



# CFA Institute

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## CFA Institute Research Challenge

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# CFA Institute

CFA Institute Research Challenge

**Recommendation:**  
**HOLD**

## Allegro.pl Sp. z o.o. (ALEP.WA)

22<sup>nd</sup> January 2021

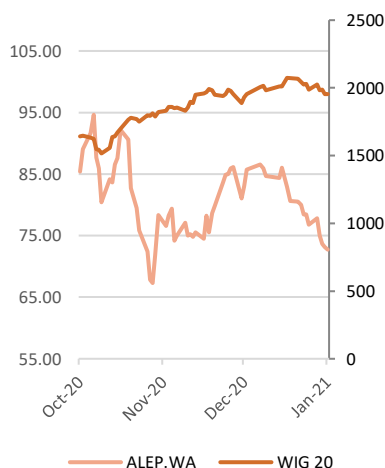
**allegro**

GCIS Sector: Consumer Discretionary  
Industry: Internet and Direct Marketing Retail  
Poland | Warsaw Stock Exchange (WIG20)

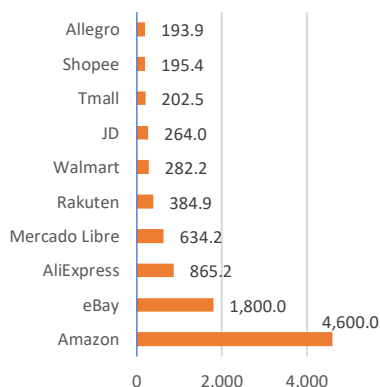
### ALEP.WA Overview (2021-01-22)

<b>Intrinsic Value</b>	PLN 75.35
<b>Market Value</b>	PLN 73.75
<b>Upside</b>	2.17%
<b>Market Cap</b>	PLN 75,446m
<b>Shares Out.</b>	1,023bn
<b>All-time Low</b>	PLN 67.30
<b>All-time High</b>	PLN 94.64
<b>P/E</b>	279.30x
<b>P/BV</b>	10.36x

### ALEP.WA performance in comparison with WIG20



### Most popular e-commerce platforms in the world in 2020 by number of monthly visits (millions)



## EXECUTIVE SUMMARY

Allegro.pl is the biggest e-commerce platform in Poland. When the company went public on October 12<sup>th</sup>, 2020, it resulted in the biggest IPO in Polish history. The main efforts concentrated on acquiring funds of about 900 million PLN and combining it with other assets in order to obtain better net financial leverage and flexibility to advance general corporate goals of the group.

Allegro's shares are listed on the Warsaw Stock Exchange with a ticker symbol of ALEP.WA under the sector of internet commerce. The biggest shareholders of Allegro are Permira VI Investment Platform Ltd. and Cidinan S. à. r. l., two of the major investment firms operating in Europe.

The e-commerce market in which Allegro operates is characterized by a large and increasing number of companies dealing in online sales. In 2020, the number of operating enterprises in this sector increased to approximately 40,000. Selected peers for Allegro, at country-level and global-level, are Amazon.com Inc., eBay Inc., Zalando SE, ceneo.pl, CCC SA, Aliexpress.com, Global Fashion Group, Farfetch and Ocado Group Ltd. In 2020, Allegro received an average 193.9 million monthly visits on their platform, which granted the company with the access to the world's Top-10 e-commerce platforms by number of monthly visits.

As of January 15<sup>th</sup>, 2021, Bid/Ask spread for ALEP.WA is quite narrow (76.7/76.5), indicating a highly liquid market for it with a healthy supply and demand. The stock's P/E ratio is 279.30. A high P/E ratio like this could mean that either ALEP.WA is over-valued, or else that investors are expecting high growth rates in the future.

Despite many traditional indicators signifying a decline in the attractiveness of the stock, after analyzing it with a DCF valuation and Multiples valuation, our recommendation would be to hold. In fact, the DCF approach highlighted a 2.17% upside compared to the market. Considering COVID-19 and a relatively recent IPO, the stock may need some time to stabilize well and register growth.

The investment in ALEP.WA stock involves several risks, the biggest being Amazon's market entry. Allegro's response will be consolidating loyalty of the buyer base through the SMART! program. However, this would cause a decline in (adjusted) EBITDA margin to 40% in 2023 from 51.6% in 2019, and extensive investments in logistics. In order to defend its market share against Amazon, Allegro will be forced to propose a wider range of free delivery options, which will increase logistics costs (we assume SMART! co-financing at 2.5% of GMV in 2024 vs. 1.2 % in 2019). Moreover, Allegro also faces risks such as low market entry barriers, a slowdown in online retail in case the pandemic subsides, and subscriber abuse.

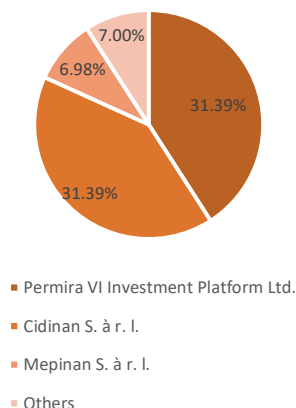
## BUSINESS DESCRIPTION

### Overview

Allegro.pl is the biggest e-commerce platform in Poland. It offers a way of carrying out transactions between a seller and customers, be it private or corporate in both occasions. It was founded at the end of 1999 in Poznań, Poland and products offered on their website go as far as their users put them. That means Allegro has been operating in the Polish internet basically since the beginning of its widespread. Allegro's business model is fully transparent and is based on connecting sellers offering their products with customers looking for the best offers. Allegro's platform is constantly being developed so that the customer experience keeps improving, and sellers can more easily and dynamically develop their business. The company generates profit thanks to the transaction fees that it charges to sellers when the actual sale takes place. Allegro also earns thanks to the sale of advertising space, promotional tools as well as offered subscriptions and access to reports. The fee for the mere listing of the product, charged regardless of whether it was sold, is charged by them only for a few specific categories: Services, Antiques and Art. They take on a large part of the sales risk, and vendors starting up a business do not have to pay upfront costs.

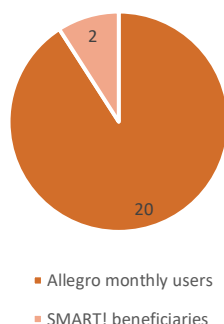
Allegro's IPO on October 12<sup>th</sup>, 2020 became the biggest IPO in Polish history. Main goals consisted in acquiring funds of about 900 million PLN and combining it with other funds in order to obtain better net financial leverage, which should lead to better financial flexibility and general corporate goals of the Group.

### Exhibit 1: Allegro Shareholders composition



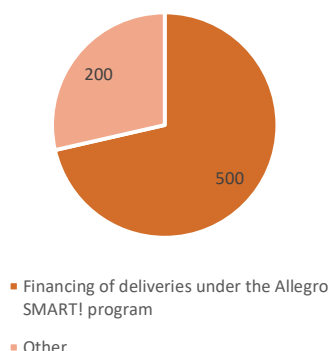
Source: Own elaboration on the base of company data

### Exhibit 2: Number of SMART! beneficiaries compared with monthly users between 2019(Q3) and 2020(Q2) (in millions)



Source: Own elaboration on the base of company data

### Exhibit 3: Investments into SMART! and other projects in 2019 (million PLN)



Source: Own elaboration on the base of company data

Allegro's shares are listed on Warsaw Stock Exchange with a ticker symbol of ALEP under the sector of internet commerce. The biggest shareholders are Permira VI Investment Platform Ltd. and Cidinan S. à r. l., both have the same amount of shares in their wallets, with the amount being 321,25 million shares (31.39 % of all company shares). Thanks to this, Permira and Cidinan are the 3<sup>rd</sup> and 4<sup>th</sup> biggest investors on the whole Warsaw Stock Exchange. The 3<sup>rd</sup> and last major shareholder is Mepinan S. à r. l. with 71,39 million shares (6.98 % of all company shares).

In 2019 alone, 63% of Poles over the age of 16 visited Allegro.pl, which accounts for 20 million customers each month. Their clients put up for sale about 100 thousand new products every day. There are over 117 thousand active sellers on the platform, including official accounts of several major brands.

An important part of Allegro's identity is innovation and acquisition of innovative companies. In 2006, Allegro acquired ceneo.pl, which became the biggest online price comparison tool in Poland. Allegro launched their mobile app for iOS and Android smartphones back in 2010. In addition to that, the company offers a subscription program called Allegro SMART! for their customers, since 2018. In 2019 Allegro acquired eBilet.pl, the Polish leader of online ticket sales for concerts and other events. In 2020 they developed their own payment method called Allegro Pay and began testing it.

Allegro puts a big emphasis on creating a bond with their userbase through a variety of programs rewarding loyalty. Beneficiaries of Allegro SMART! program are provided with free deliveries, exclusive early access to ticket sales for certain events held by eBilet.pl, special offers (SMART! offers) on products, priority with returns, and many other bonuses. Despite recent plans of making Allegro SMART! a little bit pricier (from PLN 8.99 to PLN 10.99 per month), Allegro is proving their loyalty to customers by not changing the cost of that service for users who are already subscribed.

There are over 2 million SMART! customers with order frequency being 2.5 times more than customers not enrolled in the program.

## INDUSTRY OVERVIEW

### Market Environment

The e-commerce market in which Allegro operates is characterized by a large number of companies dealing in online sales. In 2020, the number of operating enterprises in this sector increased to 40,000. Poland is a country where the offer and sale of products and services online has seen one of the largest increases in Europe. A major factor contributing to the acceleration of the transition from stationary to online sales was the impact of the COVID-19. Other reasons for the increased importance of online sales are the fact that in Poland trade on Sunday is limited, lack of queues, and speed of order fulfillment. This may suggest a continuing upward trend in the number of companies in the e-commerce sector. However, as research shows, the allegro website has a dominant position, as it accounts for 55.8% of internet audience (see Exhibit 6).

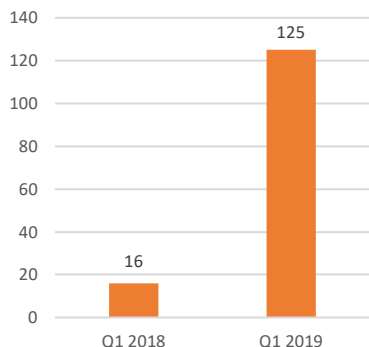
### Peers

**Amazon.com, Inc:** American e-commerce company, a joint-stock company established in 1994 in Seattle. It engages in B2C e-commerce and operates the world's largest online shop. Its top offer, Prime, costs EUR 7.99/month and can be cancelled at any time. Same day delivery (for eligible orders over EUR 20 in selected areas of Germany) EUR 0, Premium delivery EUR 0, Standard Delivery EUR 0. Participation in this program also gives access to Prime Video, free access to magazine books and e-books (Prime reading). You can take up the offer for 6 months as a trial period, which is free.

**eBay Inc:** company that runs an online auction service. eBay was founded on 3<sup>rd</sup> September 1995, and currently operates in 37 countries. In Poland, at the beginning of its operation, it did not charge fees or commissions for its services. Thanks to this it became the second auction portal. However, when fees were introduced in 2008, its popularity dropped dramatically, as 80% of auctions were cut out. The service now ranks in the Poland's Top Five with a 1.34% share of the total number of auctions.

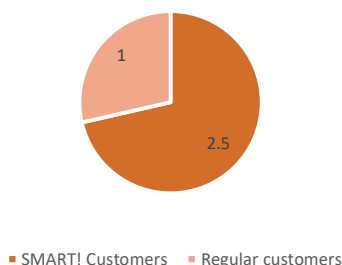
**Zalando SE:** German mail order online shop based in Berlin. Sales focus mainly on footwear and clothing, with a wider range of available products including decorative products, sunglasses, watches and jewelry. The shop offers a wide assortment from over 3000 brands. Zalando is one of the best-known, leading online shops in Germany. In addition, since 2009, starting from German-speaking Austria, the company has expanded its market to other European countries such as France, Italy, the Netherlands, Switzerland, Denmark, Finland, Norway and Poland. Zalando also sells in Brazil and Russia through spin off companies, Brazil's Dafiti and Russia's Lamoda. In May 2012, the German online boutique entered, among others, the Polish market. In Poland, Zalando has decided for a marketing strategy similar to that one used in Germany. Potential customers are provided with a large selection of products, including many brands which are hardly available in Poland. Additionally, shopping on Zalando.pl does not require a minimum order amount and shipping and returns are always free of charge.

**Exhibit 4: Number of companies selling on Allegro (thousands)**



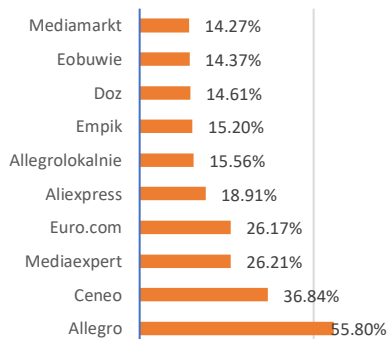
Source: Own elaboration

**Exhibit 5: Order frequency**



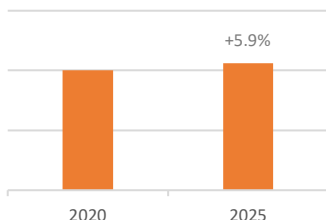
Source: Own elaboration on the base of company data

**Exhibit 6: Most popular online shops in Poland in 2020, by reach of internet audience**



Source: Own elaboration on the base of statista.com

**Exhibit 7: CEP Market expected CAGR**



Source: Own elaboration on the base of Refinitiv

**Ceneo.pl:** most broadly used online price comparison tool in Poland. The number of users of Ceneo.pl, as of June 2020, was 10.94 million people, an increase compared to the previous period by 2,15%. Ceneo's website has 18,000 online stores, its operation is based on searching for offers in its database and then matching them to the consumer's needs. Ceneo.pl belongs to the same capital group as Allegro.pl.

**CCC S.A:** one of the largest footwear manufacturers in Europe. PLN 5.8 billion of consolidated sales revenue for 2019. CCC shares reached the highest price, PLN 312, on January 22<sup>nd</sup>, 2018. Increase since the debut on the Stock Exchange in 2004 by over 3000% (from PLN 9.95 to PLN 312). 26 million - the number of pairs of shoes produced by the factory in Polkowice in 2019. The share of CCC in the retail footwear market in Poland is estimated at approximately 25%. The main market of the CCC Group is the broadly understood middle-income segment of market. In the Polish market, stationary sales are carried out by CCC, eobuwie.pl, DeeZee and Gino Rossi. Sales are also conducted via the internet through the domains eobuwie.pl, ccc.eu, deezee.pl and gino-rossi.com.

**AliExpress.com:** Chinese sales service, belonging to the Alibaba Group. It was launched in 2010 as a platform dedicated exclusively to retail sales. The product providers that use the services of the AliExpress website are mostly small to medium sized companies from China. The site has over 150 million users worldwide, and 5.87 million active users in Poland in 2020.

**Global Fashion Group:** it is a publicly traded e-commerce fashion site in emerging markets based in Singapore. The first GFG market was established in 2011. Currently, they have spread to four continents with 17 offices and 10 fulfilment centers. They have 1 billion customers and over 10,000 fashion and lifestyle brands. They have markets such as Dafiti in Latin America (Brazil, Argentina, Colombia, Chile), La moda in Eastern Europe (Russia, Ukraine, Belarus) and Kazakhstan, ZALORA in South East Asia (Indonesia, Philippines, Singapore, Malaysia, Brunei, Taiwan, Hong Kong) and The Iconic in Oceania (Australia and New Zealand). On the Asian market, GFG can boast over 50 million visits per month on their website, with more than 2 million active customers. Their activity is even more widespread in South America, where they gather more than 60 million online visits per month, with more than 5 million active customers. Concerning the Eastern Europe market, they hold more than 17,000 pick-up points and 3,000 sales representatives. 99% of their orders are shipped on time, indicating how important timeliness is for the company.

**Farfetch:** British-Portuguese online luxury fashion retail platform that sells products from over 700 boutiques and brands from around the world. The company was founded in 2007 and has headquarters in London. Farfetch works with brands such as: 10 Corso Como (Italy), 11 Honorè (United States), 13metriquadri (Italy), 20twelve (United States), 4 (Kuwait), 400 M2 (France), 519 (Italy), 58M (France), A Ma Maniere (United States), A Me Mi (Italy).

**Ocado Group Ltd:** the world's largest online supermarket focused on food sales. It has approximately 250,000 active customers. Ocado Zoom is a one-hour grocery service. Consumers can receive their products within 60 minutes or at a designated time on the same day. Ocado Retail Ltd is a joint venture between Marks & Spencer Group and Ocado Group.

More relevant information related to the peers' offering for sellers and customers is available in Appendix 11.

## INVESTMENT SUMMARY

### Stock analysis

#### Performance analysis:

Going by the stock performance of ALEP.WA since the company went public on October 12<sup>th</sup>, 2020 it has seen a series of ups and downs. After touching its highest price of PLN 94.64 per share on October 27<sup>th</sup>, 2020, 15 days after its IPO the stock price has encountered some volatility. However, the price has never gone below the price it was launched at (PLN 43). As of January 16<sup>th</sup>, 2021, the current price is PLN 76.75, experts' indication is a strong sell, and the stock outlook is bearish. Let us try to understand why.

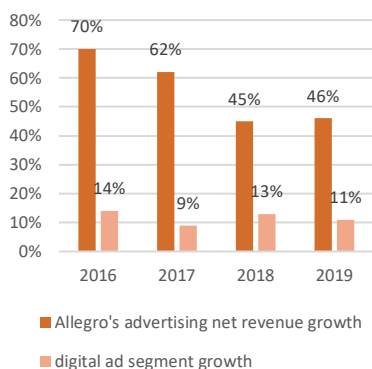
With 1.023 billion ordinary shares outstanding, the stock has enough trade volume and turnover to affect the momentum of the national index, WIG20. Both seem to show some synchronism and correlation in their movement as well. It is a positive indicator, as the Polish market itself is expected of quite promising results.

#### Bid/Ask Spread:

The bid-ask spread is essentially the difference between the highest price that a buyer is willing to pay for an asset and the lowest price that a seller is willing to accept. The bid represents demand and the ask represents supply for an asset. The spread is the transaction cost and is considered the de facto measure of market liquidity. The lower the spread is, the more liquid the instrument or asset will be.



### Exhibit 8: Digital advertising segment in Poland and Allegro's advertising revenue growth



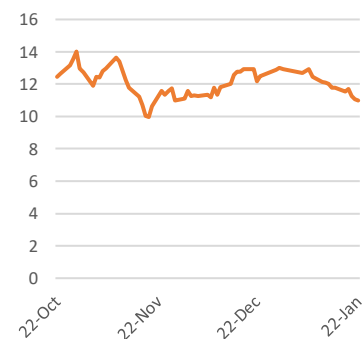
Source: Own elaboration

### Exhibit 9: Stock price performance (PLN)



Source: Own elaboration on the base of Refinitiv

### Exhibit 10: Price to Book Value per share



Source: Own elaboration on the base of Refinitiv

### Exhibit 11: ALEP.WA relative % change

Change (%)	Stock	Index
5 Days	-4.76	-1.52
1 Month	-9.39	-13.15
3 Months	-9.39	-20.51
Year to Date	-9.39	-10.71

Source: Refinitiv

For ALEP.WA, the spread is quite narrow (Bid/Ask: 76.7/76.5), indicating a highly liquid market for it with a healthy supply and demand.

### P/E ratio:

P/E ratio is a very important valuation ratio as it can be used to measure a company's worthiness in the eyes of investors, and it can determine if the actual share price actually represents the earnings per share accurately or not.

For Allegro's stock, P/E ratio is 279.30. A high P/E ratio like this could mean that either ALEP.WA is overvalued, or else that investors are expecting high growth rates in the future. But since in Poland, online retail sector is witnessing and registering a high growth period, even more than the software and IT industry this P/E was expected. One may consider a high P/E like this to be an indicator of expected growth in the future. It is a positive signal, and we may assume that the stock is being perceived positively by investors.

### News outlook:

Since the company IPO is relatively recent, a lot of stock performance can be influenced by company events and announcements. Let us study the market announcements made in 2021 and how they could influence investors behavior:

- Allegro registered slow growth, with a 3.2% decline after 2020(Q3) results.
- Allegro's delivery partner in Poland, InPost, released a few key announcements on January 13<sup>th</sup>, 2021:
  - InPost doesn't plan to announce dividends for shareholders anytime soon. This could mean they wish to invest more into expansion plans and their own service cycle;
  - InPost announced they have no plans to raise any more money from the market anytime soon, hence no release of more shares on the market. This could signal company's positive health and positive outlook internally as they don't wish to liquidate the control any further;
  - InPost plans for Amsterdam IPO soon (debuted successfully on January 27<sup>th</sup>, 2021, raising EUR 2.8 billion);
  - InPost announces plans for expansion in France, Spain and Italy. This would mean easy access of market data for Allegro as well.
- Allegro's shares have risen by almost 100% since their debut and are the most valuable ones on national stock index.
- Reports from 2020(Q3) indicate net loss of 130.6 million PLN versus profit of 73.0 million PLN one year ago. However, it is quite typical of companies which work on retail model to show loss in the quarter results just around or after the IPO launch, also it could be the effect of increased logistic costs because of COVID-19 outbreak.
- 2020(Q3) net revenue of 928.7 million PLN versus 620.2 million PLN one year ago.
- 2020(Q3) EBITDA of 284.7 million PLN versus 319.8 million PLN one year ago.
- In 2020(Q3) the Gross merchandise volume (GVM) on the group's platform amounted to 8.25 billion PLN which signifies a 48.7% increase year on year.
- The number of active users reached 12.6 million, up 12.9% year on year.

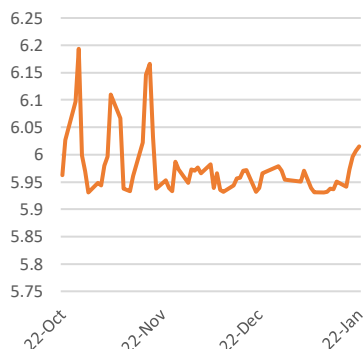
Despite low EBITDA in last quarters of 2020, the company holds a very positive outlook for future growth. The interest expense on the other hand is expected to reduce drastically in the next 2 years.

Positive social media and news outlook leads us to believe that the investor sentiment is a strong positive for Allegro stock. Relative stock price change in percentage affirms our belief (see Exhibit 11).

On January 27<sup>th</sup>, 2021, Amazon announced that they were going to launch a Polish-based website to better serve customers currently diverted to its German site, sending shares in top local e-commerce rival Allegro down by over 7% the same day on announcement. Amazon's long anticipated entry is likely to shake up and further grow e-commerce in Poland, where parcel lockers are commonly used instead of home delivery. InPost's parcel lockers are widely used by both buyers and sellers on Allegro's site. If someone wants to increase market share, they have to take it away from someone else. Each piece of the cake taken by Amazon, will be at the cost of Allegro, but the e-commerce market will grow as well, said Konrad Ksiezopolski, analyst at Haitong Bank (source: Refinitiv). Allegro, whose shares fell by 6.3% by 12:20 GMT, commented to Reuters that it had been growing customer numbers while competing with Amazon for several years. Amazon did not say when it will launch the Polish shopping website and has decided for InPost lockers for parcel storage it would use. It is assumed though that ultimately it will rather grow its own locker network. InPost declined to comment on Amazon's announcement on Wednesday but said in its listing prospectus that the potential entry of Amazon would be positive for the overall Polish e-commerce market, which is expected to be worth 95 billion PLN (\$25.25 billion as of January 27<sup>th</sup>, 2021) in 2024. It is expected to grow at 14% per annum from 2020 to 2024, outgrowing the UK, Europe and China, it said in the prospectus. Shares in InPost drifted off highs to be up 16% by 13:12 GMT after a surge of more than 20% earlier.

In a recent development, on February 1<sup>st</sup>, 2021, Amazon signed a 5-year agreement with InPost. Under the agreement, the company will be able to use InPost's distribution network – both parcel machines and home deliveries, a significant setback to Allegro.

## Exhibit 12: Volatility estimates (%)



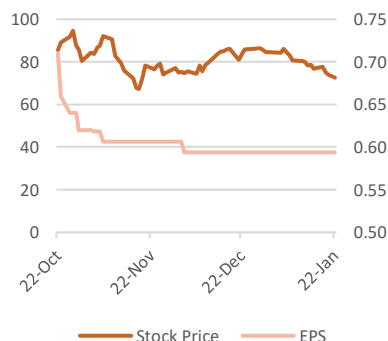
Source: Own calculations on the base of Refinitiv

## Exhibit 13: Consensus

	Consensus	% Upside
Recommendation - Mean	3.09	HOLD
Previous Close	PLN	76.8
Price Target - Mean	PLN	88.4
		15.13

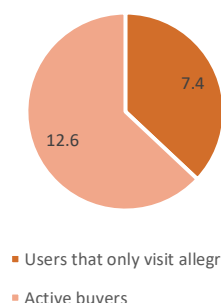
Source: Refinitiv

## Exhibit 14: Stock price (PLN) vs EPS



Source: Own elaboration on the base of Refinitiv

## Exhibit 15: Active buyers vs Non-buyers between 2019(Q3) and 2020(Q2)



Source: Own elaboration on the base of company data

## Volatility:

Regarding volatility, with a weighted moving average of daily returns over the last year of 7.8%, it is relatively a stable stock considering the kind of year 2020 (COVID-19) was. It also marks a good indication for ALEP.WA.

## EPS:

Stock price changes are notoriously difficult to predict, but the earnings-per-share figure is a good starting point for gauging a company's prospects. If a firm's EPS rises and meets or even beats consensus forecasts, the firm's shares stand to rise.

EPS for the company has been on a dwindling decline (see Exhibit 14), meaning for every penny invested by investors in the company in the form of bought shares, company has not profited equally well enough from it. In fact, for every 1 PLN invested by an investor, company has earned only 0.59 mean of earnings. It is not bad, however the decrease is a growing concern.

## Net income vs Stock price:

Net income is the profit a company earns from its operations. When net income is retained by a company instead of being distributed to shareholders as dividends, it adds to the shareholders' equity.

Therefore, one may assume that higher net income could be a strong signal for investors for future profits, hence they might be willing to pay more for each share.

After 2020(Q3) results, net income or revenue/EBIT in general have dropped for the company signifying a worrying trend for the investors, which is probably why expert outlook is a strong sell for the stock right now.

Another important ratio is stock price to revenue sales. However, it's not a very accurate measure of valuation. The price-to-sales ratio does not account for the debt on a company's balance sheet. A firm with no debt and a low P/S metric is a more attractive investment than a firm with high debt and the same P/S. At some point, the debt will need to be paid off, and the debt has an interest expense associated with it.

Since Allegro has a relatively low debt when compared to its peers, and a phase of high revenue sales leading to a low P/S score, it is an attractive investment.

## Recommendation

Major financial expert institutions such as Erse group, HSBC, UBS etc. have the view to sell or strong sell for the stock currently, with some sticking to hold, and very few for buy and none for a strong buy (see Exhibit 18 for analysts' recommendation). As of **January 15<sup>th</sup>, 2021**, our recommendation would be to hold. As many traditional indicators signify a decline in attractiveness of the stock, however the times are tricky. Considering COVID-19 and a relatively new IPO, the stock may need some time to stabilize well and register growth. Also, the prospects of the company seem very promising, so at the moment our recommendation would be to hold onto the stock for better times.

## VALUATION

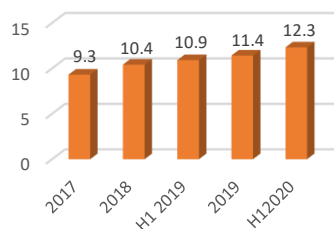
### Revenue

In 2020, with a healthy growth rate of about 51.7%, the corresponding net revenue was estimated at around 3,932 million PLN. This substantial increase resulted primarily from the increase in retail revenue, advertising revenue, and marketplace revenue. The marketplace revenue increased by about 50.2%, the advertising revenue increased by 62.7%, and the retail revenue also went up by 69.9% in 2020(Q3) compared to the same period in 2019. The primary reason for these increases is the result of the COVID-19 lockdown. It boosted the high level of customer purchase on the Group's e-commerce marketplace through SMART! and customers who received the SMART! Free converted into paid subscribers. Therefore, the number of active buyers and GMV per active buyer increased significantly compared to the previous capacity. The value of revenue also reached a higher level by improving digital advertising performance and the strong performance of sponsored offer ads and the higher attractiveness to the customer as higher sales on main platform and SMART! After getting a peak in 2020 due to pandemic, the company was estimated to increase sustainably by 20% each year in the future.

### Capital expenditure

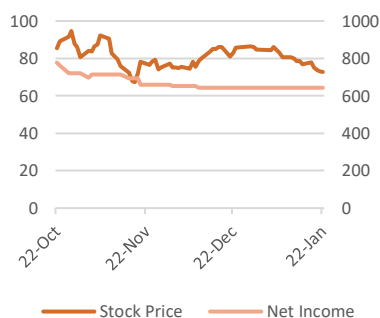
Allegro's capital expenditure is related to its operating activities, including the additional capacity to support operations and investments in developing technology. Total capital expenditure means cash outflows in property, plant and equipment, and intangible assets and comprise capitalized development costs and other capital expenditure. In 2020, The increase was mainly due to the increase in capitalized development costs related to the development of Allegro platform and SMART!, and corresponding to an increasing trend in the company's number of employees. It is expected that capital investment in the next period will increase with investments related to Allegro Fulfillment. The significant fulfillment CAPEX is expected in 2021 as a new distribution center (DC) is fitted out. For this reason, the assumption was made to estimate the following years. The growth of CAPEX in 2021E is predicted to increase by 90%

### Exhibit 16: Number of active buyers (millions)



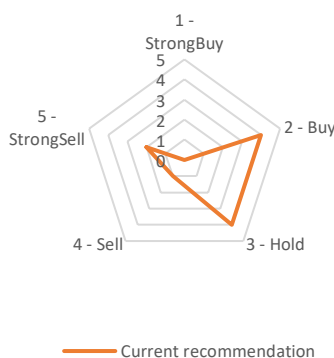
Source: Own elaboration on the base of company data

### Exhibit 17: Stock price (PLN) vs Net income (million PLN)



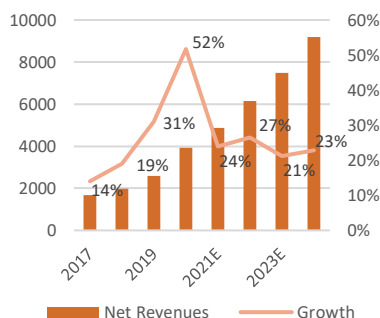
Source: Own elaboration on the base of Refinitiv

### Exhibit 18: Analyst recommendation summary



Source: Own elaboration on the base of Refinitiv

### Exhibit 19: Net revenue (million PLN) and its growth



Source: Own elaboration on the base of company data

compared to 2020E. However, from 2022E to 2024E, CAPEX's growth in investment seems to decrease, but the amount of CAPEX still keeps increasing in the future. The growth and CAPEX values are shown Exhibit 23.

### Net working capital

Net Working Capital is calculated by subtracting current liabilities (except the short-term debt) from current assets (except short-term investment). Group has a positive Net Working Capital (see Exhibit 24), that means the company has enough current assets and cash left over after paying its current liabilities. The NWC is estimated to increase every year from 2020E to 2024E. It may determine that the company has more flexibility to spend on growing its business.

### WACC

We calculated a Weighted Average Cost of Capital of 7.2% using the following formula:

$$WACC = \frac{E}{D+E} \cdot k_e + \frac{D}{D+E} \cdot r_d \cdot (1-t)$$

For Allegro Group, that means 7.2% is the rate of return required by Allegro's providers, including both shareholders and debtholders. According to the calculation, the WACC consists of 2 components, namely the cost of equity and cost of debt. Allegro's effective interest rate on its debt or so-called cost of debt is around 5.6%. The cost of debt was estimated using company data from financial statements. This rate helps the investors understand Allegro's risk level, comparing it with others. The next one is the cost of equity. It was calculated by using the CAPM model. We considered a 10-year government bond risk-free rate of 1.5%. The sum of market and country risk premium is equal to 6.6% (based on Prof. Damodaran's estimation, please see <http://pages.stern.nyu.edu/~adamodar/>). The unlevered beta is 1.07 and is estimated depending on the industry by Prof. Damodaran. From a perspective of an investor who is part of Allegro's ownership structure, 7.3% is the return rate required on an equity investment. A more detailed breakdown of the WACC assumptions is presented in Exhibit 26.

### Multiples valuation

According to valuation methods, multiple valuations are useful for comparing the firm to similar ones. This section has compared Allegro with other companies in the same Retail industry (online) in the European region. The selected peers for this valuation are: Global Fashion Group, Zalando SE, Farfetch, and Ocado Group Ltd. One thing to note regarding multiples valuation: companies are not of the same size through market capitalization data. Therefore, this valuation's is not recommended to be used as the main source for comparison between companies. Based on the data presented in Appendix 9, the P/E ratio of Allegro for the 2020 period is 115.55, which was higher than the industry ratio equaling 48.68 (see Exhibit 28), which means that the Allegro stocks appear to be overvalued in comparison with the average P/E of the whole Retail (online) industry in Europe with about 87 companies. On the other hand, Allegro's P/E was closer to standard than all four companies compared with the average ratio. The second ratio is P/S, with Allegro's P/S being 17.98, which is higher than the industry's average ratio of 7.105. The next indicator mentioned in the Appendix 9 is EV/EBITDA, and Allegro has a lower ratio than the industry's average ratio. From all three indicators, we conclude that by 2020, Allegro's share price was overvalued and above industry standards. The reason that can be given here is that in 2020 Allegro recorded a relatively high revenue compared to the previous years. However, due to paying a high degree for investment to develop and IPO launching cost, the profit in 2020 was reduced significantly. Based on forecast data in 2021, the company has quite a positive figure on the number of profits, so it is expected that the company will have a P/E of about 64.59 in the future.

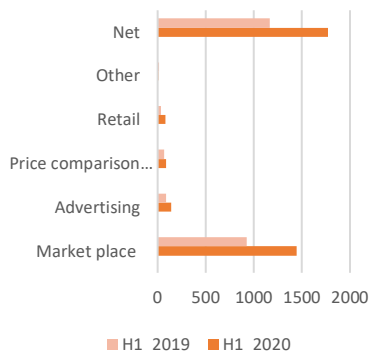
The notion of a P/E ratio higher than an average ratio means that the company is overpricing for their share and reflects that investors have high expectations for growth in the upcoming year.

## FINANCIAL ANALYSIS

### Sustained earnings

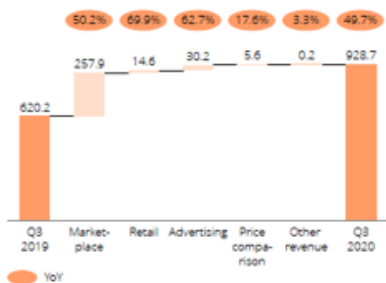
The revenue in 2020E is around 3,932.5 million PLN, with the growth rate being highest in the forecast with 52%. However, the net profit in 2020E is expected by 392.3 million PLN, with the net income margin only reach 10%, which is lower than the Net Income margin in 2019 by 5%. Despite the increase of demand, following the COVID-19 lockdown restrictions, the company takes various cost such as the higher cost for delivery, COVID-19 related support for an employee with 10,000 PLN share grant on the first day of trading (October 12<sup>th</sup>, 2020) and, a donation to various public benefit organizations. The next reason is that the IPO cost consists of the legal and advisory fees related to the IPO and the pre-IPO Management Incentive Plan. As our estimation and company information, the financial result is higher than another year because of recognition of a non-cash charge to financial expense due to the Group's decision to refinance its borrowings at IPO in October 2020. Therefore, the second lien's early repayment is charged as a fee, and the increase in deferred borrowing cost and interest paid and payable for financial

**Exhibit 20: Types of revenue (million PLN)**



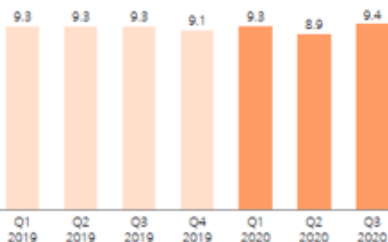
Source: Own elaboration on the base of company data

**Exhibit 21: Net revenue bridge (million PLN)**



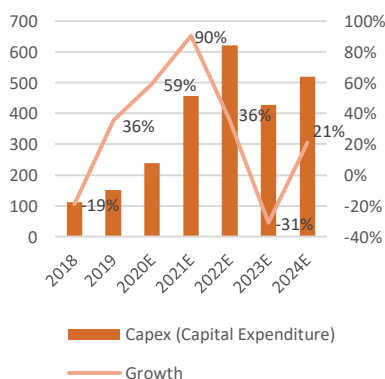
Source: Allegro Business Overview presentation

**Exhibit 22: Take rate (%)**



Source: Allegro Business Overview presentation

**Exhibit 23: CAPEX (million PLN) and its growth (%)**



Source: Own elaboration on the base of company data

liabilities. We expect steady growth of earnings from 2011E to 2024E because based on the information from the group they are likely to not have any specific or new project in the future.

## DuPont Analysis

The DuPont analysis is a useful technique used to decompose the different return drivers on equity (ROE). Notably, the main drivers of such a high level of probability were mainly equity multiplier, net income margin, and total assets turnover. In the analyzed historical period and future period, Allegro Group has a higher return on equity, except in 2020E (2019 ROE 5.88%, 2020E ROE 4.86%). The primary reason for it is due to the lower net income margin and lower equity multiplier. DuPont analysis expands a company's ROE, which concludes that the company can get higher ROE when it earns higher Net Profit Margins or uses assets efficiently to generate higher sales. The most important is whether highly leveraged. As we can see in Exhibit 29, Allegro's ROE concludes a forecast decrease of the Group's leverage, an increase of Group's ROA, and Net Profit Margin to influence profitability positively.

## Cash flow generating

The free cash flow to the Allegro Group is calculated by:

$$FCFF = EBIT(1 - T) + Depreciations + Amortizations - Change in Non - Cash Operating Working Capital - Capital Expenditures.$$

This FCFF represents the total amount of cash that is generated by the Group. Exhibit 30 shows the result from analyzing historical data and forecasting future data. In 2020E, the FCFF is around 983 million PLN and lower than 2019. The main reason for it is coming from the increase of Capex. According to the estimation, the tendency is expected to increase in the next few years from 2021E to 2024E. The prediction does not consider any new significant investment as the one Allegro has done in 2020E.

For the liquidity inside the Group, we use liquidity ratios to show a company's ability to repay current liabilities. The current ratio is remained at a high level and keeps increasing in the future. This ratio indicates that Allegro Group can meet current obligations of liabilities. We also estimated the quick ratio to show the company's ability to meet the obligation liabilities with the most liquid assets. In terms of assets management ratios, the inventory turnover ratio is presented. It shows how many times a company's inventory is sold out and turnover. The result of a ratio is predicted to increase every single year. In 2014E, the inventory turnover ratio is estimated at around 54.76x, which means Allegro turnover is 54.76 times per year, approximately seven days of holding inventory. For more financial ratios, please see Appendix 4.

## INVESTMENT RISKS

### Main risks

**Amazon's entry in the Polish market (Market Risk):** Competition is the key element of risk for Allegro. On January 27th, 2021, Amazon announced its entrance to Poland, strong of its 10 already present fulfillment centers. Allegro's response will be loyalty of the buyer base through the SMART! program. However, this would cause a decline in (adjusted) EBITDA margin to 40% in 2023 from 51.6% in 2019, and extensive investments in logistics. In order to defend its market share against Amazon, Allegro will be forced to propose a wider range of free delivery options, which will increase logistics costs (we assume SMART! co-financing at 2.5% of GMV in 2024 vs. 1.2 % in 2019).

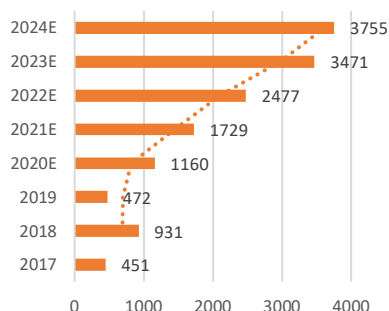
The strength of Amazon's end, especially its own logistics, cannot be underestimated. In fact, despite Amazon's higher take rates than Allegro, its value proposition for buyers (Amazon Prime, product range, same/next day delivery) and sellers (fulfillment services, access to global markets) is rich and expected to meet great demand. Poland's terminal delivery market is highly competitive. The country's Courier, Express and Parcels (CEP) CAGR is expected to increase by 5.9% between 2020 and 2025, while Allegro's 2019-2023's CAGR is expected to be 22.9%.

In countries where the local player had a sufficiently large share, Amazon did not always attempt to take over the market, for example in Brazil or China. Therefore, Amazon may use the existing influence and sorting center facilities to gradually advance or enter the new market.

On the other hand, the Amazon-Flipkart case is remarkable: in order to take over the Indian e-commerce market, Amazon attempted to buy a major stake of the largest local online retail platform in 3 separate occasions: in 2012, when the company first started acquiring considerable importance; in 2015, when the valuation of Flipkart was as high as 15.5 billion US dollars; and in 2018, when the company had a valuation of over 22 billion US dollars. Since 2013, Amazon has invested an estimated \$10 billion in commitments to India since launching its e-commerce site there. In the first two purchase attempts, Amazon tried to obtain a lowball deal with Flipkart by trying to acquire it at half the valuation, while in 2018 the US giant offered to buy at 60% stake in Flipkart, also offering 2 billion US dollars as a breakup fee (Flipkart already had a deal with Walmart, therefore the fee would have been necessary to back out of such deal). However, if Flipkart would have said yes, the combined Amazon-Flipkart entity would have had more than 70% of market share, which is against market regulations in India. Finally, the agreement was not established and eventually Flipkart was bought by Walmart. As of 2020, Amazon and Flipkart

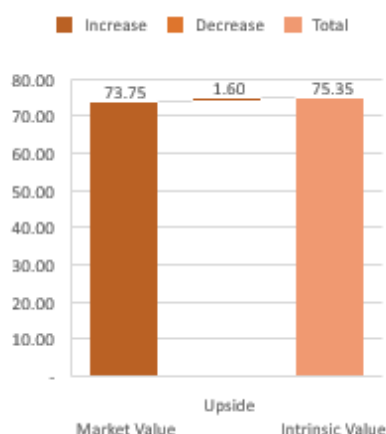


**Exhibit 24: Net working capital (million PLN)**



Source: Own elaboration on the base of company data

**Exhibit 25: Market value vs Intrinsic value (PLN)**



Source: Own calculations & Refinitiv

**Exhibit 26: WACC Assumptions**

Assumption	Rate
Risk-free rate	1.50%
Market risk premium	6.60%
Unlevered beta	1.07
Beta(x)	1.15
Cost of equity	7.30%
Pre-tax cost of debt	7.00%
Tax rate	20.10%
After-tax cost of debt	5.60%
WACC	7.20%

Source: Own calculations

rivalry continues stronger than ever, with the latter leading the Indian market with a 31.9% market share against the 31.2% market share of Amazon India.

**Low market entry barriers (Market risk):** Low market entry barriers are typical for a light-asset third party (3P) marketplace that Allegro presently is, and constitute a crucial risk for the company's growth. Logistics advancement, rich loyalty systems and international presence may indicate Allegro's competitors as more attractive. Allegro exchange rate may perform worse than Amazon and Alibaba prices.

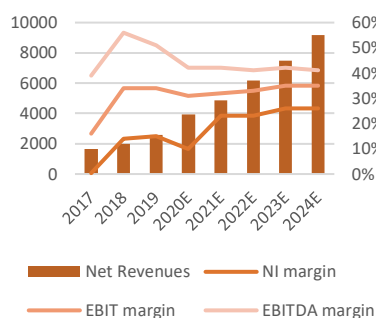
**Slowdown in online retail if the pandemic subsides (Market risk):** We expect a slowdown in online retail trade in 2021 if the pandemic subsides, however that would mean a return to normal growth rather than reversal of the trend, because in 2020 the e-commerce growth pace undoubtedly got an extra boost from COVID-19 and the shutdown of the economy/offline channel. In the 2020 context, the market received a strong stimulus in the form of a pandemic. This caused a surge in the market growth in the middle of the year. Increased volumes of online transactions continued for the following months, culminating traditionally in the pre-holiday season. The lockdown measures implemented around the world to prevent the spread of COVID-19 had the effect of accelerating the growth of online retail sales during the first half of 2020. The Polish e-commerce segment grew 37% in 2020, accompanied by an 11.7% increase in e-commerce penetration. Excluding the effect of COVID-19, the Polish e-commerce segment was projected to grow by approximately 18% and e-commerce penetration to approximate 10%. Allegro believes that growth experienced in the Polish e-commerce segment in 2020 will lead to an acceleration of the number of buyers subscribing for SMART! However, as the pandemic continues, consumers have a lot of arguments to continue shopping online. An unknown variable is represented by the near future, when a percentage of the population will be vaccinated. Online trade is certainly very convenient, but offline trade also has many elements that some consumers find attractive, such as the ability to immediately try on, touch products, or as a form of spending time combined with consumption, cinema, etc. What proportion of consumers have such a need and with a reduced risk of infection, will benefit from it? The desire to return to the previous normalcy is strong, sometimes even stronger than the risks carried by the pandemic. If the pandemic subsides, some consumption will return to the offline channel, which will have a negative impact on the dynamics of the online channel. However, this will not mean a change in the trend, but rather a return to normal growth, because in 2020 the dynamics of e-commerce was undoubtedly driven additionally by COVID-19 and the closure of the economy/offline channel.

**Borrowing with floating interest rates (Interest rate risk):** Borrowings with floating interest rates expose Allegro to the risk of changes in cash flows. Allegro dynamically assesses its exposure to interest rate change risk. That risk is partially mitigated by cash deposits bearing floating interest and by interest rate swap contracts (IRS).

**Tax increases (Tax risk):** There is a risk of tax increases being imposed in order to address public debt levels that have recently increased significantly as a result of the COVID-19 pandemic. Tax increases may lead to increases in the prices of products sold on Allegro's e-commerce marketplace or the prices of services Allegro purchases, or may reduce buyers' income available for discretionary spending, which could also weaken demand for the products offered on Allegro. The Polish tax system is characterized by change and uncertainty as tax regulations are frequently amended, subject to numerous and sometimes contradictory interpretations. In recent years, a number of new tax regulations have come into force that were prepared in a relatively short time and implemented with short grace periods. Other tax reporting or compliance obligations or new tax regulations may be introduced, which could also affect Allegro's operations. Certain of these regulations have had (e.g., voluntary and mandatory split payment regulations), and may have (e.g., new regulations relating to pay and refund withholding tax mechanisms) an impact on Allegro's business and financial condition, including cash flows. Due to the short lead times in publishing laws or secondary legislation, Allegro may not always have sufficient time to program new requirements into its systems or may be unable to determine what changes need to be made, prior to the new laws coming into force. This may lead to fines or penalties for non-compliance. In July 2016, the General Anti-Avoidance Rule (GAAR) entered into force, which, to a certain extent, may be applied retroactively. Therefore, since July 2016 any reference to the Polish tax regulations includes the GAAR. Allegro cannot exclude the possibility that further tax law amendments will be introduced in Poland or that new tax burdens will be imposed on e-commerce activities. Tax laws in Poland may also need to be amended in order to implement new EU legislation. The instability of the Polish tax system stems not only from changes in the law, but also from the reliance by tax regulators on court interpretations, which are also subject to potential changes and reversals. The lack of well-established regulations results in unclear and inconsistent interpretations, which lead to uncertainties and conflicts in application. As a result, the company faces the risk that its activity in selected areas could be unsuited to the changing regulations and the changing practice in their application. There is also a risk that the tax rulings already obtained and applied by Allegro in Poland will be changed or deprived of their protective power, which could lead to tax exposure for the company.

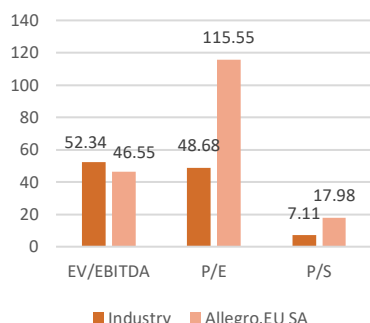
**Subscriber abuse (SMART!) and similar offering by competitors (Operational risk):** The SMART! program offers buyers certain perks and therefore carries the risk of subscriber abuse (e.g., sharing of

**Exhibit 27: Net revenue, NI margin, EBIT margin, EBITDA margin**



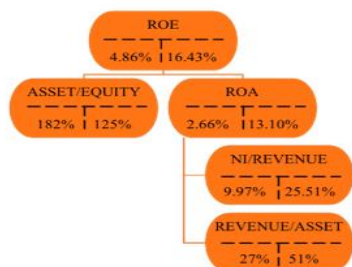
Source: Own elaboration on the base of company data

**Exhibit 28: Allegro's multiples vs industry**



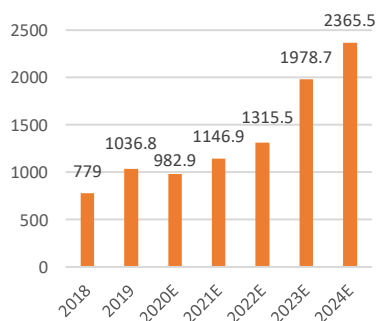
Source: Own calculations on the base of company data

**Exhibit 29: DuPont Analysis**



Source: Own elaboration

**Exhibit 30: FCF (million PLN)**



Source: Own elaboration on the base of company data

accounts, excessive ordering and returns). Allegro's outlook has been prepared with the expectation of continued managed growth in the SMART! program and could therefore be impacted by lower or higher than expected adoption of the program by buyers. In addition, as SMART! has proven to be a popular program for Polish consumers, there is a risk that a competitor could introduce a similar offering, thereby eroding the attractiveness of the SMART! program. If Allegro is unable to successfully manage the anticipated growth and the related costs of the SMART! program, or if the benefits of the SMART! program are abused by a significant number of buyers, it could result in a material adverse effect on the company's business, financial condition, and results of operations.

**Rapid evolution of laws and regulations applicable to e-commerce (Legal risk):** Laws and regulations applicable to e-commerce, as well as laws and regulations of broader application that apply to Allegro's business (in particular, competition law), and to public companies generally, are evolving at a rapid pace and can be subject to differing interpretation. Given the extensive scope and timing of the changes, the company cannot guarantee that its practices have complied or will comply fully with all applicable laws and regulations and their interpretation. Any failure, or perceived failure, by the firm to comply with any of these laws or regulations could result in damage to Allegro's reputation and a loss of revenue, and any legal or enforcement action brought against the company as a result of actual or alleged noncompliance could further damage its reputation and result in substantially increased legal expenses and/or penalties. In addition, legislative and regulatory bodies or self-regulatory organizations may extend the scope of current laws or regulations, enact new laws or regulations or issue revised rules or guidance regarding privacy, data protection and consumer protection.

## Value at Risk

The computation of the Value at Risk (VaR) was performed using historical data and taking into account the latest 60 trading days as of January 15<sup>th</sup>, 2021, with the assumption of a 95% confidence level. The VaR of ALEP.WA stock was found to be equal to 4.91 PLN, namely it is claimed with 95% confidence that the losses at the next day will equal 4.91 PLN per stock or less. However, it was found that in the case that true losses are higher than VaR, exceeding 95% confidence, we can expect such losses to be on average equal to 5.76 PLN per stock. For the extended VaR, please see Appendix 17.

## GOVERNANCE

The Executive Team consists of Chairman Darren Huston, CEO François Nuyts and CFO Jonathan Eastick. The Chairman has an academic background in economics and business from Trent University, University of British Columbia and the Harvard Business School, was involved with Canadian government (economic advisor), and was SVP and CEO of different companies before his time with Allegro. The CEO was a great part of similar, but much bigger corporation before his time with Allegro - Amazon. The CFO is not an exception, he has experience in doing his job for many years including being a CFO of other big Polish corporations such as Netia and Polska Telefonia Cyfrowa PTC (later T-Mobile Poland).

In July 2017, the Office of Competition and Consumer Protection (UOKiK) initiated a procedure aimed at checking whether Allegro favors its own store at the expense of other sellers.

In 2020, Allegro created the position of Public Affairs and Sustainability Manager, who will be responsible for the development, implementation, implementation and reporting of CSR activities. The implementation of the CSR strategy is supervised by the corporate communication director, CSR manager and his team.

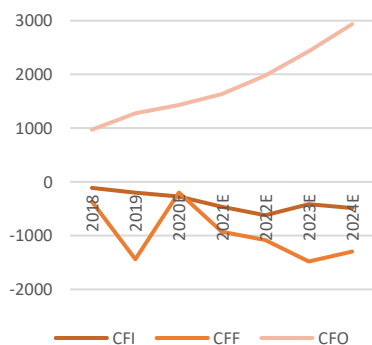
The Ethics Committee ensures compliance with the Code of Ethics, e.g., examination and settlement of reported cases related to its violation.

### Composition of the Ethics Committee:

- HR Director or HR Business Partner,
- Director of the legal department or a lawyer designated by him,
- Director of the division affected by the reported violation,
- An employee representative appointed by the Employee Representation,
- CSO.

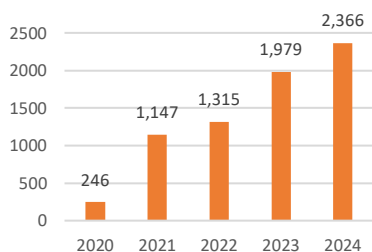
The Ethics Committee is actively involved in efforts to develop the best standards of fighting non-original goods on the Internet. Allegro is signatories of the Memorandum of Understanding on Combating Counterfeit Goods under the aegis of the European Commission. Through their activities, Allegro actively support the implementation of the United Nations Sustainable Development Goals. The 2030 Agenda defines 17 global goals and 169 related tasks that should be achieved by 2030. They actively counteract the sale of non-original goods on the website and infringement of copyright and patent rights. For this purpose, they have created the Cooperation in Protection of Rights (WOP) program, which is designed to eliminate offers for the sale of illegal items and services. Allegro cooperate on an ongoing basis with law enforcement authorities, the police and the prosecutor's office. Since 2004, They have been running training sessions for representatives of law enforcement agencies devoted to cybercrime. They have prepared a special training program for officers to help them fight criminals online, especially in the e-commerce world. To this end, Allegro have signed official teaching cooperation agreements with the

**Exhibit 31: Cash flow statement breakdown**



Source: Own calculations on the base of company data

**Exhibit 32: Expected DCF (million PLN)**



Source: Own calculations on the base of company data

Police Academy in Szczytno and with police schools in Słupsk, Katowice and the Police Training Center in Legionowo.

Allegro is also a co-organizer of international conferences in the series "Technical Aspects of ICT Crime". In 2017, the jubilee 20<sup>th</sup> edition was held. The purpose of the meetings is the multilateral exchange of the latest knowledge about cybercrime.

Allegro tries to identify risks, understand where they come from and actively counteract them. The risk management policy introduced in 2019 supports them in predicting such events.

## RECOMMENDATION SUMMARY

The credentials and financials of the company seem sturdy considering the volatility faced because of the recent company's IPO and the COVID-19 pandemic.

Our own analysis and stock price modelling makes us believe that ALEP.WA is still a worthy investment. To that thought, we may also assume that the current recommendation of SELL by some expert investors on the market focuses on a short-term gain horizon.

The current SELL recommendation by experts could be due to the following reasons:

1. For pessimistic investors: they may expect the prices of the stock to fall even further, as they might see it as overvalued right now. In fact, some put the stock's real intrinsic value to be at 54 PLN.
2. For neutral investors: considering the recent volatility faced by the stock and the momentum theory, it is highly probable that at least for some time to come the prices shall continue to fall. The entry of retail giant, Amazon, doesn't help change the investors' view much.
3. For optimistic and relatively active investors: it is possible that more active investors are willing to sell the stock at a higher price, only with the intent to buy it later at a cheaper price because of the COVID-19 bargain. However, considering the strong expected revenue growth (see exhibit 19), retail sector growth and the successful IPO launch, they can be in for a cash windfall.

From our own projections of the revenue and sales, and the ever-increasing number of active customers on the website, we have a positive outlook for the company. On basis of our DCF valuation, we find ALEP.WA to be slightly undervalued (intrinsic value: PLN 75.35 vs market value: PLN 73.75).

With the establishment of a strong data centric approach and investments in the engineering and analytics, creation of a premium recommendation system, and loyalty reward programs by Allegro, we believe that it won't be an easy challenge for Amazon to eat away Allegro's market share.

Not only that, with several Ex-Amazon employees at the helm of the company, Allegro will be well prepared and its executive board can be expected to bring some visionary changes in the retail sector. That is why, to account for the risk and reward appetite of a variety of investors we would make a recommendation of HOLD on to the stock for the time being!

## APPENDIX SECTION

### Content

Financial Performance	Valuation	Other
1. Income statement 2. Balance sheet 3. Cash flow statement 4. Key financial ratios 5. Stock price history	6. DCF assumptions 7. DCF Valuation 8. Stock intrinsic value vs market value 9. Multiples Valuation 10. Sensitivity analysis 11. Experts recommendation	12. Peer analysis 13. Value-Momentum comparison 14. Ownership structure 15. Risk matrix 16. Porter's 5 forces analysis 17. VaR 18. E&S

## APPENDIX 1: Income statement

INCOME STATEMENT (million PLN)	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Net Revenues	1662.7	1978	2592.3	3932.5	4871.3	6163	7472.5	9178
Growth	14%	19%	31%	52%	24%	27%	21%	23%
COGS	-131.5	-57	-120.4	-1116	-1674	-2370	-3149	-4052
Gross profit	1531.2	1921	2471.9	2816.5	3197.3	3793	4323.5	5126
Gross profit margin	92.10%	97.10%	95.40%	71.60%	65.60%	61.50%	57.90%	55.90%
SG&A	-886.8	-823	-1146.6	-1150.4	-1145.9	-1262.3	-1186.5	-1327
EBITDA	644.4	1098	1325.4	1666.1	2051.4	2530.7	3137	3799
EBITDA margin	38.80%	55.50%	51.10%	42.40%	42.10%	41.10%	42.00%	41.40%
D&A	-382.7	-421.7	-439.3	-465.1	-492.9	-522.8	-555.1	-589.9
%Capex	6.00%	5.60%	5.80%	6.10%	9.40%	10.10%	5.70%	5.60%
Operating profit (EBIT)	261.7	676.3	886.1	1201	1558.5	2007.9	2581.9	3209.1
Net Financial result	-206.1	-316	-373	-601.4	-158.6	-215.7	-135.9	-245.1
Profit before Tax	55.6	360.3	513	599.6	1399.9	1792.2	2446	2964
Tax	89.60%	24.50%	23.40%	34.60%	20.80%	20.50%	21.50%	21.00%
Income tax expenses	-49.9	-88.4	-120	-207.3	-291.2	-368	-525.9	-622.4
Net profit (loss)	5.8	271.9	393.1	392.3	1108.7	1424.2	1920.1	2341.6
Margin	0.30%	13.70%	15.20%	10.00%	22.80%	23.10%	25.70%	25.50%



## APPENDIX 2: Balance sheet

BALANCE SHEET (million PLN)	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
<b>I. Fixed Assets</b>	<b>13929.5</b>	<b>13613.7</b>	<b>13425.6</b>	<b>12919.9</b>	<b>12817.2</b>	<b>12789</b>	<b>13448</b>	<b>12959</b>
Goodwill	8582.4	8582.4	8631.3	8631.3	8631.3	8631.3	8631.3	8631.3
Other intangible assets	5124	4844.7	4627.1	4132.3	4032.6	4001.7	4658	4166.2
PPE	196.3	164.1	147.7	150.3	152.9	155.6	158.3	161.1
Loan granted	16	11.7	9.3	5.3	0	0	0	0
Deferred tax assets	10.3	10.5	9.7	0.3	0	0	0	0
Long-term investments	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
<b>II. Current Assets</b>	<b>636.5</b>	<b>1148.6</b>	<b>852.4</b>	<b>1807.5</b>	<b>2414.9</b>	<b>3211.6</b>	<b>4411</b>	<b>4916</b>
Inventories	7.3	8.2	20.1	37.5	45.1	58.3	62.5	74
Short-term receivables	264.9	340	396.8	601.9	745.6	943.4	1143.8	1404.9
Cash & Cash equivalents	356.4	794	403.9	1064	1508.9	2074.6	2894	2937
Short-term investments	7.9	6.4	31.7	104.1	115.2	135.3	310.7	500.1
<b>ASSETS</b>	<b>14566</b>	<b>14762.3</b>	<b>14278</b>	<b>14727.5</b>	<b>15232.1</b>	<b>16000.6</b>	<b>17859</b>	<b>17875</b>
<b>Shareholder equity</b>	<b>8804.6</b>	<b>9056.7</b>	<b>6683.6</b>	<b>8071.2</b>	<b>9206.7</b>	<b>10731.3</b>	<b>12547</b>	<b>14251</b>
<b>I. Liabilities</b>	<b>5761.4</b>	<b>5705.6</b>	<b>7594.4</b>	<b>6656.3</b>	<b>6025.4</b>	<b>5269.3</b>	<b>5312</b>	<b>3624</b>
<b>Long-term liabilities</b>	5395.7	5226.6	6784.9	5533	4856.4	4052.3	4044.7	2303.8
Borrowing and lease liabilities	4681.4	4501.7	6060.9	5124.3	4499.7	3739.8	2488	604.3
Other long-term liabilities	714.3	724.9	724	408.7	356.7	312.5	1556.7	1699.5
<b>Short-term liabilities</b>	365.7	479	809.5	1123.3	1169	1216.9	1267.3	1320.2
Short-term payables	177.9	211.6	349.2	543.4	570.5	599.1	629	660.5
Borrowing and lease liabilities	104.2	231	361.5	397.9	416.4	435.9	456.3	477.7
Other short-term liabilities	83.6	36.4	98.8	182	182	182	182	182
<b>EQUITY + LIABILITIES</b>	<b>14566</b>	<b>14762.3</b>	<b>14278</b>	<b>14727.5</b>	<b>15232.1</b>	<b>16000.6</b>	<b>17859</b>	<b>17875</b>

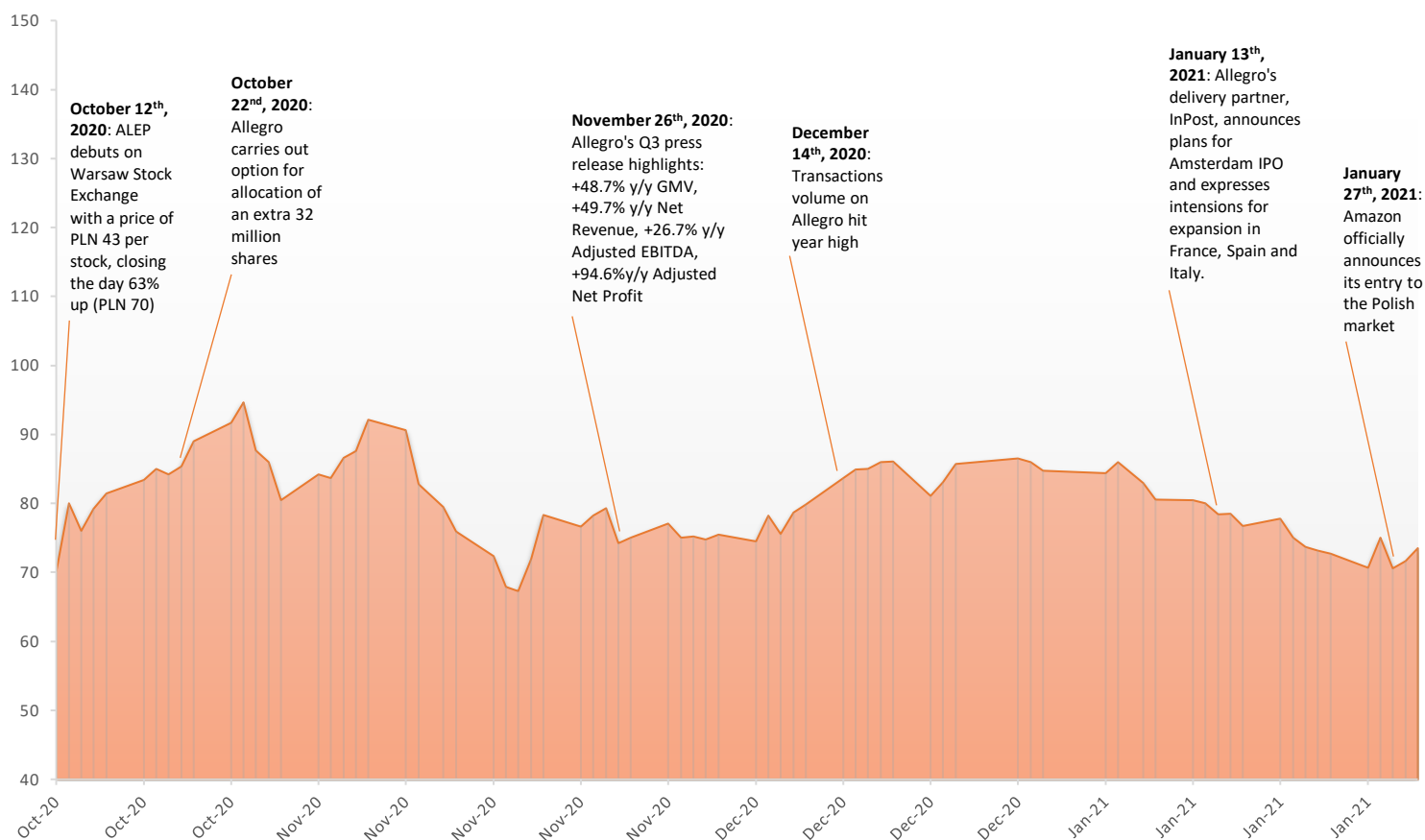
## APPENDIX 3: Cash flow statement

CASH FLOW STATEMENT (million PLN)	2018	2019	2020E	2021E	2022E	2023E	2024E
<b>Operating Activities</b>							
Net Income (before preferred dividends)	271.9	393.1	392.3	1108.7	1424.2	1920.1	2341.6
Adjustment							
Depreciation and amortization (+)	421.7	439.3	465.1	492.9	522.8	555.1	589.9
Change in accounts receivable (-)	75.1	56.8	205.1	143.7	197.7	200.5	261
Change in inventories (-)	0.9	11.8	17.4	7.6	13.2	4.2	11.5
Change in accounts payable (+)	37.5	137.6	194.2	27.2	28.5	30	31.5
Interest adjustment	316	373	601.4	158.6	215.7	135.9	245.1
<b>Net cash flow from (used in) operating activities</b>	<b>971</b>	<b>1274.3</b>	<b>1430.4</b>	<b>1636.1</b>	<b>1980.3</b>	<b>2436.4</b>	<b>2935.5</b>
<b>Investing activities</b>							
Payments for property, plant & equipment, and intangibles	-112	-202.9	-271.3	-457.9	-620.7	-411.7	-491.7
<b>Net cash inflow/(outflow) from investing activities</b>	<b>-112</b>	<b>-202.9</b>	<b>-271.3</b>	<b>-457.9</b>	<b>-620.7</b>	<b>-411.7</b>	<b>-491.7</b>
<b>Net cash inflow/(outflow) from financing activities</b>	<b>-369</b>	<b>-1,433.8</b>	<b>-198.5</b>	<b>-927.2</b>	<b>-1,081.4</b>	<b>-1,481</b>	<b>-1,300</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>437.6</b>	<b>-390.2</b>	<b>660.1</b>	<b>444.9</b>	<b>565.7</b>	<b>819.4</b>	<b>43</b>
Cash and cash equivalents at the beginning of the financial period	356.4	794	403.9	1,064.00	1,508.90	2,074.60	2,894.00
Cash and cash equivalents at the end of the financial period	794	403.9	1,064.00	1,508.90	2,074.60	2,894.00	2,937.00
<b>FCF - standard approach</b>							
NOPAT net operating profit after taxes	510.3	678.9	785.7	1234.3	1595.7	2026.8	2535.2
Depreciation	421.7	439.3	465.1	492.9	522.8	555.1	589.9
Change in NCOWC	42.3	-68.9	28.4	124.2	182.4	174.7	241.1
Capex (Capital Expenditure)	110.8	150.4	239.5	456.2	620.5	428.5	518.5
Growth	-19%	36%	59%	90%	36%	-31%	21%
<b>FCF</b>	<b>779</b>	<b>1036.8</b>	<b>982.9</b>	<b>1146.9</b>	<b>1315.5</b>	<b>1978.7</b>	<b>2365.5</b>

## APPENDIX 4: Key financial ratios

Key Financial Ratios	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
<b>Liquidity ratios</b>								
Current Ratio	1.74	2.4	1.05	1.61	2.07	2.64	3.48	3.7
Quick Ratio	1.72	2.38	1.03	1.58	2.03	2.59	3.43	3.67
Cash ratio	0.97	1.66	0.5	0.95	1.29	1.7	2.28	2.22
<b>Asset Management ratios</b>								
Inventory turnover base on COGS	17.98	6.93	6	29.76	37.09	40.63	50.38	54.76
Days Sales Outstanding	0.00044	0.00047	0.00042	0.00042	0.00042	0.00042	0.00042	0.00042
Account receivable turnover	6.28	5.82	6.53	6.53	6.53	6.53	6.53	6.53
Fixed Asset Turnover	0.12	0.15	0.19	0.3	0.38	0.48	0.56	0.71
Total Asset Turnover (TAT)	0.11	0.13	0.18	0.27	0.32	0.39	0.42	0.51
<b>Leverage Ratios</b>								
Debt Ratio	0.4	0.39	0.53	0.45	0.4	0.33	0.3	0.2
Debt to Equity Ratio	0.65	0.63	1.14	0.82	0.65	0.49	0.42	0.25
Debt to Capital	0.4	0.39	0.53	0.45	0.4	0.33	0.3	0.2
Debt to EBITDA	8.94	5.2	5.73	4	2.94	2.08	1.69	0.95
Assets to Equity	1.65	1.63	2.14	1.82	1.65	1.49	1.42	1.25
<b>Profitability ratios</b>								
Net Profit Margin	0.35%	13.75%	15.16%	9.97%	22.76%	23.11%	25.70%	25.51%
Basic Earning Power	1.80%	4.58%	6.21%	8.15%	10.23%	12.55%	14.46%	17.95%
Return on Assets (ROA)	0.04%	1.84%	2.75%	2.66%	7.28%	8.90%	10.75%	13.10%
Return on Equity (ROE)	0.07%	3.00%	5.88%	4.86%	12.04%	13.27%	15.30%	16.43%
EBIT Margin	15.74%	34.19%	34.18%	30.54%	31.99%	32.58%	34.55%	34.97%
EBITDA Margin	38.76%	55.51%	51.13%	42.37%	42.11%	41.06%	41.98%	41.39%
Equity multiplier	165.44%	163.00%	213.63%	182.47%	165.45%	149.10%	142.34%	125.43%

## APPENDIX 5: Stock price history



## APPENDIX 6: DCF Assumptions

Assumptions	
Tax Rate	20.10%
Discount Rate	7.20%
Perpetual Growth Rate	2.27%
EV/EBITDA Multiple	41.5x
Transaction Date	9/30/2020
Fiscal Year End	12/30/2020
Current Price	73.75
Shares Outstanding	1,023
Debt	6,656
Cash	1,064
Capex	240



## APPENDIX 7: DCF Valuation

Discounted Cash Flow		Entry	2020	2021	2022	2023	2024	Exit
Date		9/30/2020	12/30/2020	12/30/2021	12/30/2022	12/30/2023	12/30/2024	12/30/2024
Time Periods			0	1	2	3	4	
Year Fraction			0.25	1	1	1	1	1
EBIT			1,201	1,558	2,008	2,582	3,209	
Less: Cash Taxes			415	324	412	555	674	
Plus: D&A			465	493	523	555	590	
Less: Capex			240	456	621	429	519	
Less: Changes in NCOWC			28	124	182	175	241	
Unlevered FCF			983	1,147	1,315	1,979	2,366	
(Entry)/Exit		-81,039						103,374
Transaction CF		-	246	1,147	1,315	1,979	2,366	103,374
IRR FCFF		-81,039	246	1,147	1,315	1,979	2,366	103,374

## APPENDIX 8: Stock Intrinsic value vs Market value

Intrinsic Value		Market Value	
Enterprise Value	82,679	Market Cap	75,446
Plus: Cash	1,064	Plus: Debt	6,656
Less: Debt	6,656	Less: Cash	1,064
Equity Value	77,087	Enterprise Value	81,039
Equity Value/Share	75.35	Equity Value/Share	73.75
Terminal Value			
Perpetual Growth		49,089	
EV/EBITDA		157,658.50	
Average		103,374	
Rate of Return		Market Value vs Intrinsic Value	
Target Price Upside	2.17%	Market Value	PLN 73.75
Internal Rate of Return (IRR)	8%	Upside	1.6
		Intrinsic Value	PLN 75.35

## APPENDIX 9: Multiples Valuation

Identifier	Company	Market cap (million \$)	EV/EBITDA			P/E			P/S		
			2019	2020E	2021E	2019	2020E	2021E	2019	2020E	2021E
GFG.DE	Global Fashion Group SA	3177	NaN	705.5	53.3	-30.9	-71.9	-64.8	0.2	1.9	1.7
ZALG.DE	Zalando SE	30277	57.7	39.9	38.4	116.1	114.2	110.3	1.7	3.1	2.6
FTCH.K	Farfetch LTD	22605	NaN	NaN	626.2	-22.4	-51	NaN	13.6	10.2	7.92
OCDO.L	Ocado PLC	28875	481.6	316.1	218	-140.3	-127.7	NaN	5.4	8.9	7.7
ALEP.WA	Allegro.EU SA	19134	NaN	46.5	38.03	NaN	115.5	64.5	NaN	17.9	14.5

## APPENDIX 10: Sensitivity analysis

### Sensitivity analysis 1: Growth rate vs Cost of equity

Cost of equity	71.45	Growth rate						
		0.77%	1.27%	1.77%	2.27%	2.77%	3.27%	3.77%
	5.76%	75.10	77.30	80.05	83.57	88.24	94.75	104.42
	6.26%	72.06	73.86	76.06	78.81	82.35	87.05	93.62
	6.76%	69.35	70.85	72.65	74.86	77.61	81.15	85.88
	7.26%	66.92	68.18	69.68	71.47	73.68	76.43	79.99
	7.76%	64.70	65.77	67.03	68.53	70.32	72.52	75.28
	8.26%	62.66	63.58	64.66	65.91	67.40	69.19	71.39
	8.76%	60.77	61.57	62.49	63.56	64.81	66.30	68.09

The first sensitivity analysis is developed in order to see how would Allegro stock's intrinsic value change depending on variations of growth rate (from 0.77% to 3.77%, with steps of 0.5%) and cost of equity (from 5.76% to 8.76%, with steps of 0.5%). The higher the growth rate and the lower the cost of equity, the higher the price of the share.

### Sensitivity analysis 2: Growth rate vs Tax rate

Tax Rate	71.45	Growth rate						
		0.77%	1.27%	1.77%	2.27%	2.77%	3.27%	3.77%
	20.1%	66.90	68.16	69.66	71.45	73.65	76.40	79.95
	21.1%	66.95	68.21	69.71	71.51	73.72	76.49	80.05
	22.1%	66.99	68.26	69.77	71.57	73.79	76.57	80.16
	23.1%	67.04	68.31	69.82	71.64	73.86	76.65	80.26
	24.1%	67.08	68.36	69.88	71.70	73.93	76.74	80.36
	25.1%	67.13	68.41	69.93	71.76	74.00	76.82	80.47
	26.1%	67.17	68.46	69.99	71.82	74.08	76.91	80.57

The second sensitivity analysis is developed in order to see how would the stock's intrinsic value change depending on variations of growth rate (from 0.77% to 3.77%, with steps of 0.5%) and tax rate (from 20.1% to 26.1%, with steps of 1%). Generally, the higher the tax rate and the higher the growth rate, the higher the price of the share.

## APPENDIX 11: Experts recommendation

Recommendation Summary	Analysts Per level			
	23-Oct-2020	23-Nov-2020	23-Dec-2020	Current
1 - StrongBuy	-	-	-	0
2 - Buy	-	3	4	4
3 - Hold	-	4	4	4
4 - Sell	-	1	1	1
5 - StrongSell	-	1	2	2
<b>Rec Mean</b>	-	<b>3</b>	<b>3.1</b>	<b>3.1</b>

## APPENDIX 12: Peer analysis

The most important peers of Allegro, both on country level and global level, and their features are listed in this appendix.

### Amazon.com:

- For sellers:** for selling on amazon sellers need to pay in UK £ 25 per month and in Germany EUR 39 per month.  
Fulfilment by amazon (FBA) - This is an option offered by Amazon, which provides assistance in achieving greater benefits (like fast prime delivery and easier selling across Europe). It involves the seller sending their product to the company's warehouse, and they take care of storage, delivery to customers, as well as customer service and returns. Other perks of FBA: „Prime badge” - It provides fast and unlimited One-Day Delivery on eligible purchases, subscribes of it are also more see for loyal customers and their products are more frequently visible. „Buy box”- It is a competition in which a seller's offer, if successful, is distinguished from the same products. Amazon badge of FBA product- Due to the benefits caused by the FBA offer, consumers (according to the company) look better at such offers with this emblem Amazon offer as well FBA's international solutions which helps to expand on Europe. EFN (European fulfilment network), Pan-European FBA which offer to sellers an option to send products to fulfilment centers in the country seller. One of benefit is less costs for seller. It provides other options such as Amazon prime eligible and more visible, distributions provided by amazon and faster delivery. Amazon also have (chargeable) option to advertise your brand. They also show how seller can boost sales by advertising self-service solutions.  
Amazon accelerator - enables manufacturers to launch brands and innovative products exclusively on Amazon and provides a path to become an Amazon Private Brand supplier. With this option Amazon provides onboarding support that help make brand history, products etc., marketing services, venue to test& Learn.  
Amazon Business - Access to all B2C and B2B customers on Amazon. With this account, the seller does not incur any additional fees compared to a professional seller account. The seller also gets access to the FBA service. Additional benefits are automatic invoicing (free of charge), net price display, wholesale discounts, high visibility of the offer (products get the Amazon Business seller emblem), possibility to sell through the account purchase. Amazon takes care of credit risk assessment, invoicing and payment collection.  
Amazon Handmade - An offer aimed at manufacturers involved in the handcrafting of products. The advantages are separate application process and audit to guarantee handmade. No additional fees - setting up shop, participating in the offer and their creation is free. Only for sales Handmade charges a commission of 12%. Custom profile- designed to provide easier consumer access to the manufacturer.  
Amazon PartnerNet - Amazon's affiliate marketing program.
- For customers:** Prime Same Day - order with free delivery as an option, the product must have the Prime emblem, and the order must be over €20.  
Amazon.de VISA - the possibility to collect points for credit card payments also outside of Amazon.de online and offline. By making a payment of any kind (not only on Amazon, but also in a restaurant, for example) using the Amazon.de VISA card, the customer collects points which can be used for purchases on Amazon.de. a customer who is a "Prime" member collects 3 points for every full euro normal member collects 2 points. Outside of Amazon.de. customers receives 1 point for every 2 euros spent. Every 100 is equivalent to 1 euro for a purchase at Amazon.de.

### eBay Inc:

- For Sellers:** On eBay domestic sellers list for free in all categories except Automotive: Vehicles (only for companies). The website charges a listing fee, which is collected when the product is placed. The seller's account is debited with this fee at the time of listing. The listing fee must be paid by the seller even if the item is not sold (if it is sold, the seller's account is debited with the commission on the final price). Private and corporate accounts have separate fee rates. The commission for companies is 5% for the electronic category. For other categories (except vehicles and boats) 8.7%. A monthly subscribe fee is charged. There is no listing fee for private sellers except for vehicles and the commission is 10%. Buy now fees: free for domestic sales. However, in foreign sales (except for Categories: Movies and DVDs, Games (except Consoles), Books, Music) in the option without a shop 0,37 PLN. And for a small shop 0,16 PLN. The commission in the buy now option is 10%. In the case of setting up a "Megastore" and a "Large Store" there is no charge for setting up products abroad (only for companies).
- For customers:** The main payment method is Paypal and in some cases this is the only payment method. Merchants who can take credit card payments may also offer direct card payments online or by telephone. No information is available on delivery methods, times, carriers or costs.

### Zalando:

- **For brand partners:** they offer their customer base. Through the partner program, brands can integrate their goods directly onto the Zalando platform. Through the platform, Zalando provides digital and infrastructure services such as analytics, advertising and logistics. (No information on fees for brands).
- **For Customers:**
  - Shipping and delivery - The standard delivery time of an order is between 2 and 5 working days (in case of express option it can be delivered the next working day). Delivery is from Monday to Friday. For delivery and returns of orders, Zalando.co.uk works with the following courier companies: FedEx - delivery of standard parcels. DHL - standard delivery and order returns. DHL Express - express delivery. DPD - standard delivery. In addition, the website does not charge any fee for the delivery of the parcel (except for express delivery, for which a fee of 35 PLN is charged). Return shipping is also free. It is possible to choose the option of collection in DHL Parcel.
  - Payment methods - Cash on delivery (not always available), Przelewy24 payment, payment by credit card (accepted cards are MasterCard, Visa and American Express. Your credit card will only be charged once the parcel has been dispatched. In case of return, the amount will be transferred back to the customer's account), traditional bank transfer, PayPal payment,
  - Exchanging Pre-owned items - if the customer has items that qualify as "nearly new" they can send them back to Zalando in exchange for a gift card or alternatively donate the amount of the item to charity. This service is free of charge. Pre-Owned also means that you can buy things that you have owned before. All Pre-owned items are sold by 'Zalando Zircle', the Zalando brand. Zalando does not offer customer-to-customer sales. However, it is possible to exchange your Pre-owned items at Zalando for a fee / give them away in settlement.
  - 100-day right of return - all items purchased in our shop are returnable - up to 100 days from receipt of shipment. The costs involved are refunded to the customer (except for the express service).

### Ceneo.pl:

- **For sellers and producers:** Ceneo offers for sellers and producers: PLN 0 for a subscription, commission is charged for advertisement, brand building program (Trusted opinions), analytical tools. They also offer supplementing descriptions, technical specifications, proper photo and video processing, an advertising campaign on the home page. Recently, the "buy now" option has been introduced, which allows you to create your shopping cart and buy products directly from the website. A commission of 1.6% is charged for each product that has been sold. This option give you options such as: update of offers, better visibility of offers, special marketing campaigns, cross selling, frequent update of offers, no fee for the displayed product, only a commission on sales.
- **For customers:** The Ceneo.pl search engine has a wide database of products and prices, thanks to which the customer can choose the most suitable offer. The page informs the customer about the "availability status" of the product in 5 options: available, available up to 3 days, available up to a week, available over a week, check in the store (in this case you need to go to the store's website to learn more about product availability). Information about the store and the method of delivery, payment, regulations and returns must be searched on the store's website, Ceneo.pl on its website provides an opinion about the store in the star system. This Website redirects us to the website of the store where we want to buy the product. Some offers has option „buy now” wich means that you can buy it direct from Ceneo.pl. This website has mobile application. Ceneo has „bounty hunters club”. After creating an account, you earn ceneopoints. Points can be earned by creating an account (3), agreeing to receive information (20), Purchases in the Ceneo basket up to PLN 1000 - (1 Point for each PLN 5), Purchases in the Ceneo basket above PLN 1000 (200), Purchase in the Store marked with icon (5), Issuing an opinion about any product on Ceneo websites (3), Issuing an opinion about a store in the Trusted Reviews Program (3), Issuing an opinion about the product confirming its purchase (3). For the collected points you get: 1000- PLN 20, 2500- PLN 50, 5000- PLN 100.

### CCC:

- **Structure of deliveries:** The supplier of goods for the CCC Group is the company CCC.eu Sp. z o.o. The company obtains goods from domestic and foreign suppliers and from its own factories in Polkowice and Słupsk (Gino Rossi Sp.z o.o.). Footwear, the main product of the CCC Group, is imported from Asia (59.4% of the value of all footwear purchases), produced in its own factory and purchased from domestic suppliers (25.6%) and in other countries (15%). The main direction of import of footwear from Asia is China (29% of footwear) and India (17% of footwear), where supplies come from several dozen manufacturers. The products sold by the CCC Group are also bags, cosmetics and jewelry, fancy goods. All of the aforementioned goods are purchased from external suppliers. The bags in particular are imported from Asia, while the remaining goods are obtained on European markets. The structure of purchases, in terms of value, in 2019 was as follows from import 74.4%, Own production 11.9% and domestic suppliers: 13.7%. Looking at the sales structure, women's footwear amounted to 55% of sales, men's 21%, children's 12%, handbags 7%, and cosmetics 1%. Ecommerce revenue was 24.9% of total revenue.
- **For customers:** As the company writes on their website, the implementation time is 3 hours. You can choose 6 types of delivery: Inpost parcel at the weekend, the execution time of which takes 24 hours, also at the weekend, InPost parcel lockers, the execution time of which takes 24 hours on working days (from the moment the order is received from the logistics center by the Courier), DHL (the same as InPost ), Poczta Polska, the implementation time of which takes 48 hours (from collection from the logistics center), CCC Express up to 90 minutes (in 25 cities). The cost of delivery is PLN 4.99, and for orders over PLN 99, it is free. For CCC Express, the service is free. You can choose the following payment methods: Via PayPo - buy now, pay in 30 days, Payment by Blik, Payment by cash on delivery, Payment by credit card, Via PayPal, Via PayU.

### AliExpress:

- **For sellers:** opening a store is free, the commissions fee is charged on the actual store transaction and range is about 5-8% depending on item category, immediate money transfer for the purchased product.
- **For customers:** They offer competitive prices on 100M plus product range, delivery with sites in 5 languages, they ship to over 200 countries & regions. Payment is made by: credit card payment, fast transfer (Przelewy24, PayU), ordinary bank transfer, and other international methods such as Western Union. Purchases can be made in foreign or Polish currency. Additionally, from 150 Euro upwards, the customer has to pay customs duty. Time and methods of delivery: China Post - usually free, delivery time up to 60 days, AliExpress Standard Shipping - usually also free. The deadline for completing the period from 10 to 20 days. Swiss Post, Singapore Post, Swedish



Post, Hong Kong Post - It involves additional costs, but it is safer, the lead time is about 30 days, EMS - paid, the package reaches 2 weeks, TNT and DHL - the most expensive option, but the package can be delivered even in 5 days. The parcel can also be picked up at the InPost parcel locker.

#### Global Fashion Group:

- For sellers- Their retail and wholesale model is based directly on buying products from their brand partners and managing the entire order fulfilment and delivery process to the end customer. They also allow their partners to use marketing services such as display, email, content and social media.

#### Farfetch:

- Partner programme:** the company is looking for innovative, fashion-forward, stylish websites and blogs from around the world - particularly those specialising in fashion, lifestyle, beauty and design. The benefits of the partnership are: Free to join, Commission on all approved global sales (excluding returns and cancellations).
- For Customers:** The offer is mainly aimed at customers who want to create fashion trends, extravagant. Wide selection of clothes, jewellery, etc. The company is committed to meeting their customers' deadlines throughout the year, however, during busy periods such as holidays, sales and special campaigns, the company stipulates that you may experience longer delivery times.
- Orders and shipping:** Depending on the shipping method selected, orders placed on Farfetch can be delivered any day of the week. Shipping costs vary depending on the service selected, as well as the place of origin and delivery of the selected items. Express shipping is available to all and standard shipping is available in some countries. All delivery options available for your order and destination will be displayed when completing your transaction. For last minute purchases, they offer Same Day (Same Day) and 90 minute (90 Minute) delivery in selected cities (Berlin, London, Manchester, Paris, Los Angeles, New York, Miami, Milan, Rome, Barcelona, Madrid, Hong Kong SAR, Dubai and Shanghai.). Farfetch is also offering the sponsored items (it affects on delivery time and this product can't be refunded).

Shipping time -Express service for most countries from Europe and USA: delivery within 2-4 days. Rest of the world: delivery within 3-7 days. Standard service for selected countries: delivery within 2-6 days. Free product return is offered. Cooperating companies in delivery are DHL, UPS, FedEx, TNT or DPD.

Payments and prices - Prices are set by each Farfetch partner, so the price of the same item may vary depending on the location and where it is ordered. The currency in which purchases are paid is determined by the delivery location and will be displayed at checkout before the purchase is completed. If the local currency is not available, your order will be charged in USD to obtain a competitive exchange rate. Customer can pay by Visa, Visa Electron, MasterCard, Maestro, American Express, Delta, Discover, Dinners, JCB, JdPay, PayPal, Apple Pay, AfterPay (only available to Australia), Alipay (only available to United States, Canada, China Mainland, Taiwan Region, Hong Kong SAR and Macau SAR), HB Pay (only available to China Mainland and Hong Kong), Klarna (only available to US, Germany, Austria and Switzerland), Wechat, UnionPay (only available to Canada, China Mainland, Taiwan Region, Hong Kong SAR and Macau SAR), iDEAL (only available to The Netherlands), Sofortbanking/ Klarna Pay Now (only available to Germany, Austria, Switzerland and Belgium), Boletto (only available to Brazil).

#### Ocado:

- For customers:** Any order placed by the customer may include a delivery charge. If delivery is subject to a delivery charge, this will be shown as a separate charge prior to order confirmation. Any delivery charge added to an order depends on, among other things, the value of the order, the delivery date and time and the delivery address, and charges may vary from week to week. Any order placed by the customer may include a delivery charge. If delivery is subject to a delivery charge, this will be shown as a separate charge prior to order confirmation. Any delivery charge added to an order depends on, among other things, the value of the order, the delivery date and time and the delivery address, and charges may vary from week to week. There is a minimum order requirement of £40 (excluding delivery charges) for every order placed. Payments can be made by debit card, credit card and some business account cards, as well as through PayPal. They also accept payment with Ocado vouchers. No other vouchers or 'discount' coupons are accepted as a form of payment.

A summary of Allegro and their peers' performance indicators is presented in the following table. Please note that Alibaba Group Holding Ltd. is presented as a substitute of Aliexpress.com, as the latter belongs to the former, moreover it consists of the largest component of the group.

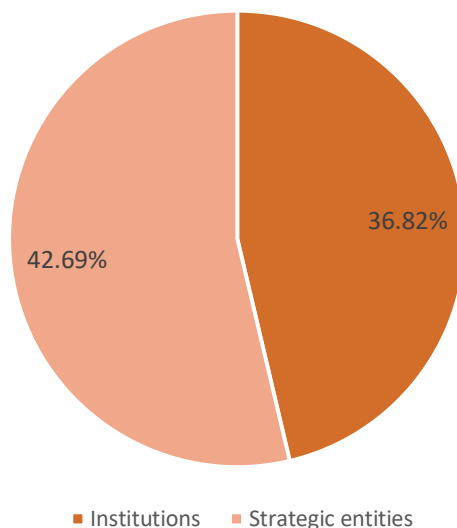
Identifier	Company Name	EV / Revenue	EV / EBITDA	Price / EPS	Price / Cash Flow Per Share	Price / Book Value Per Share	Price / Revenue	Dividend Per Share Yield %
ALEP.WA	Allegro.eu SA	16.68	40.43	67.83	52.04	8.36	15.59	0.0%
CCCP.WA	CCC SA	1.11	8.65	44.55	6.91	5.21	0.65	0.0%
	Ceneo.pl	N/A	N/A	N/A	N/A	N/A	N/A	N/A
BABA.N	Alibaba Group Holding Ltd.	6.92	30.75	25.65	22.28	4.91	7.09	0.0%
EBAY.O	eBay Inc.	3.77	12.64	14.79	17.42	11.74	3.51	1.2%
AMZN.OQ	Amazon.com Inc.	4.17	34.01	68.69	25.30	17.94	4.30	0.0%
ZALG.DE	Zalando	1.69	47.99	113.14	42.75	12.30	1.79	0.0%
FTCH.N	Farfetch	2.94	N/A	N/A	N/A	80.20	3.23	0.0%
OCDO.L	Ocado	5.19	590.18	N/A	95.80	18.21	5.47	0.0%

The 16.68 EV/Revenue multiple indicates that Allegro is overvalued when compared to all of its considered competitors. The EV/EBITDA of Allegro is the second highest one among competitors, well above the standard 10 value. The Price/EPS of Allegro is the third highest one among peers, indicating that investors might expect higher earnings growth in the future comparing to other companies. The Price/Cash Flow Per Share ratio of Allegro is the second highest between competitors, indicating that the company is able to generate more cash relatively to its stock price. The Price/Revenue of Allegro is 15.59, meaning that investors are willing to pay 15.59 PLN per each PLN of sales.

## APPENDIX 13: Value-Momentum comparison

Identifier	Company Name	Val-Mo	Relative Valuation	Intrinsic Valuation	ARM	Price-Mo
ALEP.WA	Allegro.eu SA	3	3	2	21	N/A
CCCP.WA	CCC SA	41	17	N/A	84	65
	Ceneo.pl	N/A	N/A	N/A	N/A	N/A
BABA.N	Alibaba Group Holding Ltd.	32	40	35	19	92
EBAY.O	eBay Inc.	86	54	65	87	85
AMZN.OQ	Amazon.com Inc.	54	24	8	85	97
ZALG.DE	Zalando	15	6	2	34	98
FTCH.N	Farfetch	49	18	N/A	80	99
OCDO.L	Ocado	33	3	N/A	71	95
Peer Avg.		44	23	28	66	90

## APPENDIX 14: Ownership structure

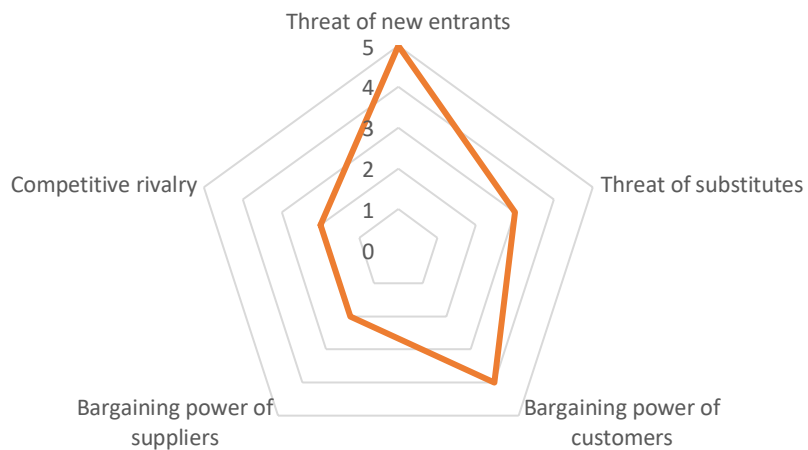


The composition of ownership involves a 36.82% of institutional investors, which leads to a big institutional influence on company's decision making, even though they don't have pre-emptive rights, decreasing the decisional power of equity shareholders. However, when a stock has high institutional ownership, it can be seen as a good sign too. If institutions invest in Allegro, it means that the company is doing well.

## APPENDIX 15: Risk Matrix

<div>Likelihood</div>	High					Amazon's entry to the market
		Slowdown in online retail if the pandemic subsides		Low market entry barriers		
	Med			Subscriber abuse and Similar offering by competitors	Tax increases	
				Rapid evolution of the laws and regulations applicable to e-commerce	Borrowings with floating interest rates	
	Low					
		Low	Med		High	
<div>Consequence</div>						

## APPENDIX 16: Porter's 5 forces analysis



Threat classification	
1	Insignificant
2	Low
3	Moderate
4	Material
5	Significant

Threat type	Value
Threat of new entrants	5
Threat of substitutes	3
Bargaining power of customers	4
Bargaining power of suppliers	2
Competitive rivalry	2

#### Threat of new entrants - SIGNIFICANT

Low market entry barriers are typical for a light-asset 3P marketplace. This constitutes a crucial risk for the company's growth. Within this field, the biggest menace is seen in the possible market entrance of Amazon.

#### Threat of substitutes - MODERATE

The main threats in terms of substitutes are the competing e-commerce businesses and physical retailers. Brands try to earn a competitive advantage through low prices, better quality of products or through a better overall customer experience. As for the customers there are no (or extremely low) switching costs, it is easy for them to switch from an e-retailer to a physical retail.

#### Bargaining power of customers - MATERIAL

The bargaining power of customers is moderately high in the e-commerce industry, as there is hardly any switching cost for the customers if they decide to shop with the competition rather than at Allegro. Nowadays customers are well informed and have every piece of necessary information available at a single click.

#### Bargaining power of suppliers - LOW

In the Polish e-commerce industry the bargaining power of suppliers is generally low. The reason for this is that the rules are typically set by the brand and suppliers have to adhere to the code of conduct set by them. This is true also in the case of Allegro. Most of the e-commerce brands are highly cautious regarding their supplier relationships and set a code of conduct. Despite the growing number of players within the industry, suppliers don't have too many options and therefore are bound by the rules that the brands set.

#### Competitive rivalry - LOW, but may increase

The Polish e-commerce market is showing impressive growth, which is unsurprising considering the overall performance of the economy. Gross domestic product growth was 4.3 percent in 2019, while the decrease in 2020 (-3.6%) has been less significant than within other Eurozone countries. With over 21 million registered users and 17 million visiting customers every month on Allegro.pl, Allegro has managed to hold a significant position in Poland. With more than two decades of existence, the Allegro platform has evolved to become the most trusted Polish online marketplace. According to the report "E-commerce in Poland 2019" conducted by Gemius – a renowned market research company, revealed that 80% of respondents identified the Allegro platform as their preferred brand in the e-commerce industry.



## APPENDIX 17: VaR

Date	ALE_close	ALE_returns		VaR1	Average Exceedance
2020-10-13	80.00			PLN (4.91)	PLN (5.76)
2020-10-14	75.96	-0.05			
2020-10-15	79.22	0.04	SP	delta SP	Exceedances
2020-10-16	81.45	0.03	78.91	2.16	
2020-10-19	83.40	0.02	78.59	1.84	
2020-10-20	85.00	0.02	78.22	1.47	
2020-10-21	84.17	-0.01	76.00	-0.75	
2020-10-22	85.37	0.01	77.84	1.09	
2020-10-23	89.00	0.04	80.01	3.26	
2020-10-26	91.70	0.03	79.08	2.33	
2020-10-27	94.64	0.03	79.21	2.46	
2020-10-28	87.67	-0.07	71.10	-5.65	-5.65
2020-10-29	85.94	-0.02	75.24	-1.51	
2020-10-30	80.45	-0.06	71.85	-4.90	
2020-11-02	84.17	0.05	80.30	3.55	
2020-11-03	83.69	-0.01	76.31	-0.44	
2020-11-04	86.59	0.03	79.41	2.66	
2020-11-05	87.56	0.01	77.61	0.86	
2020-11-06	92.13	0.05	80.76	4.01	
2020-11-09	90.61	-0.02	75.48	-1.27	
2020-11-10	82.75	-0.09	70.09	-6.66	-6.66
2020-11-12	79.50	-0.04	73.74	-3.01	
2020-11-13	75.88	-0.05	73.26	-3.49	
2020-11-16	72.39	-0.05	73.22	-3.53	
2020-11-17	67.89	-0.06	71.98	-4.77	
2020-11-18	67.30	-0.01	76.08	-0.67	
2020-11-19	71.90	0.07	82.00	5.25	
2020-11-20	78.32	0.09	83.60	6.85	
2020-11-23	76.60	-0.02	75.06	-1.69	
2020-11-24	78.27	0.02	78.42	1.67	
2020-11-25	79.34	0.01	77.80	1.05	
2020-11-26	74.20	-0.06	71.78	-4.97	-4.97
2020-11-27	75.00	0.01	77.58	0.83	
2020-11-30	77.07	0.03	78.87	2.12	
2020-12-01	75.01	-0.03	74.70	-2.05	
2020-12-02	75.20	0.00	76.94	0.19	
2020-12-03	74.80	-0.01	76.34	-0.41	
2020-12-04	75.50	0.01	77.47	0.72	
2020-12-07	74.45	-0.01	75.68	-1.07	
2020-12-08	78.26	0.05	80.68	3.93	
2020-12-09	75.57	-0.03	74.11	-2.64	
2020-12-10	78.70	0.04	79.93	3.18	
2020-12-11	79.80	0.01	77.82	1.07	
2020-12-14	83.65	0.05	80.45	3.70	
2020-12-15	84.92	0.02	77.92	1.17	

2020-12-16	85.00	0.00	76.82	0.07	
2020-12-17	85.95	0.01	77.61	0.86	
2020-12-18	86.10	0.00	76.88	0.13	
2020-12-21	81.05	-0.06	72.25	-4.50	
2020-12-22	83.04	0.02	78.63	1.88	
2020-12-23	85.69	0.03	79.20	2.45	
2020-12-28	86.55	0.01	77.52	0.77	
2020-12-29	85.96	-0.01	76.23	-0.52	
2020-12-30	84.70	-0.01	75.62	-1.13	
2021-01-04	84.40	0.00	76.48	-0.27	
2021-01-05	85.99	0.02	78.20	1.45	
2021-01-07	82.93	-0.04	74.02	-2.73	
2021-01-08	80.59	-0.03	74.58	-2.17	
2021-01-11	80.50	0.00	76.66	-0.09	
2021-01-12	80.00	-0.01	76.27	-0.48	
2021-01-13	78.40	-0.02	75.22	-1.53	
2021-01-14	78.48	0.00	76.83	0.08	
2021-01-15	<b>76.75</b>	-0.02	75.06	-1.69	

## APPENDIX 18: E&S

### Environment

Creating technological, ecological and social innovations, which support the development of civil society, the activity of "Allegro All For Planet Foundation" combines ecology and sustainable transport with technology. Organize collections of used electrical and electronic equipment for recycling in all of their locations. Allegro promotes the bicycle as the most ecological means of transport, develops the bicycle infrastructure, encourages a healthy lifestyle and also stimulates discussion. They engage their engineers, bicycle activists and the local government in the activities of the foundation. Allegro built the Rowerowapolska.pl website, which is a unique database related to bicycles and bicycle infrastructure in Poland. The "Kręć Kilometers" campaign is the largest bicycle social campaign addressed to all Poles. Moreover, the company places colorful, modern bicycle stands throughout Poland as part of the "Zaparkuj klimatycznie" campaign.

In 2019, Allegro emitted a total of approx. 6,247 tons of CO<sub>2</sub>, which is 5% lower than the total emissions from 2018 (6,556 tons of CO<sub>2</sub>).

The Allegro environmental card obliges all employees to:

- Concern for the environment in everyday activities and when planning new activities,
- Raise awareness and disseminating knowledge in the field of environmental protection among users, employees and business partners,
- Promote responsible shopping,
- Responsible waste management,
- Minimize energy consumption,
- Rational use of water,
- Rational use of paper,
- Promote the use of environmentally friendly means of transport.

### Social

#### Community relations, human rights, gender:

"Fair Enough" ethics course, no irregularities or cases of discrimination were reported in 2017. In the case of contracts exceeding PLN 100,000, contractors are required to sign the Code of Conduct and the Supplier and Business Partner Questionnaire. The scope of obligations of suppliers and business partners based on the principles of the United Nations Global Compact initiative: Compliance with the law, Observance of human rights, Provision of the highest standards and working conditions for their employees, Protection of the natural environment.

#### Allegro Ethics Code:

It consists of transparency policy, anti-mobbing policy, whistle-blowing procedure, anti-monopoly policy, anti-money laundering and anti-terrorist financing, security.

#### Allegro runs a number of charity campaigns:

"Charytatywni Allegro" - space and help in organizing public benefit actions consisting in collecting funds for social purposes. The website does not charge fees or commissions for this. Cooperation with the Great Orchestra of Christmas Charity (WOŚP). Website Rzeczydoserca.pl. where actors, athletes, and VIP upload videos with items important to them, and users bid them. The allroga.allegro.pl website allows us to send St. Martin's croissants and each sold croissant is PLN 1, which is donated to the purchase of Christmas packages for young patients who are in the oncology ward at the K. Jonscher Hospital in Poznań. Action Noble Package Allegro. Technological partnership at the „Mam Marzenia” foundation.

Diversity in teams and organizations: „Women In Tech“ program in which women from the IT industry shared their knowledge and encouraged other women to join. At Allegro in 2019, women accounted for 41.2% of the managerial structure.

#### **Labor standards and employee engagement:**

- **Employees:** regular meetings with the Management Board, Allegro Town Hall (2 meetings per year for all employees of the company), Allegro Q&A: quarterly Q&A session for the CEO and the Management Board, internal Social Media platform and thematic communities, • Allegro Tech Meetings, BaZa engagement survey. raising employees' awareness of healthy and ecological lifestyle, supporting pro-health and pro-ecological attitudes of our employees, education related to environmental protection. "Onboarding" is the process of the employee's acclimatization to the new work environment, which is a 3-day workshop on how Allegro works. Insite + (based on Google+), where corporate, business and strategic information is published. It aims to build knowledge and involvement of employees where they can comment on messages. Training program "MindUp". Since 2018, Allegro has been a strategic partner of the School of Pioneers organized by the Polish Development Fund. Since 2019, Allegro has been a partner of the CDT program, engaging young people in acquiring practical knowledge based on the STEAM system (Science, Technology, Engineering, the Arts, Mathematics).
- **List of benefits:** medical care - employees can purchase medical care not only for themselves, but also for their relatives. Childcare allowance - intended for the monthly co-financing of a kindergarten, nursery or babysitter. • Sports card - Multisport cards allow individual selection of activities. Restaurant card - allows you to use catering and catering services in offices or nearby restaurants. Transport allowance - employees can spend on paying a monthly ticket or buying fuel. Life insurance - employees can take out insurance not only for themselves, but also for their spouse / partner and child. Bank of points - the collected points can be used by employees to purchase Allegro vouchers, as well as vouchers for shops and services. Nursery and kindergarten "WOW" - the company's kindergarten and nursery are located in the PIXEL office building in Poznań. One-time allowance in a difficult life / material situation. Repayable home loans.

**2017 engagement survey results:** 92% of employees took part in the survey. In the previous edition it was 86% 95% of employees feel responsible for the results of their work and other members of their team 90% of employees would recommend Allegro as a great workplace 87% of employees confirm that they have access to training and development tools needed to do their job well.

#### **Customer satisfaction:**

- **Customers:** Allegro has an on-line help center, profiles on social networks, regular NPS surveys (Net Promoter Score, guides, periodic on-line surveys, an educational website for buyers, shopping guides and inspirations on the website. Assistance to customers in the fastest time of implementation is carried out by reducing the response time by 85% (response in less than 6 hours). 81% of answers are given in less than 4 hours.
- **Awards (2018 and 2019):**
  - In 2018, two Silver Paper Clips for the PR campaign supporting the launch of Allegro SMART!
  - Two Brown Paper Clips in the "Business-to-Business PR" and "Technology, IT, Telecommunications" categories.
  - Service Quality Star in the category "E-commerce websites" in 2018 and 2019.
  - In 2018, an award in the Polish National Sales Awards competition.
  - Allegro became the Top Brand 2018 in the e-commerce category in Poland.
  - Allegro achieved the 5<sup>th</sup> position in the Top 100 brands ranking included in the KPMG report "[Digital] customer our master".