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Haitong Bank in a report from September 29 (08:00) keeps Vercom at BUY (FV PLN 65).

Valuation Methodology

We value Vercom using three methods: DCF, EV/EBITDA and P/E. The DCF valuation method points to PLN 68.4/sh; the P/E to PLN 62.8/sh while EV/EBITDA points to PLN 63.7/sh. Our final value is PLN 65/sh which gives 23% upside potential.

DCF

We use a 10-year free cash flow period. The valuation is based on 2021-2030E FCF forecasts, net debt is at end-2020, the risk free rate is set at 2.5% during the forecast period (vs 3% before) and at 3.5% in the terminal value (vs 4.5% before). We use a 1.1 unlevered beta and lever it up according to Vercom's debt structure. We set the terminal growth rate (TV) at 3.0%.

Multiple valuation

In the multiple valuation method, we use EV/EBITDA and P/E multiples for 2021E/2023E. Vercom operates in the CPaaS, omnichannel communication business which currently does not have a direct peer on the Warsaw Stock Exchange.

There are many CPaaS, omnichannel communication and marketing automation peers in the global markets, mostly in USA. However, due to the early stage of development, focus on top-line growth rather than profitability, oversupply of capital on Nasdaq, their valuation multiples differ significantly and in our view are hard to be treated as peers for Vercom. Hence, we use them for illustrative purposes.

Sinch, Link Mobility and DotDigital are Vercom's closest CPaaS peers and they also operate in the European market. As a result, we use them for valuation purposes. Having in mind that Vercom (1) is a tech company selling its proprietary software like R22, Live Chat, Asseco South Eastern Europe, (2) via a SaaS model like Live Chat, (3) has strong exposure to ecommerce and modern digital economy trends like Allegro, Answear, Oponeo, Wirtualna Polska, Ten Square Games, (4) with an interesting double digit organic growth profile like all the above-mentioned companies, we think it is reasonable to broaden Vercom's peers group by adding the above-mentioned peers. Adding those peers would also reflect Polish local flavour in the valuation multiples of fast growing tech / ecommerce, new economy exposed peers like Vercom. As a result, when using a multiples valuation we use a median multiple from a broad group formed of European CPaaS players (Sinch & Link Mobility and DotDigital) and Polish fast growth tech / ecommerce / new economy peers.

Risks to Fair Value

Increase in the cost of purchasing SMS messages and access to e-mail systems

Vercom buys SMS in bulk from telecommunications operators and international SMS traffic aggregators. Based on the price changes observed in the period 2018-2020, and the fact that the average prices of telecommunications services in Poland (including SMS prices) are lower than the average prices in the European Union, there is a risk of an increase in SMS prices and, consequently, a decrease in the gross profit margin on Vercom sales in the next few years. Vercom pays fees for the possibility of sending emails to some e-mail operators whose prices may also rise in the future, hampering the gross margin.

Restricting the sending of email and push messages

Sending e-mail messages on a scale implemented by Vercom is possible in cooperation with e-mail operators. The sending of push messages generated by applications on mobile devices is possible only in cooperation with

providers of mobile operating systems. It cannot be ruled out that due to changes in the regulations, policies or other internal regulations of e-mail operators or mobile operating system providers, who are also administrators of platforms offering access to applications generating email and push messages, as well as due to arbitrary, unjustified public decisions, the sending of an email or push message will be temporarily or permanently limited in certain ranges/locations.

Additionally, there is a risk that selected e-mail operators will block the IP address classes used by Vercom, which would result in the inability to deliver some of the e-mail messages sent. It cannot be ruled out that mobile operating system vendors could take measures to limit the sending of push messages or introduce new software release rules. Such actions may be undertaken by e-mail operators or suppliers of mobile operating systems in order to implement their business priorities, without taking into account the possible consequences for Vercom.

Significant customers risk

In 2020, significant clients (generating at least 1% of Vercom revenues) amounted to 18. Potential significant permanent limitation of cooperation or termination of existing cooperations with significant customers could lead to a reduction in the volumes of messages sent.

Acquisitions execution risk

Vercom's strategy includes selective acquisitions of companies with similar profiles of operations in Poland and abroad and companies with technology that fit into Vercom's development plans or are complementary to the services currently provided. There is a risk that execution of acquisitions fail due to incorrect assessment of the ability to generate profits by the acquired entity, incorrect analysis of the product offer or technological solutions of the acquired entity, inconsistent with the assumptions effects of the integration of the acquired entity with Vercom, departure of some clients of the acquired entity, departure of selected members of key personnel or entire teams of the acquired entity, limited cooperation with the suppliers of the acquired entity.

Risk of maintaining competitive position on the market

Vercom's products are based on modern technological solutions. Due to the rapid development of technology, Vercom may face risks related to the emergence of new technological solutions or service delivery models that will adversely affect the competitiveness of the services offered so far, in particular due to the potential impossibility or significant delay in implementing new communication channels, including as a result of the lack of access to such channels (restrictions imposed by software owners or channel managers), the inability to develop or implement software for the use of new channels (limitations in technological knowledge, resources or access to technology) or the inability to adapt the functionality of new channels to expectations of customers.

Human resources risk

Vercom products are based on advanced software hence its product offer and quality of products depend on highly qualified experts, engineers and programmers specializing in narrow areas of technology. Departure of key employees may negatively affect Vercom's competitive position.

Risk related to failure of devices and IT systems

Vercom operations are based on modern IT and telecommunications systems, including proprietary servers located in external server rooms and links with mobile telephony and e-mail operators. The occurrence of any system failure may have a negative impact on the Group's development prospects, financial standing or results.

The risk of cyber attacks and processing of personal data

Vercom's activities are exposed to attacks by cybercriminals like gaining unauthorized access to data and the so-called DDoS attacks. Vercom processes, to a large extent, personal data provided by its clients, who use it to



send messages via Vercom's infrastructure. The processing of such large sets of personal data must be carried out in a manner consistent with the provisions on the protection of personal data, in particular the Regulation of the European Parliament and of the Council (EU) 2016/679 of 27 April 2016. Breaching the regulations may expose Vercom to administrative fines.

The impact of the macroeconomic environment

Due to the fact that 75% of Vercom's revenues are exposed to ecommerce, its business activity operations may be sensitive to European or global unfavorable changes in the macroeconomic environment, in particular to an increase in the unemployment rate, a decline in purchasing power, a decline in propensity to consume and a deterioration in the consumer confidence index (consumer optimism). These phenomena may adversely affect the propensity to consume, and thus the number of transactions in the e-commerce sector, which would negatively affect the number of messages sent via Vercom Platforms.

Tax risk related to IP Box relief

Vercom benefits from preferential taxation of income obtained from the sale of products or services produced on the basis of intellectual property law – IP Box relief. A taxpayer who meets the conditions set out in the provisions on the IP Box relief can apply for a tax rate of 5%. Changes in tax regulations in Poland and cancelling IP Box tax relief would negatively affect Vercom's effective tax rate and thus its future earnings.

Risk of liability for credit from R22

The loan agreement of the R22 group companies, including Vercom, includes specific provisions that provide for the liability of other borrowers (including Vercom and some subsidiaries that have joined debt under separate declarations) for non-performance or improper performance of obligations arising from the above-mentioned agreement in the event of breach of the loan agreement by one of the borrowers. Vercom and other subsidiaries are jointly and severally liable for all liabilities under the loan agreement and other financing documents, including security documents. The above means that if the funds allocated to the payment of amounts due, for which a given entity is primarily responsible, are insufficient, the missing amount will be paid by other borrowers, which may also apply to Vercom.

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