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# Pora Na Pola S.A.

## Valuation range: PLN 100 – 190 per share

### Company overview

Pora na Pola is an online natural food retailer that delivers fresh and carefully selected products from over 100 food manufacturers to e-customers all over Poland. In 2021, the company fulfilled c.12,000 orders of over 186,000 products. The firm is focused on local farms and small workshops, providing ecological, craft food products.

### Investment case

The key investment rationale include: (i) Rapid growth of e-commerce grocery segment, (ii) Strong prospects of eco food market in Poland, (iii) Asset light business model with high operating leverage and negative working capital, (iii) Expected fixed cost dilution in light of scaling up the business, (iv) High potential of new subscription model, based on newly developed algorithm, which may heavily improve customer retention.

### Market prospects

According to PwC market report, **Polish e-commerce food/grocery market may reach average annual growth of 28.7% over 2020-25** period and gain market value of PLN 18bn, outpacing growth of all other product categories. Polish eco food market has also strong growth prospects, given 8x smaller share in total grocery market comparing with Western Europe and EU perspective assuming 25% share of ecological plantations vs. 3.5% currently in Poland.

### Financial forecasts

Pora Na Pola expects to deliver **strong sales growth over 2020-25, of 123% average annually**, driven by: (i) improved customer convenience, coming from introduction of express, daily delivery, (ii) introduction of new subscription model, (iii) launch of new logistics hub that will allow rollout to new city, (iv) introduction of B2B model. EBITDA is expected to turn positive in 2024 and reach target profitability of 6.5% in 2025, implying target 2025 EBITDA of PLN 4.8m. Margin improvement will be driven by: (i) strong dilution of fixed costs with growing scale of business, as well as (ii) introduction of new algorithm for forecasting customer demand, that should optimize inventory management and logistics cost.

### Valuation range

The **value of Pora na Pola shares as of end-2021 is estimated in a range of PLN 100 to PLN 190** per share, which is based on a range between DCF valuation and mid-point of exit multiple valuation. Total equity valuation ranges from PLN 19.3m to PLN 36.6m.

### DCF Valuation

The DCF model has been created based on expectations of the management for 2021-25. DCF valuation (FCFF) is based on methodology developed by A. Damodaran, while WACC calculation has been based on A. Damodaran estimates for Polish market and European online retail peers. The DCF valuation is conservatively adjusted to reflect a small, private enterprise, through: (i) additional size premium applied to WACC, and (ii) 20% illiquidity discount applied directly to implied equity value.

### Exit multiple valuation

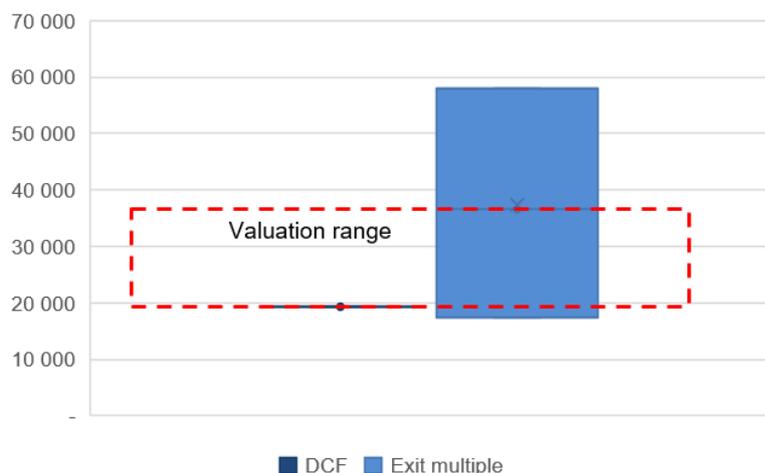
Exit multiple valuation has been based on estimates for 2023-2025 results and multiples of recent public transactions in the region in e-commerce companies selling goods. It reflects present value of potential at the exit of an investment in coming years. Due to expected superior results growth against peers, as well as negative EBITDA forecasted in coming years, applying classic comparable transaction approach would not reflect the real value of the business.

### Comparable transactions

The median EV/Sales multiple for comparable transactions in **wide ecommerce group stands at 1.2x, while EV/EBITDA at 11.3x**. Taking into account only a narrow group of e-grocery companies in the region (Frisco, Velka Pecka, Ocado), the **average EV/Sales amounts 1.9x, while EV/EBITDA 53x**, serving as a good cap for potential valuation in coming years, when Pora na Pola growth will become closer to peer group average (Pora na Pola expects 2022 sales to double, while e-grocery peers have recently reported average growth of 70% (data for 2020).

Financial Highlights	Unit	2020	2021F	2022F	2023F	2024F	2025F
Revenue	PLN k	2 504	3 000	8 800	18 100	38 000	74 000
<i>growth yoy</i>	%	<i>n/a</i>	19.8%	193.3%	105.7%	109.9%	94.7%
EBITDA	PLN k	(454)	(1 050)	(1 100)	(700)	1 000	4 800
<i>margin</i>	%	-18.1%	-35.0%	-12.5%	-3.9%	2.6%	6.5%

## Valuation overview



### DCF Valuation

DCF valuation is based on discounted free cash flows to firm (FCFF). The valuation model is divided into three stages: (i) rapid growth over 2021-25, (ii) stabilization in 2026, and (iii) terminal growth stage based on stabilised 2026 results. The terminal value is based on FCFF perpetual growth model. The three-stage model reflects best Pora na Pola's early stage of development, as well as strong market growth potential over coming years. Due to the fact, that Pora na Pola is a private company, the equity value is reduced by a liquidity discount of 20%, based on A. Damodaran research.

### DCF Valuation

	20	21F	22F	23F	24F	25F	26F
Sales	2 504	3 000	8 800	18 100	38 000	74 000	75 850
<i>growth yoy</i>		19.8 %	193.3 %	105.7 %	109.9 %	94.7 %	2.5 %
EBITDA	(454)	(1 050)	(1 100)	(700)	1 000	4 800	4 920
<i>margin</i>	(18.1)%	(35.0)%	(12.5)%	(3.9)%	2.6 %	6.5 %	6.5 %
Depreciation		(126)	(179)	(286)	(366)	(446)	(499)
EBIT	PLN k	(1 176)	(1 279)	(986)	634	4 354	4 421
Corporate tax rate	PLN k	19%	19%	19%	19%	19%	19%
<b>NOPAT</b>	<b>PLN k</b>	<b>(953)</b>	<b>(1 036)</b>	<b>(799)</b>	<b>514</b>	<b>3 527</b>	<b>3 581</b>
(+) Depreciation	PLN k	126	179	286	366	446	499
(-) Increase in working capital	PLN k	(15)	(320)	(546)	(1 184)	(1 913)	(104)
(-) Capex	PLN k	1 800	800	1 600	1 200	1 200	800
<b>FCFF</b>	<b>PLN k</b>	<b>(2 612)</b>	<b>(1 337)</b>	<b>(1 567)</b>	<b>863</b>	<b>4 686</b>	<b>3 384</b>
WACC	%						
Discount factor	PLN k	1.00	0.90	0.81	0.73	0.65	0.59
<b>Present value of FCFF</b>	<b>PLN k</b>	<b>(2 612)</b>	<b>(1 203)</b>	<b>(1 268)</b>	<b>629</b>	<b>3 069</b>	<b>1 994</b>
Discounted FCFF	PLN k	609					
Discounted terminal value	PLN k	23 602					
<b>Enterprise value</b>	<b>PLN k</b>	<b>24 211</b>					
(-) Net debt (incl. factoring)	PLN k	30					
<b>Equity value, non-adjusted</b>	<b>PLN k</b>	<b>24 181</b>					
Liquidity discount	%	20.0%					
<b>Equity value, adjusted</b>	<b>PLN k</b>	<b>19 345</b>					

### Terminal value

	Unit	Value	Calculation
Last year FCFF	PLN k	3 384	a
Terminal growth rate	% p.a.	2.5%	b
<b>Terminal FCFF</b>	<b>PLN k</b>	<b>3 469</b>	<b>a x (1 + b)</b>
WACC	%	11.16%	d
Terminal growth rate	% p.a.	2.50%	e
<b>Terminal value</b>	<b>PLN k</b>	<b>40 058</b>	<b>a x (1 + b) / (d - e)</b>

Weighted Average Cost of Capital (WACC) is based on A. Damodaran Capital Asset Pricing Model (CAPM) methodology. The risk-free rate is calculated as a bond yield for the currency (PLN) reduced by a 10-year CDS spread between Poland and AAA rated (i.e. risk free) country (Germany). The risk premium for developed market is based on implied risk premium estimated by A. Damodaran each year (based on US market). The unlevered beta is based on European online retail peers, based on A.

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Damodaran calculation. Further to standard CAPM, there are two risk premium added to cost of equity: (i) size premium of 2.8%, for small companies (based on Ibbotson estimates), as well as (ii) country risk premium, based on CDS spread between Poland and Germany. The cost of debt is based on average for non-investment grade companies, based on A. Damodaran data.

### Weighted Average Cost of Capital (WACC)

	Unit	Value	Calculation
<b>Risk-free rate</b>			
Poland bond yield	% p.a.	3.5%	a
Poland CDS spread	% p.a.	0.6%	b
<b>Poland risk-free rate</b>	<b>% p.a.</b>	<b>2.9%</b>	<b>a - b</b>
<b>Cost of Equity</b>			
Poland risk-free rate	% p.a.	2.9%	a
Risk premium, dev market	% p.a.	4.9%	b
Beta, unlevered	x	1.1x	c
Beta, levered	x	1.6x	d
Size premium	% p.a.	2.8%	e
Country risk premium, equity	% p.a.	0.7%	f
<b>Cost of Equity</b>	<b>% p.a.</b>	<b>14.5%</b>	<b>a + b x d + e + f</b>
<b>Cost of Debt</b>			
Poland risk-free rate	% p.a.	2.9%	a
Country risk premium, debt	% p.a.	0.6%	b
Debt margin	% p.a.	4.0%	c
Corporate tax rate	%	19.0%	d
<b>After tax cost of debt</b>	<b>% p.a.</b>	<b>6.1%</b>	<b>( a + b + c ) x ( 1 - d )</b>
Share of debt	%	39.4%	
<b>WACC</b>	<b>%</b>	<b>11.2%</b>	

### Exit multiple valuation

Exit multiple valuation has been based on recent public transactions in e-commerce / e-grocery markets from Europe.

There are two different transaction multiples used for valuation: (i) EV/Sales, and (ii) EV/EBITDA. The final valuation is based on weighted average enterprise value implied from those two multiples.

Multiples are based on historical results of target companies and applied towards 2025 estimated results of Pora na Pola. The company will experience a strong growth in coming years, heavily exceeding growth of peer transaction companies. Therefore the average transaction multiples are applied to targeted future results, reflecting potential exit valuations, and then discounted to present value using WACC.

### Exit Multiple Valuation

		23F	24F	25F
EV/Sales	x	1.20x	1.20x	1.20x
Sales	PLN k	18 100	38 000	74 000
<b>Enterprise future value based on Sales</b>	<b>PLN k</b>	<b>21 660</b>	<b>45 474</b>	<b>88 555</b>
Discount factor	%	80.9 %	72.8 %	65.5 %
<b>Enterprise value based on Sales</b>	<b>PLN k</b>	<b>17 529</b>	<b>33 107</b>	<b>58 000</b>
Net debt, last reported	PLN k	30	30	30
<b>Equity value based on Sales</b>	<b>PLN k</b>	<b>17 500</b>	<b>33 078</b>	<b>57 970</b>
<b>Equity value based on Sales, average</b>	<b>PLN k</b>		<b>36 183</b>	
EV/EBITDA	x			11.76x
EBITDA	PLN k			4 800
<b>Enterprise future value based on EBITDA</b>	<b>PLN k</b>			<b>56 434</b>
Discount factor	%			65.5 %
<b>Enterprise value based on EBITDA</b>	<b>PLN k</b>			<b>36 962</b>
Net debt, last reported	PLN k			30
<b>Equity value based on EBITDA</b>	<b>PLN k</b>			<b>36 932</b>
<b>Equity value based on EBITDA, average</b>	<b>PLN k</b>		<b>36 932</b>	
		<b>Min</b>	<b>Mid</b>	<b>Max</b>
<b>Exit Multiple Valuation range</b>		<b>17 500</b>	<b>36 557</b>	<b>57 970</b>

## Comparable transactions

Announced Date	Completed Date	Target Company	Bidder Company	Seller Company	Revenue multiple	EBITDA multiple	Enterprise Value	Revenue	EBITDA
02/03/2021	02/03/2021	Velka Pecka s.r.o.	Partech Partners SAS		1.66		498	300	-
17/05/2018	29/05/2018	Ocado Group Plc	The Kroger Co.		2.81	58.23	4 671	1 663	80
23/12/2019	25/06/2020	Frisco S.A.	Eurocash S.A.	MCI Capital S.A. Sportmanship Invest AB ; Fidelio Capital AB	1.22	39.92	276	226	7
01/10/2019	01/10/2019	NN.07 ApS	Litorina Capital Advisors AB		2.22	16.26	67	30	4
13/04/2021	03/06/2021	CentralPoint International B.V.	Dustin Group AB	Infotheek Groep B.V.	0.61	15.24	425	697	28
17/07/2018	31/08/2018	Caseking GmbH	Gilde Buy Out Partners B.V.	Equistone Partners Europe Limited	0.79	11.76	188	239	16
04/07/2019	27/11/2019	Ellos AB	FNG NV	Nordic Capital	0.92	10.82	227	247	21
11/05/2021	11/05/2021	Stronger AB (51% Stake)	Polaris Private Equity		3.31	9.89	99	30	10
04/06/2019	04/06/2019	Atlas For Men SAS	Access Capital Partners; Latour Capital FCPR	Initiative & Finance; Activa Capital SAS; Indigo Capital France SAS	0.85	8.00	160	189	20
13/02/2019	13/02/2019	Crafts Group Limited	Lion Capital LLP	BlueGem Capital Partners LLP	1.17	8.14	120	102	15
05/04/2019	05/04/2019	Nordbutiker i Sverige AB	Seafire AB		1.17	7.48	8	7	1
30/06/2021		AmicaFarmacia S.r.l.	Farmae S.p.A.	Marco Di Filippo (Private Investor)	1.42		40	28	0
				<b>Median</b>	<b>1.20</b>	<b>11.29</b>			
				<b>Average</b>	<b>1.51</b>	<b>18.57</b>			

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Maciej has spent almost 6 years working as an equity research analyst in WOOD & Company and DI Investors (DM Vestor), where he wrote more than 50 valuation reports on c. 20 different companies from various sectors. Maciej also acted as a Manager of Corporate Finance / Valuation Department in TPA Poland. Maciej is currently working for an international bank as a financial analyst and debt specialist.