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Haitong Bank in a report from December 16 (08:00) keeps Asseco Poland NEUTRAL (FV PLN 59.9), Comarch BUY (FV PLN 226.9), LiveChat BUY (FV PLN 58.4), Ten Square Games BUY (FV PLN 233.4) and Wirtualna Polska BUY (FV PLN 74.6).

Valuation Methodology

• **Asseco Poland**

We value Asseco Poland using two methods: DCF and peer multiples. Our final fair value is an average of these two methods (each with a 50% weighting). Using DCF we arrive at PLN 64.9/sh while our peer valuation yields PLN 55/sh. Our fair value is PLN 59.9/sh, implying 1% potential upside.

• **Comarch**

We value Comarch using two methods: DCF and peer multiples. Our final fair value is an average of these two methods (each with a 50% weighting). Using DCF we arrive at PLN 231.1/sh while our peer valuation yields PLN 222.7/sh. Our final fair value is PLN 226.9/sh, implying 24% potential upside

• **LiveChat**

We value Live Chat using a DCF while we show peers for illustrative purposes. Using a DCF we arrive at PLN 58.4/sh, implying 44% potential upside.

• **Ten Square Games**

We value TSG using three valuation methods: DCF, EV/EBIT and P/E where each method has an equal weight. Using DCF, we value TSG at PLN 242/share, P/E at PLN 241.2/share and using EV/EBIT at PLN 216.8/share. Our final fair value is PLN 233.4/share and implies 14% upside.

• **Wirtualna Polska**

We value Wirtualna Polska using two valuation methods: DCF and peer valuation. The final fair value is an average of those two methods where each method has an equal 50% stake. Under the DCF we derive a fair value of PLN 78.1/sh while using the peer valuation we derive PLN 71/sh. Our final value points to PLN 74.6/sh, which gives 12% upside potential.

Risks to Fair Value

• **Asseco Poland**

1. Fierce competition in IT contracts from the new EU budget perspective.
2. Salary pressure from low unemployment and the accumulation of IT contracts
3. in the new EU budget.
4. Unexpected fines and provisions on ongoing contracts.
5. Delay in IT spending related to the new EU budget.
6. A lower/higher than expected growth rate at Formula Systems.
7. Visibly lower than expected dividend forecasts.
8. Cash flow deterioration.

• **Comarch**

1. Delay in launch of new EU budget related to change in the Government.
2. Unfavorable court decision on ARiMR fine - in 2014 the Agriculture Agency
3. (ARiMR) levied a PLN 32.5m fine on delays on the OFSA contract, while the
4. total value of the 36-month contract is PLN 29m gross. Comarch does not
5. agree with the fine and has made only a PLN2.3m provision for it.

6. Slowdown in IT market and unsuccessful global expansion.
7. Value destructive acquisitions.
8. A weak euro has a negative impact on revenue and profitability.

- **LiveChat**

1. Live Chat settles ARPU revenues in USD while incurring part of COGS and OPEX in PLN like rentals, headcount costs, equipment costs. Hence, Live Chat's P&L is exposed to USDPLN fluctuations.
2. Increasing competition in the Live Chat market, especially from freemium and bundled providers. The Live Chat market, like many dotcom businesses, typically has low entry barriers which triggers competition. Live Chat has proved already that it can successfully build a client base and slightly increase ARPU without pressure on the profitability side.
3. Salary pressure: Like IT businesses, Live Chat can experience salary pressure risk, especially from talented software developers. Live Chat is less exposed to this risk as it has a very efficient SaaS business model where sales are automated. Live Chat currently employs ca. 130 people and plans further hires.
4. Risk of third-party providers: Live Chat is using third party providers on data server space for its Live Chat application and also uses third party providers to settle cash payments for the Live Chat app. If any of those providers fails to provide their service well, it can result in a bad customer experience and affect churn and future net adds.

- **Ten Square Games**

Macro risks: TSG produces and sells entertainment goods whose consumption is related to the economic strength of households or individuals. Changes in macroeconomic factors in the global market, such as the GDP growth rate, household income and expenditure levels and remuneration levels can have an impact on TSG revenues.

FX risks: TSG incurs significant personnel costs and expenses related to the production of games in PLN, while a significant part of revenues is generated in foreign currencies. In 2017 USD and EUR represented ca. 69% of total revenues. The appreciation of PLN against USD and EUR may, by lowering revenues from sales with fixed costs, incur costs in PLN and negatively affect TSG's financial results.

Ad market risk: in 2017, ca. 33% of total revenues came from advertising whose budgets are susceptible to economic fluctuations.

Competition risk: Free-to-Play (F2P) and the mobile game market have relatively low entry barriers for new entities and easy access to global distribution of new products which results in considerable competition in the market.

Dependence on key distributors: Over 50% of TSG's revenue is generated by games that are distributed by Google, Facebook and Apple through their digital distribution platforms or online portals. A possible change in Google, Facebook and Apple policies regarding the acceptance of products for distribution would require TSG to adapt existing or future products, which may be difficult to achieve in the short term and generate additional high costs. The reliability of the IT systems of distributors, which allows effective sales of TSG products, is also important as failure can lead to disadvantageous situations like: (1) lack of access to the game for existing players; (2) lack of micropayments by players using a given game; (3) inability of potential new players to download the game.

Workforce risk: Personnel are TSG's key asset. The lack of a qualified workforce and higher-than-expected salary pressure may negatively affect the achievement of TSG's strategic goals and its financial results.

Key personnel risk: The competence and know-how of key employees, in particular those who form the management team, as well as management and game designers, are very important for TSG's operations. The departure of people from these groups may result in TSG losing knowledge and experience in the field of professional game design.

Technology risks: (1) TSG uses the Unity 3D engine in the process of game production, periodically purchasing a subscription with access to this technology. There is a risk that fees may increase to a level negatively affecting the profitability of produced games. (2) There is a risk that new technology appears to which TSG will not be able to adapt quickly, thus it may negatively impact its competitive market position. A new technology risk occurs mostly in Evergreen and Legacy types, characterized by a longer and demanding process of game production.

Delays in game production: Game production is a complex and multistage process, dependent not only on the human factor and the implementation of the next stages of work on the game, but also on technical factors. Failure to meet the planned production schedule may delay the game's release, which in turn may have a

negative impact on the sales level of the product and prevent TSG from achieving the expected financial results.

- **Wirtualna Polska**

Macroeconomic situation: the advertising market is highly correlated to GDP. Correlation analysis of historical data shows that the overall Polish ad market grows when GDP grows at least 3% pa.

Growth of internet ad market and e-commerce market: A change in the global economy affecting Polish GDP, the unemployment rate and average salary could also affect the growth rates of the online ad and e-commerce market, which is strongly correlated with general consumption trends.

Competition: both online advertising and e-commerce are very competitive markets as the direct competitors of WPL Group are strong global and local brands such as Google, Facebook, Onet.pl, Gazeta.pl Group, Interia Group

Risk of losing advertising clients: a substantial part of revenues comes from its stable and key client base like media houses (ca. 27% of revs in 2014).

Unsuccessful acquisitions: WPL Group's growth is currently boosted by acquisitions. There is a risk that some acquisitions may be unsuccessful in terms of overpayment or wrongly chosen business profile.

Development of ad blocking applications which are usually part of web browser software or anti-virus software. Their further and faster development can negatively affect the online ad market as a marketing tool and result in a decrease in ad budgets of advertisers.

Weak performance of WPL TV channel: after restructuring measures WPL's TV channel has started to improve its TV audience share and EBITDA numbers. However, competition in the TV ad market is strong while MUX8 faces problems with the TV coverage signal and this issue is currently under negotiation with Emitel. If MUX8 members do not reach a consensus and MUX8 keeps its low coverage ratio, it could reduce the pace of the expected WPL TV recovery.

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