

## IMS - Buy

Target Price: PLN 3.54 | Close as of 27/04/2021: PLN 3.08

**Analyst:**  
Konrad Grygo,  
+48 22 538 6254  
konrad.grygo@erstegroup.com

### 4Q20 below expectations with uninspiring aroma segment (NEGATIVE)

IMS released 4Q20 financials with following highlights:

- **Sales** of PLN 10.7mn (-39% y/y and +20% q/q) vs PLN 11.3mn expected by us
- **EBITDA** of PLN 2.4mn (-61% y/y and -19% q/q) vs PLN 3.8mn forecasted by us
- **Net profit** of PLN 0.5mn (-87% y/y and -57% q/q) vs PLN 1.9mn expected by us
- **FCF** of PLN 2.1mn (vs PLN 2.6mn a year ago)
- **ND/EBITDA** of 0.8x (vs 0.5x a year ago)
- **Cash** of PLN 2mn (vs PLN 1.3mn a year ago)
- **# of employees** amounted to 48 (vs 58 a year ago)
- **Number of subscription locations** amounted to 20,236 (+403 in 2020 and -56 q/q) – vs 20,333 expected by us

P & L (PLN mn)	Exp. 4Q'20					y/y	q/q	Erste	diff
	4Q19	1Q20	2Q20	3Q20	4Q20				
Revenue	17.6	10.4	6.5	8.9	10.7	-39%	20%	11.3	-5%
Operating expenses	14.3	9.2	5.6	7.6	9.5	-34%	24%	9.5	0%
Profit (loss) on sales	3.5	1.4	0.9	1.3	1.4				
Other operating revenues/exp	1.0	0.0	-0.1	0.2	-0.4				
EBITDA	6.3	2.8	2.2	3.0	2.4	-61%	-19%	3.8	-36%
EBIT	4.5	1.4	0.8	1.5	1.0	-78%	-32%	2.2	-55%
Financial activity, net	-0.2	-0.2	-0.1	-0.1	-0.4				
EBT	4.3	1.1	0.7	1.4	0.6				
Income tax	0.6	0.2	0.0	0.2	0.2				
Net profit after minorities	3.8	0.9	0.5	1.2	0.5	-87%	-57%	1.9	-73%
<b>Margins</b>	<b>4Q19</b>	<b>1Q20</b>	<b>2Q20</b>	<b>3Q20</b>	<b>4Q20</b>	<b>y/y</b>	<b>q/q</b>		
Profit (loss) on sales	20.1%	13.0%	13.8%	14.6%	12.8%	-7.3 pp	-1.8 pp		
EBITDA	35.7%	26.7%	34.0%	33.8%	22.8%	-12.9 pp	-11.1 pp		
EBIT	25.6%	13.2%	11.8%	16.4%	9.3%	-16.2 pp	-7.1 pp		
EBT	24.6%	11.0%	10.6%	15.4%	5.8%	-18.8 pp	-9.7 pp		
Net profit after minorities	21.3%	9.0%	7.4%	13.2%	4.7%	-16.6 pp	-8.5 pp		

Source: Factset, Erste Group Research

#### OPINION: NEGATIVE

4Q20 being affected by lockdown and cautious approach of retailers translated into 39%/61% y/y decline of sales and EBITDA respectively. Key PnL figures came below our estimates with weak performance in aroma segment (124 fewer locations q/q and 42% decrease of average revenue per location vs 31% expected by us). Hopefully along with the reopening of shopping malls (and lower uncertainty among retailers) IMS would be able to return to the growth path regarding new subscription locations.

On the positive side we see 40% y/y growth of OCF and finishing the year with low ND/EBITDA ratio of 0.8x (vs 0.5x a year ago). Moreover, for another quarter audio & video subscriptions proved its relative resilience in

challenging environment as sales declined by only 11% y/y (however the margin on segment turned out to be even higher y/y).

Due to virtually half of the quarter with lockdown in 1Q21 we expect weak sort of figures (sales and EBITDA lower y/y by 26%/43% respectively) and the gradual improvement should take place starting from 2Q21.

#### Detailed description:

BS and CF	4Q19	1Q20	2Q20	3Q20	4Q20	y/y	q/q
Receivables	14.4	9.1	7.5	8.0	7.3	-49%	-8%
Cash	1.3	1.3	4.0	1.1	2.0	58%	80%
Equity	19.9	19.3	19.8	19.5	20.0	0%	2%
<b>Total assets</b>	<b>52.5</b>	<b>48.4</b>	<b>48.5</b>	<b>44.9</b>	<b>46.0</b>	-13%	2%
net debt	9.7	10.2	8.3	10.4	8.9	-9%	-14%
<b>net debt/EBITDA LTM</b>	<b>0.5</b>	<b>0.6</b>	<b>0.5</b>	<b>0.7</b>	<b>0.8</b>		
<b>OCF</b>	<b>3.2</b>	<b>3.0</b>	<b>2.6</b>	<b>0.3</b>	<b>4.5</b>	40%	1369%
CAPEX	-0.6	-0.4	-0.5	-0.6	-2.4	298%	305%
<b>FCF</b>	<b>2.6</b>	<b>2.7</b>	<b>2.1</b>	<b>-0.3</b>	<b>2.1</b>	-21%	-794%
Sales split by segments							
<b>Audio &amp; video subscriptions</b>	<b>5.2</b>	<b>4.9</b>	<b>4.0</b>	<b>4.8</b>	<b>4.6</b>	-11%	-4%
share (%)	29%	47%	61%	53%	43%		
<b>Aroma subscriptions</b>	<b>2.3</b>	<b>2.0</b>	<b>1.4</b>	<b>1.8</b>	<b>1.4</b>	-38%	-21%
share (%)	13%	19%	22%	20%	13%		
<b>Audio &amp; video ad services</b>	<b>7.5</b>	<b>2.8</b>	<b>0.7</b>	<b>1.7</b>	<b>2.5</b>	-66%	46%
share (%)	43%	27%	11%	19%	24%		
<b>Digital Signage systems</b>	<b>1.4</b>	<b>0.3</b>	<b>0.2</b>	<b>0.4</b>	<b>1.6</b>	13%	263%
share (%)	8%	3%	2%	5%	15%		
<b>Others</b>	<b>0.6</b>	<b>0.4</b>	<b>0.3</b>	<b>0.2</b>	<b>0.6</b>	15%	255%

\***Sales:** another lockdown, cautious approach of retailers have most likely affected 39% sales decline y/y (after record-high 4Q19), which came 5% below our expectations. Segment-wise, the largest drop was observed in audio & video ad services with revenues down 66% y/y. On the flip side, Digital Signage reported 13% y/y growth thanks to new contract signed.

We were negatively surprised with aroma division with sales declining 38%, whereas the result on the segment declined by 56% y/y, along with larger than expected drop in average revenue per subscription location (-42% y/y vs -31% expected by us). On top of that, number of aroma locations decreased by 124 q/q most likely due to weaker propensity of retailers to invest in such solutions (in times of inflated uncertainty).

\***BS&CF:** Despite 61% y/y decline of EBITDA, IMS was able to improve OCF by 40% y/y, what we see clearly to the positive side. All in all, FCF came 21% lower y/y and the Company finished the year with moderate ND/EBITDA level of 0.8x (vs 0.5x a year ago).

Result on segment							
<b>Audio &amp; video subscriptions</b>	<b>3.9</b>	<b>3.7</b>	<b>2.8</b>	<b>3.3</b>	<b>3.4</b>	-13%	2%
margin (%)	63%	62%	59%	59%	65%		
<b>Aroma subscriptions</b>	<b>1.3</b>	<b>1.2</b>	<b>0.9</b>	<b>1.1</b>	<b>0.6</b>	-56%	-50%
margin (%)	51%	56%	56%	56%	35%		
<b>Audio &amp; video ad services</b>	<b>5.6</b>	<b>1.7</b>	<b>0.3</b>	<b>0.9</b>	<b>1.6</b>	-72%	67%
margin (%)	74%	62%	42%	54%	62%		
<b>Digital Signage systems</b>	<b>0.6</b>	<b>0.1</b>	<b>0.0</b>	<b>0.2</b>	<b>0.1</b>	-77%	-40%
margin (%)	44%	51%	22%	53%	9%		
<b>Others</b>	<b>-0.2</b>	<b>0.1</b>	<b>0.2</b>	<b>-0.1</b>	<b>0.1</b>		
Subscriptions							
<b># of locations, of which:</b>	<b>19 833</b>	<b>20 081</b>	<b>20 044</b>	<b>20 292</b>	<b>20 236</b>	<b>403</b>	<b>-56</b>
audio & video	15 880	16 020	15 999	16 202	16 270	390	68
aroma	3 953	4 061	4 045	4 090	3 966	13	-124
<b>Average revenue per location (PLN/month)</b>	<b>128</b>	<b>114</b>	<b>90</b>	<b>108</b>	<b>99</b>	<b>-23%</b>	<b>-9%</b>
audio & video	111	102	83	99	94	-15%	-5%
aroma	202	162	116	147	117	-42%	-20%

Source: Factset, Erste Group Research

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## Contacts

### Group Research

**Head of Group Research**  
Friedrich Mostböck, CEFA

+43 (0)5 0100 11902

### CEE Macro/Fixed Income Research

Head: Juraj Kotian (Macro/FI)  
Katarzyna Rzentarzewska (Fixed income)  
Malgorzata Krzywicka (Fixed income, Poland)

+43 (0)5 0100 17357  
+43 (0)5 0100 17356  
+43 (0)5 0100 17338

### Croatia/Serbia

Alen Kovac (Head)  
Mate Jelić  
Ivana Rogic

+385 72 37 1383  
+385 72 37 1443  
+385 72 37 2419

### Czech Republic

David Navratil (Head)  
Jiri Polansky  
Michal Skorepa

+420 956 765 439  
+420 956 765 192  
+420 956 765 172

### Hungary

Orsolya Nyeste

+361 268 4428

### Romania

Ciprian Dascalu (Head)  
Eugen Sinca  
Dorina Ilasco  
Iulian George Misu

+40 3735 10108  
+40 3735 10435  
+40 3735 10436  
+40 758484043

### Slovakia

Maria Valachyova (Head)  
Katarina Muchova

+421 2 4862 4185  
+421 2 4862 4762

### Major Markets & Credit Research

Head: Gudrun Egger, CEFA  
Raif Burchert, CEFA (Sub-Sovereigns & Agencies)  
Hans Engel (Global Equities)  
Margarita Grushanina (Austria, Quant Analyst)  
Peter Kaufmann, CFA (Corporate Bonds)  
Heiko Langer (Financials & Covered Bonds)  
Stephan Lingnau (Global Equities)  
Carmen Riefler-Kowarsch (Financials & Covered Bonds)  
Rainer Singer (Euro, US)  
Bernadett Povaszai-Römhild, CEFA (Corporate Bonds)  
Elena Statelov, CIIA (Corporate Bonds)  
Gerald Walek, CFA (Euro, CHF)

+43 (0)5 0100 11909  
+43 (0)5 0100 16314  
+43 (0)5 0100 19835  
+43 (0)5 0100 11957  
+43 (0)5 0100 11183  
+43 (0)5 0100 85509  
+43 (0)5 0100 16574  
+43 (0)5 0100 19632  
+43 (0)5 0100 17331  
+43 (0)5 0100 17203  
+43 (0)5 0100 19641  
+43 (0)5 0100 16360

### CEE Equity Research

Head: Henning Eßkuchen  
Daniel Lion, CIIA (Technology, Ind. Goods&Services)  
Michael Marschallinger, CFA  
Nora Nagy (Telecom)  
Christoph Schultes, MBA, CIIA (Real Estate)  
Thomas Unger, CFA (Banks, Insurance)  
Vladimira Urbankova, MBA (Pharma)  
Martina Valenta, MBA

+43 (0)5 0100 19634  
+43 (0)5 0100 17420  
+43 (0)5 0100 17906  
+43 (0)5 0100 17416  
+43 (0)5 0100 11523  
+43 (0)5 0100 17344  
+43 (0)5 0100 17343  
+43 (0)5 0100 11913

### Croatia/Serbia

Mladen Dodig (Head)  
Anto Augustinovic  
Magdalena Dolenc  
Davor Spoljar, CFA

+381 11 22 09178  
+385 72 37 2833  
+385 72 37 1407  
+385 72 37 2825

### Czech Republic

Petr Bartek (Head)  
Marek Dongres  
Jan Safranek

+420 956 765 227  
+420 956 765 218  
+420 956 765 218

### Hungary

József Miró (Head)  
András Nagy  
Tamás Pletser, CFA

+361 235 5131  
+361 235 5132  
+361 235 5135

### Poland

Tomasz Duda (Head)  
Cezary Bernatek  
Konrad Grygo  
Emil Poplawski  
Marcin Gornik

+48 22 330 6253  
+48 22 538 6256  
+48 22 330 6254  
+48 22 330 6252  
+48 22 330 6251

### Romania

Caius Rapanu

+40 3735 10441

### Group Institutional & Retail Sales

#### Group Institutional Equity Sales

Head: Brigitte Zeitlberger-Schmid

+43 (0)5 0100 83123

#### Cash Equity Sales

Werner Fuerst  
Josef Kerekes  
Cormac Lyden

+43 (0)5 0100 83121  
+43 (0)5 0100 83125  
+43 (0)5 0100 83120

#### Institutional Equity Sales Croatia

Damir Eror

+385 72 37 28 36

### Institutional Equity Sales Czech Republic

Head: Michal Rizek  
Pavel Krabicka  
Martin Havian  
Jiri Feres

+420 224 995 537  
+420 224 995 411  
+420 224 995 551  
+420 224 995 554

### Institutional Equity Sales Hungary

Levente Nándori  
Balázs Zánkay  
Krisztián Kandik

+361 235 5141  
+361 235 5156  
+361 235 5140

### Institutional Equity Sales Poland

Jacek Jakub Langer (Head)  
Tomasz Galanciak  
Wojciech Wysocki  
Przemyslaw Nowosad  
Grzegorz Stepian

+4822 330 6265  
+48 22 538 62 12  
+4822 538 6219  
+4822 538 6266  
+4822 330 6211

### Institutional Equity Sales Romania

Liviu George Avram

+40 3735 16569

### Group Markets Retail and Agency Business

Head: Christian Reiss

+43 (0)5 0100 84012

### Markets Retail Sales AT

Head: Markus Kaller

+43 (0)5 0100 84239

### Group Markets Execution

Head: Kurt Gerhold

+43 (0)5 0100 84232

### Retail & Sparkassen Sales

Head: Uwe Kolar

+43 (0)5 0100 83214

### Corporate Treasury Prod. Distribution

Head: Christian Skopek

+43 (0)5 0100 84146

### Group Securities Markets

Head: Thomas Einramhof

+43 (0)50100 84432

### Institutional Distribution Core

Head: Jürgen Niemeier

+49 (0)30 8105800 5503

### Institutional Distribution DACH+

Head: Marc Friebertshäuser  
Bernd Bollhof  
Andreas Goll  
Mathias Gindele  
Ulrich Inhofner  
Sven Kienzle  
Rene Klases  
Christopher Lampe-Traupe  
Karin Rattay  
Michael Schmotz  
Klaus Vosseler

+49 (0)711 810400 5540  
+49 (0)30 8105800 5525  
+49 (0)711 810400 5561  
+49 (0)711 810400 5562  
+43 (0)5 0100 85544  
+49 (0)711 810400 5541  
+49 (0)30 8105800 5521  
+49 (0)30 8105800 5523  
+43 (0)5 0100 84118  
+43 (0)5 0100 85542  
+49 (0)711 810400 5560

### Slovakia

Šarlota Šipulová  
Monika Směliková

+421 2 4862 5619  
+421 2 4862 5629

### Institutional Distribution CEE & Insti AM CZ

Head: Antun Burić  
Jaromir Malak

+385 (0)7237 2439  
+43 (0)5 0100 84254

### Czech Republic

Head: Ondrej Čech  
Milan Bartoš

+420 2 2499 5577  
+420 2 2499 5562

### Croatia

Head: Antun Burić  
Zvonimir Tukač  
Natalija Zujic

+385 (0)7237 2439  
+385 (0)7237 1787  
+385 (0)7237 1638

### Hungary

Head: Peter Csizmadia  
Gábor Bálint  
Ádám Szőnyi

+36 1 237 8211  
+36 1 237 8205  
+36 1 237 8213

### Romania and Bulgaria

Head: Ruxandra Lungu

+40 373516562

### Institutional Asset Management Czech Republic

Head: Petr Holeček  
Petra Maděrová  
Martin Peřina  
David Petráček  
Blanca Weinerová  
Petr Valenta

+420 956 765 453  
+420 956 765 178  
+420 956 765 106  
+420 956 765 809  
+420 956 765 317  
+420 956 765 140

### Group Fixed Income Securities Markets

Head: Goran Hobljaj

+43 (0)50100 84403

### FISM Flow

Head: Aleksandar Doric  
Margit Hraschek  
Bernd Thaler  
Ciprian Mitu  
Christian Kienesberger  
Zsuzsanna Toth

+43 (0)5 0100 87487  
+43 (0)5 0100 84117  
+43 (0)5 0100 84119  
+43 (0)5 0100 85612  
+43 (0)5 0100 84323  
+36-1-237 8209

### Poland:

Pawel Kielek  
Michal Jarmakowicz

+48 22 538 6223  
+43 50100 85611

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**Erste Group Homepage: [www.erstegroup.com](http://www.erstegroup.com)**