

# Rainbow Tours S.A.



Price target: PLN 92.40

Initiating Coverage

Rating: BUY

**Rainbow Tours S.A. (RBW), which was founded in 1990 by its current majority shareholders, is the No 3 travel operator in Poland with a market share of c. 18%. Apart from organisation of touristic events abroad (mainly more profitable round trips), the company also owns a chain of hotels in Greece and provides brokerage related to e.g. flights, ferry and bus tickets. After difficult last three years, when COVID-19 and record-high fuel prices had a heavy impact on travel operators, we believe that RBW is back on the growth track. We expect that in the coming years the company will strongly benefit from rapidly growing incomes of Poles – also due to government’s social program 800+ - and the still low share of foreign travellers in Poland vs. other EU countries. We initiate coverage of RBW with a 12-months PT (80% DCF, 20% peer group) of PLN 92.40, which implies an upside of 32% and a BUY rating. On our estimates, the stock is trading at a P/E 2024E of 10.1x compared to a 3y average of 12.7x. The main risks, which we see, are (1) a strong increase of fuel costs, and (2) an unforeseen event e.g. another pandemic or an armed conflict in Taiwan.**

**Since 2007, when it debuted on the Warsaw Stock Exchange, Rainbow Tours has increased its revenues and net income at a CAGR of 19.7% and 18.3% respectively. In 2019, the last “normal” year, Rainbow Tours’ ROCE equalled 13.7% and was above its main listed peers. In the same year, the company’s gross margin equalled 13.7%, while in case of e.g. TUI it amounted to 7.6%. While having PLN 180.6m of net debt in the pandemic year 2020, RBW managed to reach net cash of PLN 293.9m in 9M/23. In our view, the above shows that RBW’s management team is doing an excellent job.**

**Although in 2022 the Polish travel industry reported revenues that were 2.8% above the pre-pandemic year 2019, last year marked a new record with c. 6m holiday bookings. The prospects continue to be positive due to rapidly increasing salaries and disposable incomes as well as a still low share of people who go on vacations abroad. Given a significant double-digit growth of pre-bookings for the winter season 2023/24 and for the next summer season, we expect that RBW’s top-line will grow in 2024E by 15% to PLN 3.8bn (2023E: PLN 3.3bn). However, due to increasing fuel and personnel costs we forecast a lower EBIT margin of 3.6% (2023E: 6.2%).**

in PLNm	2020	2021	2022	2023E	2024E	2025E
Net sales	434.46	1,279.42	2,393.31	3,269.40	3,760.73	4,328.43
EBITDA	-28.90	39.33	54.42	223.20	155.34	162.88
EBIT	-45.61	19.89	32.83	202.70	134.63	141.97
Net income	-42.21	17.27	21.50	156.14	100.68	106.27
EPS	-2.90	1.19	1.48	10.73	6.92	7.30
DPS	0.00	1.50	0.50	2.79	2.79	2.92
Dividend yield	0.00%	2.14%	0.71%	3.99%	3.99%	4.17%
RoE	-38.11%	17.18%	19.53%	71.71%	28.48%	25.52%
Net gearing	194.60%	25.80%	3.43%	-35.02%	-55.17%	-58.03%
EV/Sales	1.67x	0.57x	0.30x	0.22x	0.19x	0.17x
EV/EBITDA	neg	18.42x	13.32x	3.25x	4.67x	4.45x
P/E	neg	58.98x	47.39x	6.52x	10.12x	9.59x

## Company profile

Rainbow Tours is the third-largest travel operator in Poland.

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Website	www.r.pl
Sector	Travel
Country	Poland
ISIN	PLRNBWT00031
Reuters	RBW.WA
Bloomberg	RBW.PW

## Share information

Last price	70.00
No of shares (m)	14.55
Market cap. (PLNm)	1018.64
Market cap. (EURm)	235.80
52-week range	PLN 71.60 / PLN 25.90
Average volume	32,032

## Performance

4-weeks	14.38%
13-weeks	51.69%
26-weeks	79.99%
52-weeks	157.31%
YTD	18.62%

## Shareholder structure

Slawomir Wysmyk*	12.84%
NN Pension Fund	11.81%
Flyoo Sp. z o.o.*	8.80%
Elephant Rock Family Foundation*	7.49%
Aironi Quattro Family Foundation*	7.11%
Generali Pension Fund	6.93%
Esaliens TFI	6.46%
Free float	38.56%

\* Mr Wysmyk and persons behind the investment vehicles are founders of Rainbow Tours or Members of its Management/Supervisory Board

## Financial calendar

Annual Report 2023	April 19, 2024
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## Investment Case

- Rainbow Tours S.A. (RBW) is the No 3 travel company in Poland after privately-held Itaka and listed TUI. Although the company has been active on the market already for >30 years, most of its founders still control the majority of its shares. Rainbow Tours, which has a significantly better average rating on the Polish travel portal wakacje.pl than its peers (60% vs. 53% for Itaka and 47% for TUI), processes >600k bookings per year and offers travel destinations in c. 100 countries on all continents. Approx. 60% of its sales are generated in higher-margin sales channels e.g. own travel offices and online.
- Rainbow Tours' offer comprises (1) leisure & (more profitable) round trips, which the company organizes with its partners, international hotel chains and (charter) airlines (2) stays in its 4 own hotels (White Olive brand) on the Greek islands Zakynthos, Rhodes and Crete, and (3) trainings for travel pilots and brokerage related to third-party travel offers, flight, ferry and bus tickets. While (1) is by far the most important business segment for the company with a share of 98.8% in 2022, RBW's strategy foresees further investments in its own hotel chain, which generates higher margins. In particular, following the outbreak of the COVID-19 pandemic, which, like in the case of all travel operators, resulted in a significant reduction of revenues and a net loss in 2020, the management has optimized the company's organization and cost structure, paving the way for higher margins in the coming years.
- The travel market in Poland was worth a record PLN 13bn in 2022 and its prospects are excellent. The main reasons are: 1. Strongly increasing average disposable incomes of Poles, also due to government's social program 800+ 2. Still very low share of people who spend their vacations abroad (6.9%) compared to e.g. the Czech Republic (14.3%) and Germany (28.5%). Since 2013, the average salary in Poland has increased at a CAGR of 7.1% to currently PLN 8,032, while inflation has equalled 3.8% on average.
- Since its stock market debut in 2007, Rainbow Tours has increased its sales and EBIT at a CAGR of 19.7% and 18.3% respectively. Due to a stronger PLN y-o-y, lower kerosin price and excellent sales for the respective summer season for 9M/23 RBW reported revenues of PLN 2.7bn (+39.6% y-o-y), an EBIT of PLN 210.1m (+319.3%) and net income of PLN 166.4m (+329.5%). While for full-year 2023E we expect revenues of PLN 3.3bn (+36.6% y-o-y), an EBIT of PLN 202.7m (+517.5%) and net income of PLN 156.1m (+626.3%), our forecasts for 2024E equal PLN 3.8bn (+15%), PLN 134.6m (-33.6%) and PLN 100.7m (-35.5%) respectively. Although the winter 2023/24 (+41.2% y-o-y) and summer 2024 (+37.4%) bookings have been strong so far, we have conservatively assumed that higher fuel/personnel costs will weight on margins.
- We initiate coverage of Rainbow Tours S.A. with a 12-months PT (80% DCF, 20% peer group) of PLN 92.40, which implies an upside of 32% at present. We like the strong commitment of the founders, the company's industry-leading ROCE and the long-term potential of the Polish travel market. In our view, RBW, which is currently trading at an EV/EBITDA 2024E of 4.7x, will continue to pay out max. 40% of its net profit as dividends. Risks, which we see, include significantly increasing fuel costs (e.g. in-line with CO2 prices), the unpredictable geopolitical situation and the introduction of dumping prices – as was already the case in 2016-18 - by one or several competitors.

## SWOT Analysis

### Strengths

- RBW is the No 3 travel operator in Poland with a history of >30 years
- RBW's average client satisfaction is well above the two main peers
- Long-term partnerships with hotel chains, airlines and providers of bus travel
- Own hotel chain diversifies the business, generates more predictable and higher-margin revenues and allows to better adjust the offer to clients' needs
- Strong balance sheet with net cash
- RBW's ROCE is above most of its listed peers
- RBW is a dividend-paying company
- Founders are still the largest shareholders. Most of them sit on RBW's Supervisory Board

### Opportunities

- The Polish travel market was worth a record PLN 13bn in 2022. The main growth drivers are increasing salaries and social programs such as 800+
- Still very low share of Poles travel abroad (6.9%) compared to Czechs (14.3%) and Germans (28.5%). By 2030E, the number of Poles travelling abroad is expected to double to 10m
- Further diversification through investments in the own hotel chain

### Weaknesses

- Heavy dependence on external factors e.g fuel prices, the PLN-USD FX rate and the geopolitical situation
- High seasonality as the highest client' demand is recorded in Q2 & Q3
- RBW's business requires high working capital investments as especially hotels (but also flights) have to be prepaid

### Threats

- Low entry barriers and aggressive pricing by competitors
- Weaker real salary growth, GDP and consumer sentiment
- Overestimation of demand, which could require price and margin reductions
- Exchange rate fluctuations
- Outbreak of wars and pandemics
- Risks related to the inability to hire qualified staff
- Risks that new hotels will cost more and will not achieve the break-even as quickly as planned

## Valuation

We have valued Rainbow Tours S.A. by using a weighted average of our DCF model (80%) and peer group (20%). Our approach derives a 12-months price target for the stock of PLN 92.40. This implies an upside of 32% at present.

Below are the key assumptions of our WACC calculation:

- (1) *Risk-free rate*: Current yield of Polish long-term government bonds with maturity in 2047E is 5.38% (Source: www.boerse-stuttgart.de)
- (2) *Beta*: 4y average unlevered beta of companies from the Recreation sector of 0.89x (Source: www.damodaran.com)
- (3) *Equity risk premium (Poland)*: 5.84% (Source: www.damodaran.com)
- (4) *Effective tax rate*: 19%
- (5) *Target equity ratio*: 100%
- (6) *After-tax debt costs*: 8.1%
- (7) *WACC = Equity costs*: 10.6%
- (8) Free cash flows and residual values are discounted to March 5, 2024

## DCF model

in PLNm	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
<b>Net sales</b>	<b>3,760.73</b>	<b>4,328.43</b>	<b>4,984.74</b>	<b>5,567.53</b>	<b>6,218.83</b>	<b>6,946.68</b>	<b>7,510.65</b>	<b>8,120.58</b>	<b>8,780.21</b>
(y-o-y change)	15.0%	15.1%	15.2%	11.7%	11.7%	11.7%	8.1%	8.1%	8.1%
<b>Operating profit</b>	<b>134.63</b>	<b>141.97</b>	<b>148.55</b>	<b>149.21</b>	<b>148.01</b>	<b>144.49</b>	<b>133.69</b>	<b>120.18</b>	<b>123.80</b>
(operating margin)	3.6%	3.3%	3.0%	2.7%	2.4%	2.1%	1.8%	1.5%	1.4%
<b>NOPLAT</b>	<b>109.05</b>	<b>115.00</b>	<b>120.32</b>	<b>120.86</b>	<b>119.89</b>	<b>117.04</b>	<b>108.29</b>	<b>97.35</b>	<b>100.28</b>
+ Depreciation & amortisation	20.71	20.91	21.12	21.33	21.55	21.76	21.98	22.20	22.42
= Net operating cash flow	129.76	135.91	141.44	142.19	141.43	138.80	130.27	119.55	122.70
- Total investments (Capex and WC)	-31.89	-52.85	-66.71	-73.21	-79.17	-95.06	-93.04	-98.20	-96.03
Capital expenditures	-21.37	-21.68	-22.01	-22.12	-22.42	-22.74	-22.74	-23.02	-23.31
Working capital	-10.52	-31.17	-44.71	-51.09	-56.75	-72.32	-70.30	-75.18	-72.72
= Free cash flow (FCF)	97.87	83.06	74.73	68.99	62.26	43.73	37.23	21.35	26.67
<b>PV of FCF's</b>	<b>90.08</b>	<b>69.14</b>	<b>56.26</b>	<b>46.97</b>	<b>38.33</b>	<b>24.35</b>	<b>18.75</b>	<b>9.72</b>	<b>10.98</b>
PV of FCFs in explicit period	364.58								
PV of FCFs in terminal period	416.15								
<b>Enterprise value (EV)</b>	<b>780.73</b>								
+ Net cash / - net debt (30 September 2023)	293.95								
<b>Shareholder value</b>	<b>1,074.68</b>								
<b>Number of shares outstanding (m)</b>	<b>14.55</b>								
		<b>Terminal EBIT margin</b>							
			<b>-1.6%</b>	<b>-0.6%</b>	<b>0.4%</b>	<b>1.4%</b>	<b>2.4%</b>	<b>3.4%</b>	<b>4.4%</b>
<b>WACC</b>	<b>10.6%</b>	<b>6.6%</b>	-70.38	-1.71	66.97	135.65	66.97	-1.71	-70.38
Cost of equity	10.6%	<b>7.6%</b>	-41.06	10.84	62.74	114.64	62.74	10.84	-41.06
Pre-tax cost of debt	10.0%	<b>8.6%</b>	-21.49	19.06	59.62	100.18	59.62	19.06	-21.49
Normal tax rate	19.0%	<b>9.6%</b>	-7.76	24.71	57.18	89.65	57.18	24.71	-7.76
After-tax cost of debt	8.1%	<b>10.6%</b>	2.25	28.72	55.19	<b>81.66</b>	55.19	28.72	2.25
Share of equity	100.0%	<b>11.6%</b>	9.72	31.62	53.52	75.41	53.52	31.62	9.72
Share of debt	0.0%	<b>12.6%</b>	15.43	33.76	52.08	70.40	52.08	33.76	15.43
<b>Fair value per share in PLN</b>	<b>73.85</b>	<b>13.6%</b>	19.85	35.34	50.82	66.31	50.82	35.34	19.85
<b>Fair value per share in PLN (in 12 months)</b>	<b>81.66</b>								

Source: East Value Research GmbH

## Peer Group Analysis

Our peer group analysis includes tour operators e.g. TUI, Voyageurs du Monde and companies that provide online travel services such as Booking Holdings and Expedia, which are typically more profitable than tour operators.

In Poland, Rainbow's main competitors are Itaka Holdings and TUI Poland. Itaka, the leading Polish tour operator based in Opole, is privately owned by four Polish investors, including its founders. In contrast to Rainbow Tours, it generates c. 12% of its revenues abroad, through its subsidiaries in the Czech Republic, Lithuania, Latvia, Slovakia, and Hungary. TUI Poland is a subsidiary of the listed TUI Group designated to operate in the Polish market. With c. 900,000 clients served in 2022, it has the largest customer base in Poland.

- (1) *TUI AG*: TUI, which is headquartered in Hanover/Germany, is the world's largest tour operator company. TUI offers a broad suite of travel products, including boat cruises, airline tickets, hotel rentals, travel packages. The TUI Group operates and owns 126 aircraft, 360 hotels and 16 cruise ships. The German company serves >21m clients annually and has over 65k employees. The TUI AG comprises 266 direct and indirect subsidiaries as well as 20 affiliated companies and 27 joint ventures. In its latest financial year ending in 9/2023, TUI generated revenues of EUR 20.7bn and an EBITDA margin of 4.3%. Its ROCE equalled 5.9%. Currently, TUI has a market cap of EUR 3.2bn.
- (2) *Booking Holdings Inc.*: Booking Holding, which is based in Norwalk/USA, is the world's leading online travel company, offering comprehensive platforms that facilitate travel purchases between travel service suppliers and travellers. With over 21k employees, it provides services to customers from >220 countries through six recognisable brands. Booking was ranked 340<sup>th</sup> on the 2022 Fortune 500 list. In 2023, Booking generated revenues of USD 21.4bn, an EBITDA margin of 30.1% and ROCE of 42.5%. The company currently has a market cap of USD 119.6bn.
- (3) *Voyageurs du Monde SA*: Voyageurs du Monde, which is based in Paris/France, is a leading French tour operator that specializes in tailor-made individual and adventure travel and cycling holidays. The French company has 43 sales outlets in various countries (mostly Europe) and has >1,700 employees. In 2022, Voyageurs generated revenues of EUR 497.3m, an EBITDA margin of 10.4% and ROCE of 12.4%. Its current market cap equals EUR 556.9m.
- (4) *Despegar.com Corp.*: Despegar, which is based in Buenos Aires/Argentina, is a leading online travel company in Latin America. In its offer it has airline tickets, travel packages, hotels/rental houses, car rentals and destination services rentals offered in both a pre-pay (merchant) and pay at destination (agency) model. With over 4.5k employees, it serves almost 4m customers annually across 20 countries. In 2022, Despegar generated revenues of USD 538m, an EBITDA margin of 6.5% and a ROCE of -0.4%. Currently, the company has a market cap of USD 599.5m.

- (5) *Lastminute.com NV*: Lastminute, which is headquartered in Amsterdam/the Netherlands, is an European online travel and leisure retailer. Lastminute sells a variety of travel related products and services, including holiday packages, transportation tickets, hotel and vacation rentals, adventure experiences, and ancillaries. With over 1,700 employees, the company focuses on holiday packages in five core market, located in Western Europe. In 2022, Lastminute group reported revenues of CHF 282.8m, an EBITDA margin of -3% and ROCE of -9.2%. Currently, the company is worth CHF 224.7m.
- (6) *Expedia Group Inc.*: Expedia, which is based in Seattle/USA, is a global online travel provider. It operates and owns various online travel websites and travel metasearch engines, including Trivago, Hotels.com and Orbitz. It creates travel products and services, including airplane tickets, boat cruises, travel packages, car rentals, accommodations, and adventure experiences. With >200 travel sites in >70 countries, it offers over 3m bookable properties and >220 unique activities. In 2023, Expedia generated revenues of USD 12.8bn, an EBITDA margin of 12.7% and a ROCE of 11.8%. Currently, the company is worth USD 18.5bn.
- (7) *China Travel International Investment Ltd.*: CTII, which is based in Hongkong/China, is a travel agency and tourism company. The current offer of CTII includes theme parks, natural and cultural scenic spots, leisure resorts, hotel rentals, transportation tickets, and other tourist attractions. With over 6,000 employees, it operates more than 50 scenic areas and resorts worldwide. In 2022, the company generated revenues of HKD 3bn, an EBITDA margin of -3.5% and a ROCE of -2.2%. Currently, CTII is valued at HKD 7.3bn. (c. EUR 854.3m)

Company	EV/Sales			EV/EBITDA			P/E			P/BVPS	EBITDA margin	Net gearing
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	Latest	Last FY	Latest
TUI AG (EUR)	0.35x	0.32x	0.31x	8.04x	3.42x	3.26x	8.39x	6.23x	5.11x	5.19x	4.32%	647.38%
Booking Holdings Inc. (USD)	5.69x	5.25x	4.82x	18.92x	15.36x	13.69x	29.80x	20.02x	17.01x	neg	30.09%	neg
Voyageurs du Monde SA (EUR)	0.41x	0.40x	0.38x	4.42x	4.37x	4.18x	17.15x	17.27x	16.29x	3.23x	10.40%	-157.28%
Despegar.com Corp. (USD)	0.62x	0.55x	0.49x	4.24x	3.29x	2.60x	19.30x	14.17x	9.86x	neg	6.47%	neg
Lastminute.com NV (CHF)	0.30x	0.37x	0.34x	2.00x	2.46x	2.03x	56.76x	19.09x	11.60x	5.00x	neg	-221.16%
Expedia Group Inc. (USD)	1.58x	1.45x	1.33x	12.44x	6.71x	6.01x	25.57x	10.90x	8.81x	12.06x	12.71%	117.08%
China Travel International Investment Ltd. (HKD)	1.26x	1.15x	1.01x	5.31x	4.21x	3.74x	16.38x	13.10x	10.92x	0.45x	neg	-12.05%
<b>Median</b>	<b>0.62x</b>	<b>0.55x</b>	<b>0.49x</b>	<b>5.31x</b>	<b>4.21x</b>	<b>3.74x</b>	<b>19.30x</b>	<b>14.17x</b>	<b>10.92x</b>	<b>5.00x</b>	<b>10.40%</b>	<b>-12.05%</b>
Rainbow Tours S.A. (PLN)	0.22x	0.19x	0.17x	3.25x	4.67x	4.45x	6.52x	10.12x	9.59x	3.91x	2.27%	-112.79%
<b>Premium/Discount</b>	<b>-64.1%</b>	<b>-65.1%</b>	<b>-65.9%</b>	<b>-38.8%</b>	<b>10.7%</b>	<b>19.0%</b>	<b>-66.2%</b>	<b>-28.6%</b>	<b>-12.2%</b>			
<b>Fair value per share Rainbow Tours (PLN)</b>	<b>122.40</b>											

Source: CapitalIQ, marketscreener.com, banker.pl, East Value Research GmbH

As the table below shows, Rainbow Tours performs very well in comparison to its direct local peers when it comes to web site traffic and app ratings. Only itaka.pl had more site visits between November 2023 and January 2024.

	Nov 2023-Jan 2024		App ratings	
	Total visits	Country rank	iOS	Android
r.pl	9m	276	4.8/5	4.8/5
itaka.pl	9.75m	253	4/5	4.8/5
tui.pl	7.87m	296	4.9/5	4.6/5
coraltravel.pl	2.67m	926	4.5/5	4.6/5

Source: Similarweb, Google search, East Value Research GmbH

### Price target calculation

Valuation method	Fair value	Weight
DCF model	73.85	80%
Peer-group-based fair value	122.40	20%
<b>Weighted average (present value)</b>	<b>83.56</b>	
<b>In 12-months (PV * (1+WACC))</b>	<b>92.40</b>	

Source: East Value Research GmbH



## 9M/23 results

### Revenues and Profitability

In 9M/23, Rainbow Tours generated revenues of PLN 2.7bn, which corresponds to a y-o-y growth of 39.6%. Thereof, 35.9% stemmed from third-party agencies, 53.4% from own travel offices and the call center and 10.7% from others (we believe the online channel). Compared to last year, especially the share of sales from own travel offices/call center that generate higher gross margins than those from agencies increased (9M/22: 48.8%).

The Touristic events segment accounted for 99% of the company's 9M/23 sales and generated a gross margin of 17.1% due to its focus on roundtrips, also exotic ones. The number of bookings for the 2023 summer season reached 365,531 and was 29.2% above last year. Including the pre-sales for the winter season 2023/24E (43,936), the total number of reservations increased by 30.8% y-o-y to 409,467.

in PLNm	9M/23	9M/22
<b>Touristic events</b>	<b>2,671.16</b>	<b>1,912.36</b>
<i>Share in total sales</i>	<i>99.0%</i>	<i>98.9%</i>
Gross margin	17.1%	11.8%
<b>Hotel business</b>	<b>25.54</b>	<b>19.63</b>
<i>Share in total sales</i>	<i>0.9%</i>	<i>1.0%</i>
Gross margin	79.7%	-42.3%
<b>Others (incl. brokerage of flights, bus trips)</b>	<b>2.43</b>	<b>1.54</b>
Share in total sales	0.1%	0.1%
<i>Gross margin</i>	<i>-1.6%</i>	<i>-71.8%</i>
<b>Total revenues</b>	<b>2,699.13</b>	<b>1,933.54</b>

Source: Company information, East Value Research GmbH

Published in 9M/23	9M/23	9M/22	change y-o-y
Pre-bookings for the summer season 2023*	365,531	282,852	29.2%
Pre-bookings for the winter season 2023/24**	43,936	30,207	45.4%
<b>Sum</b>	<b>409,467</b>	<b>313,059</b>	<b>30.8%</b>

\* sales related to the summer season appear in RBW's revenues from April to October

\*\* sales related to the winter season appear in RBW's revenues from November to March

Source: Company information, East Value Research GmbH

in PLNm	9M/23	9M/22	change y-o-y
<b>Net sales</b>	<b>2699.13</b>	<b>1933.54</b>	39.6%
<b>EBITDA</b>	<b>226.61</b>	<b>70.09</b>	223.3%
<i>EBITDA margin</i>	<i>8.4%</i>	<i>3.6%</i>	
<b>EBIT</b>	<b>210.12</b>	<b>50.11</b>	319.3%
<i>EBIT margin</i>	<i>7.8%</i>	<i>2.6%</i>	
<b>Net income</b>	<b>166.43</b>	<b>38.75</b>	329.5%
<i>Net margin</i>	<i>6.2%</i>	<i>2.0%</i>	

Source: Company information, East Value Research GmbH

In Q1-Q3 2023, RBW's EBIT (+319.3% y-o-y to PLN 210.1m) and net income (+329.51% to PLN 166.4m) improved significantly. The reason was a lower share of CoGS (82.4% vs. 88.8% in 9M/22), which comprise among others fuel costs and expenses related to temporarily employed staff). The share of distribution (7.7% vs. 6.9%) and administration expenses (2.1% vs. 1.8%) went up compared to 9M/22.

### **Balance sheet and Cash flow**

At the end of September 2023, Rainbow Tours had consolidated equity of PLN 260.6m, which corresponds to an equity share of 23.8%.

Apart from equity, the largest balance sheet position was cash of PLN 382.6m. Fixed assets (PLN 255.1m) basically reflect RBW's hotels in Greece. Another major position were prepayments (PLN 225.8m), which the company needs to pay to hotels and airlines in advance, and deferred income (PLN 218m) that reflect prepayments from customers. In total, we estimate the working capital at the end of September 2023 at PLN -155.5m.

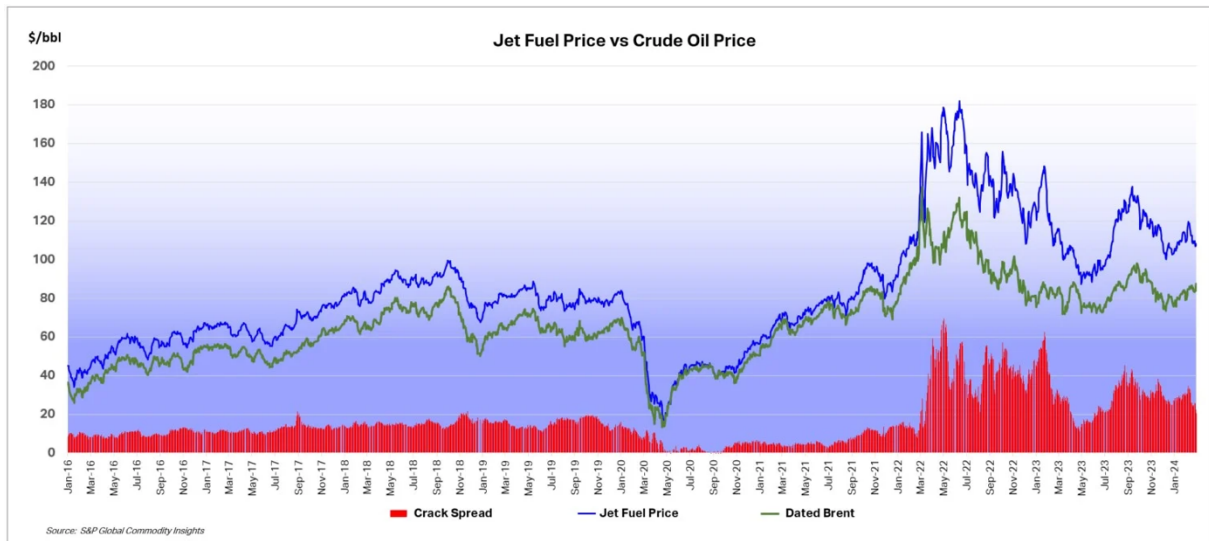
In Jan-Sep 2023, Rainbow Tours generated an operating cash flow of PLN 351.5m compared to PLN 138.4m in 9M/22. The main reason was the significant increase of EBT y-o-y. Cash flow from investing equalled PLN -20.4m (9M/22: PLN 1.2m) and mainly reflected investments in hotels and own software. Cash flow from financing equalled PLN -91m (9M/22: PLN 22.4m) as the company repaid much more debt and in contrast to the previous year paid PLN 18.8m in dividends. In total, since January 2023 RBW's cash position has increased by PLN 240.1m to PLN 382.6m. At the end of September, the company had net cash of PLN 294m. Only 26.5% of its interest-bearing debt of PLN 88.6m was short term.

## Our forecasts

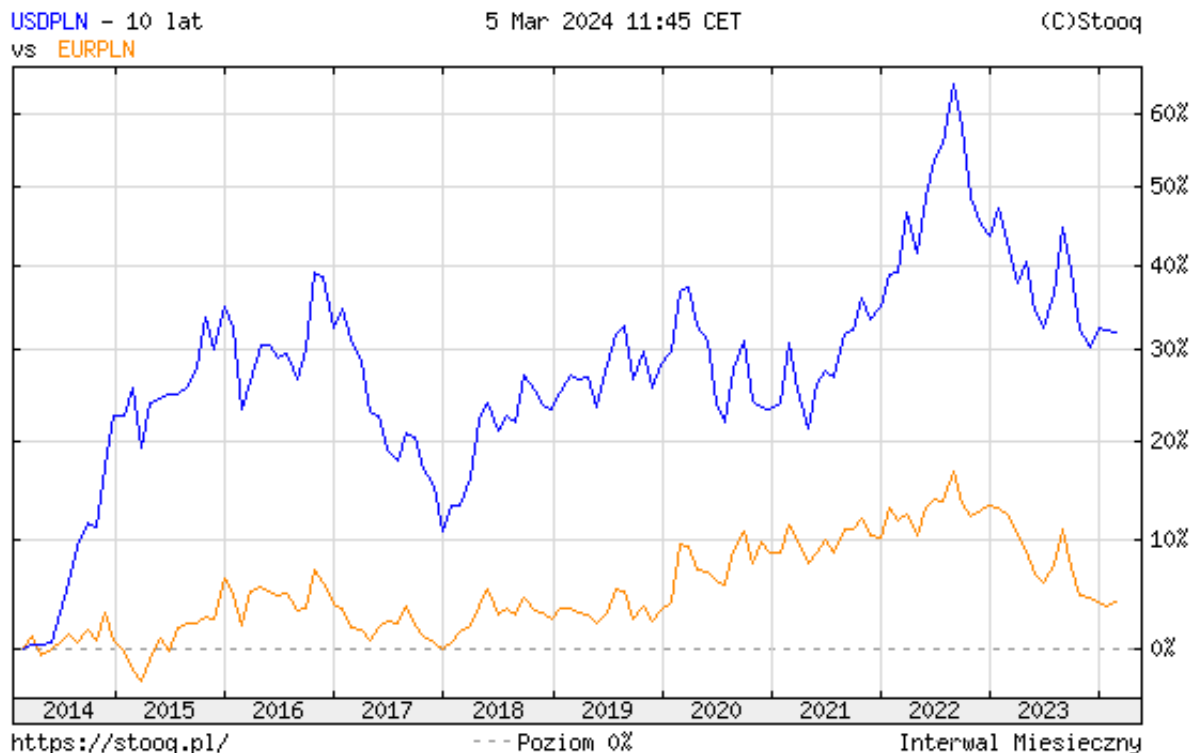
### Revenues and Profitability

After the pandemic year 2020 – when the number of bookings only reached c. 20% of those in the previous year - in 2022 there was another blow to RBW's business: the Russian invasion on Ukraine. However, client bookings only suffered temporarily and for full-year 2022 the company reported good results. 2023 was even better and based on bookings for the 2023/24 winter and 2024 summer season it looks that the positive trend will continue this year. While the gross margin in 2023 likely reached a record level due to much lower fuel costs and stronger PLN compared to the previous year, we expect that Rainbow Tours' operating profitability will remain at a higher level than historically due to various cost optimization measures in 2020-2022. For the top-line growth, we remain optimistic as the Polish travel market has significant growth potential – increasing incomes and GDP plus still low share of travellers that choose vacations abroad compared to Western countries – and Rainbow Tours has an excellent reputation among clients.

### Jet Fuel Prices (blue line) vs. Crude Oil Price (green line) – 01/2016 until 02/2024



Source: IATA, East Value Research GmbH

**USD-PLN vs. EUR-PLN rate – 02/2014 until 03/2024**

Source: Stooq.pl, East Value Research GmbH

Below are our detailed estimates for Rainbow Tours. As the company reported excellent bookings – summer season 2023: 365,531 (+29.2% y-o-y) bookings at 16.5% higher average price; winter season 2023/24: 91,383 (+41.2%) bookings until 15/12/2023 – for full-year 2023E we forecast revenues of PLN 3.3bn (+36.6% y-o-y), an EBIT of PLN 202.7m (+517.5%, 6.2% margin vs. 1.4% in 2022) and a net income of PLN 156.1m (+626.3%). In 2024E, due to the high base in the exceptionally good year 2023, we expect a revenue growth of 15% to PLN 3.8bn, an EBIT of PLN 134.6m (-33.6%) and a net income of PLN 100.7m (-35.5%). For the summer season 2024, RBW has so far reported 124,245 (37.4% y-o-y) bookings.

In the long run, we believe that the company's revenues will grow at a CAGR of 13.9%, implying a conservative 1.33m bookings in 2030E and a c. 13% market share (down from c. 18% currently due to strong competition). In our view, RBW's EBIT margin will decline to c. 2% by then - like in the years before the pandemic – following increasing personnel and fuel costs.

Our expectations for Rainbow Tours business segments look as follows:

*Touristic events:* This segment is the most important one for Rainbow Tours and covers vacations and events that are organized by the company itself.

We believe that this segment will continue to be the by far most important revenue driver going forward, with a CAGR 2022-32E of 14%. We have based our forecasts on the following assumptions: Starting from 708,370 bookings in 2023E (+30% y-o-y) at an average price of PLN 4,559, we have assumed that going forward the number of bookings will grow on average at 10.4% and the average price by 3.2%. For the gross margin, we have forecast that it will gradually decline from 15.5% in 2023E to <11% in the long run.

*Hotel business:* This segment covers the business of the 71.5%-owned Greek subsidiary White Olive A.E., which currently operates 4 hotels on the islands Zakynthos, Rhodes and Crete.

As we have not included any new hotels in our calculation, we believe that the segment's revenues will remain stable in the coming years. Our forecasts are based on the total number of rooms of 621, an average capacity utilization per year of 90% in 2023E and 60% in the long run - remember that the holiday season starts in May and ends in October – an average room rate of EUR 40 and a long-term average PLN-EUR rate of PLN 4.20 (2023E: PLN 4.40). For the segment's gross margin, we have conservatively estimated a decline from 78% in 2023E to c. 43% by 2032E.

*Others:* This segment covers RBW's operations related to trainings and brokerage (flights, bus travel, ferries, travel packages of other travel operators). As management plans to focus on own touristic events, which generate far better margins, we expect that this segment will remain stable in the coming years. However, its gross margin should return to positive territory soon (our expectation for 2023E is -2%).

in PLNm	2023E	2024E	2025E
<b>Touristic events</b>	<b>3,229.19</b>	<b>3,725.19</b>	<b>4,297.38</b>
<i>Share in total sales</i>	98.8%	99.1%	99.3%
Gross margin	15.5%	12.9%	12.6%
Number of bookings	708,370	793,374	888,579
Average price per booking	4,559	4,695	4,836
<b>Hotel business</b>	<b>35.90</b>	<b>31.19</b>	<b>26.66</b>
<i>Share in total sales</i>	1.1%	0.8%	0.6%
Gross margin	78.0%	63.0%	61.0%
Number of rooms	621	621	621
Avg. capacity utilisation	90.0%	80.0%	70.0%
Avg. Room rate	40	40	40
Avg. FX rate	4.40	4.30	4.20
<b>Others (incl. brokerage of flights, bus trips, travel)</b>	<b>4.30</b>	<b>4.34</b>	<b>4.39</b>
<i>Share in total sales</i>	0.1%	0.1%	0.1%
Gross margin	-2.0%	-0.8%	0.3%
<b>Total net sales</b>	<b>3,269.40</b>	<b>3,760.73</b>	<b>4,328.43</b>
(change y-o-y)	36.6%	15.0%	15.1%

Source: East Value Research GmbH

in PLNm	2023E	2024E	2025E
<b>Net sales</b>	<b>3269.40</b>	<b>3760.73</b>	<b>4328.43</b>
<b>EBITDA</b>	<b>223.20</b>	<b>155.34</b>	<b>162.88</b>
<i>EBITDA margin</i>	6.8%	4.1%	3.8%
<b>EBIT</b>	<b>202.70</b>	<b>134.63</b>	<b>141.97</b>
<i>EBIT margin</i>	6.2%	3.6%	3.3%
<b>Net income</b>	<b>156.14</b>	<b>100.68</b>	<b>106.27</b>
<i>Net margin</i>	4.8%	2.7%	2.5%

Source: East Value Research GmbH

in PLNm	Q1/20	Q2/20	Q3/20	Q4/20	2020
<b>Net sales</b>	<b>273.82</b>	<b>7.41</b>	<b>137.14</b>	<b>16.09</b>	<b>434.46</b>
<i>y-o-y change</i>	11.3%	-98.2%	-83.2%	-94.0%	-75.1%
<b>EBITDA</b>	<b>7.92</b>	<b>-17.07</b>	<b>6.92</b>	<b>-26.66</b>	<b>-28.90</b>
<i>EBITDA margin</i>	2.9%	-230.6%	5.0%	-165.7%	-6.7%
<b>EBIT</b>	<b>2.99</b>	<b>-19.67</b>	<b>2.39</b>	<b>-31.32</b>	<b>-45.61</b>
<i>EBIT margin</i>	1.1%	-265.6%	1.7%	-194.6%	-10.5%
<b>Net income</b>	<b>0.80</b>	<b>-15.72</b>	<b>0.66</b>	<b>-27.95</b>	<b>-42.21</b>
<i>Net margin</i>	0.3%	-212.3%	0.5%	-173.7%	-9.7%

in PLNm	Q1/21	Q2/21	Q3/21	Q4/21	2021	Q1/22	Q2/22	Q3/22	Q4/22	2022
<b>Net sales</b>	<b>75.41</b>	<b>244.21</b>	<b>687.52</b>	<b>272.28</b>	<b>1279.42</b>	<b>315.76</b>	<b>504.72</b>	<b>1133.06</b>	<b>439.77</b>	<b>2393.31</b>
<i>y-o-y change</i>	-72.5%	3197.9%	401.3%	1591.9%	194.5%	318.7%	106.7%	64.8%	61.5%	87.1%
<b>EBITDA</b>	<b>-4.73</b>	<b>-1.44</b>	<b>62.23</b>	<b>-16.73</b>	<b>39.33</b>	<b>-1.29</b>	<b>1.44</b>	<b>68.79</b>	<b>-14.52</b>	<b>54.42</b>
<i>EBITDA margin</i>	-6.3%	-0.6%	9.1%	-6.1%	3.1%	-0.4%	0.3%	6.1%	-3.3%	2.3%
<b>EBIT</b>	<b>-9.65</b>	<b>-6.09</b>	<b>57.88</b>	<b>-22.25</b>	<b>19.89</b>	<b>-7.85</b>	<b>-5.23</b>	<b>62.02</b>	<b>-16.12</b>	<b>32.83</b>
<i>EBIT margin</i>	-12.8%	-2.5%	8.4%	-8.2%	1.6%	-2.5%	-1.0%	5.5%	-3.7%	1.4%
<b>Net income</b>	<b>-9.22</b>	<b>-5.34</b>	<b>49.22</b>	<b>-17.39</b>	<b>17.27</b>	<b>-6.37</b>	<b>-5.31</b>	<b>49.50</b>	<b>-16.32</b>	<b>21.50</b>
<i>Net margin</i>	-12.2%	-2.2%	7.2%	-6.4%	1.3%	-2.0%	-1.1%	4.4%	-3.7%	0.9%

in PLNm	Q1/23	Q2/23	Q3/23	Q4/23E	2023E
<b>Net sales</b>	<b>556.03</b>	<b>709.05</b>	<b>1434.04</b>	<b>570.27</b>	<b>3269.40</b>
<i>y-o-y change</i>	76.1%	40.5%	26.6%	29.7%	36.6%
<b>EBITDA</b>	<b>30.58</b>	<b>49.62</b>	<b>146.40</b>	<b>-3.40</b>	<b>223.20</b>
<i>EBITDA margin</i>	5.5%	7.0%	10.2%	-0.6%	6.8%
<b>EBIT</b>	<b>24.27</b>	<b>43.24</b>	<b>142.62</b>	<b>-7.42</b>	<b>202.70</b>
<i>EBIT margin</i>	4.4%	6.1%	9.9%	-1.3%	6.2%
<b>Net income</b>	<b>19.82</b>	<b>34.71</b>	<b>110.83</b>	<b>-9.22</b>	<b>156.14</b>
<i>Net margin</i>	3.6%	4.9%	7.7%	-1.6%	4.8%

Source: Company information, East Value Research GmbH

## CAPEX and Working capital

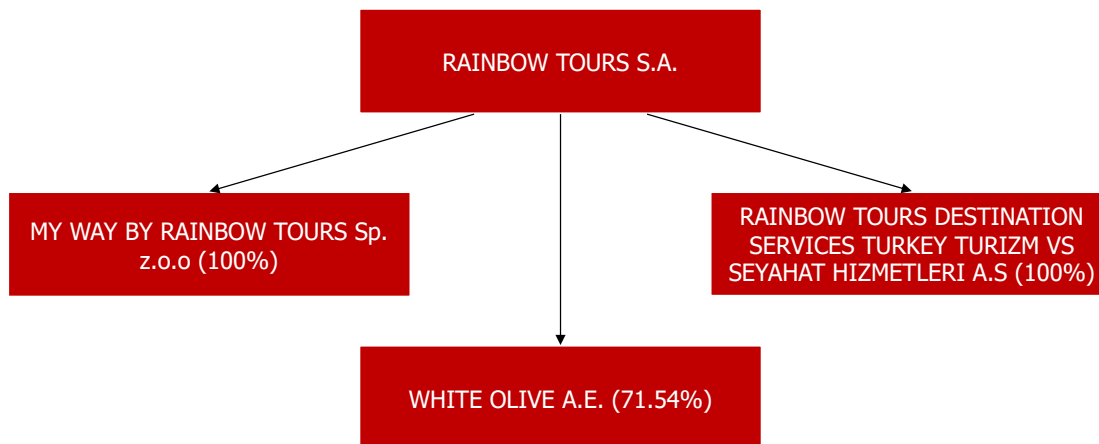
For 2023E, we have assumed gross CAPEX of PLN 32.9m, which was likely mainly spent on hotel equipment and own booking software. From 2024E, we expect yearly gross CAPEX to be in the range of 0.3-0.6% of annual sales.

When it comes to working capital, we have forecast that its share in total sales will increase from -3.5% in 2022 to >5% in the long run.

## Business description

Rainbow Tours S.A., which is based in Lodz, is the No 3 touristic operator in Poland and has been active on the market for more than 30 years. The company offers vacations in c. 100 countries worldwide. It co-operates with various airlines (incl. charter airlines LOT Charters, Travel Service and Enter Air), international hotel chains and resorts. Other business lines include the operation of an own hotel chain in Greece, brokerage of travel packages of external providers, flights, ferry and bus trips, as well as organization of trainings for tourist guides (we believe c. 150 per year). Rainbow Tours, which has been listed on the Main Market of the Warsaw Stock Exchange since 2007, currently employs 1,350 people (thereof: IT - c. 90 IT, call center - c. 50 call center, administration – 190, travel offices – 380, residents – 200, pilots – 300, entertainers – 140). We estimate RBW's employee fluctuation at <10% per year.

## Organisational structure



Source: Company information, East Value Research GmbH

The operation of the tour operator business is concentrated to the greatest extent in the parent company Rainbow Tours S.A., which is responsible for developing the Group's operating strategy and monitoring its implementation as well as for securing external funding for its subsidiaries.

Rainbow Tours' local subsidiaries/offices organise transfers and roundtrips locally, which increases the company's profitability compared to the situation, when this is taken over by a local partner.

## Company history

1990: Foundation of Rainbow Polska Sp. z.o.o, a company that specialises in bus travel from Poland to London, by Messrs Grzegorz Baszczyński, Sławomir Wiesławski, Mariusz Rejmanowski oraz Sławomir Wysmyk.

1991: Messrs Remigiusz Talarek and Tomasz Czapla establish the company Globtroter s.c., which in 1996 was renamed to Globtroter Sp. z o.o.

2000: Merger of Rainbow Polska Sp. z o.o. and Globtroter Sp. z o.o. The new company starts operations under the brand name Rainbow Tours.

Rainbow Tours focuses on the organisation of foreign vacations in France, UK, Austria, Italy, Slovenia, Switzerland, Greece, Egypt and Thailand.

2004: Foundation of Rainbow Tours S.A. by Messrs Grzegorz Baszczyński, Tomasz Czapla, Remigiusz Talarek and Sławomir Wysmyk.

Rainbow Tours S.A. acquires Rainbow Polska Sp. z o.o. from its shareholders.

2005: Rainbow Tours receives the Certificate of Highest Quality for professionalism and highest service quality from the Association for Quality Monitoring in Poznan.

2006: Extension of the number of airports in Poland: Apart from Warsaw, Poznan, Katowice and Krakow, RBW's clients can now also fly from Wroclaw and Gdansk.

Start of operations in the Ukraine.

Introduction of road trips/holidays in exotic destinations such as India (Goa), Kenia, Peru and Cape Verde.

The company's annual revenues reach PLN 109.2m

2007: IPO in the Main Market of the Warsaw Stock Exchange, which is accompanied by a capital increase worth PLN 18m (2m new shares at PLN 9 per share).

As the first travel operator in Poland, Rainbow Tours implements the ISO 9001 quality certificate.

2014: RBW organises the first long-distance direct charter flights from Poland: to Varadero, Cancun and Bangkok.

The company's revenues reach PLN 956.5m.

2015: Rebranding, simplification of the logotype, introduction of a new visual identification and refreshing of the office design.



2019: Introduction of a mobile app for Android and iOS devices.

Implementation of the new strategy Archipelag Beztroski and unification of the visual identity.

Investment of PFR TFI in RBW's Greek subsidiary White Olive A.E. (EUR 9m for a 49.9% stake).

Construction of a new 5 star hotel on Zakynthos island.

Rainbow Tours' revenues reach PLN 1.7bn.

2022: Introduction of new app functionalities.

Closing of operations in the Ukraine.

2023: Through White Olive A.E., RBW acquires three plots of land on the Rhodes island with a total size of 11,000 sqm. They are situated directly next the "White Olive Premium Lindos" hotel and allow the company to easily expand its existing hotel by another 75-82 rooms.

Termination of the leasing contract for the „White Olive Premium Cameo" 4 star hotel in Agio Sostis on the Zakynthos Island, which had been in place since 2018. The reason was the necessity for high investments in hotel infrastructure.

Rainbow Tours has the following business segments:

***Touristic events.*** This business segment accounted for 98.8% of RBW's total sales in 2022. In 2019, before the COVID-19 pandemic and Ukraine war, the segment's gross margin equalled 14.9%.

The organization of tourism events at Rainbow Tours, whose market share in Poland we estimate at c. 18%, works as follows:

1. RBW's own product team prepares the offer – separately for the summer and winter season – based on sales results of the previous offer, changes to clients' preferences, analysis of complaints, results of study tours and information about competitors' activities.
2. The analysis of a new destination is commissioned to a local Destination Management Company (DMC), which supports RBW in finding appropriate hotels, restaurants, transport and events.
3. In the next step, RBW has to transfer guaranteed deposits to hotels in EUR or USD (the longer the duration of contracts with hotels, the better the prices for RBW, but the higher the required prepayments) and the prepayments in USD to charter airlines. Usually, this happens in Q3 and Q4. In order to mitigate FX risks, Rainbow Tours hedges 30%-45% of its foreign currency exposure.

4. RBW has to invest in the preparation of catalogues (a few per year) and marketing of the offer (e.g. the company's representatives participate in touristic fairs e.g. ITTF Warsaw on a regular basis).

At the moment of booking, the client has to prepay 30% of a holiday's value, with the remaining 70% due 30 days before its start. All customers pay in PLN.

The conduct of the holiday trip consists of transport, accommodation and service. The transport and additional events are taken over by the DMC or external contractors. The service quality is monitored by RBW's own Quality Assurance and Complaints department.

**Hotel segment:** The hotel business, which in 2022 generated 1% of RBW's revenues and a gross margin of 0.6%, comprises the operation of currently 4 hotels in Greece (see below). We estimate that in 2023E the capacity utilisation equalled 90% on average, whereby it has to be emphasized that many contracts are guaranteed.

#### 1. *White Olive Elite Laganas (5 star hotel)*

Constructed in: 2019

Location: Zakynthos island

Rooms: 194



Source: Company information, East Value Research GmbH

## 2. *White Olive Elite Rethymno (5 star hotel)*

Modernisation: Winter 2020/21

Location: Crete island

Rooms: 70



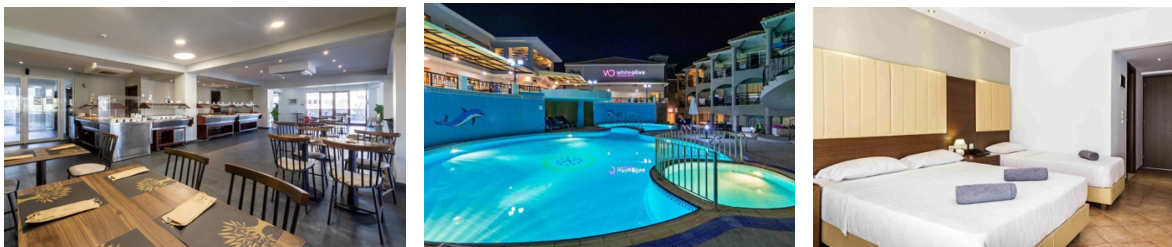
Source: Company information, East Value Research GmbH

## 3. *White Olive Premium Laganas (4 star hotel)*

Construction/Modernisation: 2022

Location: Zakynthos island

Rooms: 137



Source: Company information, East Value Research GmbH

#### 4. *White Olive Premium Lindos (4 star hotel)*

Construction/Modernisation: Winter 2019/20

Location: Rhodes island

Rooms: 97



Source: Company information, East Value Research GmbH

Rainbow Tours' co-investor in the project with a stake of now c. 29% is the Polish state-owned fund PFR TFI, which invested EUR 9m in 2019 and has an investment horizon of 4-10 years.

Over the next years, White Olive is supposed to have 7 owned (not leased) hotels. The targeted number of hotel rooms equals c. 1,100. This is supposed to stabilize RBW's revenues and increase the Group's gross margin in the future.

Usually, shortly after the construction of a new hotel, RBW's gross margins goes down as the occupancy of the respective hotel is low at the beginning. It has to be noted that c. 50% of White Olive's hotel rooms are occupied by RBW's customers.

**Others segment:** The Others segment, which accounted for 0.2% of RBW's total sales in 2022, includes revenues related to training courses for travel pilots as well as brokerage of third-party travel packages, flights, bus and ferry trips.

In 2022, the segment generated a gross margin of 3.2%, but historically it equalled even >30%.

**Sales channels**

Rainbow Tours uses various sales channels. It operates 101 (2018: 107) respectively 54 (49) own & franchised travel offices. Moreover, it co-operates with 1,400 (1,300) agents, operates an own call center and sells via its own website (Similarweb.com: 3m monthly visits on average between November 2023 and January 2024) as well as touristic portals such as wakacje.pl, travelplanet.pl, traveligo.pl and easygo.pl. In 2022, 49.6% (50.6%) of RBW's revenues were generated through own channels (travel offices & call center), 36.4% (43.7%) by agents and 14% (5.7%) stemmed from the online channel. Currently, the share of the online channel equals almost 30% and continues to grow.

Own travel offices, website and the call center are the most profitable channels for the company. Thus, management plans to increase their share in the future.

**Development strategy**

Rainbow Tours' strategy foresees the establishment of a strong and reputable brand in the area of mass tourism. The company wants to be a full-service organizer with an own hotel chain in Greece – one of the Top 3 most popular travel destinations of Poles, according to the Polish Association of Travel Organizers - and an omnichannel sales strategy. In addition, Rainbow Tours aims to invest in latest technology incl. a proprietary booking system and in new products such as business trips & team integration events.

In order to optimise its cash flow, Rainbow Tours plans to further optimize cost, improve capacity utilization of ordered charter flights and focus on selling the offer much further in advance, rather than "last minute" at often heavily discounted prices.

## Management

*Maciej Szczechura (CEO):* Mr Maciej Szczechura has been CEO of Rainbow Tours since June 2023 and Member of its Management Board since 2020. As an advisor and strategic director for the company, he worked on projects in the field of brand strategy, CRM, segmentation or loyalty program between 2019 and 2020. Before, Mr Szczechura worked among others as Vice President of the Management Board at Eurobank responsible for marketing and operations and Member of the Management Board of Getin Noble Bank in charge of retail banking. Mr Maciej Szczechura has a Master's degree from the Institute of Applied Social Sciences of the University of Warsaw and an MBA from the Said Business School at Oxford University.

*Piotr Burwicz (Vice President of the Management Board):* Mr Piotr Burwicz has been Member of the Management Board of Rainbow Tours since 2017. Before, from 2016, he was the company's COO and as such responsible for RBW's network, product implementations, optimisation of pricing mechanisms and customer service. Mr Burwicz spent most of his professional career in banking, among others as a Specialist at Volkswagen Bank Polska, Chief Operating Officer at mFinanse, Director (Corporate Client Development) & Managing Director (Products and Processes) at Getin Noble Bank Group and Member of the Supervisory Board of Idea Bank Ukraine. Mr Piotr Burwicz graduated with a Master's degree from the Faculty of Economics and Sociology of the University of Lodz.

*Jakub Puchalka (Member of the Management Board):* Mr Jakub Puchalka has been Member of the Management Board of Rainbow Tours S.A. since 2021. Since 2016, he had been responsible for customer service on all events carried out by Rainbow Tours S.A., pilot, resident and animation services, development of sales of optional tours and development of the company's structures abroad including dealing with customer service, tour organisation and handling services. Previously, Mr Puchalka worked as Regional Sales Manager at TUI Poland Sp. z.o.o and Vice President of the Management Board in charge of HR at Biuro Podrozy Triada S.A. Mr Jakub Puchalka graduated from the Faculty of Management and Marketing of the Warsaw School of Economics. He also completed a Postgraduate Study in Labour Law, a Postgraduate Study in Psychology of Personnel Management and an Executive MBA at the University of Warsaw.

*Grzegorz Baszczyński (Member of the Supervisory Board):* Mr. Grzegorz Baszczyński has been Member of the Supervisory Board of Rainbow Tours S.A. since July 2023. Before, he had been a long-term CEO of the company, whose predecessor Rainbow Polska Sp. z.o.o he joined in 1994. Mr Grzegorz Baszczyński graduated with a Master's degree in English Philology from the University of Lodz. He also completed an MBA at the same university. Mr Baszczyński is on the Board of the Polish Tour Operators Association and is the Vice President of the Management Board of the Polish Chamber of Tourism.

Through his vehicle Flyoo Sp. z.o.o, Mr Baszczyński owns 8.8% of Rainbow Tours.



*Tomasz Czapla (Member of the Supervisory Board):* Mr Tomasz Czapla is Member of Rainbow's Supervisory Board. From 2000 to 2021, Mr Tomasz Czapla was on the Management Board of Rainbow Tours and its various subsidiaries. In 1991-1996, he was a co-owner of Globtroter s.c., and then (in 1996-2000) a shareholder and President of the Management Board of Globtroter Polska Sp. z o.o. Mr Tomasz Czapla graduated with an Engineer's degree in Textile Science from the Technical University of Lodz.

Through his vehicle Aironi Quattro Family Foundation, Mr Czapla owns in total 7.1% of Rainbow Tours.

*Remigiusz Talarek (Member of the Supervisory Board):* Mr Remigiusz Talarek is Member of the Supervisory Board of Rainbow Tours S.A. Between 2000 and 2018, he held various management positions at the company and its subsidiaries. In 1991-1996, he was the founder and co-owner of Globtroter s.c., and between 1996 and 2000 a shareholder and Vice-President of the Management Board of Globtroter Polska Sp. z o.o. Mr Remigiusz Talarek graduated with a Master's degree in Law from the University of Lodz. In addition, he completed an MBA course at the same university and a number of management trainings.

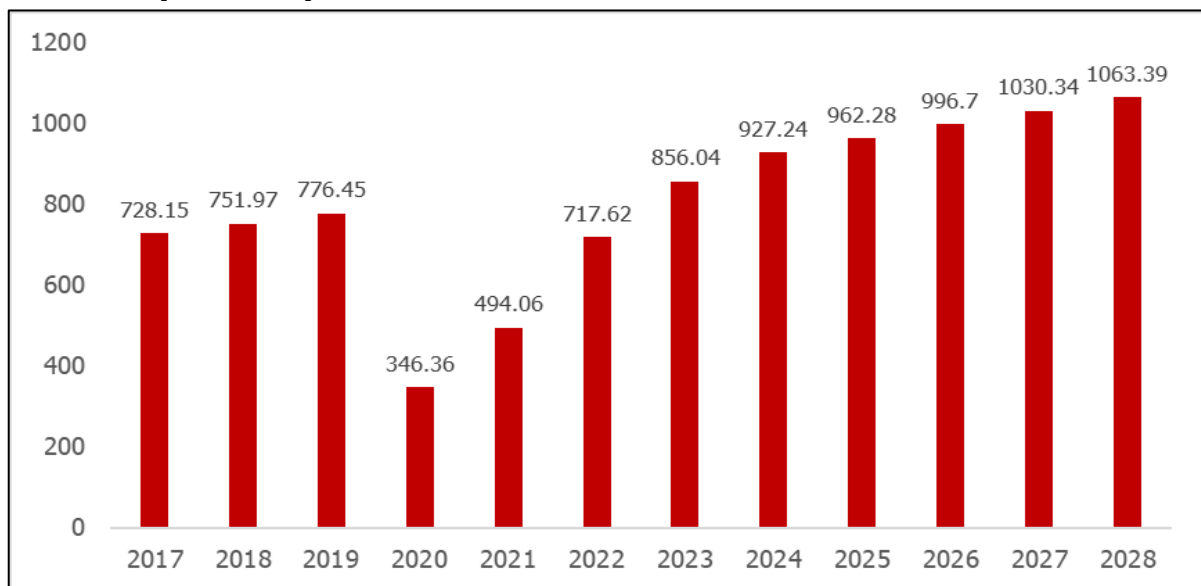
Through his vehicle Elephant Rock Family Foundation, Mr Talarek owns a stake of 7.5% in Rainbow Tours.

## Market environment

### Current state of the Global Travel & Tourism market

According to Statista Market Insights, the value of the global travel and tourism industry amounted to USD 856bn in 2023. With a CAGR of 3.5%, by 2028E the market is expected to grow to a value of USD 1063.4bn. The largest submarket is Hotels (48%), followed by Package Holidays (33%), a submarket in which tour operators such as Rainbow generate most of their revenue. Package holidays will be valued at USD 302bn in 2024E and the expected CAGR 2024E-2028E equals 3%.

### Revenues (in USDbn) of Global Travel & Tourism market



Source: Statista.com, East Value Research GmbH

As shown in the graph above, the market in which Rainbow operates experienced a very large decline of -55% in 2020 due to the COVID-19 pandemic. The decline in 2020 shows how much business risk stems from external factors over which travel companies only have little control. In addition to global crises, travel companies around the world face many other factors that affect their business (e.g. higher aviation fuel prices, exchange rate fluctuations etc.). The World Tourism Organization (UNWTO) reported >550m (+19% y-o-y) tourist arrivals for Europe in 9M/2023, only -6% compared to the record year 2019. To us, this is a sign of the travel market's rapid recovery after the COVID-19 pandemic and the recent energy crisis.

As environmental concerns become increasingly important, travel companies need to offer new sustainable travel services. In our opinion, a travel company's ability to anticipate future environmental regulations could give it an edge over its competitors.

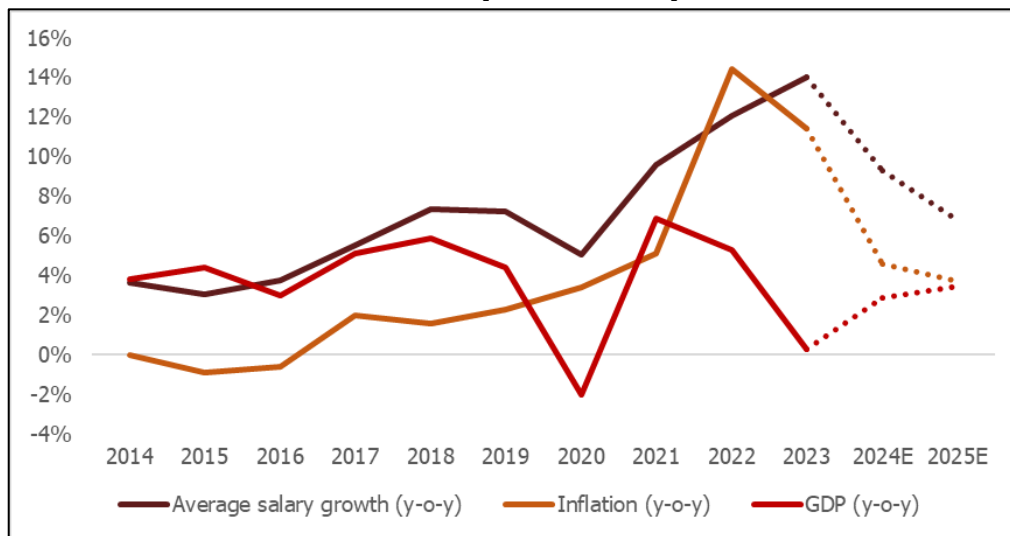


## Poland's macroeconomic situation

The outlook for the Polish economy is bright. The National Bank of Poland (NBP) forecasts a GDP growth of 2.9% in 2024E and 3.5% in 2025E, which places Poland among the fastest-growing economies in Europe. Despite very high inflation in 2023 of 11.4%, the NBP expects it to decline to 3.7% by 2025E.

For most of the past 10 years, average salary growth in Poland (10y CAGR: 7.08%) has outpaced inflation (10y CAGR: 3.76%). In 2022 and Q1/2023, inflation outpaced the pace of wage growth, but expectations for the coming periods are positive (NBP: 9.3% wage growth vs. 4.6% inflation in 2024E).

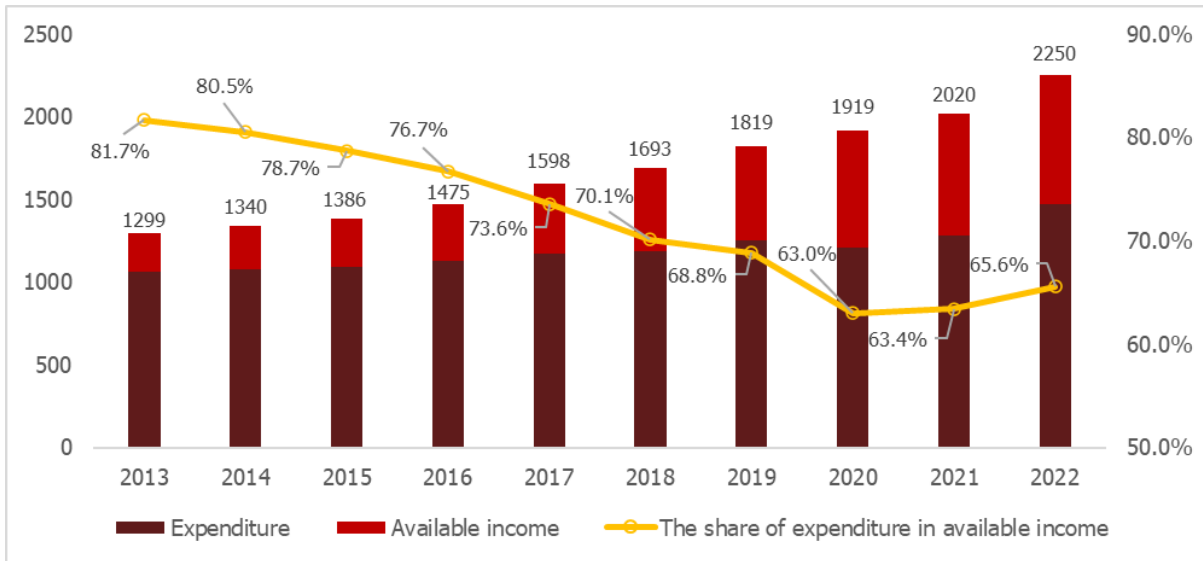
## Macroeconomic data for Poland (2014-2025E)



Source: NBP, East Value Research GmbH

The growth and relation of available income to salaries remained at similar levels to the pre-pandemic period (10y CAGR: 6.29%). Due to rising inflation, which peaked in Q4/2022, Poles, afraid of losing their savings in real terms, spent more of their available income (65.6% in 2022 vs. 63.4% in 2021). Nevertheless, the spending level is still much lower than 10 years ago, when it equalled 81.7% (Source: GUS). More importantly, the calculation of expenditures already includes spendings on various forms of travel. With above-average inflation in the coming years, we expect that Poles will spend relatively more on travel, which should increase revenues for tour operators.

### Income, expenditures, and share trends in Poland (2013-2022)

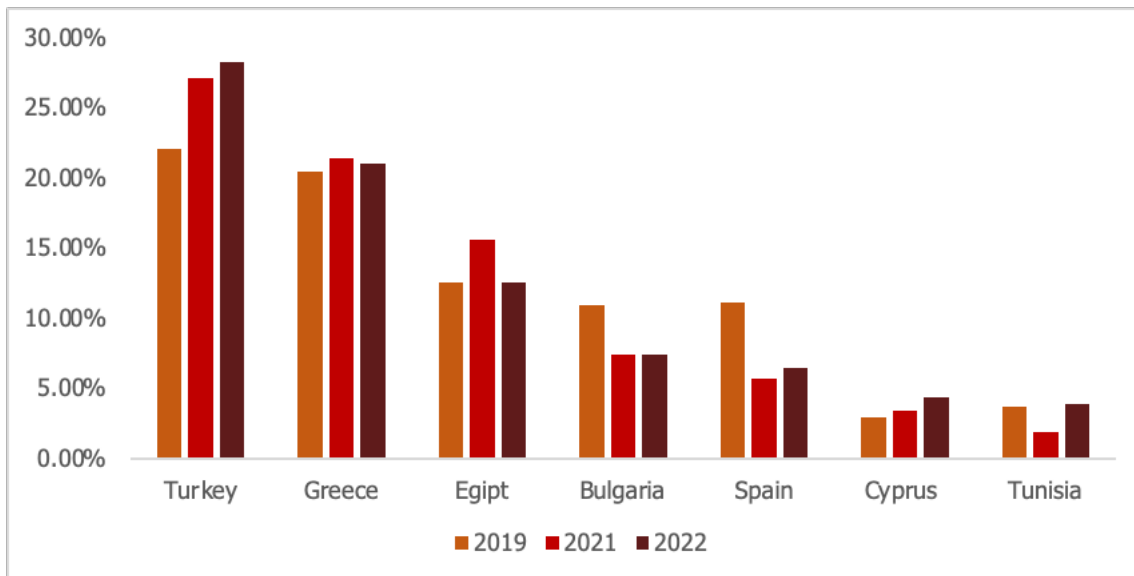


Source: GUS, East Value Research GmbH

### Polish Tour Operator market

In 2022, the leading tour operators in Poland generated revenues of PLN 13bn (+30% vs. 2019) and served 3.4m clients (Source: traveldata.pl). Majority of that revenue came from international travel, with the most popular destinations in 2022 being Turkey (28.32%), Greece (21.07%), and Egypt (12.58%) (Source: travelplanet.pl). At Rainbow, due to fact that its subsidiary company White Olive A.E. owns and operates hotels in Greece, the most popular destinations are Greece (>20% of clients), followed by Turkey (>15%) and Egypt (c. 10%). For these three countries, RBW has already registered a double-digit increase in the number of travel clients from the record high year of 2019 (Source: TravelDATA).

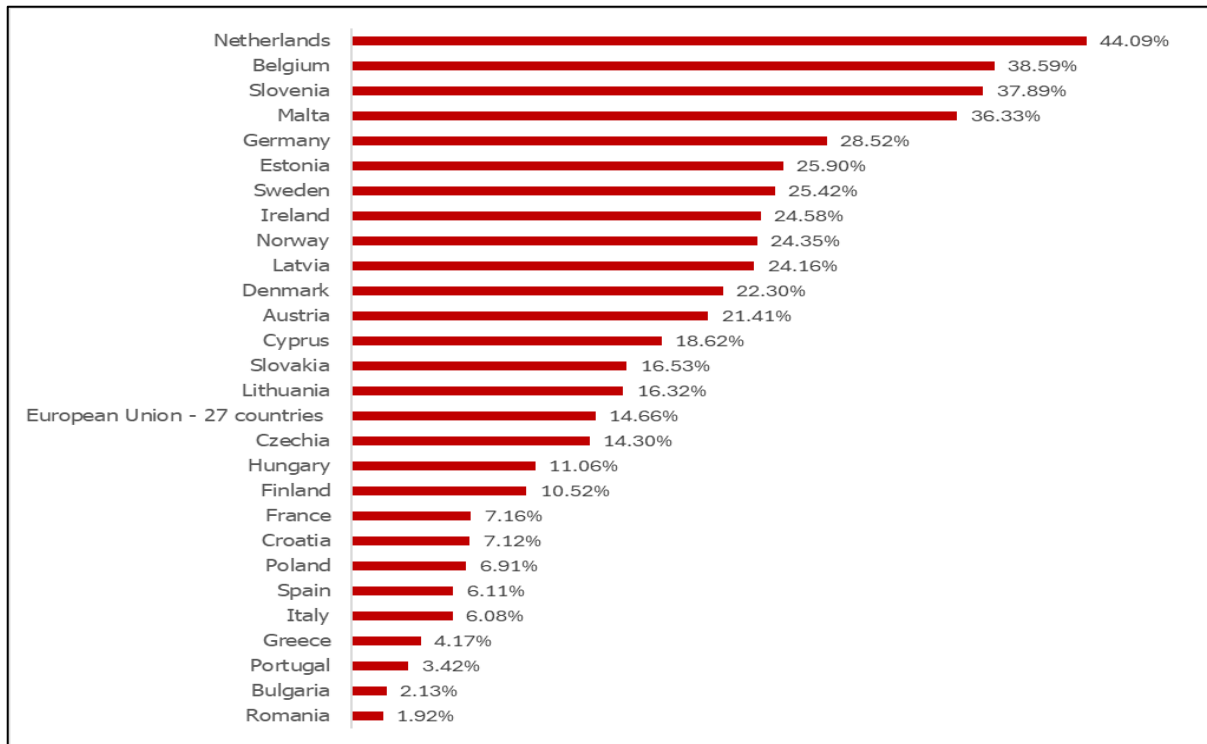
### Most popular holiday destinations of Polish tourists



Source: traveldata.pl, East Value Research GmbH

According to data published by Eurostat, 59.1% of Polish inhabitants aged >14 participated in tourism events in 2022, which is 2.4% less than the European Union average. More importantly, Poland has one of the lowest shares of foreign trips (>4 days or more) in Europe (6.91% of total population vs. 14.66% EU average). This represents a high growth potential for domestic and foreign travel agencies operating in Poland, as the majority of their revenues comes from selling holidays abroad. With Poland's positive GDP projections, we expect Polish citizens to spend more on holidays, especially in foreign destinations.

### Percentage of total population spending holidays abroad in 2022



Source: Eurostat, East Value Research GmbH

The potential of the Polish market has also been noticed by foreign tour operators that have recently entered the Polish tour market, namely Ukrainian Join UP! and Turkish Anex Tourism Group. Both companies are global players with their own aircraft fleet. The Ukrainian company serves >5m travellers per year, while Anex Tourism Group operates in the most popular travel destination of Polish travellers, Turkey. In our opinion, from Rainbow's perspective there is a risk that these new players will try to gain a larger share of the Polish tour operators market by offering low prices.

In the past, several travel companies operating in Europe have gone bankrupt, leading to a loss of public confidence in these companies. Since 2016, there has been a Tourist Guarantee Fund (TFG), which aims to protect the interests of customers using travel agencies operating in Poland. For each trip sold by a travel agency, a small fee is paid into the Guarantee Fund in order to mitigate the negative effects of the travel agency's failure to comply with its terms and conditions. The amount of Rainbow's insurance currently equals PLN 250m.

## Profit and loss statement

in PLNm	2020	2021	2022	2023E	2024E	2025E
<b>Revenues</b>	<b>434.46</b>	<b>1,279.42</b>	<b>2,393.31</b>	<b>3,269.40</b>	<b>3,760.73</b>	<b>4,328.43</b>
Cost of goods sold	-371.22	-1,114.75	-2,116.88	-2,740.95	-3,260.56	-3,770.69
<b>Gross profit</b>	<b>63.23</b>	<b>164.68</b>	<b>276.43</b>	<b>528.44</b>	<b>500.17</b>	<b>557.74</b>
Other operating income	4.35	31.15	6.01	2.40	2.28	2.17
Distribution costs	-68.80	-120.15	-172.39	-235.40	-270.77	-311.65
Administration costs	-24.78	-34.70	-48.52	-58.85	-67.69	-77.91
Other operating expenses	-2.90	-1.65	-7.10	-13.40	-8.64	-7.47
<b>EBITDA</b>	<b>-28.90</b>	<b>39.33</b>	<b>54.42</b>	<b>223.20</b>	<b>155.34</b>	<b>162.88</b>
Depreciation	-16.71	-19.45	-21.59	-20.50	-20.71	-20.91
<b>Operating income</b>	<b>-45.61</b>	<b>19.89</b>	<b>32.83</b>	<b>202.70</b>	<b>134.63</b>	<b>141.97</b>
Net financial result	-3.62	-2.93	-4.08	-5.00	-4.90	-4.80
Gain/Loss from at-equity investments	0.00	0.00	0.00	0.00	0.00	0.00
<b>EBT</b>	<b>-49.23</b>	<b>16.96</b>	<b>28.75</b>	<b>197.70</b>	<b>129.73</b>	<b>137.17</b>
Income taxes	7.02	-0.48	-6.42	-37.56	-24.65	-26.06
Minorities	0.00	0.79	-0.83	-4.00	-4.40	-4.84
<b>Net income / loss</b>	<b>-42.21</b>	<b>17.27</b>	<b>21.50</b>	<b>156.14</b>	<b>100.68</b>	<b>106.27</b>
EPS	-2.90	1.19	1.48	10.73	6.92	7.30
DPS	0.00	1.50	0.50	2.79	2.79	2.92
<b>Share in total sales</b>						
Revenues	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Cost of goods sold	-85.45 %	-87.13 %	-88.45 %	-83.84 %	-86.70 %	-87.11 %
Gross profit	14.55 %	12.87 %	11.55 %	16.16 %	13.30 %	12.89 %
Other operating income	1.00 %	2.43 %	0.25 %	0.07 %	0.06 %	0.05 %
Distribution costs	-15.84 %	-9.39 %	-7.20 %	-7.20 %	-7.20 %	-7.20 %
Administration costs	-5.70 %	-2.71 %	-2.03 %	-1.80 %	-1.80 %	-1.80 %
Other operating expenses	-0.67 %	-0.13 %	-0.30 %	-0.41 %	-0.23 %	-0.17 %
EBITDA	-6.65 %	3.07 %	2.27 %	6.83 %	4.13 %	3.76 %
Depreciation	-3.85 %	-1.52 %	-0.90 %	-0.63 %	-0.55 %	-0.48 %
Operating income	-10.50 %	1.55 %	1.37 %	6.20 %	3.58 %	3.28 %
Net financial result	-0.83 %	-0.23 %	-0.17 %	-0.15 %	-0.13 %	-0.11 %
Gain/Loss from at-equity investments	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
EBT	-11.33 %	1.33 %	1.20 %	6.05 %	3.45 %	3.17 %
Income taxes	1.62 %	-0.04 %	-0.27 %	-1.15 %	-0.66 %	-0.60 %
Minorities	0.00 %	0.06 %	-0.03 %	-0.12 %	-0.12 %	-0.11 %
Net income / loss	-9.72 %	1.35 %	0.90 %	4.78 %	2.68 %	2.46 %

## Balance sheet

in PLNm	2020	2021	2022	2023E	2024E	2025E
Cash and equivalents	28.81	83.93	142.42	200.29	283.63	317.72
Short-term financial assets	0.45	0.05	0.16	0.16	0.17	0.17
Inventories	0.12	0.10	0.18	0.23	0.28	0.32
Trade accounts and notes receivables	12.62	22.12	27.91	60.52	95.37	139.41
Other current assets	192.75	173.85	267.86	294.64	324.11	356.52
<b>Current assets, total</b>	<b>234.74</b>	<b>280.04</b>	<b>438.52</b>	<b>555.85</b>	<b>703.56</b>	<b>814.14</b>
Property, plant and equipment	209.25	237.06	243.79	256.50	256.50	256.50
Other intangible assets	4.95	4.30	4.69	4.40	5.06	5.83
Goodwill	4.54	4.54	4.54	4.54	4.54	4.54
Other long-term assets	13.54	21.65	22.24	22.68	23.14	23.60
Deferred tax assets	7.81	7.44	12.21	36.00	0.00	0.00
<b>Non-current assets, total</b>	<b>240.09</b>	<b>275.00</b>	<b>287.47</b>	<b>324.12</b>	<b>289.24</b>	<b>290.47</b>
<b>Total assets</b>	<b>474.83</b>	<b>555.05</b>	<b>725.99</b>	<b>879.97</b>	<b>992.80</b>	<b>1104.61</b>
Trade payables	39.95	82.05	73.22	43.14	90.62	128.59
Other short-term liabilities	90.36	167.56	274.86	274.86	274.86	274.86
Short-term financial debt	137.84	30.99	44.23	23.00	18.00	13.00
Provisions	1.65	7.01	46.26	63.20	72.69	83.67
<b>Current liabilities, total</b>	<b>269.79</b>	<b>287.61</b>	<b>438.57</b>	<b>404.19</b>	<b>456.17</b>	<b>500.12</b>
Long-term financial debt	71.57	80.87	102.02	64.00	54.00	44.00
Other long-term liabilities	40.66	37.23	30.98	42.32	48.68	56.03
Other provisions	0.00	0.00	0.52	0.00	0.00	0.00
<b>Long-term liabilities, total</b>	<b>112.23</b>	<b>118.10</b>	<b>133.52</b>	<b>106.32</b>	<b>102.68</b>	<b>100.03</b>
<b>Total liabilities</b>	<b>382.02</b>	<b>405.71</b>	<b>572.09</b>	<b>510.51</b>	<b>558.85</b>	<b>600.15</b>
<b>Shareholders equity, total</b>	<b>92.81</b>	<b>108.22</b>	<b>111.96</b>	<b>323.52</b>	<b>383.60</b>	<b>449.27</b>
Minority interests	0.00	41.11	41.94	45.94	50.34	55.18
<b>Total equity and debt</b>	<b>474.83</b>	<b>555.05</b>	<b>725.99</b>	<b>879.97</b>	<b>992.80</b>	<b>1104.61</b>

## Cash Flow Statement

in PLNm	2020	2021	2022	2023E	2024E	2025E
Net income / loss	-42.21	17.27	21.50	156.14	100.68	106.27
Depreciation	16.71	19.45	21.59	20.50	20.71	20.91
Change of working capital	62.32	121.75	3.80	-78.19	-10.52	-31.17
Others	-128.35	-13.45	35.64	7.37	-45.50	-10.97
<b>Net operating cash flow</b>	<b>-91.52</b>	<b>145.02</b>	<b>82.52</b>	<b>105.82</b>	<b>65.37</b>	<b>85.04</b>
<b>Cash flow from investing</b>	<b>-28.91</b>	<b>-44.36</b>	<b>-20.17</b>	<b>-32.92</b>	<b>-21.37</b>	<b>-21.68</b>
Free cash flow	-120.44	100.66	62.35	72.91	44.00	63.36
<b>Cash flow from financing</b>	<b>82.15</b>	<b>-45.53</b>	<b>-3.87</b>	<b>-15.03</b>	<b>39.34</b>	<b>-29.28</b>
Change of cash	-38.29	55.13	58.48	57.88	83.34	34.08
Cash at the beginning of the period	67.10	28.81	83.93	142.42	200.29	283.63
Cash at the end of the period	28.81	83.93	142.42	200.29	283.63	317.72

## Financial ratios

	2020	2021	2022	2023E	2024E	2025E
<b>Profitability and balance sheet quality</b>						
Gross margin	14.55%	12.87%	11.55%	16.16%	13.30%	12.89%
EBITDA margin	-6.65%	3.07%	2.27%	6.83%	4.13%	3.76%
EBIT margin	-10.50%	1.55%	1.37%	6.20%	3.58%	3.28%
Net margin	-9.72%	1.35%	0.90%	4.78%	2.68%	2.46%
Return on equity (ROE)	-38.11%	17.18%	19.53%	71.71%	28.48%	25.52%
Return on assets (ROA)	-8.13%	3.64%	3.52%	18.31%	10.64%	10.06%
Return on capital employed (ROCE)	-19.07%	7.23%	8.87%	34.51%	20.32%	19.02%
Economic Value Added (in PLNm)	-60.79	-8.96	-4.90	113.87	52.30	51.07
Net debt (in PLNm)	180.61	27.92	3.84	-113.29	-211.63	-260.72
Net gearing	194.60%	25.80%	3.43%	-35.02%	-55.17%	-58.03%
Equity ratio	19.55%	19.50%	15.42%	36.76%	38.64%	40.67%
Current ratio	0.87	0.97	1.00	1.38	1.54	1.63
Quick ratio	0.16	0.37	0.39	0.65	0.83	0.91
Net interest cover	12.60	-6.79	-8.05	-40.54	-27.48	-29.58
Net debt/EBITDA	-6.25	0.71	0.07	-0.51	-1.36	-1.60
Tangible BVPS	6.07	7.12	7.38	21.92	26.05	30.56
Capex/Sales	7.08%	3.64%	1.20%	1.01%	0.57%	0.50%
Working capital/Sales	7.95%	-7.10%	-3.47%	-0.15%	0.15%	0.85%
Cash Conversion Cycle (in days)	-29	-21	-8	-7	-6	-5
<b>Trading multiples</b>						
EV/Sales	1.67	0.57	0.30	0.22	0.19	0.17
EV/EBITDA	-25.08	18.42	13.32	3.25	4.67	4.45
EV/EBIT	-15.89	36.44	22.08	3.58	5.38	5.10
P/Tangible BVPS	11.54	9.82	9.48	3.19	2.69	2.29
P/E	-24.13	58.98	47.39	6.52	10.12	9.59
P/FCF	-8.46	10.12	16.34	13.97	23.15	16.08

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