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Ticker: ALEP

Current Price: PLN 69.70 as of 02/04/21

USD/PLN: 3.69

Date: 02-04-2021

Recommendation: HOLD

Target Price: PLN 73.01

Market Profile

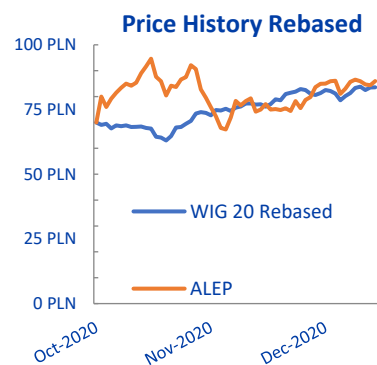
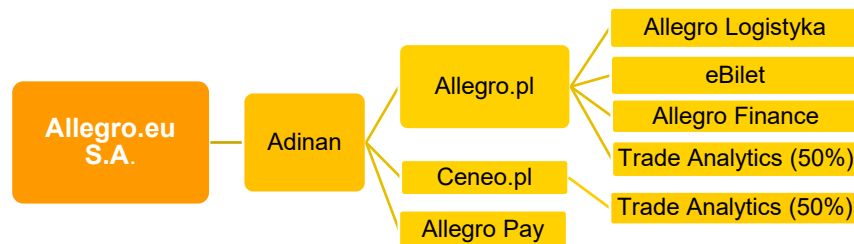
Last close (PLN)	69.70
Market Cap (PLN m)	87 990
Shares out (b)	1 023 256
52-Week High (PLN)	94.64
52-Week Low (PLN)	67.30
P / E (LTM)	173.48x
Free Float (%)	30.24%
WIG20 (%)	12.36

EXECUTIVE SUMMARY**Worth having in portfolio, initiating with a HOLD**

We issue a HOLD recommendation on Allegro.eu SA (ALEP.WA), with 12-month target price of PLN 73.01. It is based on Discounted Cash Flow model, comparison to other market peers, financial indicators and range from Monte Carlo analysis. Our target price represents a 4.75% upside from the last close on 4th February 2021.

Polish giant

ALEP has a very strong position on Polish e-commerce market. It is a group operating in such segments as marketplace, price comparison site and event ticket webpage. The biggest 82% of revenue comes from Allegro platform that has been sharply expanding since 2017. ALEP's IPO in 2020 provides cash necessary to keep up the momentum.



Source: GPW

Quick introduction (Poland 2019)

Population	38 m
Currency	Polish Zloty (PLN)
Logistics Performance	28th
Ease of Doing Business	33rd
E-Government Index	33rd
Inclusive Internet	9th
GDP Per Capita	15 863 USD

Dynamic changes in shopping

Changes in electronic sales dictated by the general trend of replacing physical sales and COVID-19 resulted in the dynamic development of the Allegro platform. The decline in consumption in 2020 did not affect Allegro's results, and the projected increase for next YoY change (3.8%) creates many opportunities for ALEP. The other risks are related to the stock market, economy and typical e-risks like e.g., hacker attack.

Most unique in Poland with threat from foreign peers

A fragmented Polish market that is fastened together by ALEP ensures the loyalty of sellers and buyers. ALEP is also actively engaging in many CSR activities. All of it creates a decisive advantage over competitors, only foreign rivals with significant capital create potential threats.

Decent Financials

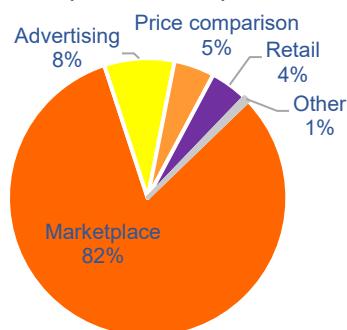
We expect ALEP's revenue to grow rapidly in the coming years and because of relatively low capital absorption of e-commerce business the Net Margin will improve significantly (15.8% 2020A/E to 29.3% 2024F). ALEP leverage is typical for the segment and it is relatively low. We believe that in the following years Company will bring strong improvement in shareholder return.

PLN m	2017A	2018A	2019A	2020A/E	2021F	2022F	2023F	2024F
Net Profit	5.8	271.9	393.1	617.9	1158.0	1551.0	1756.2	2215.3
Revenue	1662.7	1978.0	2592.3	3898.5	5120.9	6093.9	6804.4	7569.2
Net Margin	0.3%	13.7%	15.2%	15.8%	22.6%	25.5%	25.8%	29.3%
Leverage	1.7	1.6	2.1	1.8	1.6	1.5	1.4	1.4
ROE (%)	0.1%	3.0%	5.9%	7.7%	12.6%	14.4%	15.6%	19.5%
Net Debt/Equity (x)	0.5	0.5	0.9	0.7	0.4	0.2	0.2	0.2
EPS (PLN/sh)	0.01	0.27	0.38	0.60	1.13	1.52	1.72	2.17
EPS growth (%)	-	2600%	41%	59%	87%	34%	13%	26%
Revenue growth (%)	-	19.0%	31.1%	50.4%	31.4%	19.0%	11.7%	11.2%
Free Cash Flow	373	802	1 103	1 838	2 879	3 646	4 193	4696

Abbreviation	Full term
AB	Active Buyers
RU	Real User
SKU	Stock Keeping Unit
More abbreviations on page 13	

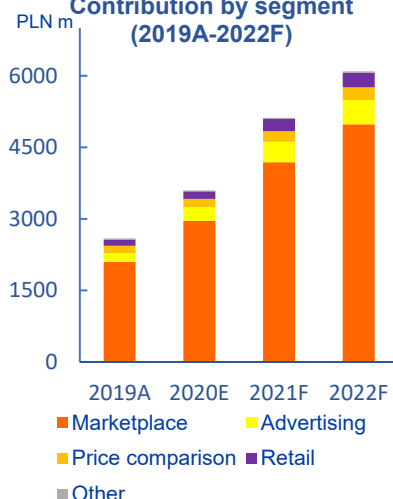
BUSINESS DESCRIPTION

Figure 1: Net revenue contribution by segment (YTD Q3 2020)



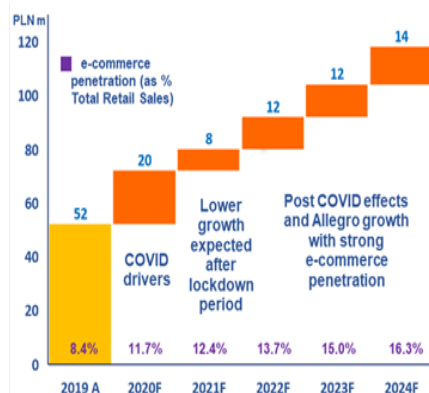
Source: Company Data, Team Estimates

Figure 2: Revenue Contribution by segment (2019A-2022F)



Source: Company Data, Team Estimates

Figure 3: Polish e-commerce sales projection (2019-24)



Source: OC&C analysis

(OC&C retail definition excludes stationery & cards, vehicles, fuel, services, subscriptions, travel and tickets)

Overview

Allegro was founded in 1999 in Poznan (Poland) as the shopping platform. Since then, it has come a long way acquiring Ceneo.pl (price comparison site) in 2006, ebilet.pl (event ticket webpage) in 2019 and FinAi (fintech) in Q1 2020. Allegro.eu SA, as a Luxembourg-based public limited liability company finally went public with its IPO on the Warsaw Stock Exchange on October 12th, 2020. The Company together with its subsidiaries represents the "Allegro Group".

Business Model

ALEP is based on the e-commerce site that operates in an online marketplace model 3P, which means that anyone can be a retailer and sell products directly via Allegro. In 2020 there were over 117,000 merchants that offered products in 7 key categories including Automotive, Fashion, Home&Garden, Electronics, Books, and Collectibles, Kids and Health and Beauty. The Company provides deliveries via couriers and its own loyalty program called SMART!. It allows subscribers to embrace a free delivery for purchases above 40PLN.

Segment revenue: The largest revenue generator of ALEP is peremptorily marketplace segment comprising 82% of the revenue by selling products primarily on behalf of merchants. Second distinctive but much smaller source of revenue is advertising, mainly sponsored offer ads, with a contribution of 8% in the net revenue. Next 5% belongs to the price comparison via cost-per-click fees and the last distinguished 5% of net revenue comes from retail, especially SMART! Week campaigns and other sources (Figure 1). The potential growth of revenues (Figure 2) is based on the annual growth of spending by buyer cohorts, the growing number of active buyers, development of Smart! subscription program, merchants' trend of transferring stores to the Internet strengthened by COVID-19 pandemic and capability of Internet retail market penetration in Poland (Appendix C-4).

Running business sales and costs: Structure of ALEP business has evolved over the past years. The most significant change concerns cost of sales as % of the revenue, which increased by 6% in the 9M comparison of 2020 with 2019. It's worth to underline the rise in net costs of delivery caused by the development of their own loyalty program which rose in mentioned period by PLN 107.4 m. ALEP SG&A costs tend to grow rather proportionally to the revenue growth (Appendix B-1).

INDUSTRY OVERVIEW & COMPETITIVE POSITIONING

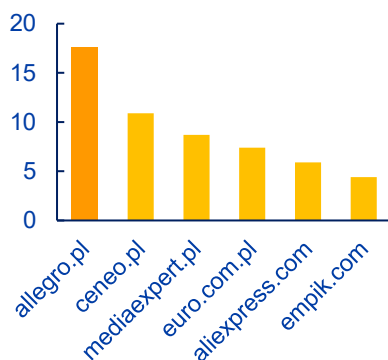
In 2019 Polish e-commerce segment was worth 20,54 bn USD in and it is forecasted to grow by over 100% till 2024. Polish e-commerce penetration provided as 8.4% in 2019 is expected to expand in the coming years and gain another 8 percentage points (Figure 3). The sustained consumer shift to e-commerce and some acceleration effects creates a great potential for ALEP expansion.

Covid-19

GDP slowdown: The global lockdown in March 2020 changed the world economies, entailing a decline of Polish estimated real GDP by 4.6% and automatically all forecasts for the following years. Poles were more inclined to make savings, which is always a problem for retail sellers. Polish National Bank reduced interest rates almost to zero, which should boost consumption. It is expected that the economy will strongly rebound in 2021. Nevertheless, the economic slowdown is inevitable (Appendix C-1, C-2).

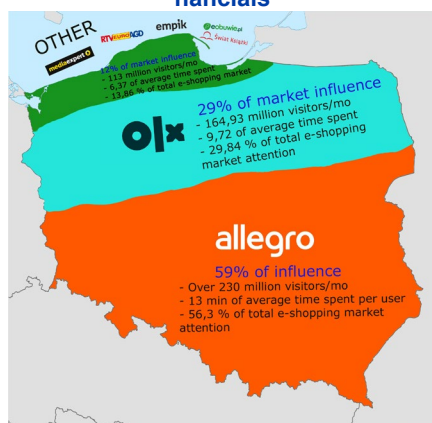
E-commerce boom: In connection with the March 2020 global lockdown, most of the businesses were forced to move their activity to the Internet. Within a few weeks, record increases in online stores and changes in the percentage sales of products and services in the network were observed. It means that competition may have increased the

Figure 4 : Leading e-commerce sites in Poland 2020, by number of real users



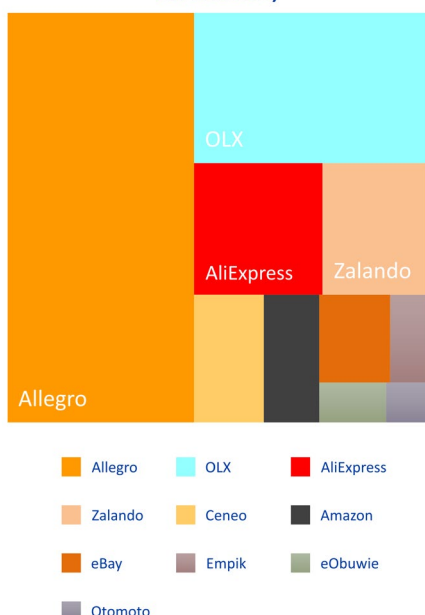
Source: Gemius

Figure 5: Visual representation of Polish e-commerce market without financials



Source: Statista, Team analysis, (Appendix C-3)

Figure 6: Most popular online stores in Poland 2020 (by brand awareness)



Source: Gemius

services of the ALEP platform. Of course, Allegro benefits from such a dynamic change seeing huge increase in online business growth (Appendix C-4).

Little Achilles heel: eBilet acquired in 2019 by Allegro Group is a leader in online sales of entertainment tickets. Due to Covid-19 lock down from March to June, 2020 and from November 2020 until today and lack of live events it has been mostly generating costs in 2020. The YoY GMV performance for Q3 2020 was held back by 1.8 % of growth due to a decrease in ticket sales at eBilet due to lockdown restrictions. The Management concluded there is no impairment risk unless severe Covid-19 disruptions of events continue into 2022 and the medium term.

Domestic outlook

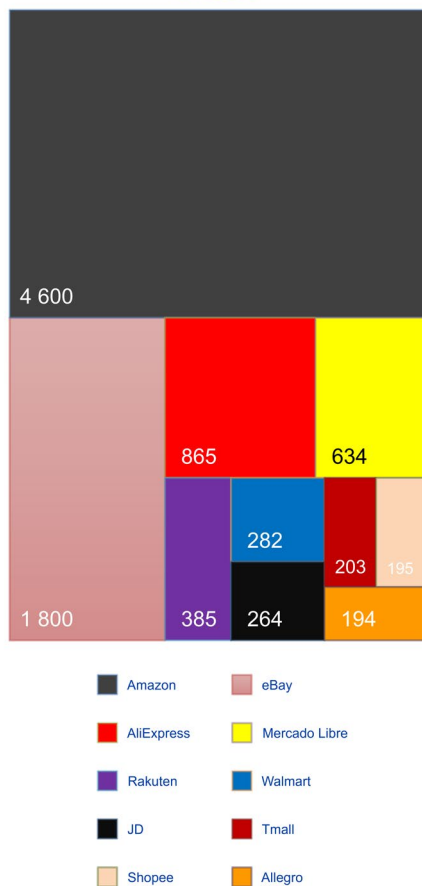
Polish market insight: Polish market doesn't have many of its own Internet marketplaces of significant size. ALEP is arguably the biggest one there, having access to over 50% of the market users, made by 21 m Internet users. We can distinguish 17.6 RU (Figure 4) and 12.6 AB from this group. ALEP is basically a marketplace for the merchants, making it has a vast range of different products offered by the vendors. That means that in some way every online store is a competitor. The biggest Polish companies in e-commerce business are OLX (foreign owner), Media Expert, RTV Euro AGD, DOZ, Eobuwie and swiatksiazki.pl. (Figure 5). On the WSE CCCP.WA, LPPP.WA, OPN.WA, compete directly with Allegro. however, they specialize in selected branches of sales. Even though the rest of the market is fragmented, it is still a competitive place due to the client's attachment to brands and competition from outside Poland. Non-financial analysis also shows ALEP dominance in Polish e-commerce market (Appendix C-3).

Space to fill up: The biggest advantage and major challenge of Polish e-commerce market is that it's still underdeveloped and has a long way to go. Poles are not accustomed to online purchases, and many of them still prefer to buy in physical stores. It is partially caused by slow adaptations to the new technologies and the number of elderly people who will pose a bigger part of society. Majority of all small online stores are focused more on short-term strategies rather than building a brand and customer relationship. Polish market lacks foreign investments, which makes it difficult for local companies to become a real competitor for Allegro. All the major market challenges are solved by Allegro. The Company provides fast shipping, variety of products and even helps its competitors in running the business as it allows them to connect their online stores with the intermediation of Allegro marketplace. The real competition comes from foreign brands, recognized internationally: OLX, AliExpress, Zalando and Amazon (which announced the opening of the Polish platform on January 27th) (Figure 6).

Out performance: One of the major Group's goal is to offer products in the lowest prices which has been achieved regularly. As of June 30, 2020 ALEP, offered 80% products from "top selection index" at a lower price than its competitors. To ensure this advantage ALEP uses automated tools that identify where price is uncompetitive by monitoring 135,000 SKUs. ALEP also provides tools and data called Allegro Ads to target specified audience.

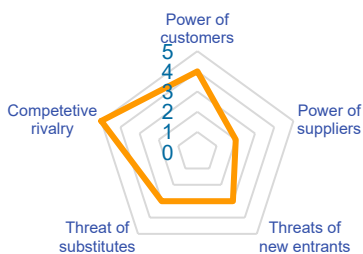
GMV: Total GMV of marketplace for 12 months ended June 30, 2020 amounted to approx. PLN 28,424 bn with its biggest segments Home&Garden (30.9%), electronics (22.2%) and automotive (12.2%). The 2nd and 3rd segment emphasize importance of competition with online stores such as Media Expert, RTV Euro AGD and OPN.WA. ALEP also generates GMV from B2B transactions which were 17.6% of total GMV – PLN 4.9 bn, but it is a fraction of the Polish B2B market and ALEP launches new platform Allegro business to grow in this segment. ALEP is also generating GMV through C2C transactions competing directly with OLX. The other factor with indirect contribution to ALEP GMV is Ceneo, top comparison platform in Poland which direct consumers to merchants. Number of clients brought by Ceneo to the e-commerce platform in 2019 resulted in additional GMV of approximately PLN 445 m.

**Figure 7: E-commerce platform
(in millions of visits per month)
in 2020**



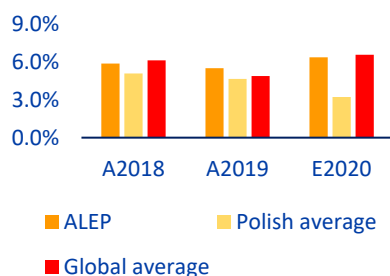
Source: Statista, SimilarWeb

Figure 8: Porter's five forces analysis



Source: Team analysis

Figure 9: CAPEX/Revenue



Source: Team analysis

European perspective

E-commerce industry is one of the fastest-growing on the planet. In recent years, the global average growth rate was above 20%. In 2020 the overall amount of e-commerce retail sales globally was 4 T USD, which still makes it responsible only for 14.1% of all retail sales this year. The valuation of European e-commerce industry was 878,38 bn USD in 2020. In Poland itself, the market is about to reach 22 million people, making 57,3% of the population being internet buyers. That percentage is made of people in age ranging from 18 to 64 and 70% of that group is in the age of 18 to 44, which shows that youth is dominant when it comes to e-shopping in Poland. In the next five years, it is reasonable to assume that those people will become more accustomed to online shopping, leaving it still as a considerable option in their daily lives. Also, forthcoming generation Z will begin to displace elderly people whose percentage of the buying population is the lowest at the same time. Millennials will be at the age of their peak careers and many people from generation Y will get steady income, making their spending bigger than now. Despite the age and income distribution among buyers, there are many other factors that may influence European ecommerce market very positively. Among those is digitalization of the society, amendments in trade regulations, improvements in banking and money transfers including its safety and acceptance, rise in digital goods offer and overall increase of transactions being made on the internet that comes directly from the previous conclusions about percentage of market penetration and changes in buyer population.

Foreign outlook: The biggest competitors in Poland widely viewed are foreign online platforms. ALEP site has nearly 194 million visits per month, which puts this e-commerce platform in 10th place among the world's leaders in online sales (Figure 7). Previously mentioned OLX.com is a platform itself and advertising website that makes revenue not by fees, but by selling ads for the listings. This platform is 12 times smaller than Allegro itself but it has its sibling companies like Otomoto.pl, Otodom.pl and Fixly operating in Poland as a part of one Group. Therefore, OLX has a significant share of the car, online housing and contractor's market in platform. OLX group takes approximately 13% of overall market demand. The third and fourth biggest competitors of ALEP are BABA.K and ZALG.DE. First of them is the Chinese giant with astonishing offer but long shipping process. It is changing slowly due to locating more and more warehouses in Poland and other European countries. The second is known as German clothing store. Next big Allegro competitors are Empik, AMZN.O. So far, these are less significant rivals, and it should be mentioned that the Group's GMV increased by 25.4% in 2019 compared to the 16% increase in the rest of the e-commerce segment in Poland.

Competitive positioning

Adopted business model and a well-established position on the Polish market help ALEP to reduce threat exposure from suppliers. The chance of the emergence of substitutes that will eliminate Allegro is also negligible because its marketplace promotes competitiveness by offering "the best prices". The concept of substitutes in terms of the platform already poses significant challenges for ALEP position. Qualified as competitive rivalry, it creates considerable challenges for the e-commerce industry in Poland and raises the question of whether the position of the Polish tycoon will not be threatened (Figure 8).

Expenditures following growth: The potential of aggressive strategies to take over Polish market by domestic competitors is effectively braked by constantly high ALEP investments. We see a possible danger from global competitors that have similar or higher expenditures mainly on development of the logistics network and wide advertisement (Figure 9). The threat of new entrants is high for the same reasons that we believe that competitors have an interest to expanding in CEE.

1/3P Model: Allegro platform doesn't typically distinguish P1 and P3 sellers, and advertises itself as a 3P platform with 1P experience. This is a slightly different strategy from the well-known Amazon, which achieved success with the economy of scale. The deliberate fragmentation of the market by ALEP platform may turn out to be a logical

Figure 10: Comparison analysis (Appendix C-7)

Amazon	Allegro
Amazon focuses on 1P/3P model and they want to be involved in all sale processes.	More focused on 3P model, giving more opportunities for merchants to be independent.

Source: Team analysis

decision that will effectively defend ALEP in case of an aggressive competitors' strategy or individual PR problems. An important direction for ALEP should be the constant striving for the development of logistics networks, as well as the expansion and filling of product gaps. The stable development of own sales will prevent the aggressive market takeover by competitors (Appendix C-6, C-7). Due to 1/3P model, ALEP is positioned in the supply, broker and distribution side of the value chain. Company is still developing alternative solutions to their services. New marketing and logistics ideas allowed to maintain the significant growth of GMV per AB, which enabled growth of GMV per AB and expansion to the market (Figure 11).

Figure 11: ALEP positioning in the value chain



Source: Team analysis

Figure 12: Allegro most popular delivery methods

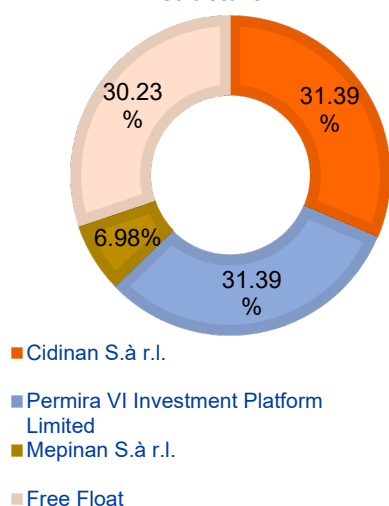
Delivery Method Behav-	
Parcel locker	61%
Courier	55%
Delivery by post	33%
Delivery to a partner	19%
Collection at post office	10%
Click and collect	8%
Transfer directly from the site	7%

Source: Gemius

Conversion rate: ALEP defines its active buyers as unique email addresses, who have made at least one purchase in the last 12 months. The number of those Unique Users was 12.6 m as of September 2020, however, with overall growth of the platform and its visits in 2020, the expected number might be around 15 million in whole year, with 4400 m overall visits, which makes the conversion rate around 3.4%. It is a satisfying result close to the global e-commerce average of 3.8%. It shows a healthy condition of the ALEP platform.

One step ahead: ALEP has focused heavily on the development of the logistics network in Poland, which resulted in cooperation with InPost and the growing popularity of parcel machines in Poland. It gives ALEP a significant advantage over its rivals. There have been reports of the planned construction of ALEP's own network of parcel machines (Figure 12).

Figure 13: Shareholders structure



Source: Team analysis

CORPORATE GOVERNANCE

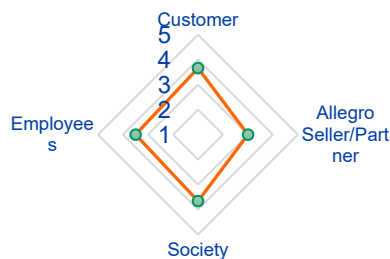
From private company to publicly listed one: Until 2017, ALEP was owned by Naspers company, which sold the Allegro Group to an alliance of investor funds: Cinven, Permira, and Mid Europa Partner. They are now the owners of respectively 31.39%, 31.39% and 6.98% of ALEP shares. The last 30.23% is held by dispersed shareholders (Figure 13). This split structure has a contribution in lower volatility of the stock price and high correlation with WIG 20 index.

Responsibility for the world

Environmental sustainability: ALEP offers customers many delivery methods that have a different carbon footprint. Currently, the "greenest" delivery methods are parcel lockers and collection points. '.

Social responsibility: ALEP ecosystem is an important part of the Polish economy and society due to diversified charitable and educational activities. ALEP social mission is to cooperate with over 100 public benefit organizations, foundations, and individuals through charity and its Allegro All For Planet Foundation. In 2020, Allegro created the position of Public Affairs and Sustainability Manager, who is responsible for the

Figure 14: Evaluation of feasibility sustainable development goals by ALEP



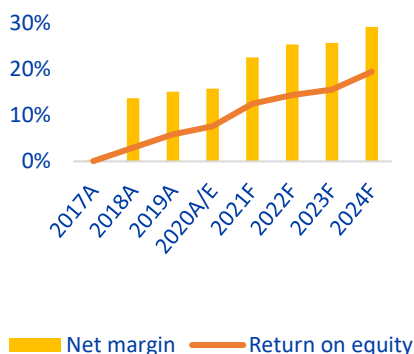
Source: Team analysis

Table 1: Board of Directors

Carla Smits-Nusteling	Independent Non-Executive Director
Darren Huston	Chairman of The Board, Non-Executive Director
David Barker	Non-Executive Director
François Nuyts	CEO of Allegro.pl, Executive Director
Jonathan Eastick	CFO of Allegro.pl, Executive Director
Nancy Cruickshank	Independent Non-Executive Director
Paweł Padusiński	Head of the Warsaw office at Mid Europa Partners
Richard Sanders	Non-Executive Director

Source: Team analysis

Figure 15: ALEP Return on equity and net margin (2017A-2024F)



Source: Company Data, Team analysis

development, implementation and reporting of CSR activities. Over 400 ALEP advisers also care about customer satisfaction. Thanks to their efforts, ALEP is appreciated as a company with the best customer service in Poland. That is confirmed by industry awards such as the Service Quality Star or the Polish National Sales Awards (PNSA). ALEP has managed to collect for charity over 66 m PLN. The Ethics Committee ensures compliance with the Code of Ethics, examination and settlement of reported cases related to its violation. In the past 2 years ALEP has supported the initiative promoting women in the IT industry - Women in Tech Summit. As part of the cooperation, representatives of technology at Allegro shared their knowledge during their lectures and encouraged other women to actively participate in tech development (Appendix D-1).

The feasibility of the sustainable development goals: We assess the ALEP goals of sustainable development as actively fulfilled. The assessment is above average, but there is still a little place for improvements. Especially with such a strong position in Poland, ALEP should still try to invent new approaches to sustainable development e.g., reducing energy waste in deliveries (Figure 14).

Company management

Spearhead of the Company: ALEP BoD consists of eight members with four different Committees: Issuer's Board, Board of operating companies, Management Board, Audit Committee, and Remuneration and Nomination Committee (RnNC) distinguished because of the Allegro and Ceneo operating companies. Allegro's current Board of Directors is composed of 5 non-executives, Darren Huston the Chairman of the Board from Remuneration and Carla Smits-Nusteling, the Nomination Committee and Chairwoman in Audit Committee. (Table 1). There are managers holding ALEP shares: Darren, Nuyts, Eastick, Lachajczyk – Ceneo CEO, Zaplata - CCO, Allegro Board Member Szybiak – CTO, Bogdan – Chief Data Officer).

Woman participation in BoD: BoD includes women as well who are about 25% of Company entire board. That is low. We claim that the variety of gender in the Board of Directors might be viewed badly nowadays. 75% of the members of the BoD (including the chairman) have education and proficiency in economics, while the other 25% (2 members) are composed of members with History and Natural Science (Appendix D-3).

INVESTMENT SUMMARY

We issue a HOLD recommendation on ALEP with a 12-month target price of PLN 73.01. This presents a 4.75% upside from today's price.

Great position for present circumstances

ALEP strong performance in 2020 showed that e-commerce business is much more resistant than stationary sale. YoY change in number of online shops exceed expectations with over 15% in some categories. Redirecting consumption to the Internet benefits a lot the developed platform of ALEP. Roots of online shopping will profit ALEP due to forecast for 2021 rebound from (-4.9%) to 3.8% of private consumption in Poland.

Forecast of strong cash streams

On the back of sturdy platform, ALEP revenue growth is expected to achieve 14,2% 2020A/E-2024F CAGR. Positive cash flow from operating activities allows for payment of liabilities and investment activities of the Company. We forecast net margin growth from around 15.8% in 2020 to over 26% in 2024. It will entail a positive change in the ROE indicator (Figure 15).

Acceptable financials

DuPont's analysis allowed us to calculate the leverage used by ALEP, which under the current circumstances should decrease to 1.4 in 2024F. We see a high potential in EPS growth in the next year, but we are concerned about high P/E ratio which tends to be too high these days and reassured with P/BV ratio.

Figure 16: Map of European leaders in e-commerce segment



Source: Statista, Team analysis

Factors for the potential expansion

We see a great potential in expansion to the Polish market due to low penetration level and growing number of AB. The European Marketplace is currently full of small ecommerce websites, with new one's appearing every day. There is however only a small percentage of those whose visits exceeds 1million users a month. There is even lower percentage of highly converting, super-popular national stores, who are main marketplaces in European countries. The map on the left visualizes the top 3 stores in each European country. As you can see, Amazon dominates in many countries, but in some part of the market is divided between local marketplaces such as ALEP. We left out part of the southern and eastern countries in our illustration due to the difficulty of distinguishing clear leaders. It also indicates the possibility of a possible expansion of ALEP marketplace in countries like Lithuania, Ukraine or Western Balkans for example (Figure 16).

Competitive advantages

Through the 3P model, ALEP puts itself in a good position to co-operate with stores on the market. This strategy is much less capital intensive. At the same time, it tries to build a continuous advantage in the e-commerce sector by developing a logistics network and the desire to reach a wider audience. In the context of ALEP analysis, we take into account the possibility of entry of foreign competitors, especially AMZN.O.

DCF valuation shows clear direction

Our DCF valuation let us to find out the fair value of Company at the PLN 72,65 and today's Company value at PLN 74341.2 m, which is 5.3% below today's market cap. Through calculating future value of cash flows, we expect Company value to grow to PLN 94308 m (26.86% YoY growth).

FINANCIAL ANALYSIS

According to the Moody's rating agency, Poland's credit profile was rated at A2, and by Fitch and S&P at A- in 2020. Financial situation of the Company seems to be decent as well, as Allegro paid out vast majority of their debts and significantly raised their capital during the IPO Warsaw Stock Exchange at the beginning of the October 2020, going from 43pnl to above 70PLN a share.

Sustained growth

The revenue forecast was made based on the consensus of valuations of individual institutional analysts, whose analyses ranged from PLN 3,827 to 4,086 for 2020 (we additionally adjusted it for the actual data from Q1-Q3). Growth for next years were calculated with previously mentioned drivers such as cohort spending, AB number, subscription program, trend of transferring stores to the Internet and market penetration. The whole projections were also adjusted by the ALEP anticipation of the growth and the inflation rate forecast.

Marketplace driver: We predict ALEP sustain revenue growth, due to it emphasize on the marketplace development. On the back of strong platform, it is expected to achieve 14,2% 2020A/E-2024F CAGR.

Operational efficiency and financial reduction: For the past few years ALEP net margin has been below 20% but it's pretty high in comparison with the biggest marketplaces (Figure 17). It is expected to grow steadily because of relatively smaller operating costs, reduce of debt and scale of e-commerce shopping platform. ALEP marketplace model is much more similar to eBay, and that is a direction that we envision for the further Company's net margin development path. Its asset turnover and ROE shows also that Company management chose the right direction.

Figure 17: Net margin 2020

ALEP	16%
AMZN	5%
BABA	23%
JD	4%
EBAY	44%

Source: Team analysis

Table 2: Key Financial ratios (PLN m)

	2017A	2018A	2019A	2020A/E	2021F	2022F	2023F	2024F
DuPont Analysis								
Net Profit (PLN m)	5.8	271.9	393.1	617.9	1158.0	1551.0	1756.2	2215.3
Revenue (PLN m)	1662.7	1978.0	2592.3	3898.5	5120.9	6093.9	6804.4	7569.2
Total Assets (PLN m)	14566.0	14762.3	14278.0	14396.0	14823.0	15615.0	15830.0	16123.0
Equity (PLN m)	8804.6	9056.7	6683.6	8071.0	9208.0	10736.0	11245.0	11350.0
Net Margin (%)	0.3%	13.7%	15.2%	15.8%	22.6%	25.5%	25.8%	29.3%
Asset Turnover (x)	0.11	0.13	0.18	0.27	0.35	0.39	0.43	0.47
Leverage	1.7	1.6	2.1	1.8	1.6	1.5	1.4	1.4
Return On Equity (%)	0.1%	3.0%	5.9%	7.7%	12.6%	14.4%	15.6%	19.5%
Liquidity Indicators								
Net working Capital (PLN m)	270.8	669.6	42.9	159.5	1372.4	1654.4	1820.9	2122.2
Current Ratio (x)	1.7	2.4	1.1	1.1	2.2	2.2	2.2	2.3
Leverage Indicators								
Debt/Equity (x)	0.5	0.5	1	0.7	0.4	0.2	0.2	0.2
Net Debt/Equity (x)	0.5	0.5	0.9	0.7	0.4	0.2	0.2	0.2
Shareholder Indicators								
EPS (PLN/sh)	0.01	0.27	0.38	0.60	1.13	1.52	1.72	2.17
EPS growth (%)	-	2600%	41%	59%	87%	34%	13%	26%
Revenue growth (%)	-	19.0%	31.1%	50.4%	31.4%	19.0%	11.7%	11.2%

Source: Company Data, Team analysis

Figure 18: ALEP Cash flow (PLN m)

Cash flow (PLN m)	2017	2018	2019	2020A/E
Operating Activities	440	919	1247	1465
Investing Activities	13353	112	203	263
Financing Activities	13269	69	1434	342

Source: Team analysis

Typical leverage for a company with expansion desire: Debt/Equity is another important indicator for ALEP that recently increased significantly but it is still not a high level of leverage. We believe that it has helped ALEP spread its wings in recent time and overall amount of debt will decrease in the coming years.

Strong cash flow generation: Positive cash flow from operating activities allows for payment of liabilities and investment activities of the Company. Huge figures in 2017 are connected with acquisition of subsidiary, increase of capital, and receiving borrowings. The current figures are satisfying and due to the forecasted increase in profits they inspire optimism (Figure 18).

Shareholders return: Current EPS shows that ALEP has been losing 0.4 zloty for every 1 zloty invested in the past few years. We expect that it will change in the next year with the growth of 87%. Expanding ALEP net margin in our forecast yield a 29.1% EPS growth in 2020A/E-2024F CAGR (Figure 19).

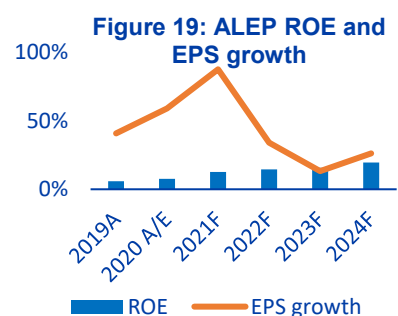
Growing faith of customers: ALEP has seen a superior increase in GMV per AB since 2017, which shows stronger and stronger allegiance of customers. It is a clear indicator that can't be affected by many external factors and its interpretation prove among others efficiency of their marketing strategy (Figure 20).

Comparison to the listed peers: Undeniably ALEP price to earnings per share indicator is above an average of the global e-commerce pioneers. It concerns us as the students of Graham's "Intelligent Investor". Less worrying is P/BV that compared to other companies looks decent (Figure 21).

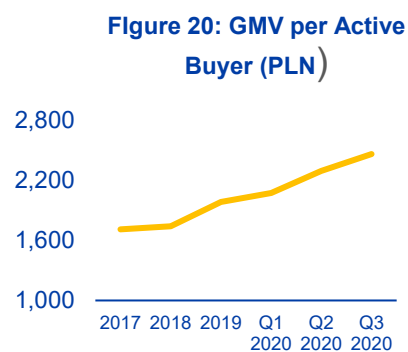
Figure 21: Selected Graham's indicators for ALEP compared to the sector

Indicator	ALEP.WA	BABA.K	JD.O	EBAY.O	ZALG.DE	AMZN.O
P/E	279.30	41.94	92.33	18.8	157.16	96.84
P/BV	10.92879	5.203025	6.332075	13.32224	12.45508	19.96617

Source: Companies Data, Team analysis



Source: Team analysis



Source: Team analysis

Figure 22: Valuation Matrix

Valuation Matrix		
Method	Weightings	Share price
DCF valuation	70%	PLN 72.48 Fair value
Sensitivity analysis	15%	PLN <55;87> PLN 71
Monte Carlo analysis	15%	PLN <67, 82> PLN 77,5
Target Price		PLN 73.01

Source: Team analysis

Figure 23: DCF analysis results

First Year of Projections	2020
Adjusted WACC	8.98%
Shares Outstanding	1 023 m
Perpetual Growth Rate	3.80%
Market Cap	78534.9 m
Today's Company Value	74341.23 m
2024 Company Value	94308 m
Fair Value of the Company	PLN 72.48

Source: Team analysis

Figure 24: WACC sensitivity

Cost of Debt					
Cost of Equity		7,3%	8,5%	9,0%	9,5%
	9,7%	7,1%	7,5%	7,7%	7,9%
	10,1%	7,3%	7,7%	7,9%	8,1%
	10,5%	7,5%	7,9%	8,1%	8,2%
	10,8%	7,6%	8,0%	8,2%	8,4%
	11,2%	7,8%	8,2%	8,4%	8,6%
	11,6%	8,0%	8,4%	8,6%	8,8%

Source: Team analysis

Figure 25: WACC sensitivity

Personal Required Rate of Return				
Perpetual growth rate		8,98%	9,96%	8,30%
	3%	PLN64	PLN 55	PLN 73
	4%	PLN 75	PLN 62	PLN 87

Source: Team analysis

VALUATION

Derivative of DCF valuation, sensitivity analysis and Monte Carlo analysis enabled us to arrive at our target price of PLN 73.01. In the following years we also see a high potential in e-commerce segment.

DCF valuation

The analysis performed with the use of Discounted Cash Flow allowed us to evaluate today's fair value of the Company at the level of PLN 72.48 It's followed by Company's today value around PLN 74341.23 m, which is below market cap. We expect that Company value will thrive till 2024 (Figure 22).

Calculation data: Our assumptions are based on 8.98% adjusted WACC. It was calculated as a result of WACC and our individual expectations based on potential competition threat. The above-mentioned result is the WACC 7.98% indicator increased by one percentage point (Appendix F-3). We came up with a perpetual growth rate of 3.8%. It is based on last year polish average inflation (3.4%), assumptions of private consumption in the coming years (3.8%) and high growth of e-commerce sector (Figure 23).

WACC

Figure 24: WACC results

Risk-free rate	1.19%	Yield of 10-year treasury bonds
Beta	0.305	Based on WIG-20 returns
Return from the market	0.32%	
Tax rate	23%	Effective tax rate
Cost of capital	10.49%	Based on a CAPM analysis
The cost of the debt	7.85%	
WACC	7.98%	

To calculate the ratio, we used long-term debt and equity, which accounted for 45% and 47% of liabilities, respectively. We used the CAPM method to estimate the cost of equity, with the WIG20 index as the market portfolio. The current yield on 10-year treasury bonds was considered being the risk-free rate. The shorter ones were considered ineffective due to reaching negative values. Our estimated cost of capital was 10.5% and cost of debt 8,37%. WACC is 7.98%

Tax rate: In our predictions, we assumed an effective tax rate of approximately 23%. It should be noted that this rate in the 9M period ended September 30, 2020 amounted 45.9% compared to Polish standard corporate income tax rate of 19% for each period. Luxembourg companies are subject to taxation at a 24,94% rate. The effective tax rate increased as a result of tax losses incurred by some Group's Luxembourg subsidiaries for which no deferred tax asset is recognized as either those entities likely will not generate taxable income in the foreseeable future or those losses will not be utilized due to pending mergers. These irrecoverable tax losses related to interest paid on debt held, interest rate swap contracts, certain IPO related costs and certain debt refinancing costs.

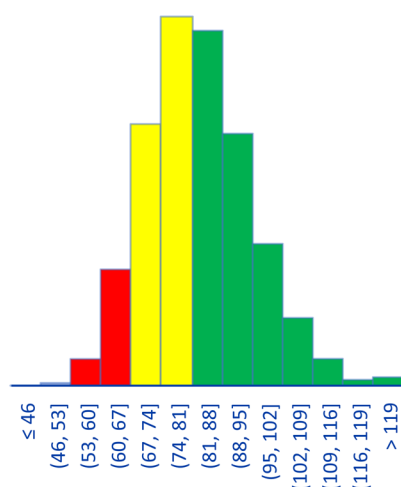
Sensitivity analysis

With regard to changes in the WACC rate, we managed to obtain a Company fair value range, which may fluctuate in PLN <55;87> (Appendix F-2). It depends directly from the cost of debt and cost of equity (Figure 24).

Scenario analysis

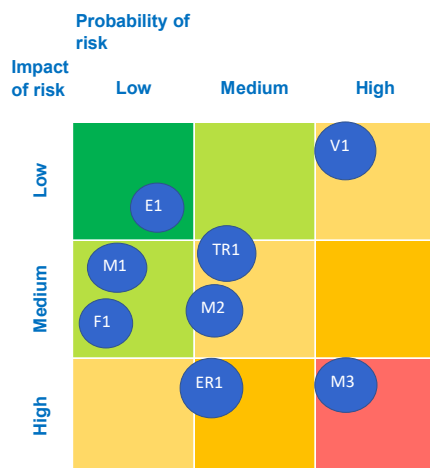
We compared the adopted WACC changes with the theoretical changes in Perpetual growth rate and we obtained the range of PLN <55; 87>. The changes were analyzed in case of instantaneous liquidity loss and the appearance of a significant rival on the market and partial loss of AB group (Figure 25).

Figure 26: Monte Carlo analysis



Source: Team analysis

Figure 27: Risk Matrix



Source: Team analysis

Monte Carlo analysis

Monte Carlo analysis based on 1.19% risk-free rate showed the most possible range in 12-month analysis between PLN <67;82> (Figure 26).

The most significant percentage growth in ALEP revenue might be seen in 2021 and that with DCF analysis is the main reason to issue a HOLD recommendation.

INVESTMENT RISKS

[V1] Valuation Risk | Monte Carlo and sensitivity analysis: Performing Monte Carlo and sensitivity analysis reflected possible fluctuation ranges of ALEP stock price. The combined range of PLN <55;87> shows possible downturn of 28%.

[M1] Market Risk | Potential Slowdown in Consumption: ALEP constant growth in revenue might be slow down by decrease in consumer expenditures. Everything depends on the economic climate in Poland. The current pandemic (Covid-19) causes a lot of changes in government actions which have an impact on buyers and their future income.

[M2] Market Risk | Black Swans: ALEP participation in the WIG 20 index portfolio at around 11% makes the valuation of the company very dependent on the stock exchange situation, which due to COVID-19 is very floating.

[M3] Market Risk | Market challengers: Competition is the most salient operational risk faced by ALEP. The general merchandise retail industry is highly competitive and includes formidable competitors such as ZALG.DE, BABA.K and AMZN.O and specialty retailers. These major retailers have invested heavily in online sales channels in response to evolving consumer tastes. The build-out of well-regarded retail e-commerce sites threatens to challenge Allegro's supremacy in the market.

[E1] Economic Risk | Demand exceeds supply: Allegro is a company offering products from more than one category. It could be observed that during the period (steadily prevailing Coronavirus) e-commerce sales on particular groups rapidly increased (Appendix G-1). Thus, the question arises if the demand doesn't exceed supply, causing a price increase as a result of the lack of goods on the market.

[F1] Financial Risk | Liquidity risk: ALEP finances most of its activities with obtained loans. A temporary loss of liquidity may have financial consequences that will affect the operation of the entire Company.

[TR1] Taxation Risk | VAT Changes: Changes implementing the e-commerce VAT package might be beneficial but also a threat to ALEP possible plans of expansion. The new regulations (to enter on July 1, 2021) are primarily aimed at combating VAT fraud and helps with VAT collection in this area, as well introducing facilitation in VAT settlements in connection with conducting cross-border sales of goods or services over the Internet to consumers in the EU. Among the many planned changes there was, the elimination of the VAT exemption for the import of goods in shipments with a value not exceeding EUR 22, or introducing statutory definitions of the concept of "intra-Community distance sales of goods" and the concept of "distance sales of goods imported from third countries". This change might discourage merchants or consumers if the cost will be on their side to pay. It also closes doors for potential growth of ALEP.

[ER1] E-Risk | Technology problems: Running an e-commerce activity involves the risk of exposure to e-risk. Developments in economic, industrial, and regulatory conditions create new challenges for business. Cyberspace is open to villains who look for computer networks to exploit. Some people try to hack into a business firm's computer system just to see if they can. If access to the system is gained, hackers might cause major problems by deleting or changing data. ALEP is intent on and built on a vast database which could be broken and used by villains, for instance, persona or banking data.

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LIST OF ABBREVIATIONS / GLOSSARY

ABBREVIATION	FULL TERM
AB	"Active Buyers" represents, as of the end of a period, each unique email address connected with a buyer that has made a purchase on Allegro.pl and Allegrolokalnie.pl (excluding eBilet) in the preceding twelve months;
ALEP	Allegro.eu SA
BoD	Board of Directors
CAGR	Compound Annual Growth Rate
CEE	Central and Eastern Europe
GMV	Gross merchandise value, which represents the total gross value of goods and tickets sold on the platforms allegro.pl, allegrolokalnie.pl and ebilet.pl (including value added taxes).
RU	"Real Users" the number of Internet Users (visitors) in a given target group who visited (generated at least one page view) the selected node(s) in a specified time period. This indicator relates to the actual number of persons – not computers, cookies or IP addresses.
SG&A	Selling, General & Administrative Expense
SKU	Stock Keeping Unit
YoY	Year-Over-Year
Visits	The number of visits generated by the visitors on the selected node in a specified time period. A visit is defined as a series of page views generated by the same visitor on a given website (domain), with a time of no more than 30 minutes between each two consecutive page views.
WACC	Weighted Average Cost of Capital

Companies: AMZN.O -Amazon; BABA.K – Alibaba OPN.WA- Oponeo.pl; CCCP.WA – CCC Poland; LPPP.WA - -Polish clothing stores; ZALG.DE-Zalando SE;

APPENDIX A: FINANCIALS

Appendix A-1: Income statement

In PLN m	2017	2018	2019
Net revenue	1 662.7	1 978.0	2 592.3
Marketplace revenue	1 266.4	1 609.0	2 099.7
Advertising revenue	118.2	161.5	207.1
Price comparison revenue	102.6	123.7	145.8
Retail revenue	149.1	62.8	115.2
Other revenue	26.4	21.1	24.5
Operating expenses	(1 018.3)	(880.0)	(1 266.9)
Payment charges	(124.0)	(129.5)	(133.7)
Cost of goods sold	(131.5)	(57.0)	(120.4)
Net costs of delivery	–	(49.6)	(268.5)
Marketing service expenses	(170.0)	(280.3)	(306.9)
Staff costs net	(200.3)	(243.3)	(294.4)
IT service expenses net	(29.8)	(35.2)	(39.9)
Other expenses net	(75.1)	(84.5)	(101.6)
Transaction costs	(287.7)	(0.7)	(1.4)
Operating profit before amortisation	644.4	1 098.0	1 325.4
Amortisation and Depreciation	(382.7)	(421.7)	(439.3)
Amortisation	(328.8)	(364.5)	(383.6)
Depreciation	(53.9)	(57.1)	(55.7)
Operating profit	261.7	676.3	886.1
Net Financial result	(206.1)	(316.0)	(373.0)
Financial income	2.4	7.1	9.6
Financial costs	(317.7)	(323.0)	(384.0)
Foreign exchange (profits)/losses	109.3	–	1.3
Profit before Income tax	55.6	360.3	513.0
Income tax expenses	(49.9)	(88.4)	(120.0)
Net Profit	5.8	271.9	393.1

Source: Company Data

Appendix A-2: Balance sheet

In PLN m	2017	2018	2019
ASSETS			
Non-current assets			
Goodwill	8 582.4	8 582.4	8 631.3
Other intangible assets	5 124.0	4 844.7	4 627.1
Property, plant and equipment	196.3	164.1	147.7
Loans granted	16.0	11.7	9.3
Deferred tax assets	10.3	10.5	9.7
Investments	0.4	0.4	0.4
Total non-current assets	13 929.5	13 613.7	13 425.6
Current assets			
Inventory	7.3	8.2	20.1
Trade and other receivables	264.9	340.0	396.8
Prepayments	–	–	26.9
Other financial assets	7.9	6.4	4.8
Cash and cash equivalents	356.4	794.0	403.9
Total current assets	636.5	1 148.6	852.4
TOTAL ASSETS	14 566.0	14 762.3	14 278.0
EQUITY AND LIABILITIES			
Equity			
Share capital	830.5	830.0	434.2
Capital reserve	7 426.4	7 421.9	5 141.1
Exchange differences on translating foreign operations	(0.3)	0.4	0.6
Cash flow hedge reserve	–	(18.9)	(22.3)
Other reserves	1.9	5.3	(33.6)
Retained earnings	540.3	546.1	758.8
Net result	5.8	271.9	391.4
Equity allocated to shareholders of the Parent	8 804.6	9 056.7	6 670.2
Non-controlling interest	–	–	13.4
TOTAL EQUITY	8 804.6	9 056.7	6 683.6
Non-current liabilities			
Borrowings	4 578.2	4 416.2	6 001.2
Lease liabilities	103.2	85.5	59.8
Written put option liability	–	–	21.0
Other financial liabilities	8.7	38.8	36.9
Deferred tax liability	701.1	675.1	643.5
Liabilities to employees	4.5	11.1	22.6
Total non-current liabilities	5 395.7	5 226.6	6 784.9
Current liabilities			
Borrowings	83.2	209.7	335.7
Lease liabilities	21.0	21.4	25.8
Written put option liability	–	–	22.2
Other financial liabilities	–	–	2.0
Income tax liability	52.9	10.8	14.9
Trade and other liabilities	177.9	211.6	349.2
Liabilities to employees	30.7	25.6	59.6
Total current liabilities	365.7	479.0	809.5
TOTAL EQUITY AND LIABILITIES	14 566.0	14 762.3	14 278.0

Source: Company Data

Appendix A-3: Cash flow statement

In PLN m	2017	2018	2019
Profit before income tax	55.6	360.3	513.0
Amortisation and depreciation	382.7	421.7	439.3
Net interest expense	308.7	305.0	375.5
Non-cash employee benefits expense – share-based payments	1.9	3.3	4.3
Revolving facility availability fee	3.7	3.2	3.2
Net (gain)/loss exchange differences	(133.8)	2.8	(1.5)
Interest on lease liability	3.8	8.1	3.8
Net (gain)/loss on sale of non-current assets	–	(0.9)	(0.3)
Net (gain)/loss on measurement of financial instrument	8.7	0.8	–
(Increase)/Decrease in trade and other receivables	(86.2)	(75.1)	(81.6)
(Increase)/Decrease in loan receivables	–	–	–
(Increase)/Decrease in inventories	9.6	(0.9)	(11.8)
Increase/(Decrease) in trade and other liabilities	(116.1)	37.5	121.0
Increase/(Decrease) in liabilities to employees	32.3	1.5	44.7
Cash provided by operating activities	470.9	1 067.3	1 409.7
Income tax paid	(30.8)	(148.7)	(163.1)
Net cash inflow/(outflow) from operating activities	440.1	918.6	1 246.5
Cash flows from investing activities			
Payments for property, plant & equipment and intangibles	(67.3)	(116.5)	(143.0)
Loans granted	(25.9)	–	(0.4)
Repayment of loans granted	–	0.2	3.2
Acquisition of subsidiary (net of cash acquired)	(13 259.3)	–	(63.0)
Other	–	4.3	0.3
Net cash inflow/(outflow) from investing activities	(13 352.5)	(112.0)	(202.9)
Cash flows from financing activities			
Proceeds from capital increase	8 853.4	–	–
Repayment of share premium	(46.3)	–	(2 736.0)
Borrowings received	4 776.3	–	1 959.5
Borrowings repaid	(42.0)	(45.5)	(215.8)
Interest paid	(245.2)	(299.1)	(378.9)
Lease payments	(24.6)	(21.0)	(24.8)
Revolving facility availability fee payments	(2.9)	(3.4)	(3.8)
Interest rate hedging instrument settlements	–	–	(17.6)
Senior debt upsizing costs	–	–	(16.5)
Net cash inflow/(outflow) from financing activities	13 268.8	(369.0)	(1 433.8)
Net increase/(decrease) in cash and cash equivalents	356.4	437.6	(390.2)
Cash and cash equivalents at the beginning of the financial period	–	356.4	794.0
Cash and cash equivalents at the end of the financial period	356.4	794.0	403.9

Source: Company Data

Appendix A-4: ALEP share price history

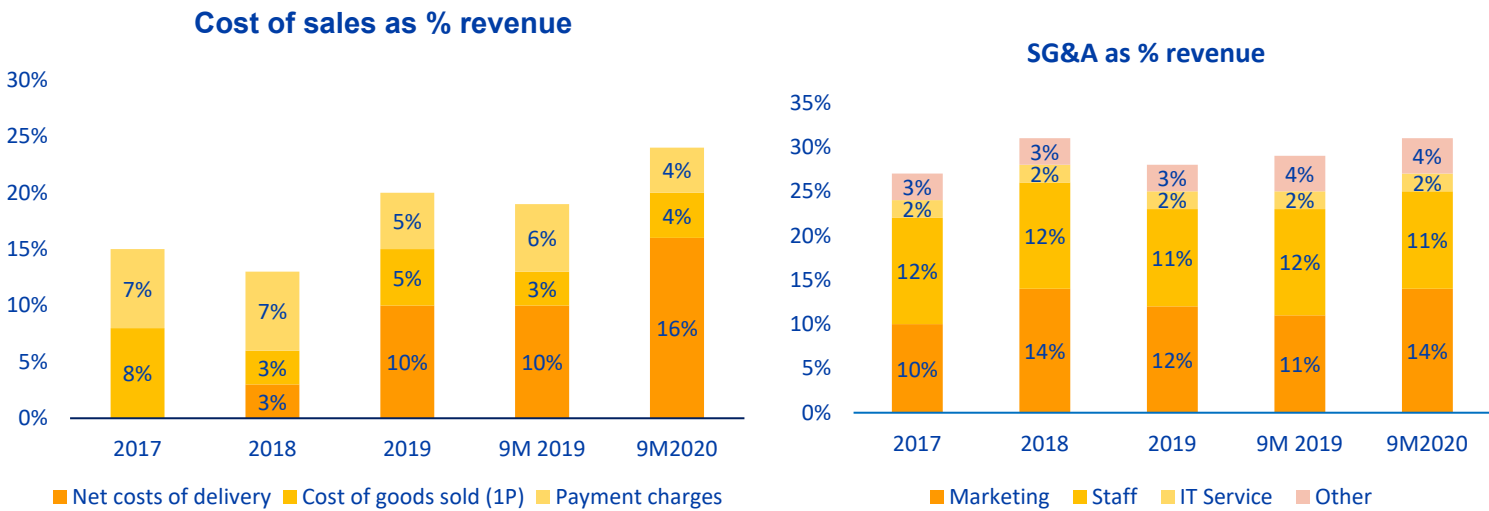
ALEP SHARE PRICE HISTORY (2020-21)



Source: Team analysis

APPENDIX B: COMPANY DESCRIPTION

Appendix B-1: ALEP expenditure (2017-2020)



Source: Company Data

APPENDIX C: INDUSTRY AND COMPETITIVE POSITIONING

Appendix C-1: Key European Union Macroeconomic assumptions

	European Union assumptions						
	2016A	2017A	2018A	2019A	2020A/E	2021E	2022F
Real GDP Growth (YoY %)	2.1	2.7	2.1	1.5	-7.4	4.1	3
Inflation Rate (%)	0.2	1.5	1.4	1.4	1.6	0.8	1.5
Unemployment rate (%)	9.1	8.2	7.3	6.7	6.6	8.6	8.2

Source: European Union Commission

Appendix C-2: Key Polish Macroeconomic Assumptions

Key historical economic figures (%)						
	2015A	2016A	2017A	2018A	2019A	
Real GDP Growth (YoY)	3.8	3.1	4.9	5.3	4.1	
Gini coefficient of equivalized disposable income	30.8	30.6	29.8	29.2	27.8	
Consumption (% of GDP)	76.6	76.5	76.3	76.2	75.5	
Unemployment Rate (%)	5.5	4.6	3.8	3	2.4	
Capital Formation (% of GDP)	76.6	76.5	76.3	76.2	75.5	
Government Expenditure (% of GDP)	41.7	41.1	41.2	41.5	42	
Exports (% of GDP)	47.2	49.1	51.9	54.2	55.2	
Imports (% of GDP)	46.3	48.2	50.4	52.2	50.8	
Forecast (%)						
	2019A	2020E	2021A/E	2022F	2023F	2024F
Real GDP Growth (YoY)	4.5	-4.6	4	3.4	3	3

Source: stat.gov.pl, Team estimates, Central Statistical Office of Poland, World Bank, Polish Ministry of Finance, European Commission, Trading Economics

Forecasted year-on-year change in main macroeconomic indicators in Poland 2020-21		
	2020	2021
GDP	-4,3%	4,1%
Private Consumption	-4,9%	3,8%
Public Consumption	2,9%	2,1%
Exports (goods and services)	-9,8%	8,6%
Imports (goods and services)	-10,6%	8,9%
GNI (GDP deflator)	-4,3%	4,3%
Contribution to GDP growth: Domestic demand	-3,9%	3,6%
Contribution to GDP growth: Inventories	-0,3%	0,1%
Contribution to GDP growth: Net exports	-0,1%	0,3%
Employment	-4,5%	2,2%
Unemployment rate*	7,5%	5,3%
Saving rate of households**	8,0%	4,6%
Harmonised index of consumer prices	2,5%	2,8%
Terms of trade goods	0,6%	0,3%
Trade balance (goods)***	1,1%	1,1%

* As a percentage of total labor force.

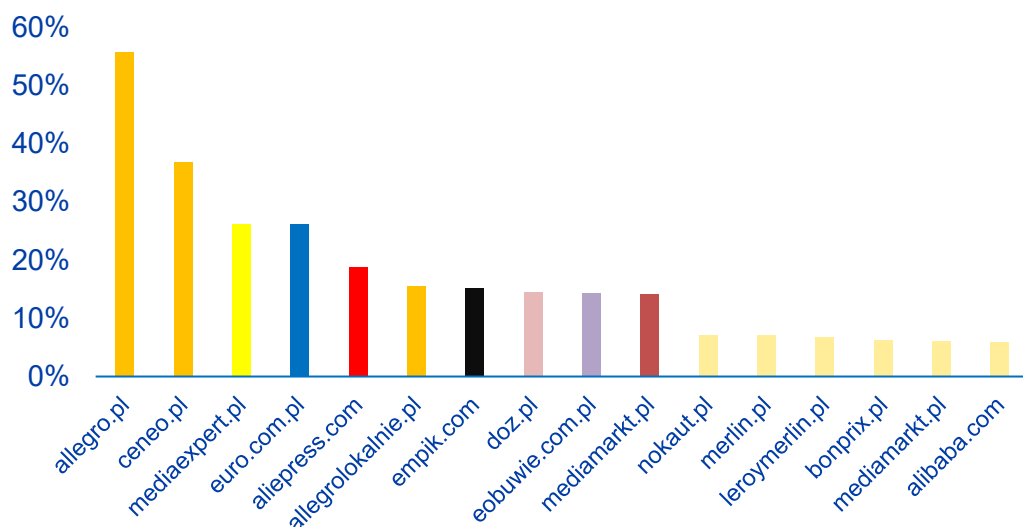
** Gross saving divided by adjusted gross disposable income.

*** As a percentage of GDP.

Source: European Commission

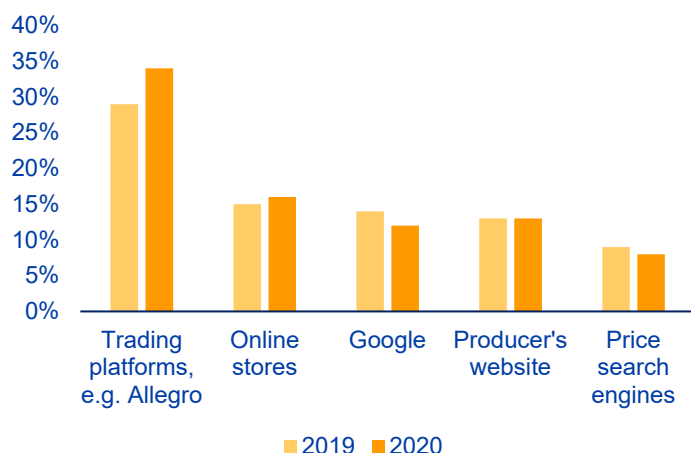
Appendix C-3: Peer data compared to ALEP

Most popular online shops by reach in Poland in 2020



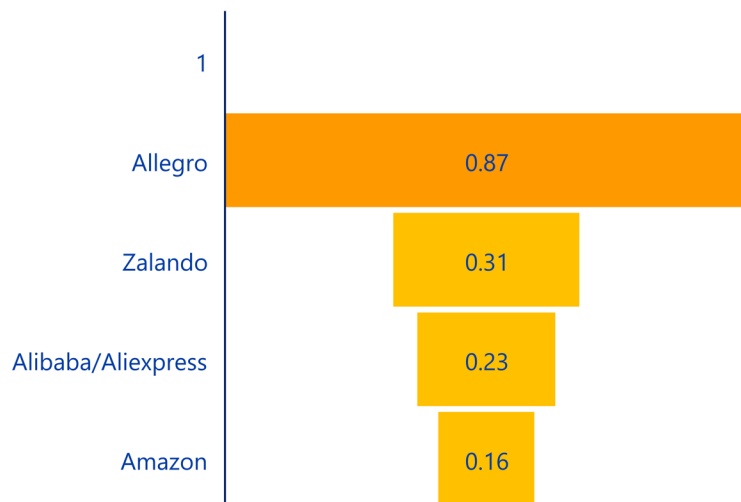
Source: Gemius

Places for consumers to start shopping online in Poland 2019-2020



Source: Interactive Research Center

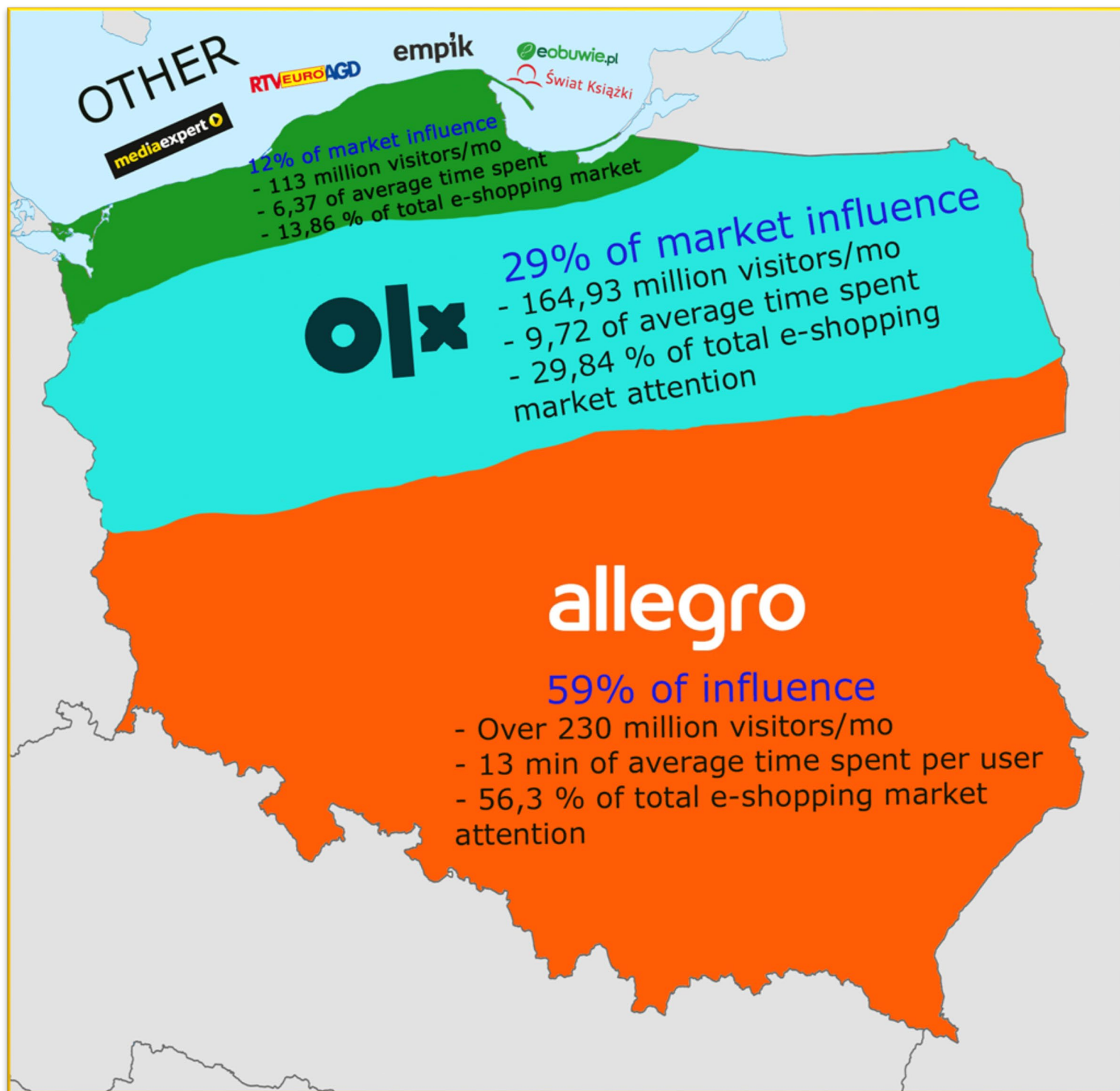
Leading marketplaces in Poland 2019



Source: PostNord

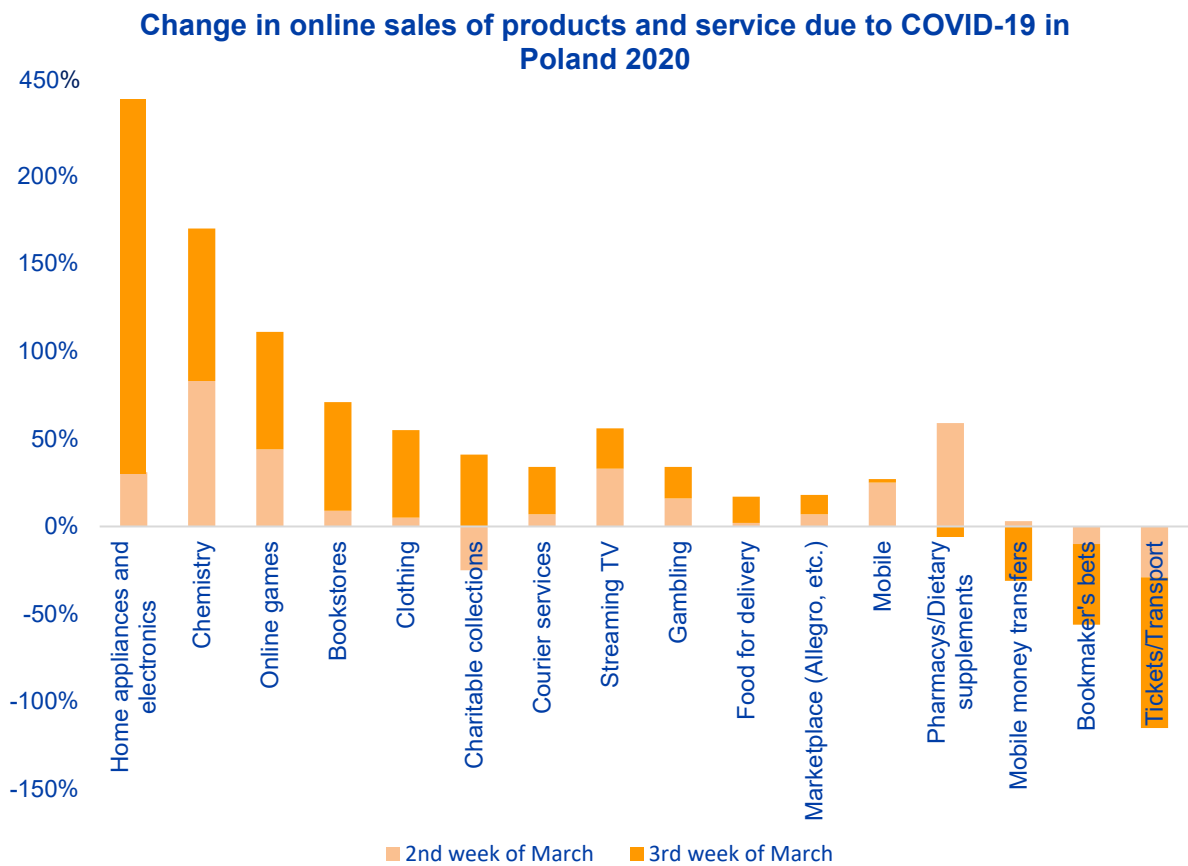
Commentary: Polish ecommerce market is still very undeveloped, making it one of the most promising in the Central Europe. Its low penetration rate and internet-conscious younger generation, makes its potential even more appealing. The political situation and constantly changing regulations may introduce some difficulties in the future. The benchmark below compares biggest online polish stores and marketplaces showing the approximate influence rate and attention that stores received in December 2020, which was crucial month in Polish ecommerce due to the closed malls and Christmas season demand. Those statistics do not include financial data of the stores, neither their expected capability to generate sales in the future. Because polish stock market is very capital absorbent and WSE is strongly influenced by politics. The fact that the company's shares are publicly offered in some form or another on any given market was included in our equations as an influence multiplier giving it 1,2 if the company shares were offered publicly on WSE, 1.1 if the shares were offered on foreign exchanges and 1,05 if the company's shares were a part of other business entity. The OLX in the following examination is not perceived as a single store, but the whole group of companies, that OLX owns (OLX, Otomoto, Otodom). As the other companies' statistics were significantly lower than OLX's and Allegro's, we have decided to label them as „Other”.

Accordingly, with our previous examinations, Allegro is undoubtedly the biggest ecommerce marketplace in Poland. Influencing it in nearly 60%, having its average visitor time spend at 13 min, more views and therefore cumulative time spend, than any other ecommerce domain on Polish market. OLX group has the second place with 29% of market influence, average spent time of 9,72 min 10,2 min per average visitor. All the other companies have around 12% influence on the market, 13,86% of total market attention and average time spent of 6.37 min per average visitor with MediaExpert.pl, RTVEuroAGD.pl and Empik.pl being the biggest of them.

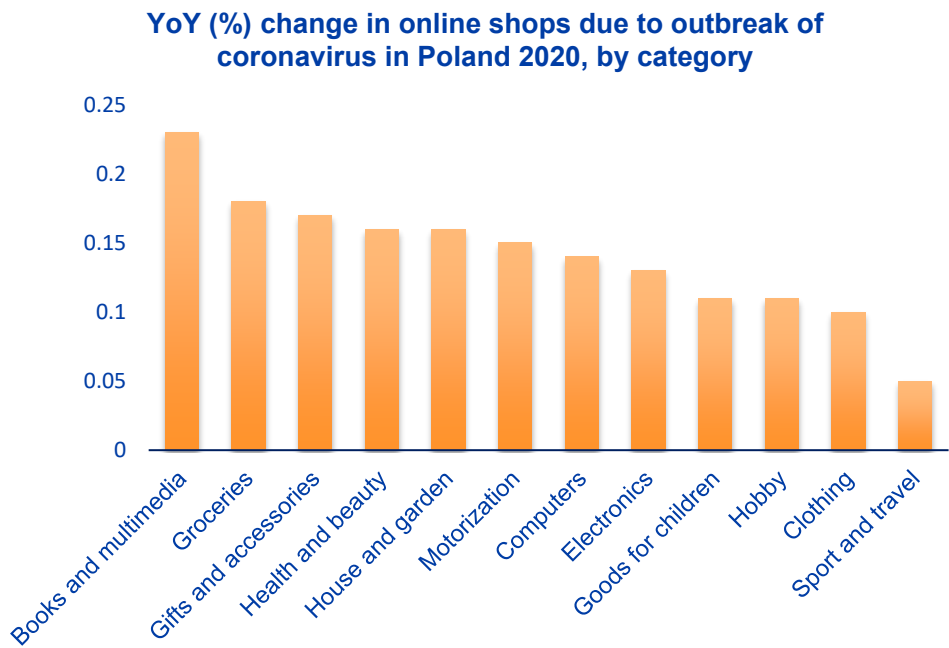


Source: Team analysis

Appendix C-4: Change in e-commerce due to COVID-19



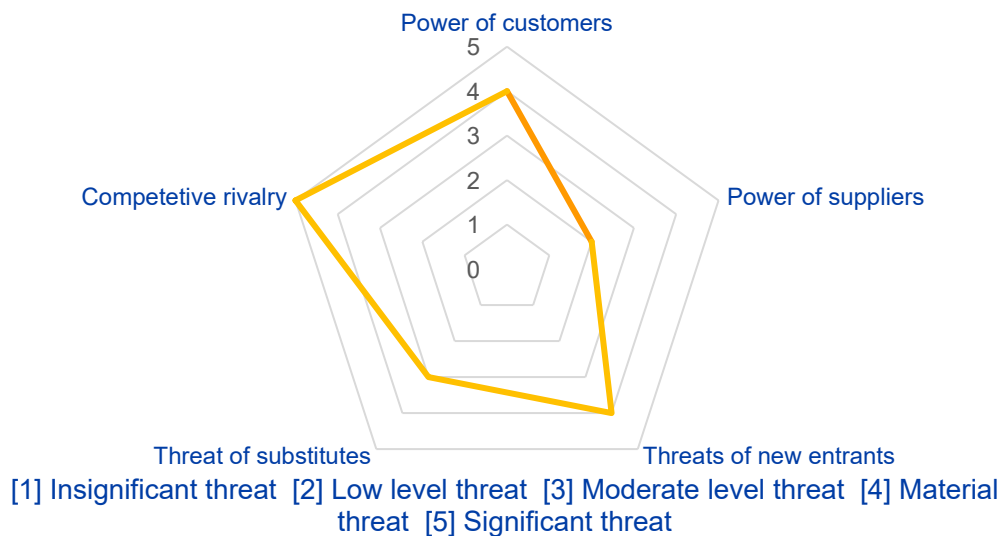
Source: Polish payment standard



Source: Shoper

Appendix C-5: Porter’s Five Forces Analysis

PORTER’S FIVE FORCES	
Power of customers (HIGH)	Even though the Allegro platform has approximately 12.6m Active Buyers the Company is still dependent on their perception. The following external factors support the strong intensity of the bargaining power of customers: low switching costs, availability of information and substitutes. From a customer perspective easy access to information about online retailers, price comparison sites and almost none costs create a room to maneuver and choose the most suitable option. By acquiring Ceneo.pl (comparison price site) Allegro created important protection in the case of this force. We see this aspect of Five Forces Analysis as HIGH.
Power of suppliers (LOW)	The Allegro platform has around 117k of Active professional merchants in the 3P model which means that the changes in prices won’t affect how the platform works. An only small percentage of supply depends on large merchants but working in the 3P model brings a lot of competition so each try of manipulation will be judged by the market. We see this aspect of Five Forces Analysis as LOW.
Threat of new entrants (HIGH)	New online retail companies potentially reduce Allegro’s market share in the sector but only two major factors will lead to a significant change of it. The first one is an achievement of brand development which weakens the chance of new candidates due to high capital intensity. Next factor is economies of scale which makes Allegro’s business strong and new entrants need to achieve a similar level to compete with. There is a lot of talk about Amazon entering the Polish market with greater volume. Due to this and previously mentioned low switching costs that might transfer consumers to new companies and empower them, we decide to evaluate this force as HIGH.
Threat of substitutes (MODERATE)	Functioning with the 3P model allows Allegro to not care much about substitutes. The Company also has an official shop which allows filling product shortages on its platform. Allegro’s strategy emphasizes the slogan “best prices” and it’s the most important variable to pursue customers to buy from their platform. Recently strengthened trend of moving retail to the Internet may create a stronger rivalry, new substitutes and challenges to Allegro’s merchants. We see this aspect of Five Forces as MODERATE.
Competitive rivalry (VERY HIGH)	Retail firms are aggressive but Allegro tries to content everyone. Merchants create their own deals. The Company doesn’t close doors to other companies and allows them to sell products through its platform. The Company has only a few smaller e-commerce rivals in Poland. An essential factor to this issue depends on global competitors and if they would like to enter the polish market more aggressively or not. Further, with Amazon and AliExpress volume increase in Poland, competitive rivalry is expected to increase in the industry.



Source: Team Analysis

Appendix C-6: SWOT Analysis

STRENGTHS	WEAKNESSES
Strong position ensured by economies of scale with 12x bigger size than next online player in Poland.	Equity debt above 1.
The most recognized e-commerce brand in Poland, and the top ten e-commerce websites in the world by visits per month.	Allegro doesn't have binding contracts with sellers.
Strong revenue growth with a 3-year CAGR of over 22%.	Allegro doesn't have its own distribution service and logistic network and has to rely on other service providers.
Customer-oriented - great loyalty between Allegro and consumer evaluated by excellent Net Promoter Score with a result of +72.	Allegro doesn't allow its users to see Questions and Answers to the vendor what can cause some % of sales dropping off.
Leading price-comparison site with 600m visits in 2019.	Allegro doesn't have its search engine integrated with outside search engine other than google (Amazon has Alexa, Alibaba's products appear on WeChat).
Largest merchandise selection in Poland	
Secured contract with parcel lockers to prevent direct competition and diversified delivery system.	
OPPORTUNITIES	THREATS
Online penetration in Poland at 8% level gives an opportunity for e-commerce segment to grow by 3%CAGR till 2024	Dynamic entries into the polish market by huge rivals such as Amazon, AliExpress.
Chance to reduce counterfeit sales by improving policies.	Increasing cybercrimes might be a reason to attack the security system of the Company.
Creating a higher level of competitiveness between retailers by the development of physical stores.	Decrease of consumer loyalty caused by counterfeiting and false opinions.
Development of logistic processes and minimizing losses by various environments	Economic recession can impact consumer online expenses.

Source: Team Analysis

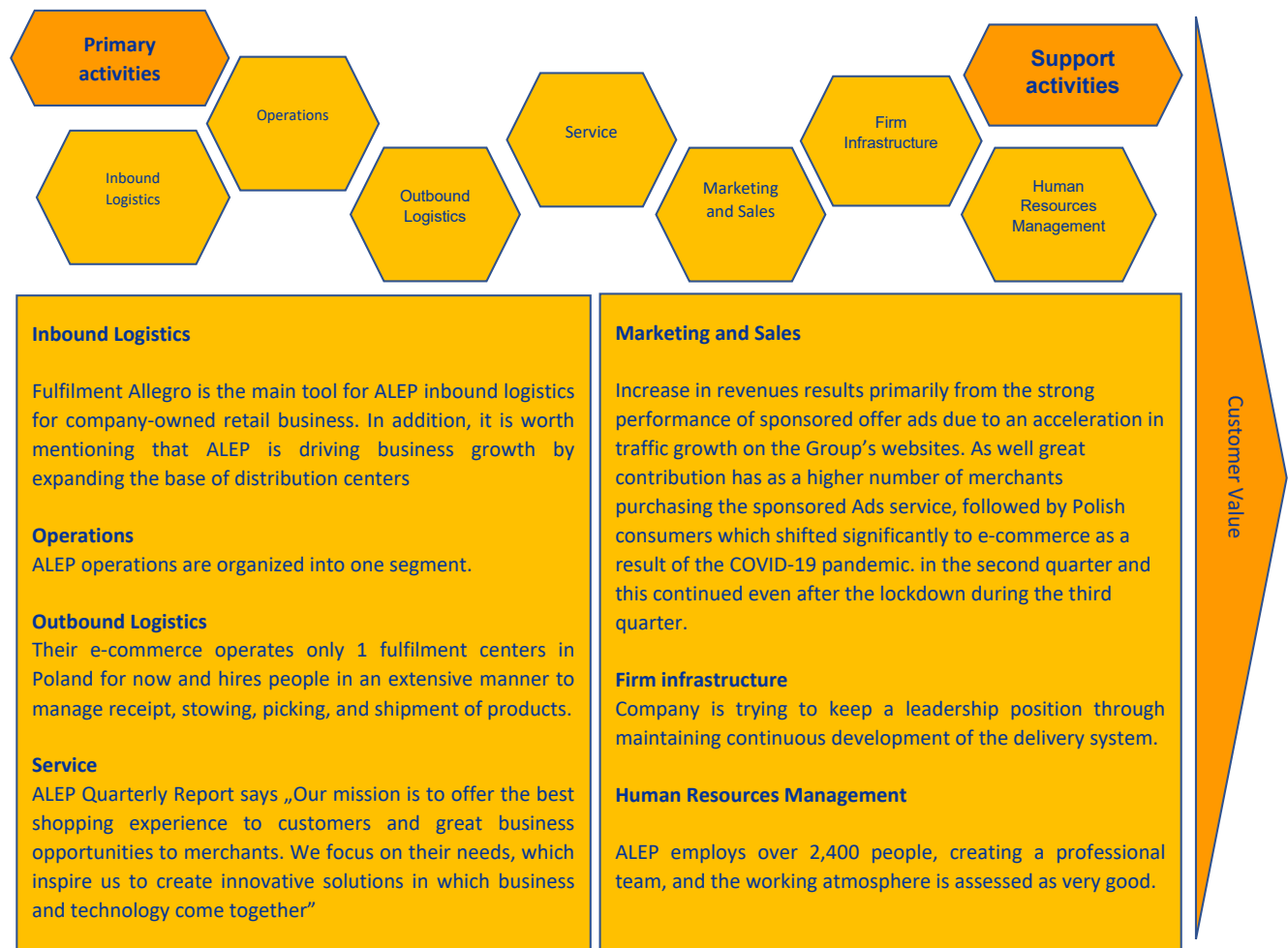
Appendix C-7: Comparison analysis

1P Amazon	1/3 P Allegro
<p>Whether as a Business or Individual, you are a wholesaler to Amazon.com. That means that Amazon is sourcing the products from its independent suppliers who are obliged to declare an amount of product that they can provide upfront. Amazon then sells the product on its name, taking all the profits from the difference. Amazon also charges a flat fee on the supplier but is taking care of all the logistics, returns, delivery issues and is managing your product and its marketing on their site on their behalf. It has its pros and cons, as Amazon is a reliable seller on its own marketplace and customers trust it usually more than most sellers on its marketplace. On the other hand, producer doesn't have the power to accustom prices, or do changes in the logistics or selling policy, as Amazon is the owner of the product.</p>	<p>Allegro doesn't typically distinguish P1 and P3 sellers, and advertises itself as a 3P platform with 1P experience. Allegro doesn't sell its own products but has about 120 thousand merchants on its marketplace. Allegro does own some magazines and sells the products they bought themselves in a wholesale but generally the merchants are obliged to take care of the shipping. Current lack of its own logistics network is however supplemented by partnership's with shipping firms and other business entities whose locations can be used for shipment and collection of packages. Therefore, merchants are in charge of the logistics, order management, marketing and brand reputation. They also take full responsibility for customer service, all the complaints and returns, as well as faulty deliveries. The merchants are charged on every transaction they make depending on the category, which they sell in (typically under 10% of the product value). They also have to pay additionally for listing the products in special categories, such as "Antiques and Arts". Advertising on the platform and access to detailed reports is also paid additionally.</p>
3P Amazon	
<p>Whether as a Business or Individual, you are a retailer on Amazon. Retailers have control over their products, meaning that they sell their products directly to the customers on Amazon's marketplace. In terms of logistics there are 3 options to choose from by the retailer. The first is Amazon FBA where they let Amazon take care of the logistics and customer service for them. They are charged fees on every product they sell, depending on its category, as well as the weight and size of the package (typically 0.99USD per item sold). Second option is FBM (Fulfilled by Merchant) and in this option suppliers have to ship the product on their own. There is also a hybrid option called SFP (Self Fulfilled Prime). In this one the merchant is responsible for shipping, but by meeting the relevant conditions can sell some products in the Amazon's Prime program. All the retailers are fully in charge of their marketing, brand reputation and managing orders, complaints, fault of delivery (if it's not FBA) etc.</p>	

Source: Team Analysis

Appendix C-8: Value Chain Positioning

Illustrated below is ALEP’s positioning in the e-commerce industry value chain.



Commentary: ALEP is driving business growth by expanding the base of Allegro Distribution Centers at the same time making opportunity for sellers to stow their inventory there. This strengthens the relationship between market-place platform and vendors. ALEP co-operates with national courier services with particular emphasis on the most famous Polish network of parcel lockers, InPost. This makes ALEP dependent on external logistics services, but media reports show that Company has started working on its own independent delivery system.

ALEP Outbound Logistics are co-sourced and outsourced arrangements. Their shipment relies upon the overnight delivery businesses. ALEP is focusing recently on supporting sellers by introducing amendments to their policy to indirectly boost sales.

ALEP Sales are constantly increasing. One of the main reasons for this is improved performance of digital advertising. Implementation of Allegro Smart! Subscription for free delivery over 40 PLN purchase also has a big contribution to it. As a result, to those and some others factors increased sequentially number of AB by 12.9% and GMV per AB by 28.6% compared to the twelve months ended 30 September 2019.

APPENDIX D: CORPORATE GOVERNANCE

Appendix D-1: ALEP Social Impact

Allegro social impact	
Allegro tech – education in technology	Allegro Tech is an initiative promoting and sharing knowledge in the field of technology for years through conferences, meetups and the allegro.tech blog. This way, they want to show what is going on at Allegro on the technological backstage, and integrate the IT world.
A support women's careers in technology	For the past 2 years They have supported the Women in Tech Summit initiative promoting women in the IT industry. As part of the cooperation, female tech experts from Allegro shared their knowledge during lectures and encouraged other women to enter the world of technology.
A partner of Pioneers School PFR	Since 2018, they have been a strategic partner of Pioneers School PFR, an educational and mentoring program organized by the Polish Development Fund. The aim of the program is to support people who are starting their careers in creating innovative projects that may be commercialized in the long term and launched on the Polish market, and then globally.
A partner of Central House of Technology	Since August 2019 they are a partner of CDT, which educates the youth and shares practical knowledge. They use the STEAM approach to education (Science, Technology, Engineering, the Arts, Mathematics). Allegro is the partner of the "Technology" educational path.
Allegro Charytatywni	Allegro Charytatywni is a virtual space where any public benefit organization can raise funds for social goals that are important to it. There are no fees or commissions. They provide the necessary technological solutions and get involved in selected initiatives as a partner. During the 6 years of the platform's activity, Allegro has managed to raise over PLN 66 m for charity.
Allegro and WOŚP	Allegro has been supporting WOŚP from the very beginning. 20 years of auctioning for the Great Orchestra of Christmas Charity have been two truly exhilarating decades. The first finales and the first records instilled in us a passion for helping, which continues to this day. They are constantly improving auctions to scale up aid even more. During the years of their cooperation, they have raised almost PLN 79 million to support WOŚP.
Give a Teddy Bear	They have been supporting the Give a Teddy Bear campaign organized by the You are not alone TVN Foundation since its launch, i.e., for 14 years. In the pre-Christmas period, Allegro starts selling teddy bears designed each year by TVN celebrities. All proceeds from the campaign are donated to treat and rehabilitate the children the Foundation helps. Importantly, those who decide to buy the toy do not need to bear any additional costs, including shipping, which is covered by Allegro.
Dream Dinner	They are the technological partner of the Dream Dinner initiative, launched by I have a dream Foundation. At particular website well-known and popular people from the show business world post charity auctions, offering to have dinner with the winner. The proceeds from the auctions are used to make the dreams of sick children come true. They have been running the campaign together for 6 years. So far, they have managed to raise PLN 400 m for the dreams of the children helped by the Foundation.
Allegro LESS WASTE at Pol'and'Rock 2019	They have been accompanying the Most Beautiful Festival in the World festival goes for 10 years. Every year, the Allegro zone draws attention not only with the interesting attractions, but also its inspiring message. Each time we try to inspire people visiting our zone to take specific actions, and encourage them to reflect.
Gazeta Wyborcza Foundation	In 2019, the Gazeta Wyborcza Foundation together with Allegro organized auctions of, among all, the first cover of the daily signed by Adam Michnik, a tour of the Warsaw editorial office and a walk in the Białowieża Forest with Adam Wajrak. Thanks to the readers' support, PLN 32,700 was raised for the foundation to support its mission, which is to defend the independence of the media as the foundation of democracy.
A Good Auction, or even two!	Good Auction is another unique charity project where famous people as well as every customer could put an item up for auction to support the Oncological Hospice Foundation. Auctioned were, for example, unique items from the world of sport, such as an extraordinary football signed by the Polish national team from the 1970s, or Lenny Kravitz's guitar. During two editions, we raised over PLN 318,000 together with the Oncological Hospice Foundation!

Source: Company Data, Team Analysis

Appendix D-2: Evaluation of feasibility sustainable development goals by ALEP

Benchmark	Goal	Evaluation
Customer	Display and promote products based on sustainable development.	2
	Support clients in reducing their carbon footprint during product delivery.	4
	Care about the safety and comfort of customers, we protect their data and we respect the rights of consumers	5
Average Score		3.66
Allegro sellers/partners	Support sellers in sustainable growth	3
	Educate future and current entrepreneurs	3
	Support micro, small and medium-sized enterprises	2
	Implement the climate agenda in our supply chain and supply	4
Average Score		3
Society	Support education and development of young people's skills	3
	Cooperate with the local communities in which they operate.	3
	Develop their activities in line with sustainable development.	4
	Build our value chain in a transparent, responsible and sustainable manner.	4
Average Score		3.5
Employees	Support the professional and personal development of employees	4
	Create equal opportunities in a demanding business environment	3
	Care about the health and safety of employees and their commitment	4
Average Score		3.66

Source: Team Analysis

Appendix D-3: ALEP Board of Directors

Name	Years of Affiliation in Allegro	Position	Professional background	University degree
Darren Huston	Since January 2017	Chairman, Non-Executive Director	<ul style="list-style-type: none"> CEO of Booking.com In Group CEO of the Priceline Group CEO of Microsoft Japan CEO and Founder of Black-Pines Capital Partners 	<ul style="list-style-type: none"> MBA degree from Harvard University MA in Economics from the University of British Columbia.
François Nuyts	Since August 2018	CEO, Executive Director	<ul style="list-style-type: none"> Management roles with Amazon across Western Europe Roles with Accenture and Kellogg's 	<ul style="list-style-type: none"> MBA degree from Babson College MA.

Jonathan Eastick	Since February 2018	CFO, Executive Director	<ul style="list-style-type: none"> • Director at Ernst & Young • CFO roles at Netia, Polska Telefonia Cyfrowa and Lucent Technologies Poland 	<ul style="list-style-type: none"> • Bachelor of Science in International Trade and Development Economics from London School of Economics • Political Science and is a British Chartered Accountant
David Barker	Since 2017	Non-Executive Director	<ul style="list-style-type: none"> • joined Cinven in 1996 and led Cinven's investment in Allegro 	<ul style="list-style-type: none"> • BA degree from Cambridge University
Carla Smits-Nusteling	Since September 2020	Independent Non-Executive Director	<ul style="list-style-type: none"> • Currently Chairwoman of the Board of Tele2 AB • Non-Executive Director and Audit Chair of Nokia Corporation • NonExecutive Director and Audit Chair of ASML • Lay judge of the Enterprise Court of the Amsterdam Court of Appeal • CFO and member of the Board of Management of Royal KPN N.V. • positions at Royal KPN N.V. and PostNL 	<ul style="list-style-type: none"> • Master's degree in Business Economics from the Erasmus University of Rotterdam • Executive Master of Finance and Control degree from the VU University of Amsterdam
Pawel Padusiński	Since 2017	Member of the Issuer's Board	<ul style="list-style-type: none"> • Led Mid Europa Partners' investment in Allegro • a partner and the head of the Warsaw office at Mid Europa Partners where he has worked since 2005 • worked in the corporate finance department at PricewaterhouseCoopers LLP in Warsaw 	<ul style="list-style-type: none"> • M.Sc. in Finance & Banking and Strategic Management from the Warsaw School of Economics
Nancy Cruickshank	Since September 2020	Independent Non-Executive Director	<ul style="list-style-type: none"> • Currently SVP Chief Digital Officer at Carlsberg • On the board of Bango Plc, OnMobile Global Ltd. and Flutter Entertainment Plc • Was CEO and Founder of MyShowcase • Almost 20 years of experience in the digital industry 	<ul style="list-style-type: none"> • Bachelor of History from the University of Leeds
Richard Sanders	Since 2017	Non-Executive Director	<ul style="list-style-type: none"> • Currently led Permira's investment in Allegro • the CoHead of Technology in Permira 	<ul style="list-style-type: none"> • MA degree from Oxford University • MBA degree from Stanford University

Source: Company Data

APPENDIX E: FINANCIAL ANALYSIS

Appendix E-1: Key Indicators

Time Series DuPont Analysis								
	2017A	2018A	2019A	2020A/E	2021F	2022F	2023F	2024F
Net Profit	5.80	271.90	393.10	617.86	1158.00	1551.01	1756.22	2215.33
Revenue	1662.70	1978.00	2592.30	3898.53	5120.92	6093.89	6804.40	7569.19
Total Assets	14566.00	14762.30	14278.00	14396.00	14823.00	15615.00	15830.00	16123.00
Equity	8804.60	9056.70	6683.60	8071.00	9208.00	10736.00	11245.00	11350.00
Margin	0.00	0.14	0.15	0.16	0.23	0.25	0.26	0.29
Asset Turnover (x)	0.11	0.13	0.18	0.27	0.35	0.39	0.43	0.47
Leverage	1.65	1.63	2.14	1.78	1.61	1.45	1.41	1.42
Return on equity	0.00	0.03	0.06	0.08	0.13	0.14	0.16	0.20
Liquidity Indicators								
Net working Capital	270.83	669.60	42.93	159.50	1372.38	1654.39	1820.92	2122.23
Current Ratio (x)	1.74	2.40	1.05	1.14	2.19	2.22	2.19	2.32
Leverage Indicators								
Debt/Equity (x)	0.540	0.520	0.960	0.675	0.435	0.234	0.161	0.125
Net Debt/Equity (x)	0.536	0.517	0.913	0.655	0.422	0.228	0.156	0.121
Shareholder Indicators								
EPS (PLN/sh)	0.01	0.27	0.38	0.60	1.13	1.52	1.72	2.17
EPS growth (%)	-	2600%	41%	59%	87%	34%	13%	26%
Revenue growth	-	19%	31%	50%	31%	19%	12%	11%

Source: Company Data, Team Analysis

APPENDIX F: VALUATION

Appendix F-1: DCF Valuation

First Year of Projections	2020
Adjusted WACC	8.98%
Shares Outstanding	1 023
Perpetual Growth Rate	3.80%
Market Cap	74341,23

Discounted Free Cash Flow Valuation									
In PLN m	2017A	2018A	2019A	2020A/E	2021E	2022E	2023E	2024E	Terminal Value
Free Cash Flow	373	802	1 103	1 838	2 879	3 646	4 193	4696	94308
Discount Factor				1.09	1.19	1.29	1.41	1.54	1.54
PV of Future Cash Flow				1 687	2 425	2 818	2 974	3 056	61382,18
Required Return	8.98%								
Perpetual Growth	3.80%								
Today's Company Value	74167.99								
Shares Outstanding	1 023								
Fair Value of Company	PLN 72.48								

Source: Company Data, Team Analysis

Appendix F-2: Sensitivity and scenario analysis

WACC dependency						
Cost of Equity	Cost of Debt					
		7,30%	7,60%	8,50%	9,00%	9,50%
	9,7%	7,10%	7,21%	7,52%	7,69%	7,87%
	10,1%	7,29%	7,29%	7,71%	7,88%	8,06%
	10,5%	7,48%	7,23%	7,89%	8,07%	8,24%
	10,8%	7,62%	7,34%	8,04%	8,21%	8,39%
	11,2%	7,80%	7,48%	8,22%	8,40%	8,57%
	11,6%	7,99%	7,62%	8,41%	8,59%	8,76%

Adjusted WACC				
Perpetual growth rate		8,98%	9,96%	8,30%
	3%	PLN64	PLN 55	PLN 73
	4%	PLN 75	PLN 62	PLN 87

Source: Team Analysis

Flexing: Sensitivity analysis were conducted to flex assumptions of our previous DCF valuation. Cost of Equity and Cost of Debt are important drivers of our model so we calculated how our WACC rate will behave and how it will influence our inputs in DCF model. The fair value of the Company varies in range PLN<60;84>. We compared the adopted WACC changes with the theoretical changes in adjusted WACC rate and we obtained the range of PLN <55; 87>. The changes were analyzed:

- in case of instantaneous liquidity
- by the appearance of a significant rival on the market and partial loss of AB group

We also tried to change our investment goals, time horizon but the result coincided with previous range.

Results: In the end, we assumed the range of theoretical price changes of PLN <55; 87>, but our target price is the product of the fair value of the Company PLN 73 and the theoretical increase in cash flow in the next year.

Appendix F-3: Description of WACC adjustment

Asian development towards Europe: Currently AliExpress is the third most visited foreign ecommerce store in Poland. With almost 7 million Polish customers, that have already purchased something from the site. AliExpress becomes more and more popular as a main source of imported products from the east. Although the interest in AliExpress has been changing in the last decade. The main concern regarding importing products from Asia isn't their questionable quality, as it is strongly rewarded by insanely cheap prices and variety of unusual items offered by the Chinese Merchants. The biggest problem of AliExpress lies in its long shipping times, making its customers wait weeks, if not months, for the order to arrive.



However, if the “One belt, one road” initiative, which is a plan of building super-highway to connect the Xian city, located in the center of People's Republic of China to Rotterdam in Europe, comes to an end in 2025 as it was firstly assumed. Then alongside with Chinese expansion on the seas, huge railroad connecting Zhejiang region with Madrid and Chinese's growing presence on European markets. We can expect a significant reduction in times of shipments. It is highly probable that “New Silk Road” will also result in new international trade contracts and its highly developed infrastructure and logistics will make it possible to shorten all the deliveries to under the week time (currently 15-17 days).

Our short-term price projection is not under a lot of pressure from this factor, but this is worth mentioning due to the possibility of earlier preparations for expansion by Asian competitors. Therefore, we added that as a value of 0.2% in our WACC index.

Amazon: Amazon's entry into the Polish market, announced on January 27th, is one of the most serious threats to ALEP. ALEP has a history of successfully defending against a substantial market share. An example is the unsuccessful attempt of an aggressive takeover of the Polish market by eBay. It is not a factor that eliminates ALEP from the game, so it did not influence our decision, and only the WACC factor was corrected by 0.8%.

The above-mentioned issues contributed to a total increase in the WACC ratio by 1 percentage point, which expresses our personal expectations for the rate of return on investment in ALEP.

APPENDIX G: INVESTMENT RISKS

Appendix G-1: Correlation between Covid-19 and number of online orders

