of the population and GDP growth and is significantly higher for people over the age of 60.

In recent years we have witnessed an obvious trend towards an aging population in Poland. The proportion of people over 60 has grown to 18.4% in 2007 compared to 16.7% in 2006. Given the low birth rate in Poland and behavioral patterns of Polish society trending toward Western standards, this tendency is expected to solidify in coming years. The proportion of elderly people in Polish society is forecasted to increase to 24.1% by 2015.

**Fig. 5. Population aged over 60 in Poland**  
*In millions of people*



Source: Roland Berger Strategy Consultants

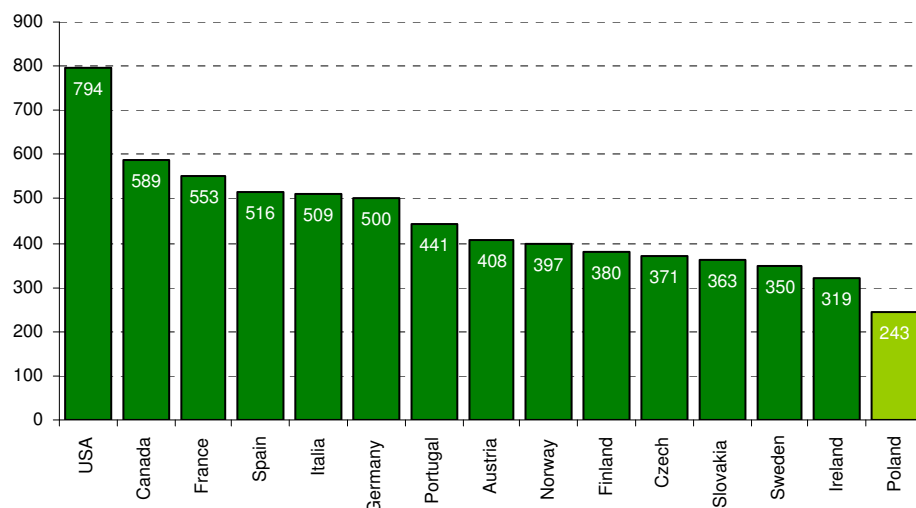
The growing number of people suffering from civilization-induced illness will facilitate demand for advanced treatments fueling pharmaceutical market growth in the long-run. Too, the appearance of this new illness along with urbanization and rising mobility play a key role as they spur the invention of new categories of medicines.

### Convergence story

Despite strong development of Poland's economy in recent years, expenditures on health care in Poland are still at a markedly low level compared not only to developed countries but even to other CEE countries. Taking into account further development of the Polish economy leading to an increase in disposable income per capita as well as health protection awareness, the process of convergence between the CEE and developed countries is likely to continue. As a result, the spread between medicinal expenditures per capita in Poland and developed countries will be narrowing, which will give rise to further Polish pharmaceutical market expansion at higher rate than that found in developed countries both in the mid and long term.

**Fig. 6. Drug expenditures per capita in Poland in 2007**

*In USD per capita*



Source: WHO2007, Roland Berger Strategy Consultants

### Government spending

Given the poor condition of the Polish healthcare system, government spending on health in Poland is at very meager level. Total spending from the National Health Fund for reimbursable pharmaceuticals totaled PLN 6.5bn in 2007, 2% lower compared to PLN 6.6bn in 2006. In consequence, the reimbursement level has deteriorated to ca. 33% in 2007 vs. 38.4% in 2000, resulting in increasing participation of private patients in financing drug purchases which reached a record high level of ca. 66% in 2007. To highlight the scope of this problem, it should be stated that due to poor financial situation ca. 28% of Polish families were forced to resign from drug purchases that were earlier prescribed. All in all, pharmaceuticals are too expensive for many Polish families due to low participation of the government in financing health care. In order to prevent this, the Ministry of Health allotted PLN 48bn to the National Health Fund in 2008, which is up approximately PLN 11bn compared to the level in 2006. Given further development of the Polish economy, government expenditures on health care protection are likely to converge to European levels.

## Expansion in CEE markets

In order to accelerate its expansion into CEE markets, PGF has recently established a Netherlands-based subsidiary known as Central European Pharmaceutical Distribution. Consistent with its three-phase strategy, PGF plans to transfer all Polish retail assets clustered under the "Apteki DoZ" umbrella, as well as foreign subsidiaries (Lithuanian companies and DoZ UK), to CEPD. To raise capital for financing expansion in CEE markets, PGF intends to issue new shares of CEPD, which will be directed toward financial investors and pharmacists. Currently PGF controls a 100% stake in CEPD but following the share capital increase its stake is to be diluted to no less than 51%. In the third phase PGF plans to conclude acquisitions in selected CEE markets. The company eyes potential acquisition targets in almost 17 countries in the CEE region with a combined total population of 183 million people and intends to complete two takeovers by the end of 2008, though no details concerning specific CEE markets nor costs of such transactions have been given at this stage.

We see the following rationales behind this project:

- The business model will become more transparent with CEPD consolidating and managing all retail operations within the PGF group.
- CEPD's focus on retail business will result in faster restructuring of this segment.
- Having established CEPD, PGF will improve its balance sheet structure, as the former will receive financing for its expansion from new share issues.
- Ongoing foreign expansion will allow PGF to offer distribution services in many countries in the region at the same time. This will result in better bargaining power in negotiations with producers, which will in turn support operating margins in the long term and improve PGF's competitiveness.
- Given that PGF will propose pharmacists to participate in CEPD's capital increase in exchange for their stores, the company's position in the consolidation of the fragmented domestic retail market will improve. Such an innovative approach to vertical consolidation places the company ahead of the competition, which will thereby help the company to enlarge its domestic retail chain more effectively.
- Lack of a capital gains tax in Netherlands will effectively decrease tax burdens.

Since Cefarm Bialystok and CF Cefarm Warsaw were slated for privatization in 2008, PGF is likely to place its bid in a tender for these. With an enviable position on the local market, Cefarm Bialystok (CFB) is in a far better financial position when compared to CF Cefarm Warsaw (CFW). CFB possesses 48 of its own pharmacies as well as a very successful internet shop, Cefarm24, which, with ca. 90k users, is the third largest e-pharmacy in Poland. This year CFB is estimated to spend as much as PLN 20m on building of a distribution center. The tender for CFB might be announced in 3Q 2008 and is likely to be valued in the range of 55-70m. When it comes to CFW, it is in much worse condition compared to CFB. Owing to lack of strategy as well as numerous management reshuffles, the company was in the red for the previous two years. Currently the company is carrying out a restructuring program, within which it aims to raise the number of its own pharmacies from 6 to 20. The company also possesses attractive real estates in Warsaw.

## Forecasts

### Sales

We expect PGF to report PLN 5,142m in consolidated sales in 2008 (up 17% y/y) mainly on the first time consolidation of Aptekarz and Lithuanian operations as well as further development of the "Apteki DoZ" branded pharmacy chain (partially self-owned). In our view, the latter will be the main force driving the company's revenues in the 2009-2010E period, which are estimated to reach PLN 5,559m and PLN 5,861m, respectively. We anticipate that sales related to this segment will maintain a firm growth rate primarily due to both adding of new pharmacies to the "Apteki DoZ" chain, which we expect at ca. 2,344 in 2010E, and secondly, a new pharmacy concept boosting sales per unit.

**Fig. 7. "Apteki DoZ" pharmacy chain development**

	2007	2008E	2009E	2010E
<b>"Apteki DoZ" affiliated pharmacies</b>	<b>1,163</b>	<b>1,296</b>	<b>1,429</b>	<b>1,563</b>
of which, 'new format' pharmacies	n.a.	213	257	313
new stores	97	133	133	133
<b>Own pharmacies</b>	<b>581</b>	<b>648</b>	<b>715</b>	<b>781</b>
of which, 'new format' pharmacies	n.a.	107	129	156
new additions	49	67	67	67
new additions, total	146	200	200	200
'new format' stores, total	n.a.	320	386	469
as% of total PGF's pharmacy chain	n.a.	16%	18%	20%
<b>Number of pharmacies, total</b>	<b>1,744</b>	<b>1,944</b>	<b>2,144</b>	<b>2,344</b>

Source: Company data, DM BZ WBK estimates

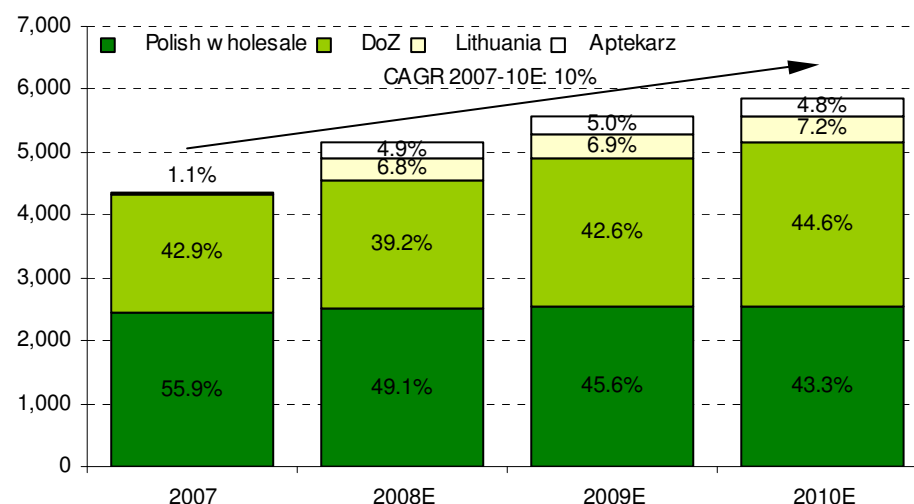
All in all, we project that sales through pharmacies grouped under the "Apteki DoZ" brand will come to PLN 2,615bn in 2010E (2007-10E CAGR of 11.7%). Bearing in mind that PGF will focus on development of the "Apteki DoZ" loyalty program as well as foreign expansion, we assume that sales to other clients such as independent pharmacies, hospitals as well local wholesalers will remain flat, oscillating around PLN 2,532m in 2008-2010E.

With regards to PGF's foreign operations, we expect the Lithuanian companies to add PLN 347m, PLN 384m and PLN 424m to PGF's top line in 2008-10E, respectively. Despite at least one foreign takeover being planned by the end of 2008, we did not assume any other acquisitions in our estimations at the current stage.

Overall, we project PGF's consolidated top line to grow at a 2007-10E CAGR of 10.3%. In the long-term, our assumptions implies 2010-17E sales CAGR of 1.8%.

**Fig. 8. PGF: Consolidated sales breakdown in 2007-2010E**

In PLN millions, unless otherwise stated



Source: Company data, DM BZWBK estimates

High fragmentation of the retail pharmacy market along with deteriorating fundamentals of many independent pharmacies will lead to further migration of them toward loyalty programs run by major wholesalers. In such an environment we expect PGF will be able to add 200 stores to its loyalty program "Apteki Dbam o Zdrowie" in each consecutive year during the 2008-2010E period and will be drawing together ca. 2,344 pharmacies under the "Apteki DoZ" umbrella by 2010E.

Taking into consideration the rising popularity of self-treatment among the Polish society and fast growing value of the OTC market, PGF decided to change the pharmacy concept and separate OTC drug sales from prescribed medicines in a self-service area. In such designed stores, a pharmacist is able to spend much more time dealing with patients who are seeking professional advice. The company has already reported that the new store layout boosted sales by 15%-20% on average in pharmacies where it was already applied. In our projections we assumed that the new concept will result in a 15% increase in sales per store in 2008. Furthermore, we assumed the share of new concept pharmacies in PGF's retail chain at 16.5%, 18.0% and 20.0% in 2008-2010E, respectively.

### Lithuanian operations

As the initial step in its foreign expansion, PGF took over two Lithuanian companies, Limedika, the third-largest medicinal wholesaler with an 18% market share, and Gintarine Vastine, an operator of a pharmacy chain. Financials of both companies are consolidated in a SPV called UAB Nacionaline, in which PGF controls a "50%+1" stake. With these acquisitions, PGF gained access to the well performing Lithuanian pharmaceutical market, which is expected to experience double-digit annual average growth between 2008 and 2011E. Furthermore, PGF will benefit from much more liberal legal framework in Lithuania compared to Poland.

Assuming that the restructuring of the retail pharmacy chain (Gintarine Vastine) comes to fruition, it will break even in 2008E and become profitable in 2009E. With regards to the wholesale operations (Limedika), we believe that the negative effects of intense competition between six major players on the Lithuanian market will be offset by synergies resulting from the merger with PGF. In our view, this will help to keep Limedika's profitability unchanged in forthcoming years. Overall we expect both Lithuanian companies to add PLN 347m, 384m and 424m to PGF's top line and PLN 4.8m, 7.2m and 10.3m to the bottom line in 2008-10E, respectively.

**Fig. 9. UAB: Consolidated financial results**

In PLN millions, unless otherwise stated

	2008E	2009E	2010E
Sales	347.3	383.7	423.6
EBIT	5.7	8.5	12.1
Net profit	4.8	7.2	10.3
EBIT margin	1.6%	2.2%	2.8%
net profit, margin	1.4%	1.9%	2.4%

Source: DM BZWBK estimates

### Consolidation of Aptekarz

Following the merger with Hurtownia Aptekarz, PGF's share in the Polish pharmaceutical wholesale market will grow to ca. 22.5% beginning in 2008. Furthermore, PGF will strengthen its presence in south-east Poland, where it already controls 11% market share, whereas Hurtownia Aptekarz commands around 17.5%. The company will also benefit from winning an experienced workforce, particularly management and sales reps, as well as the opportunity of incorporating new pharmacies to the "Apteki DoZ" programme.

We assume that PGF has started to consolidate Aptekarz's financials starting from February 2008. Based on our estimates, the merger with Aptekarz will add to the group's top line PLN 252m, PLN 277m and PLN 284m in 2008-10E, respectively. Synergies resulting from the incorporation of Aptekarz to PGF's structures will lead to margins improvement of the former in the long-run. Overall, we expect Aptekarz to add PLN 3.0m, 3.8m and 3.9m to the group's EBIT line and PLN 2.6m, 3.2m and 3.3m to the bottom line in the 2008-2010E period, respectively.

### E-commerce activities

In response to growing popularity of online shopping, PGF has recently kicked off its own e-pharmacy named "DOZ.pl". The business model of PGF's online store is unique as patients are provided with ordered medicines in one of "Apteki DoZ"-affiliated pharmacies across the country, rather than via traditional postal delivery. Such a solution greatly shortens the waiting period for medicines and results in a significant decrease in delivery costs, which enables the company to offer products at even 30% lower prices. DOZ.pl expects to sell PLN 10m worth of drugs on-line this year, which is, however, insignificant from PGF scale's point of view, thus we did not incorporate this value into our model.

### Margins

Based on our conservative set of assumptions we assumed slow improvement of PGF's gross margin to 10.94% in 2008 from 10.51% in 2007, which will further increase to 10.97% and 11.02% in 2009-10E, respectively. Growth in PGF's gross margin is likely to come from a rising share of retail sales in the group's sales mix as well as an expanding scale of business resulting from expansion in the CEE region, which will give PGF a superior position in negotiation of discounts with producers.

With respect to the EBIT margin, following last year's fall due to the costs related to the foreign expansion and upgrade of the retail chain, we forecast a recovery in operating margins on the back of ongoing reorganization, which points to efficiency improvements and headcount reduction of 300 employees. Although we believe PGF's operating margins will converge in a LT to targeted level of Celesio (2.8%/3.0% in 2008-09E acc. to Bloomberg consensus), however as stay on the safe side we plunged slow operating profitability progression in coming years. Our estimates show the EBIT margin will increase from 2.11% in 2007 to 2.32% in 2008E (or 2.22% of one-off adjusted EBIT margin). In subsequent years we estimate that reorganization of PGF's structure after acquisitions as well as restructuring of the retail segment will bring further efficiency gains, resulting in EBIT margin improvement to 2.31% and 2.45% in 2009-2010E (or 2.33% and 2.47% of EBIT margin adj. for costs of the motivational scheme), respectively.

PGF's high indebtedness (net debt/EBITDA at 4.0 as of 2007) along with a rising interest rates in Poland will result in a surge in financial costs paid by PGF. We estimate these at PLN 21.3m, PLN 23.1m and 24.6 in 2008-2010E, respectively. This along with higher minority interests will bring the net margin down to 1.49% and 1.46% in 2008-2009E, respectively. We assumed net margin recovery as of 2010E on the back of lower interests of minority shareholders (the buyout of minority shareholder stakes in Aptekarz and in UAB Nacionaline planned to be carried out in 2009-2010E).

**Fig. 10. PGF's margins breakdown in 2006-2010E**

In %	2006	2007	2008E	2009E	2010E
Gross profit margin	10.49%	10.51%	10.94%	10.97%	11.02%
EBIT margin	2.17%	2.11%	2.32%	2.31%	2.45%
EBIT margin, adj	2.17%	2.11%	2.22%	2.33%	2.47%
Net margin	1.56%	1.69%	1.49%	1.46%	1.60%
Net margin, adj	1.25%	1.10%	1.38%	1.48%	1.62%

Source: Company data, DM BZ WBK estimates, adjusted for sale of real estates and sale-lease-back

## CAPEX

Our CAPEX estimates for PGF include:

- acquisition-related CAPEX

We assumed that PGF will be adding 200 new pharmacies to its "Apteki DoZ" branded pharmacy chain annually in 2008-2010E, of which only one-third (67 annually) will be acquired by PGF, while the others will be only cooperating with PGF within its loyalty program. Assuming the average price of a pharmacy at PLN 700k, the average cost of a pharmacy revamp at PLN 150k and the fact that PGF is to incur expenses only for modernization of self-owned pharmacies, we estimate CAPEX related to development of the "Apteki DoZ" branded pharmacy chain in 2008-2010E at PLN 57m annually. After a dynamic period of PGF's self-owned pharmacy chain growth, we expect the company will be adding 3 of its own pharmacies annually indefinitely, which implies CAPEX at PLN 2.8m a year.

- CAPEX for minority shareholder buyouts

Since PGF has recently announced the official plan for the Aptekarz minority shareholders buyout (37.7% stake) pointing at PLN 44.8m, PLN 3.0m and PLN 0.2m to be spent in 2009-2011E, respectively, we introduced these numbers to our CAPEX estimates for this period. Furthermore, we assumed PLN 59.7m to be spent for UAB Nacionaline minorities buyout in 2010E. We also incorporated PLN 36.4m, which PGF has already spent on the purchase of a 43.3% stake in Cefarm-Krakow from the government.

- maintenance CAPEX

We assumed maintenance CAPEX of PLN 30.6m in 2008-2010E, while thereafter we assume 0.95% of annual sales.

To conclude, we present our expected CAPEX in the table below:

**Fig. 11. PGF's CAPEX in 2008-2012E***In PLN millions, unless otherwise stated*

	2008E	2009E	2010E	2011E	2012E
pharmacy acquisitions and modernizations	56.7	56.7	56.7	2.8	2.8
minorities "Aptekarz"	0.0	44.8	3.0	0.2	0.0
minorities UAB Nacionaline	0.0	0.0	59.7	0.0	0.0
minorities Cefarm Krakow	36.4	0.0	0.0	0.0	0.0
Maintenance CAPEX	30.6	30.6	30.6	58.1	59.0
<b>CAPEX</b>	<b>123.6</b>	<b>132.0</b>	<b>149.9</b>	<b>61.2</b>	<b>61.9</b>

*Source: DM BZ WBK estimates*

## Buyback

An AGM held on June 19 approved a share buyback plan worth up to PLN 49m, which will be conducted between 25 June 2008 and 31 May 2009 and represents up to 10% of PGF shares (7% at current price levels of PLN 54). The buy-out price can vary within a price band of PLN 38-130. If the buy-back funds are not completely utilized, the remaining sum will be set aside toward future dividend payouts. PGF decided not to pay out a dividend this year.

## Share dilution

We conservatively included all shares stemming from a stock option scheme (434,000 shares in total) in PGF's 2008E weighted average number of shares. Furthermore, we assessed the share buy back program's impact on PGF's 2008E weighted average number of shares at 202,940 share in 2008E, assuming that the average pace of share buyback per trading session will remain stable till the end of the year. We expect PGF will utilize all funds by 31 May 2009 and buy back as many as 821,426 shares (assuming the current price level of PLN 57.9 as of Jul 21) in 2009E. The combined effect of PGF's share buyback and management stock option scheme on the company's average weighted number of shares and EPS is presented in the table below:

**Fig. 12. PGF's number of shares in 2007-2010E**

	2007	2008E	2009E	2010E
no. of shs (eop)	12,588,240	12,819,300	11,997,874	11,997,874
no. of shs (avg.)	12,519,604	12,971,505	12,340,135	11,997,874
buy back impact (-)	0	202,940	821,426	0
mgmt. stock option scheme (+)	0	434,000	0	0
EPS	5.94	6.10	6.50	7.50
EPS adj.	3.87	5.48	6.68	7.92

*Source: Company data, DM BZ WBK estimates, adjusted for sale of real estates, sale-lease-back, buy-back program and potential dilution from mgmt. stock option scheme*

## Working capital

Independent pharmacies tends to buy too many medicines in order to receive bulk buying discounts granted by producers. As a result they often are overloaded with inventories, which in fact unnecessarily consumes too much working capital. As PGF will include acquired pharmacies to its central office responsible for group drug purchases, we expect some efficiency gains in this field. Consistent with that, we incorporated an improvement in inventory turnover ratio from 53 days in 2007 to 52 and 50 days of in 2008-2009E, respectively. When it comes to receivables and payables turnover ratios, we do not expect any major developments, thus we have applied the past year's scheme.

**Fig. 13. Working capital assumption***In PLN millions, unless otherwise stated*

	2007	2008E	2009E	2010E
Inventories	598	652	678	714
turnover ratio (days)	53	52	50	50
Receivables	521	576	623	657
turnover ratio (days)	41	41	41	41
other operating current assets	49	57	61	65
Payables	854	997	1,078	1,136
turnover ratio (days)	71	71	71	71
other NIBCLs	79	92	100	105
<b>Working Capital</b>	<b>235</b>	<b>196</b>	<b>185</b>	<b>194</b>
Change in WC	n.a.	-39	-11	10

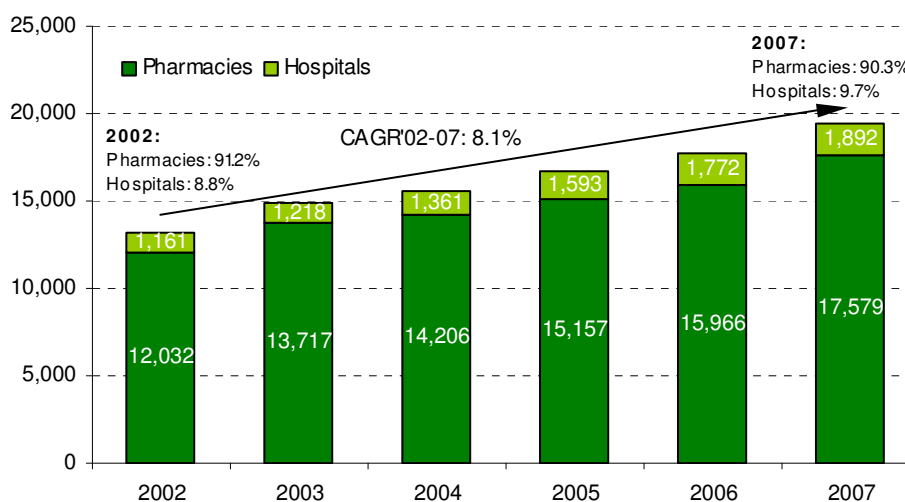
*Source: Company data, DM BZ WBK estimates*

## Market Overview

### Wholesale market

Valued at PLN 19.7bn, the Polish wholesale pharmaceutical market is the sixth largest in Europe. It experienced a period of dynamic growth at a CAGR of 8.1% between 2002-2007 driven mainly by i) rising wealth per capita, ii) increasing health care awareness, iii) greater medication availability and iv) growing popularity of modern and expensive therapies of chronic illness. The wholesale market is divided into pharmacy and hospital segments, which accounted for 90.3% and 9.7% market shares, respectively. Based on wholesalers' estimates, the market value is set to grow at 6-8% in 2008 largely on further advances in disposable incomes in Poland resulting in growing sales of OTC drugs. Taking into account that the value of the pharmaceutical market (in producer prices) is up 9.5% y/y (sales to pharmacies – 9.2% y/y, sales to hospitals – 12.9% y/y) in the January to May period, this number looks conservative, and the annual growth is likely to surpass wholesalers' estimations.

**Fig. 14. Pharmaceuticals wholesale market in Poland**  
PLN in millions, unless otherwise stated



Source: IMS Health, PGF, DM BZWBK estimates

Historically the Polish pharmaceutical wholesale market has been fragmented, with many small and medium size companies operating locally. This competitive landscape led to backward consolidation, as only a large and modern organization with nationwide coverage was able to deliver top market services, a crucial factor in the drug wholesale business. The M&A activities continued over the last few years and currently the 10 largest players control over 85% of the Polish wholesale trade in pharmaceuticals compared to 1997 where 26 wholesalers held only ca. 50% market share. With respect to the market structure, dominance on the Polish pharmaceutical distribution market was garnered by PGF, which, thanks to successful acquisitions, now controls around 22% market share and is followed by Torfarm (21% market share) and Farmacol (18% market share).

The consolidation of the Polish wholesale market continues unabated, with acquisitions seen as one of the most effective ways to achieve scale of operations, which, therefore, results in higher potential discounts received from producers. In our view, ultimately there will be three main players controlling the majority of the Polish market. Furthermore, with backward consolidation going ahead, foreign players can be

expected to make more aggressive efforts to the domestic pharmaceutical market since they are interested only in large vertically integrated companies with a dominant market position.

Fig. 15. Evolution of 10 largest players market share

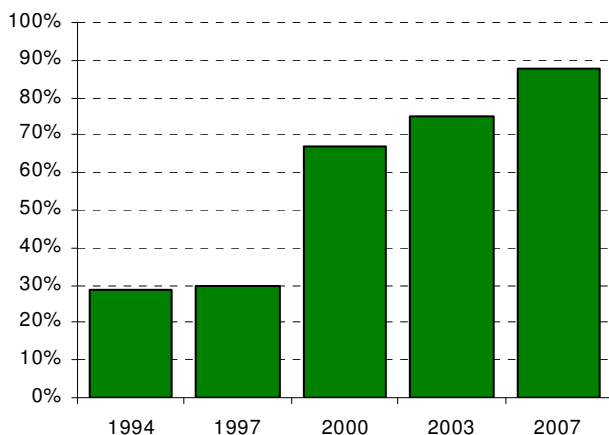
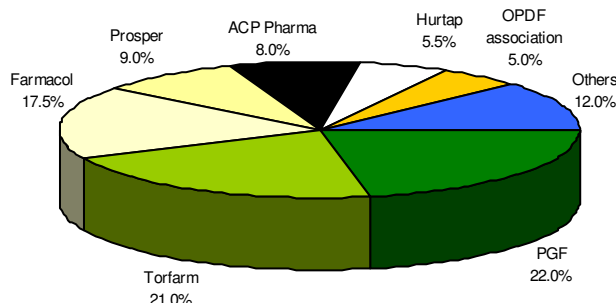


Fig. 16. Breakdown of Polish wholesale market



Source: IMS Health, incl, acquisition of Aptekarz, Multi Pharme and Panaceum Source: PMR, Parkiet

### Hospital market

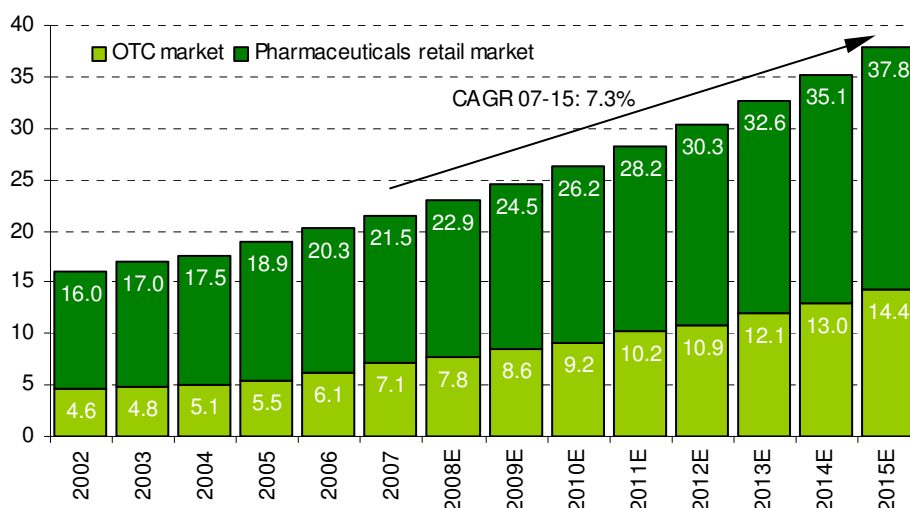
Poland's hospital market is seen as the most risky one for wholesalers due to poor financial condition of the public healthcare system. The hospital market has grown at 2002-07 CAGR of 10% due to a rising share of modern, thus more expensive, therapies. The future of this segment will largely be determined by National Health Fund policy regarding public health financing as well as a rapidly expanding non-public healthcare system. With respect to the latter, private healthcare expenditures increased by 13% to PLN 23bn in 2007 largely on growing number of subscriptions sold by medical companies and private health insurance. According to PMR, a pharmaceutical market monitoring agency, medical subscriptions and health insurance will continue being major drivers of the future private healthcare market, and thus the hospital market as well, since their popularity among Poles will continue to rise in the 2008-2010 period.

### Retail market

In recent years the pharmaceutical retail market has been growing slower than the wholesale market largely due to growing competition between pharmacies, resulting in lower prices of pharmaceuticals. In the period of 2002-2007 the growth rate for the Polish drug trade in retail channels settled at 6.1% on average. Retail sales of pharmaceuticals is divided into OTC drugs, full-price prescribed drugs and reimbursement drug segments, which accounted for 33%, 20% and 50% share in the market, respectively, in 2007. The Polish pharmaceuticals retail market is expected to rise at a CAGR 2007-15E of 7.3% and reach PLN 37.8bn by the end of 2009. This market development will largely come from a projected strong expansion of the OTC drug market, which is expected to rise at a CAGR 2007-15E of 9.2% in the forecasted period. Taking into consideration that the value of the Polish pharmaceutical retail market is up by 13.3% y/y in the January to May period, it is likely that this year the growth rate will turn out better than assumed in long-term projections.

**Fig. 17. Pharmaceuticals retail market in Poland**

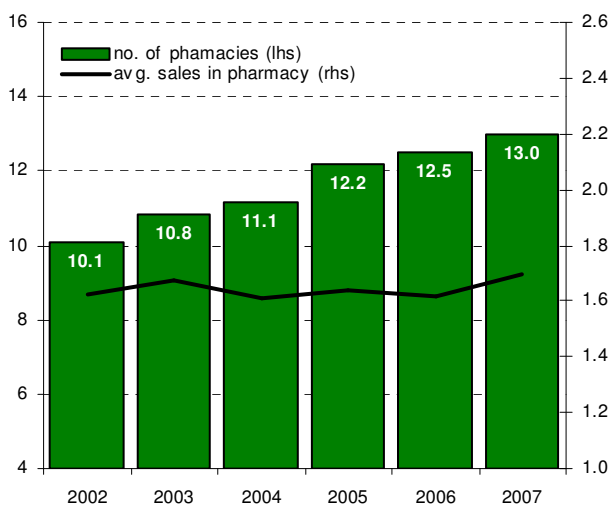
PLN in millions, unless otherwise stated



Source: Company data, Roland Berger Strategy Consultants

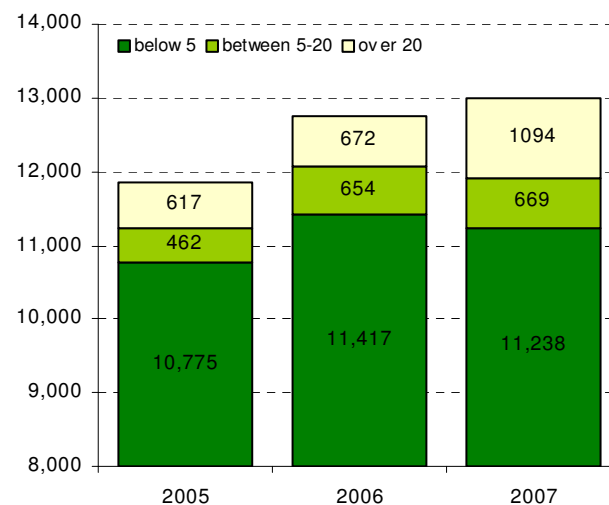
These are around 13k pharmacies operating on the Polish retail market. Given the fact that there are around ca. 3,000 inhabitants per pharmacy in Poland (compared to EU standards of 3,300 inhabitants per pharmacy), the domestic pharmaceutical market seems to be saturated. Thus, we think that the number of pharmacies will remain flat in coming years. The retail market is still very fragmented with a small number of independent pharmacies belonging to larger retail chains. Retail chains consisting of more than 20 pharmacies accounted for only 8.5% market share, while drugstore chains consisting of less than 5 outlets account for approximately an 86% share. On the other hand, saturation of the pharmaceutical retail market resulting in fierce competition between drugstores along with rising operational costs (labor costs, lease rents, financing costs) has led to horizontal consolidation. Consequently, the number of pharmacies grouped in retail chains consisting of over 5 outlets has been growing at a CAGR of 28% over the last two years. This tendency is likely to continue as deteriorating fundamentals will induce independent pharmacies to look for additional savings resulting from cooperation in a larger retail chain.

**Fig. 18. Number of pharmacies vs. avg. sales per unit**



Source: IMS Health, DM BZ WBK estimates

**Fig. 19. Pharmacy chains in Poland in 2007**



Source: IMS Health

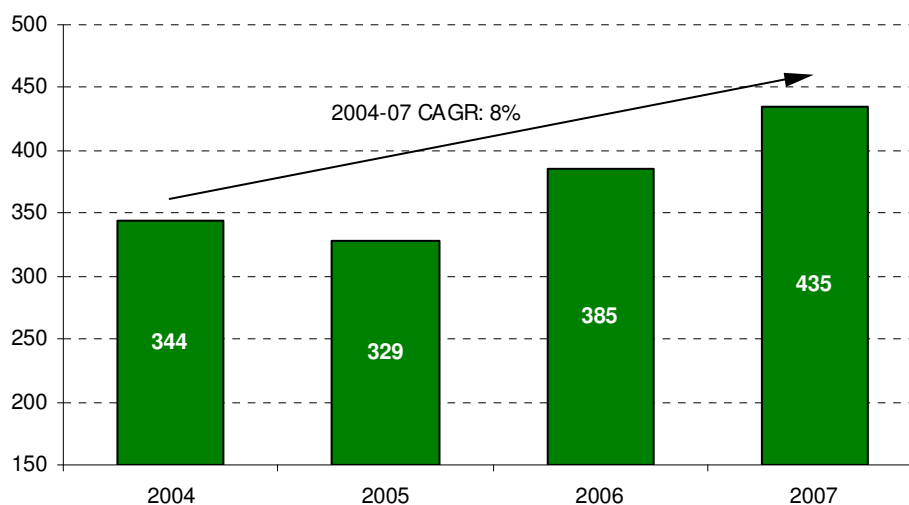
Furthermore, the aforementioned intense competition between pharmacies will cause many of them to look for additional marketing and sales support. As a result, loyalty programs established by major wholesalers will be gaining in popularity. Currently about 30% of pharmacies have declared their affiliation with such programs as of 2007 and this share is likely to increase in coming years.

### Lithuanian market

Rising consumer and public spending on health, a low share of cheap generics in drug consumption as well as growing popularity of modern therapies were the major driving forces behind Lithuania's market growth, which advanced at a 2004-07 CAGR of 8%. The drug consumption in Lithuania settled at EUR 110 per capita and was much lower than that of the EU. In line with US Pharmacia estimates, a pharmaceutical market research agency, the Lithuanian pharmaceutical market is slated to increase at an annual average rate of 10% in the 2007-2010 period. An aging population, rising consumer and public spending on drugs, low taxes (5% VAT for drugs compared to 18% VAT in Lithuania), growing prices of reimbursable and OTC drugs as well as limitations imposed on drug imports from former Soviet Union (FSU) countries are expected to be major driving forces of Lithuanian pharmaceutical growth.

**Fig. 20. Pharmaceutical market in Lithuania (in producer net prices)**

*In EUR millions, unless otherwise stated*



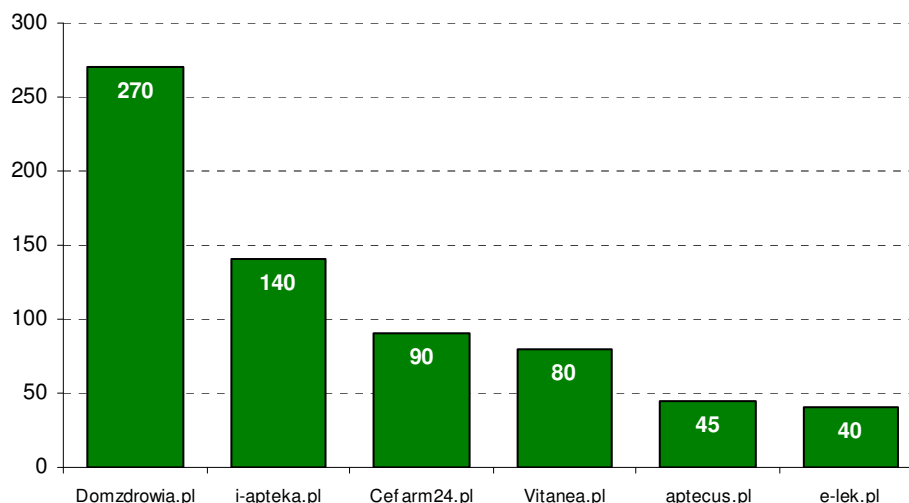
*Source: IMS Health*

### Online medicine sales

In line with its earlier declaration, the Health Ministry allowed online trading in medicines. Under the new law, an e-pharmacy can sell drugs online, but is required to meet several terms and conditions regarding drug transportation, employee educational background as well as time of store working hours (it is to be open at least two hours after delivery hours).

At this time there are around 200 e-pharmacies in Poland. Roughly 10% of internet users declared medicine purchases in an e-pharmacy. With 270k users, Domzdrowia.pl is the largest online pharmacy, followed by i-apteka.pl (140k) and Cefarm24.pl (90k).

**Fig. 21. Number of e-pharmacy users**  
In thousands



Source: Domzdrowia.pl, Megapanel Gemius, Google Analytics

The value of online pharmaceuticals and cosmetics sales came to PLN 65m in 2007, of which PLN 43m could be attributed to pharmaceuticals alone. These numbers do not look appealing when compared to the EU, where the biggest European e-pharmacy DocMorris reported sales of EUR170m in 2006. On the other hand, Polish online drug sales offer higher growth opportunities and are estimated to reach PLN 250m over the next five years. Relative inexpensiveness (15-20% lower prices) of drugs sold online vs. these sold in traditional stores and the introduction of electronic prescriptions boosting online prescribed medicines sales will be the main forces influencing dynamic market development.

### Risk factors influencing pharmaceutical market in Poland

In our view, further dynamic growth of the Polish pharmaceutical market may be adversely affected by several factors, among them: 1) further changes in the reimbursement list aimed at lowering pharmaceutical prices, 2) growing popularity of cheaper generics usage at the expense of innovative drugs, 3) continuous development of parallel imports of less expensive drugs from foreign wholesalers, and 4) price wars between major drug producers resulting in continually decreasing average prices per dose.

An additional unfavorable factor influencing the pharmaceutical market value in the long run might be the fact that drug producers are likely to further focus on implementing the Direct To Pharmacy distribution model in order to prevent still intensifying parallel importation of cheaper drugs from Western countries. As in the DTP model, the role of the wholesaler is reduced to logistical operator only, which is paid a commission, and the final price of medicines is likely to be lower compared to the current distribution model, where the wholesaler buys drugs from the producer and sells them to pharmacies, taking in a wholesale margin.

## Financial statements and forecasts

Fig. 22. PGF: Income statement forecasts  
PLN in millions, unless otherwise stated

	2006	2007	2008E	2009E	2010E
<b>Net sales</b>	<b>4,008</b>	<b>4,411</b>	<b>5,142</b>	<b>5,559</b>	<b>5,861</b>
COGS	3,587	3,947	4,580	4,949	5,215
depreciation	21	21	28	36	44
<b>Gross profit</b>	<b>420</b>	<b>464</b>	<b>562</b>	<b>610</b>	<b>646</b>
SG&A	346	397	450	480	502
Other operating income, net	13	27	7	-1	-1
<b>EBITDA</b>	<b>108</b>	<b>114</b>	<b>148</b>	<b>164</b>	<b>187</b>
<b>Operating profit</b>	<b>87</b>	<b>93</b>	<b>119</b>	<b>128</b>	<b>143</b>
Net financial costs (income)	6	3	21	23	25
<b>Profit on ordinary activities</b>	<b>81</b>	<b>90</b>	<b>98</b>	<b>105</b>	<b>119</b>
Extraordinary gains, net	0	0	0	0	0
Goodwill amortisation, net	0	0	0	0	0
<b>Profit before tax</b>	<b>81</b>	<b>90</b>	<b>98</b>	<b>105</b>	<b>119</b>
Income tax	18	16	19	20	23
Income from associates	0	0	0	0	0
Minority interest	0	-1	-3	-4	-2
<b>Net profit</b>	<b>63</b>	<b>74</b>	<b>76</b>	<b>81</b>	<b>94</b>
<b>Net profit adjusted</b>	<b>50</b>	<b>48</b>	<b>71</b>	<b>82</b>	<b>95</b>
Gross margin	10.5%	10.5%	10.9%	11.0%	11.0%
EBITDA margin	2.7%	2.6%	2.9%	3.0%	3.2%
Operating margin	2.2%	2.1%	2.3%	2.3%	2.4%
Pretax margin	2.0%	2.0%	1.9%	1.9%	2.0%
Tax rate	22.5%	18.1%	19.0%	19.0%	19.0%
Net margin	1.6%	1.7%	1.5%	1.5%	1.6%
Net margin adjusted	1.2%	1.1%	1.4%	1.5%	1.6%
Sales growth	3.0%	10.1%	16.6%	8.1%	5.4%
Gross profit growth	12.8%	10.3%	21.3%	8.4%	5.9%
EBITDA growth	17.1%	4.9%	29.9%	11.3%	13.8%
Operating profit growth	15.2%	6.9%	28.4%	7.6%	11.6%
Pretax profit growth	12.5%	10.7%	9.1%	7.5%	12.7%
Net profit growth	18.8%	19.0%	2.7%	6.5%	15.4%

Source: Company data, DM BZ WBK estimates, adjusted for sale of real estates, sale-lease-back and costs of mgmt. stock option scheme

Fig. 23. PGF: Balance sheet forecasts

PLN in millions, unless otherwise stated

	2006	2007	2008E	2009E	2010E
<b>Current assets</b>	<b>1,135</b>	<b>1,392</b>	<b>1,503</b>	<b>1,550</b>	<b>1,572</b>
cash and equivalents	52	116	117	91	42
other short term investments	64	152	152	152	152
accounts receivable	467	521	576	623	657
inventories	549	598	652	678	714
prepaid expenses	3	5	5	6	6
<b>Fixed assets</b>	<b>347</b>	<b>603</b>	<b>739</b>	<b>835</b>	<b>942</b>
PPE	148	180	246	301	348
long-term investments	13	19	19	19	19
intangibles	29	27	60	57	53
goodwill	156	377	413	458	521
long-term receivables	1	0	0	0	0
Long-term deferred charges	9	17	19	21	22
<b>Total assets</b>	<b>1,490</b>	<b>2,012</b>	<b>2,262</b>	<b>2,406</b>	<b>2,536</b>
<b>Current liabilities</b>	<b>1,029</b>	<b>972</b>	<b>1,163</b>	<b>1,250</b>	<b>1,313</b>
bank debt	166	51	87	87	87
accounts payable	856	854	997	1,078	1,136
other current liabilities	7	67	78	85	89
Deferred income	9	12	14	15	16
<b>Long-term liabilities</b>	<b>134</b>	<b>591</b>	<b>605</b>	<b>605</b>	<b>605</b>
bank debt	132	520	534	534	534
other long-term liabilities	1	71	71	71	71
Provisions	27	30	35	37	39
<b>Equity</b>	<b>247</b>	<b>286</b>	<b>322</b>	<b>372</b>	<b>433</b>
share capital	26	26	25	24	23
capital reserves	234	273	307	353	402
other reserve capital	-75	-86	-86	-86	-86
net income	63	74	76	81	94
<b>Minority Interest</b>	<b>45</b>	<b>120</b>	<b>123</b>	<b>127</b>	<b>130</b>
<b>Total liabilities and equity</b>	<b>1,490</b>	<b>2,012</b>	<b>2,262</b>	<b>2,406</b>	<b>2,536</b>

Source: Company data, DM BZ WBK estimates

Fig. 24. PGF: Cash flow statement forecasts

PLN in millions, unless otherwise stated

	2006	2007	2008E	2009E	2010E
<b>Cash flow from operations</b>	<b>90</b>	<b>-95</b>	<b>144</b>	<b>129</b>	<b>128</b>
Net profit	63	74	76	81	94
Provisions	1	2	5	3	2
Depreciation and amortization	21	21	28	36	44
Changes in WC, o/w	3	-105	33	9	-12
inventories	-47	-49	-55	-26	-36
receivables	-36	-54	-55	-47	-34
payables	86	-2	143	81	59
Other, net	1	-87	1	1	1
<b>Cash flow from investment</b>	<b>26</b>	<b>-155</b>	<b>-156</b>	<b>-127</b>	<b>-146</b>
Additions to PPE and intangibles	44	-50	-128	-87	-87
Change in long-term investments	26	-6	0	0	0
Other, net	-44	-99	-28	-40	-59
<b>Cash flow from financing</b>	<b>-102</b>	<b>314</b>	<b>12</b>	<b>-28</b>	<b>-31</b>
Change in long-term borrowing	-153	388	14	0	0
Change in short-term borrowing	79	-115	36	0	0
Change in equity and profit distribution	1	5	0	-1	-1
Dividends paid	-30	-39	-40	-31	-33
Other, net	0	76	3	4	2
<b>Net change in cash and equivalents</b>	<b>14</b>	<b>64</b>	<b>1</b>	<b>-26</b>	<b>-49</b>

Source: Company data, DM BZ WBK estimates

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- 1) discounted cash flows ("DCF"); and
- 2) comparative.

The DCF valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching the Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.

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Explanations of special terminology used in the recommendation:

EBIT – earnings before interest and tax  
 EBITDA – earnings before interest, taxes, depreciation, and amortization  
 P/E – price-earnings ratio  
 EV – enterprise value (market capitalisation plus net debt)  
 PEG - P/E to growth ratio  
 EPS - earnings per share  
 CPI – consumer price index  
 WACC - weighted average cost of capital  
 CAGR – cumulative average annual growth  
 P/CE – price to cash earnings (net profit plus depreciation and amortisation) ratio  
 NOPAT – net operational profit after taxation  
 FCF - free cash flows  
 BV – book value  
 ROE – return on equity

Recommendation definitions:

Overweight - indicates a stock's total return to exceed WIG20 index return by more than 5% over the next twelve months.

Neutral - indicates a stock's total return to be in line with WIG20 index return (+/- 5%) over the next twelve months.

Underweight - indicates a stock's total return to underperform WIG20 index return by more than 5% over the next twelve months.

Over the last three months Dom Maklerski BZ WBK S.A. issued 1 Overweight recommendation, 0 Neutral recommendation and 1 Underweight recommendation.

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Dom Maklerski BZ WBK S.A. acts as issuer's market maker for the shares of the Issuer on principles specified in the Regulations of the Warsaw Stock Exchange.

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