PEM S.A.

East Value Research

Fair Value: PLN 51 | Analysis | Rating: n.a.

Private Equity Managers S.A. (PEM) manages different kinds of assets in private equity, venture capital and private debt funds. It currently has net assets of PLN 2.17bn/EUR 481.8m under management (AUM). The company was spun-off as General Partner of the leading listed European VC/PE firm MCI Capital S.A. in 2010-2012 and was listed on the Warsaw Stock Exchange in 2015 with net AUM of PLN 1.8bn. In November 2020, Mr Tomasz Czechowicz, the CEO of both MCI Capital and PEM, who is also PEM's largest shareholder, MCI Management and MCI Capital Alternative Investment Company announced their plan to conduct a tender offer for all remaining shares of the company at a price of PLN 15 per share (the tender, which started on 10 December 2020, has recently been prolonged from 8 January to 20 January 2021). The offering parties plan either to acquire all remaining shares of PEM or merge it with MCI Capital Alternative Investment Company through an exchange of shares (100 shares of PEM for 91 of MCI Capital). In our opinion, the tender price, which is 86.5% lower than PEM's IPO price of PLN 111, is significantly below its FV, which according to our valuation approach is PLN 51 per share (avg. of 3 scenarios between PLN 25.02-73.76).

PEM manages MCI Group's assets in five funds (MCI.EuroVentures 1.0, MCI.TechVentures 1.0, MCI CreditVentures 2.0 and funds being in the liquidation phase - Helix Ventures Partners and Internet Ventures), for which it receives a management fee and success-based remuneration. The funds, which are all managed by MCI's staff incl. Mr Czechowicz, have generated an average 10y IRR of >20%. The fees relating to all funds are the only source of PEM's revenues, which in 2019 equaled PLN 50.2m (-3.6% y-o-y) and PLN 22.7m (-30.2% y-o-y) in 9M/20 respectively. Since 2015, PEM has always been profitable and as of 30/09/2020 had equity of PLN 50.1m, which implies a P/NAV of 1.1x at current level.

In 2020, PEM conducted several very successful exits and the related success fee will only be fully visible in its Annual Report 2020. These transactions included e.g. the sale of shares in Hungarian online insurance comparison Netrisk for PLN 322m, in the Turkish IT distributor Index Group (PLN 133m), in the Polish data center provider ATM/Atman (PLN 533.3m) and c. 9% of shares during the IPO of the Polish online fashion retailer Answear.com for PLN 34.5m. In our opinion, the current tender price does not account for the success fee from these exits and 1-2 planned in H1/21E.

in PLNm	2015	2016	2017	2018	2019	2020E
Net sales	79.95	44.10	47.65	52.01	50.16	61.00
EBITDA	45.10	17.74	18.57	15.93	16.34	38.00
EBIT	45.04	17.70	18.20	15.65	14.76	36.40
Net income	49.64	14.02	5.34	8.57	9.83	27.30
EPS	14.89	4.10	1.56	2.50	2.87	7.97
DPS	14.41	2.93	2.93	n.a	n.a	n.a
NAV	73.91	45.91	41.95	41.12	51.28	79.00
Payout ratio	96.81%	71.53%	187.94%	n.a	n.a	n.a
RoE	67.17%	30.55%	12.73%	20.85%	19.16%	34.56%

Company profile

Private Equity Managers S.A. manages different kinds of assets in private equity, VC and private debt funds. The company, which is General Partner for listed MCI Capital S.A., focuses on investments in innovative sectors in Europe and CIS. In the past, it has conducted the following exits, among others: WP.pl (leading Polish online portal), windeln.de (German online retailer of baby products), iZettle (Swedish provider of payment solutions).

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Website	www.privateequitymanagers.pl
Sector	Alternative Asset Manager
Country	Poland
ISIN	PLPREQM00011
Reuters	PEM.WA
Bloomberg	PEM PW

Share information

Last price	16.00
Number of shares (m)	3.42
Market cap. (PLNm)	54.78
Market cap. (EURm)	12.09
52-weeks range	PLN 16.60 / PLN 6.02
Average volume (shares)	3,032

Performance

4-weeks	7.38%
13-weeks	71.67%
26-weeks	15.94%
52-weeks	55.34%
YTD	6.31%

Shareholder structure

MCI Management Sp. z.o.o*	37.86%
MCI Capital S.A.	11.07%
CKS Inwestycje Sp. z.o.o**	9.96%
AMC III Moon BV***	8.12%
Free float	32.99%

* entity that is controlled by Mr Tomasz Czechowicz, the CEO of both PEM and MCI
** entity of Mr Cezary Smorszczewski, a former business partner of Mr Czechowicz
*** entity of Vienna-based Mezzanine Management, which we believe is ready to sell its shares in PEM at PLN 15

Financial calendar

Annual Report 2020 (exp.)	April 16, 2021
Q1/21 report (exp.)	May 11, 2021

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Content

Investment Case

- PEM S.A. is the asset manager of the leading European PE/VC firm MCI Capital S.A., which accounts for c. 83% of its fee-paying assets. The company's revenues stem from management and success fees for the funds MCI.EuroVentures 1.0 (MCI.EV), MCI.TechVentures (MCI.TV), MCI.CreditVentures 2.0 (MCI.CV) and the two in liquidation - Helix Venture Partners and Internet Ventures. As a matter of fact, also MCI.TechVentures has to start liquidation on September 16, 2024. Although they have different strategies (Expansion & Buyouts, Mezzanine financing & private debt, Growth & VC), all these funds focus on innovative sectors such as SaaS, Online Marketplaces, Classifieds, Fin- and InsurTechs, Data centers in Europe (incl. Turkey) and CIS region. With such prominent exits as Swedish mobile payments company iZettle (IRR 70%, 3.7x invested capital), leading online portal in Poland WP.pl (IRR c. 60%, 2.7x invested capital), Hungarian online insurance company Netrisk.hu (IRR 100%, 4.2x invested capital), Czech marketplace Mall.cz (IRR 174%, 4.1x invested capital) and Polish data center provider Atman (prev. ATM S.A.; pre-sale agreement worth PLN 533.3m signed in Oct 2020; est. profit for MCI/PEM of PLN 150m), PEM's funds have generated an average IRR of >20% over the last 10 years.

- PEM's funds are managed by Mr Tomasz Czechowicz, who is also PEM's and MCI's CEO, and other managers of MCI Group. In its Growth/VC funds, PEM plans to sell all its investments to strategic/PE/VC investors or through the stock exchange by 2024E, which should generate cash proceeds of PLN 600m-PLN 750m per year for the MCI Group and a significant success fee for the company. Existing investments of PEM's funds include for example Gett (Israeli ground travel platform for businesses), AsGoodAsNew (German re-seller of used electronics) and Azimo (PL/UK-based provider of international money transfers for small businesses).

Overview over PEM's funds

Funds	Investment focus	NAV (latest; calculated at least once per quarter)	Fund managers	Examples of successful exits	List of investments	Max. management fee	Max. success fee
MCI.EuroVentures 1.0	MBO, LBO, pre-IPO and PIPE investments in profitable companies from the internet and software sector (max. EUR 100m per company)	PLN 1.25bn	Tomasz Czechowicz, Maciej Kowalski	WP.pl (online portal), Mall.cz (Czech online marketplace), Dotpay/eCard (provider of digital payments in Poland), Atman/prev. ATM (leading data center provider in Poland)	Morele/Pigu (PL/LT), Gett (IL), Answear (PL), Frisco (PL), KupiVIP (RU), Travelata (RU), MarketFinance (UK), Telematics (PL), Azimo (PL/UK), AsGooAsNew (D), Gamesire (D), Geewa (PL)	3.25% of NAV	20%-25% above high watermark, dependent on series of certificates
MCI.CreditVentures 2.0 FIZ	Mezzanine or junior debt for companies from the digital economy, also for those from the MCI Group	PLN 238.7m	Katarzyna Pogorzelska	Allegro (No 1 E-Commerce company in Poland)	Eurohold, Morele	3.25% of NAV	10%-20% above high watermark, dependent on the series of certificates
MCI.TechVentures 1.0 (Growth), Helix Ventures Partners FIZ (VC), Internet Ventures FIZ (VC)	VC & Growth investments in Europe; funds only conduct disposals	MCI.TV (PLN 640.9m), Helix (PLN 512k), Internet Vent. (PLN 46.6m)	Tomasz Czechowicz, Maciej Kowalski, Tomasz Danis, Hubert Wichrowski	iZettle (Swedish digital payments company), Frisco.pl (No 1 Polish online food shop)	netrisk.hu (HU), Index Grup (TR), Mobiltek (PL), IAI (PL), AVP (PL), RentAPlanet (PL), RemoteMyApp (PL), mfind (PL), Sidly (PL), Spark Software (PL), lepszaoferta.pl (PL), 3DKreator (PL), 4screens (PL), Focus Telecom (PL), Kompan.pl (PL), LifeBrain (A)	3.25% (MCI.TV) - 4.50% (Helix Ventures Partners)	19%-40% above high watermark, dependent on the series of certificates

Source: MCI's corporate presentation, East Value Research GmbH

- In our opinion, the current tender offer price of PLN 15 was set by the offering parties without accounting for the current situation of PEM. First, including the sale of shares in the IPO of online fashion retailer Answear.com for PLN 34.5m in December 2020, PEM exited 8 investments in 2020, which generated proceeds of PLN >615m. The respective success fees, whose value we estimate at PLN >30m, will likely be only fully reflected in PEM's financial statement for full-year 2020, whose release we expect in April 2021. Second, according to MCI two more exits are possible in H1/21E and we believe that a strong 2021E for MCI/PEM is likely due to a favourable market environment. Third, while according to an agreement with PEM from December 2014 the MCI Group (MCI Management, MCI TFI) is contractually obliged to not withdraw its capital from PEM's funds until October 2023E (except max. in total PLN 50m for servicing its debt, PLN 5m per year for its operating costs and max. 5% of MCI's equity for potential dividends), in PEM's IPO prospectus from 2015 (page 119, point 10.5.1 (f)) the parties declared their readiness to prolong the agreement by another 10 years after the expiration of the current Three-Party Agreement.

- Our valuation model of PEM is based on a DCF model and three scenarios, which result in an average fair value for the stock of PLN 51 (218.8% above current market price and 240% above the tender price of PLN 15 per share). Our fair value also implies an adjustment of the proposed share conversion ratio in favour of PEM's shareholders (according to the current offer, which was calculated based on 6-months average stock prices of both companies, it is 91 shares of MCI for 100 shares of PEM). We would like to emphasize that while PEM's net assets have increased by >20% since its IPO in 2015, its market price has gone down by 85.6%. For the calculation of success fees, which made up 23.6% of total revenues in 2019 and 2% in 9M/20, in one of the scenarios we have used the Black-Scholes option formula. Our estimates for full-year 2020E are PLN 61m (+21.6% y-o-y) for revenues and net income of PLN 27.3m (+177.8%), while for 2021E we have forecasted sales of PLN 55m (-9.8% y-o-y) and net income of PLN 29.6m (+8.4% y-o-y). In our opinion, the currently positive market environment increases the likelihood of a good Return-on-Investment on planned exits for MCI/PEM.

Recent results

9M/20 results

Between January and September 2020, PEM generated revenues of PLN 22.7m (-30.2% y-o-y), whereby management fees accounted for 98% (9M/19: 96.1%) and success fees for 2% (3.9%) of the total. The reason for lower fees y-o-y were slightly lower net assets y-o-y (PLN 2.17bn vs. PLN 2.19bn) and a change of policy relating to calculation of management fees for the MCI.TechVentures 1.0 fund, meaning 1) an equal treatment of all (mainly) external owners of MCI.TV's certificates starting with series O, and 2) no management fees for these series if MCI.TV generates a negative rate of return.

We would like to emphasize that the negative impact of the change in the calculation of fees in MCI.TechVentures FIZ after September 2019 on financial results is significant both in 2019 and 2020. In 2019, this change lowered PEM's revenues by PLN 8.3m (PLN 5.7m after deducting lower distribution costs) and by PLN 11.5m in Q1-Q3/2020 (PLN 7.8m after deducting distribution costs).

in PLNm	9M/20	9M/19	change y-o-y
Net sales	**22.69**	**32.53**	-30.2%
EBITDA	**3.71**	**7.64**	-51.4%
EBITDA margin	*16.4%*	*23.5%*	
EBIT	**2.58**	**6.46**	-60.0%
EBIT margin	*11.4%*	*19.9%*	
Net income	**0.85**	**3.54**	-76.0%
Net margin	*3.7%*	*10.9%*	

Source: Company information, East Value Research GmbH

In 9M/20, EBIT and net income declined much stronger than sales due to a higher share of costs of core operations (19.7% vs. 13.6% in 9M/19) and administrative expenses (69.4% vs. 66.7%). Distribution costs relating to fund certificates declined from PLN 3.2m in 9M/19 to PLN 161k due to new regulations that were introduced by the Polish Financial Supervisory KNF and change of rules relating to management fee for the series O and later of MCI.TechVentures 1.0 certificates. Other expenses incl. those for marketing and personnel also declined (-27.4% y-o-y to PLN 15.8m) due to cost optimizations and dissolution of a provision relating to bonuses for exited investments worth PLN 1.59m. However, both effects were more than offset by an increase of additional costs for "special" fund investors, which increased by 442.2% y-o-y to PLN 3.7m.

As of 30 September 2020, PEM had cash of PLN 17.6m and interest bearing debt of PLN 47.9m, thereof PLN 13.7m due at the end of 2020. In total, net debt equaled PLN 30.2m or 60.4% of total equity of PLN 50.1m. Provisions of PLN 11.7m (thereof: PLN 10.5m long-term, PLN 1.2m short-term) were mostly related to employee' bonuses for exits. Compared to 30/09/2019, they declined by PLN 3.9m.

Our forecasts

Forecasts of Q4/20 results

The estimated financial results for fourth quarter of 2020 are based on information provided by PEM's management in the company's current report from December 8th, 2020 (RB 24/2020). In the document called "Position of the Management Board of Private Equity Managers S.A. concerning the call to subscribe for the sale of the company's shares, announced on 20 November 2020", there are projections of management fixed fee and success-based remuneration. We assume that the whole projected PLN 31m success fee will be recognized in Q4, thus our forecast for Q4 revenues is PLN 39m, EBITDA PLN 34m and net income PLN 26m. Consequently, we estimate the following full-year 2020 results: Revenues - PLN 61m, EBITDA - PLN 38m, net profit - PLN 27.3m.

Forecast of net debt at the end of 2020 – net cash of PLN 3m

As we project very good Q4 results, this should result in a substantial decrease of PEM's net debt. We estimate that net debt adjusted for receivables (which in fact in similar to cash) will be PLN -3m. After many years of being indebted, PEM finally has a chance to pay off its entire debt.

Planned exits in 2021E-2024E

2021	2022	2023	2024
Morele.net (Mezzanine debt)	Gett (co-investors include e.g. Baring Vostok Capital Partners)	Answear.com (remaining 20% stake)	Netrisk.hu (co-investors include e.g. TA Associates)
KupiVIP.ru (co-investors include e.g. Balderton Capital & Intel Capital)	Eurohold	IAI	Pigu.lt
LifeBrain (partial exit)	Gamedesire	Azimo (co-investors include e.g. e.ventures & Rakuten Capital)	travelrata.ru (co-investors include e.g. EBRD)
Geewa	Morele.net	AsGoodAsNew (co-investors include e.g. SevenVentures)	MarketFinance (co-investors include e.g. Santander, Barclays, Northzone)
RemoteMyApp			LifeBrain
Focus Telecom Polska			

Source: MCI's corporate presentation, cruchbase.com, East Value Research GmbH

Forecast of financial results for 2021E-2023E

The forecast of financial results for the years 2021E-2023E is based on the assumptions presented by the Management Board of PEM in (RB 24/2020) with minor modifications.

The first modification and simplification concerns the inclusion of average annual revenues in the projection period from October 1, 2020 to October 31, 2023E as three full years 2021E-2023E. The period from October 1, 2020 to December 31, 2020 has been taken into account by adjusting PEM's projected net debt at the end of 2020 as was mentioned before.

Other modifications are summarized in the table below:

Item	Assumption of the Management Board of PEM	EVR's assumption made in the valuation
Fixed management fee	TFI's revenues from fixed management fee for the subfunds MCI.EuroVentures 1.0. (annual average approx. PLN 26m), MCI.TechVentures 1.0.(annual average approx. PLN 17m) and MCI.CreditVentures 2.0 FIZ fund (annual average approx. PLN 1.6m).	Unchanged compared to the board's assumption
Assumption regarding MCI.TechVentures FIZ	The projection assumes that a positive rate of return for MCI.TechVentures 1.0 subfund will be generated starting from Q4/20, which will allow to collect a fixed fee in full amount from Q1/21 to the end of 2022.	unchanged
Success fee	The projection of TFI's financial results for Q4/20 includes a success fee of PLN 31m for ATM S.A. exit (MCI.EuroVentures 1.0. subfund; the preliminary contract of sale of ATM S.A. was signed in October 2020), as well as the success fee in MCI.CreditVentures 2.0 FIZ fund in the years 2021-2023 (annual average approx. PLN 0.4m). In the whole projection period it gives a success fee of PLN 32m.	unchanged, the company's profit forecast for 2020 was estimated by including a success fee of PLN 31m in the result for this year, and the DCF valuation is affected by the projected net debt adjusted for receivables at the end of 2020 of PLN -3m (net cash). Furthermore, projections of success-fee in years 2021-2023 have been revised higher to account for possible very profitable exits: we assume annual average success fee of PLN 10m.
HelixVentures Partners FIZ, Internet VenturesFIZ oraz MCI Partners FIZ	has been omitted	unchanged
Operating costs	During the whole projection period the total cost of core business, related to TFI, amounted to PLN 9m.	unchanged
General administration costs	Total general and administrative costs throughout the projection period amount to PLN 59m, of which PLN 20m are variable costs of carry fee corresponding to investment exits taken into account during the projection period.	In recent years (2016-2020) PEM had made provisions for carry fee amounting to PLN 29m; therefore in our opinion incurring additional costs of carry of PLN 20m in Q4 20 is not applicable; in scenarios with success fee we apply 25% of revenues as corresponding cost of carry fee.

Source: East Value Research GmbH

Mismatch between success-fee revenues and cost of carry (management salary)

It is worth mentioning the noticeable disproportion between the variable fee charged by PEM and the provision for variable carry fee as part of salary for employees. From the beginning of 2016 to the end of Q3 2020, the cumulative provision for the cost of variable remuneration for employees (carry fee) amounted to PLN 29.5m, while the cumulative revenue from the variable fee (success fee) realized by PEM at that time amounted to PLN 21.9m. After taking into account PLN 31m from the variable fee collected by PEM in Q4/20, these figures are as follows: revenues PLN 53.4m and costs PLN 29.5m. If we assume in the projection another PLN 20m of costs of carry indicated by the Board, it would be PLN 53m of revenues and PLN 49m of costs. Therefore, we consider it unreasonable to forecast additional PLN 20m carry fee costs and in our forecast we assume there is no corresponding cost of carry related to recent exits.

in PLNm	2016	2017	2018	2019	Q3/20	2020E
Cumulated costs of variable remuneration 2016-2020	4.37	8.55	17.91	24.65	29.47	29.47
Cumulated revenues from variable fees 2016-2020	2.03	4.57	9.65	21.49	21.94	53.39

Source: Company information, East Value Research GmbH

Valuation

We have valued Private Equity Managers S.A. with a DCF model and three scenarios. This approach results in an average fair value of the stock of PLN 51, which is 218.8% above its current market price and 240% above the current tender offer price of PLN 15 per share.

The DCF valuation was made in three scenarios concerning the forecast period and terminal value. The assumptions for all valuation variants in the period 2021E-2023E are presented below.

DCF model assumptions

Below are the key assumptions of our DCF valuations:

(1) *Risk-free rate*: Current yield of Polish long-term government bonds with maturity in 2047E is 1.78% (Source: www.boerse-stuttgart.de)

(2) *Beta*: Average unlevered beta in 2017-2021 for European companies from the sector Investments & Asset Management of 0.9x (Source: www.damodaran.com)

(3) *Equity risk premium (Poland)*: 5.54% (Source: www.damodaran.com)

(4) *Target equity ratio*: 100%

(5) *WACC = Equity cost*: 6.8%

(6) *Sales growth in the terminal period*: described in each scenario

(7) Free cash flows are discounted to 12 January 2021

Scenario I – PLN 25.02/share

This is the most conservative scenario, since it assumes that the company will cease operations after 2023E and its terminal value is zero. This is the assumption used by PEM's Board in its public release from December 2020 (RB 24/2020).

in PLNm	2021E	2022E	2023E
Net sales	55.00	55.00	55.00
(y-o-y change)	*-10.1%*	*0.0%*	*0.0%*
Operating profit	36.50	36.50	36.50
(operating margin)	*66.4%*	*66.4%*	*66.4%*
Tax rate	-19.0%	-19.0%	-19.0%
NOPAT	**29.57**	**29.57**	**29.57**
+ Depreciation & amortisation	1.58	1.64	1.63
= Net operating cash flow	31.15	31.21	31.19
- Total investments (Capex and WC)	0.00	0.00	0.00
Capital expenditures	0.00	0.00	0.00
Working capital	0.00	0.00	0.00
= Free Cash Flow (FCF)	**31.15**	**31.21**	**31.19**
Discount factor	*0.94*	*0.88*	*0.82*
PV of FCFs	**29.23**	**27.44**	**25.68**

in PLNm	
PV of FCFs in explicit period	82.35
PV of FCFs in terminal period	0.00
Enterprise Value (EV)	**82.35**
+ Net cash / - net debt (31 December 2020E)	3.30
+ Investments / - minorities	0.00
Shareholder value	**85.66**

Number of shares outstanding (m)	3.42

Fair value per share in PLN (today)	**25.02**

Management valuation (PLN 12.42/share) vs. our Scenario I valuation (PLN 25.02/share)

PEM's Management Board presented their own DCF valuation of PEM's fair value at 12.42 PLN/share assuming there is no future for PEM after October 31, 2023. It was confirmed by a published fairness opinion that was prepared by Grand Thornton. The fairness opinion states that it was made using DCF, peer valuation and liquidation approach. The projections were taken from management estimates for the period October 1, 2020 to October 31, 2023.

We do not have access to management's full calculations, which are the basis for presented results. However, below we try to show the difference between PLN 12.42/share and our valuation of PLN 25.02/share in Scenario I.

1. *Net debt calculation*: we do not know, how receivables were treated in management calculation – usually in finance theory, you do not treat receivables as cash. But in our case, receivables in PEM are pure cash to be collected with no risk of being lost. Therefore, receivables of PLN 9.3m (PLN 2.7/share), as at the end of Q3/20, increase our cash estimates at the end of 2020.
2. *Cost of carry estimates*: as it was shown before, cost of carry have strongly influenced financial results in the past. We have shown a mismatch between them and collected revenues from success fee. We do not see it as reasonable to include them in projections without any corresponding revenues. The management board projection of carry fee is PLN 20m (PLN 5.8/share).
3. *Success fee in the period 2021-2023*: Management of MCI is projecting very good exits in coming years, but PEM's management is projecting no success fee revenues. We include success fee revenues of PLN 10m each year for the period 2021-2023 and corresponding carry fee of 25%. Therefore, we have three additional annual inflows of PLN 7.5m, which after tax we estimate at present value of PLN 15.6m (PLN 4.6/share).
4. The difference resulting from the above is PLN 13.1/share.
5. PLN 12.42 + PLN 13.1 = PLN 25.5/share. The difference to our calculated FV of PLN 25.02 is the result of other minor differences in calculation methodology.

Scenario II – PLN 39.62/share

PEM's prospectus, which was authorized by KNF on March 11, 2015, states under 10.5.1 (f) (page 119) the following:

On the day of the conclusion of the New Three-Party Agreement, the parties to the New Three-Party Agreement have declared the extension of the New Three-Party Agreement for the next 10 years following the end of the period. The parties to the New Trilateral Agreement confirmed that the above does not constitute an obligation of any of the parties to the New Trilateral Agreement to extend the period of validity of the New Trilateral Agreement for another 10 years after the end of the period, which has been most recently concluded.

Of course, according to these provisions, the parties are not obliged to continue their cooperation after October 31, 2023. However, based on the parties' declarations some investors, who subscribed to the IPO, could have thought that the Trilateral Agreement will be extended beyond 2023E.

It is worth adding that the IPO of PEM took place in the first half of 2015. At that time, the agreement had 8.5 years to expire. If it had been said directly on the debut that the company would either terminate or significantly reduce its operations after 2023E, the investors' perception of its valuation would probably have been lower.

Scenario II of the valuation is an extension of Scenario I with a residual value. Due to the difficulty in valuing it, an arbitrary assumption of PLN 50m was made. One of the provisions of the Tripartite Agreement is about the penalty of PLN 50m for MCI's breach of the agreement after October 31, 2018. Of course, no breach of MCI Capital's obligations occurred. The terminal value assumption of PLN 50m has been made as a simplified assumption of the residual value after the forecast period.

in PLNm	2021E	2022E	2023E
Net sales	55.00	55.00	55.00
(y-o-y change)	*-10.1%*	*0.0%*	*0.0%*
Operating profit	36.50	36.50	36.50
(operating margin)	*66.4%*	*66.4%*	*66.4%*
Tax rate	-19.0%	-19.0%	-19.0%
NOPAT	**29.57**	**29.57**	**29.57**
+ Depreciation & amortisation	1.58	1.64	1.63
= Net operating cash flow	31.15	31.21	31.19
- Total investments (Capex and WC)	0.00	0.00	0.00
Capital expenditures	0.00	0.00	0.00
Working capital	0.00	0.00	0.00
= Free Cash Flow (FCF)	**31.15**	**31.21**	**31.19**
Discount factor	*0.94*	*0.88*	*0.82*
PV of FCFs	**29.23**	**27.44**	**25.68**

in PLNm	
PV of FCFs in explicit period	82.35
PV of FCFs in terminal period	50.00
Enterprise Value (EV)	**132.35**
+ Net cash / - net debt (31 December 2020E)	3.30
+ Investments / - minorities	0.00
Shareholder value	**135.66**

Number of shares outstanding (m)	3.42

Fair value per share in PLN (today)	**39.62**

Scenario III – PLN 73.76/share

Below are our assumptions, on which Scenario III is based:

1. *Liquidation of MCI.TechVentures after 2023E*: no income from fees from this subfund, but on the other hand 1/3 lower operating and general management costs.
2. *Extension of the Tripartite Agreement by another 10 years:* the same fixed and success fee rates have been assumed.
3. Increase in revenues by 5% each year starting from 2024E reflecting rising AuM (MCI.EuroVentures).
4. *Calculation of success fee:* calculation of success fee is made using Black-Scholes option formula: assumed volatility 20% per annum, current price (P) = 100%, exercise price = 100% + 8% hurdle rate + 2% fixed cost = 110%, time to maturity (T) = 1, we assume that PEM is taking 25% of profit above 8%, which means that the price of call option in Black-Scholes model is 1.2% per annum. Since AuM are c. PLN 1.3bn (only MCI.EV fund), we assume c. PLN 16m success fee each year and corresponding cost of carry PLN 4m each year.
5. Residual value of zero.

in PLNm	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Net sales	55.00	55.00	55.00	44.81	46.25	47.78	49.37	51.05	52.81	54.66	56.60	58.64	60.78
(y-o-y change)	*-10.1%*	*0.0%*	*0.0%*	*-18.5%*	*3.2%*	*3.3%*	*3.3%*	*3.4%*	*3.5%*	*3.5%*	*3.6%*	*3.6%*	*3.7%*
Operating profit	36.40	36.40	36.40	26.85	28.30	29.82	31.42	33.09	34.86	36.71	38.65	40.69	42.83
(operating margin)	*66.2%*	*66.2%*	*66.2%*	*59.9%*	*61.2%*	*62.4%*	*63.6%*	*64.8%*	*66.0%*	*67.1%*	*68.3%*	*69.4%*	*70.5%*
Tax rate	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%
NOPAT	**29.48**	**29.48**	**29.48**	**21.75**	**22.92**	**24.15**	**25.45**	**26.81**	**28.23**	**29.73**	**31.30**	**32.96**	**34.69**
+ Depreciation & amortisation	1.58	1.64	1.63	1.61	1.59	1.58	1.56	1.55	1.53	1.52	1.50	1.49	1.47
= Net operating cash flow	31.06	31.13	31.11	23.36	24.52	25.73	27.01	28.35	29.76	31.25	32.81	34.44	36.16
- Total investments (Capex and WC)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital expenditures	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Working capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
= Free Cash Flow (FCF)	**31.06**	**31.13**	**31.11**	**23.36**	**24.52**	**25.73**	**27.01**	**28.35**	**29.76**	**31.25**	**32.81**	**34.44**	**36.16**
Discount factor	*0.94*	*0.88*	*0.82*	*0.77*	*0.72*	*0.68*	*0.63*	*0.59*	*0.56*	*0.52*	*0.49*	*0.46*	*0.43*
PV of FCFs	**29.16**	**27.37**	**25.62**	**18.01**	**17.71**	**17.41**	**17.12**	**16.83**	**16.55**	**16.27**	**16.00**	**15.73**	**15.47**

in PLNm	
PV of FCFs in explicit period	249.24
PV of FCFs in terminal period	0.00
Enterprise Value (EV)	**249.24**
+ Net cash / - net debt (31 December 2020E)	3.30
+ Investments / - minorities	0.00
Shareholder value	**252.54**
Number of shares outstanding (m)	3.42
Fair value per share in PLN (today)	**73.76**

Peer Group Analysis

We have compared PEM to four alternative asset managers from the US and two Polish asset management companies. Our analysis shows that based on our estimates the company is currently significantly undervalued on P/E 2020E & 2021E as well as P/Tangible NAV and P/AuM multiples. At the current market price, the discount equals between 66.6% and 91.6%.

	P/E		P/TNAV*	P/AuM
Company	**2020E**	**2021E**	**Latest**	**Latest**
The Blackstone Group (USD)	26.97x	21.02x	17.41x	0.13x
The Carlyle Group (USD)	17.83x	15.08x	5.16x	0.06x
Apollo Global Management (USD)	26.24x	18.38x	48.86x	0.07x
KKR & Co (USD)	24.05x	18.79x	3.26x	0.15x
Skarbiec Holding S.A. (PLN)	5.51x	9.66x	1.80x	0.03x
Quercus TFI S.A. (PLN)	n.a	n.a	3.27x	0.09x
Median	**24.05x**	**18.38x**	**4.22x**	**0.08x**
PEM S.A. (PLN)	2.01x	1.85x	neg	0.03x
Premium/Discount	***-91.6%***	***-89.9%***	***n.a***	***-66.6%***

* TNAV = Tangible Net Asset Value = Equity - goodwill. In case PEM, it equaled PLN -33.9m as of 30/09/2020

Source: CapitalIQ, marketscreener.com, East Value Research GmbH

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Buy: Based on our analysis, we expect the stock to appreciate and generate a total return of more than 10% over the next twelve months

Add: Based on our analysis, we expect the stock to appreciate and generate a total return between 0% and 10% over the next twelve months

Reduce: Based on our analysis, we expect the stock to cause a negative return between 0% and -10% over the next twelve months

Sell: Based on our analysis, we expect the stock to cause a negative return exceeding -10% over the next twelve months

The respective supervisory authority is:

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