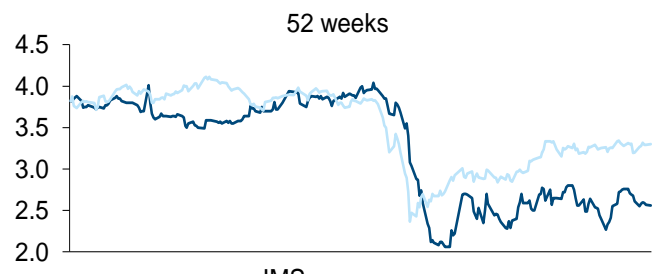




# IMS

Initiated with Buy

PLN mn	2019	2020e	2021e	2022e
Net sales	59.0	43.9	57.3	63.1
EBITDA	18.0	13.6	16.9	18.8
EBIT	11.9	7.1	9.9	10.9
Net result after min.	9.4	5.7	7.9	8.8
EPS (PLN)	0.29	0.17	0.24	0.27
CEPS (PLN)	0.48	0.38	0.46	0.51
BVPS (PLN)	0.62	0.74	0.88	1.00
Div./share (PLN)	0.19	0.05	0.10	0.15
EV/EBITDA (x)	7.6	6.8	5.3	4.6
P/E (x)	13.5	14.6	10.5	9.5
P/CE (x)	8.2	6.8	5.6	5.0
Dividend Yield	4.7%	1.9%	4.1%	5.7%



Performance	12M	6M	3M	1M
in PLN	-32.6%	-36.0%	11.8%	6.7%

Share price (PLN) close as of 11/08/2020	2.56	Reuters	IMS.WA	Free float	31.8%
Number of shares (mn)	32.4	Bloomberg	IMS PW	Shareholders	Dariusz Lichacz (19.7%)
Market capitalization (PLN mn / EUR mn)	,83 / ,19	Div. Ex-date			Michał Kornacki (19.01%)
Enterprise value (PLN mn / EUR mn)	,92 / ,21	<b>Target price</b>	<b>3.73</b>	Homepage:	www.imssensory.com

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## Market leader with appetite for further growth

IMS is the leader in the Polish sensory marketing market (a set of tools to improve the customer in-store experience). Half of the company's sales are conducted through a **subscription model**, which makes operating cash flows more stable and allows not only for growth, but also both share buybacks and annual dividend payments.

**The Polish modern retail space market** can be described as **mature**, with a decelerating supply of new premises. Any changes over the coming years should be of a **quality** nature, enhancing the customer experience. Despite **expected lower traffic in shopping malls in the long run by 5-10% compared to pre-COVID-19 levels**, we do not assume demand for IMS' services to decrease (low, affordable price vs. sales potential for retailers).

Due to the COVID-19 pandemic in 2020, we would expect a y/y decline in both sales and net profit by 26%/43%, respectively, and cautiously assume surpassing 2019 revenues in 2022. The appropriate **know-how** and **diversified portfolio of services** should help IMS to acquire new subscription locations (on average 1.8tsd in 2020-24e vs. 2.3tsd in the 2016-19 period).

On the **risk side**, we mostly see: **competition** (IMS has significantly higher prices, thus we assume potential pressure on margins), the **situation of shopping mall tenants, macro** background (strongly impacting ad budget levels), potential **departure of key specialists** (human capital as key asset of IMS) and **misguided M&As** (one of the strategy pillars).

The positive outlook for IMS, both in terms of new subscription locations and commercialization of proprietary music databases, low indebtedness, ability to adjust to crisis situations and solid dividends lead us to recommend IMS as a **Buy**, with a TP of **PLN 3.73**

## Valuation

We employed a DCF model as our valuation tool, based on our forecasts for 2020-24. The **DCF model**, in our opinion, reflects the value of the company in a more proper way than a peer comparison, as it includes future prospects.

### Assumptions:

Our estimates are based on the following assumptions:

- Risk-free rate of 2.0%, equity premium at 6%, debt premium of 2.0% and beta at 1.0.
- EBIT margin in perpetuity at 14.2% - significantly below long-term average of 18% and 20% from 2019, which should, in our view, mitigate potential risk of price investments.
- CAPEX at 100% of amortization in perpetuity.
- Terminal value growth rate of 1%.
- Nominal tax rate of 19% in 2020-24e

### Peer group comparison

Below we present P/E and EV/EBITDA multiples for peer group, which consist mainly of companies operating in “DOOH” marketing, as an advertising agencies, recording & publishing music.

	Market cap (EUR mn)	P/E			EV/EBITDA		
		2020e	2021e	2022e	2020e	2021e	2022e
Stroer	3 612	36.2	19.7	17.0	12.9	9.8	8.9
JCDecaux	3 406	n/a	34.1	14.8	15.9	11.1	12.6
APG SGA	457	231.3	19.8	16.9	36.2	11.2	9.9
Vivendi	28 654	23.0	19.0	17.0	15.0	13.1	12.4
WPP	8 776	12.4	9.2	8.4	7.9	6.7	6.3
Warner Music	12 415	n/a	46.4	28.4	29.4	21.2	16.8
M&C Saatchi	78	5.4	5.4	4.8	3.2	3.0	2.5
Publicis Groupe	7 476	8.2	7.1	6.6	6.3	5.7	5.5
<b>Median total</b>		<b>17.7</b>	<b>19.4</b>	<b>15.9</b>	<b>14.0</b>	<b>10.5</b>	<b>9.4</b>
<b>IMS</b>		<b>14.6</b>	<b>10.5</b>	<b>9.5</b>	<b>6.8</b>	<b>5.3</b>	<b>4.6</b>
<i>Premium/discount</i>		<i>-17%</i>	<i>-46%</i>	<i>-40%</i>	<i>-51%</i>	<i>-49%</i>	<i>-51%</i>
<b>Implied value</b>		<b>3.1</b>	<b>4.7</b>	<b>4.3</b>	<b>5.6</b>	<b>5.2</b>	<b>5.3</b>

Source: Factset, Erste Group Research

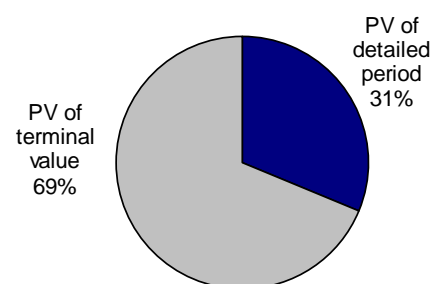
## WACC calculation

	2020e	2021e	2022e	2023e	2024e	Term. value Normalized
Risk free rate	2.0%	2.0%	2.0%	2.0%	2.0%	4.0%
Equity risk premium	6.0%	6.0%	6.0%	6.0%	6.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
<b>Cost of equity</b>	<b>8.0%</b>	<b>8.0%</b>	<b>8.0%</b>	<b>8.0%</b>	<b>8.0%</b>	<b>9.0%</b>
Cost of debt	4.0%	4.0%	4.0%	4.0%	4.0%	6.0%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
<b>After-tax cost of debt</b>	<b>3.2%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>4.9%</b>
Equity weight	88%	88%	88%	88%	88%	90%
<b>WACC</b>	<b>7.4%</b>	<b>7.4%</b>	<b>7.4%</b>	<b>7.4%</b>	<b>7.4%</b>	<b>8.6%</b>

## DCF valuation

(PLN mn)	2020e	2021e	2022e	2023e	2024e	Normalized
<i>Sales growth</i>	-25.5%	30.4%	10.2%	9.2%	6.7%	1.0%
EBIT	7	10	11	12	13	11
<i>EBIT margin</i>	16.1%	17.4%	17.3%	17.1%	17.2%	14.2%
Tax rate	19%	19%	19%	19%	19%	19%
Taxes on EBIT	-1	-2	-2	-2	-2	-2
<b>NOPLAT</b>	<b>6</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>10</b>	<b>9</b>
+ Depreciation	6	7	8	9	10	10
<i>Capital expenditures / Depreciation</i>	88%	92%	91%	89%	85%	100%
+/- Change in working capital	2	-2	-1	-1	-1	0
<i>Chg. working capital / chg. Sales</i>	-14%	-18%	-11%	-14%	-12%	0%
- Capital expenditures	-6	-6	-7	-8	-9	-9
<b>Free cash flow to the firm</b>	<b>4</b>	<b>11</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>9</b>
<i>Terminal value growth</i>						1.0%
Terminal value						114
Discounted free cash flow - Dec 31 2020	4	10	8	9	9	86
<b>Enterprise value - Dec 31 2020</b>	<b>125</b>					
Minorities	0					
Non-operating assets	0					
Net debt	9					
Other adjustments	0					
<b>Equity value - Dec 31 2020</b>	<b>116</b>					
Number of shares outstanding (mn)	32.4					
Cost of equity	8.0%					
<b>12M target price per share (PLN)</b>	<b>3.73</b>					
Current share price (PLN)	2.56					
<i>Up/Downside</i>	45.6%					

## Enterprise value breakdown



## Sensitivity (per share)

		Terminal value EBIT margin				
		13.2%	13.7%	14.2%	14.7%	15.2%
WACC	7.6%	4.12	4.12	4.12	4.12	4.12
	8.1%	3.91	3.91	3.91	3.91	3.91
	8.6%	3.73	3.73	<b>3.73</b>	3.73	3.73
	9.1%	3.57	3.57	3.57	3.57	3.57
	9.6%	3.43	3.43	3.43	3.43	3.43
		Terminal value growth				
		0.0%	0.5%	1.0%	1.5%	2.0%
WACC	7.6%	3.70	3.89	4.12	4.38	4.68
	8.1%	3.54	3.71	3.91	4.13	4.39
	8.6%	3.40	3.56	<b>3.73</b>	3.92	4.15
	9.1%	3.28	3.42	3.57	3.74	3.93
	9.6%	3.17	3.29	3.43	3.58	3.75

## Erste Group Research – Company Report

IMS | Media | Poland

13 August 2020

<b>Income Statement</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
(IAS, PLN mn, 31/12)	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022
<b>Net sales</b>	<b>48.05</b>	<b>52.70</b>	<b>58.97</b>	<b>43.92</b>	<b>57.26</b>	<b>63.11</b>
Cost of goods sold	2.36	3.27	3.23	1.53	1.99	2.19
<b>Gross profit</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
SG&A	0.00	0.00	0.00	0.00	0.00	0.00
Other operating revenues	0.45	0.19	1.55	0.50	0.65	0.72
Other operating expenses	0.55	0.49	0.35	0.41	0.53	0.59
<b>EBITDA</b>	<b>13.46</b>	<b>16.55</b>	<b>17.98</b>	<b>13.56</b>	<b>16.93</b>	<b>18.79</b>
Depreciation/amortization	3.57	4.48	6.10	6.49	6.99	7.90
<b>EBIT</b>	<b>9.89</b>	<b>12.07</b>	<b>11.87</b>	<b>7.07</b>	<b>9.94</b>	<b>10.89</b>
Financial result	-0.12	-0.46	-0.55	-0.11	-0.25	-0.13
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
<b>EBT</b>	<b>9.77</b>	<b>11.61</b>	<b>11.32</b>	<b>6.96</b>	<b>9.69</b>	<b>10.76</b>
Income taxes	1.86	2.36	1.97	1.32	1.84	2.04
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.06	-0.04	-0.04	-0.03	-0.04	-0.04
<b>Net result after minorities</b>	<b>7.86</b>	<b>9.29</b>	<b>9.40</b>	<b>5.66</b>	<b>7.88</b>	<b>8.75</b>
<b>Balance Sheet</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
(IAS, PLN mn, 31/12)						
Intangible assets	3.15	14.12	17.43	19.32	20.25	21.25
Tangible assets	10.43	12.63	12.96	12.04	11.16	10.11
Financial assets	0.49	0.81	1.23	1.23	1.23	1.23
<b>Total fixed assets</b>	<b>14.07</b>	<b>27.56</b>	<b>31.61</b>	<b>32.59</b>	<b>32.64</b>	<b>32.59</b>
Inventories	2.82	3.58	3.53	3.20	3.84	3.95
Receivables and other current assets	13.91	16.72	16.10	14.40	17.66	18.91
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	7.02	0.64	1.29	1.50	2.00	2.50
<b>Total current assets</b>	<b>23.76</b>	<b>20.94</b>	<b>20.92</b>	<b>19.10</b>	<b>23.50</b>	<b>25.36</b>
<b>TOTAL ASSETS</b>	<b>37.83</b>	<b>48.50</b>	<b>52.53</b>	<b>51.68</b>	<b>56.14</b>	<b>57.96</b>
<b>Shareholders'equity</b>	<b>20.73</b>	<b>18.25</b>	<b>19.95</b>	<b>24.03</b>	<b>28.48</b>	<b>32.46</b>
<b>Minorities</b>	<b>0.00</b>	<b>-0.02</b>	<b>-0.06</b>	<b>-0.09</b>	<b>-0.13</b>	<b>-0.17</b>
<b>Hybrid capital and other reserves</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Pension and other LT personnel accruals</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>LT provisions</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Interest-bearing LT debts	5.15	5.87	5.67	5.77	5.09	3.86
Other LT liabilities	0.81	7.79	6.73	5.72	5.72	5.72
<b>Total long-term liabilities</b>	<b>5.96</b>	<b>13.65</b>	<b>12.40</b>	<b>11.50</b>	<b>10.81</b>	<b>9.59</b>
Interest-bearing ST debts	2.84	3.70	5.34	4.84	4.19	3.04
Other ST liabilities	8.30	12.91	14.92	11.40	12.78	13.03
<b>Total short-term liabilities</b>	<b>11.13</b>	<b>16.61</b>	<b>20.26</b>	<b>16.24</b>	<b>16.97</b>	<b>16.07</b>
<b>TOTAL LIAB. , EQUITY</b>	<b>37.83</b>	<b>48.50</b>	<b>52.53</b>	<b>51.68</b>	<b>56.14</b>	<b>57.96</b>
<b>Cash Flow Statement</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
(IAS, PLN mn, 31/12)						
Cash flow from operating activities	9.54	14.50	14.97	10.18	11.66	14.79
Cash flow from investing activities	-0.53	-4.84	-2.44	-8.02	-6.43	-7.19
Cash flow from financing activities	-8.85	-16.04	-11.88	-1.95	-4.73	-7.11
<b>CHANGE IN CASH , CASH EQU.</b>	<b>0.17</b>	<b>-6.38</b>	<b>0.65</b>	<b>0.21</b>	<b>0.50</b>	<b>0.50</b>
<b>Margins &amp; Ratios</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
Sales growth	11.2%	9.7%	11.9%	-25.5%	30.4%	10.2%
EBITDA margin	28.0%	31.1%	30.2%	30.9%	29.6%	29.8%
EBIT margin	20.6%	22.7%	20.0%	16.1%	17.4%	17.3%
Net profit margin	16.5%	17.4%	15.7%	12.8%	13.7%	13.8%
ROE	39.7%	47.7%	49.2%	25.8%	30.0%	28.7%
ROCE	34.5%	29.7%	24.2%	14.4%	18.5%	20.1%
Equity ratio	54.8%	37.6%	37.8%	46.3%	50.5%	55.7%
Net debt	1.0	8.9	9.7	9.1	7.3	4.4
Working capital	12.6	4.3	0.7	2.9	6.5	9.3
Capital employed	22.5	34.9	36.3	38.8	41.4	42.4
Inventory turnover	-1.0	-1.0	-0.9	-0.5	-0.6	-0.6

Source: Company data, Erste Group estimates

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### Erste Group rating definitions

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<b>Buy</b>	> +20% from target price
<b>Accumulate</b>	+10% < target price < +20%
<b>Hold</b>	0% < target price < +10%
<b>Reduce</b>	-10% < target price < 0%
<b>Sell</b>	< -10% from target price

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

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All market prices within this publication are closing prices of the previous trading day (unless otherwise mentioned within the publication).

Detailed information about the valuation and methodology of investment research by the Erste Group Bank AG is provided under the following link: <https://produkte.erstegroup.com/Retail/en/ResearchCenter/Overview/Disclaimer/index.phtml>.

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Target prices for individual stocks are meant to be 12 month target prices, starting from the date of the publication. Target prices and recommendations are reviewed usually upon release of quarterly reports, or whenever circumstances require.

Periodical publications are identified by their respective product name and indicate update frequency as such (e.g. Quarterly). Recommendations mentioned within these publications are updated in an according frequency, unless otherwise mentioned (e.g. a 12M TP is not updated on a monthly base, even when mentioned in summarizing monthly/quarterly product).

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