Thursday, 10 October 2024 | update

Sygnity: sell (reiterated)

SGN PW; SGN.WA | IT, Poland

Valuation Too High Despite New Gov't Contracts

Sygnity's stock has dropped 9.4% since our last update in April, slightly underperforming the broad market WIG index, down 5.9% since April.

Meanwhile, Sygnity reported strong financial results for Q2 2024, disclosing that, in the first half of the year, its two latest acquisitions, Edrana and Sagra, contributed approx. PLN 14.5m to total revenues. As a result, the pace of organic growth in H1 2024 amounted to a creditable 12%, an improvement on the revenue growth rates of a few quarters earlier.

Sygnity did report a decline in public sector orders in 1H 2024, but, more recently, the Company has secured contracts from the Polish Post Office and the Agency for Restructuring and Modernization of Agriculture (ARMA) that can be expected to bring back revenue growth in future quarters.

We have slightly updated our earnings forecasts for Sygnity to reflect Q2'24 results, and we have also revised the valuation model to reflect current RFR, a reduced equity risk premium, and updated peer multiples. It is worth noting Sygnity's healthy balance sheet position, reflected in a Net Cash/EBITDA ratio of 1.0x as of end-June'24. With this, we believe the Company has the means to pursue further acquisitions in line with the ambitions expressed by the Management Board.

We set our new target price for Sygnity at PLN 39.00, implying downside risk of 33% and leading us to reiterate our sell rating. SGN stock is currently trading at 16.9x EV/EBITDA'25E and 27.4x P/E'25E, still showing very large premiums to the peer group.

Good 2024 H1 Results

Sygnity generated revenue of PLN 131.4m in H1 2024, an increase of 26.0% on the same period a year ago. The number of projects in each of the key business segments continued to decline during the first six months of 2024 as Sygnity aims to phase out projects that generate inadequate profits.

The gross profit margin in 6M'24 amounted to 33.2% after a small Y/Y increase of 3.3 p.p. EBITDA for the six months ended 30 June 2024 came in at PLN 25.1m vs. PLN 17.7m the year before, marking a big improvement owed partly to the recent acquisitions.

New Government Contracts

Sales to the public sector accounted for most of Sygnity's revenue in H1 2024 at PLN 45.1m, an amount 7% lower than in the same period in 2023.

On the upside, the Company has recently secured new contracts from the public sector buyers. One is a contract from the Polish Post Office worth up to PLN 23.5m, and another is a an HR and payroll systems maintenance and development deal between Sygnity Business Solutions and the Agency for the Restructuring and Modernization of Agriculture. The gross fee during the initial contract term amounts to PLN 16.9m, and, if the term is extended, the fee can increase to a maximum of PLN 29.8m.

(PLN m)	2022 adj.*	2023 adj.*	2024E	2025E	2026E
Revenue	219.1	229.3	288.9	319.3	344.3
EBITDA	41.5	49.0	62.3	71.5	78.6
EBITDA margin	19.0%	21.4%	21.6%	22.4%	22.8%
EBIT	31.1	39.2	46.8	56.2	63.1
Net profit	31.6	39.3	38.6	48.2	53.6
P/E	41.8	33.6	34.2	27.4	24.6
P/CE	31.4	26.9	24.4	20.8	19.1
P/B	7.3	6.0	5.1	4.3	3.6
EV/EBITDA	30.9	25.3	20.1	16.9	14.6
DPS	0.00	0.00	0.00	0.00	0.00
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

**calendar years*

Current Price*	PLN 58.00
Target Price	PLN 39.00
mCap	PLN 1.3bn
ADTV (3M)	PLN 0.3m

*Price as of 9 October 2024, 5:00 PM

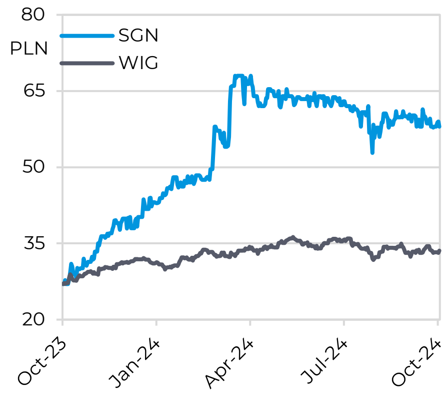
Shareholders

TSS Europe B.V.	72.68%
Blacksheep Fund Management Ltd.	6.67%
Barca Global Master Fund LP	9.01%
Others	11.64%

About Sygnity

Sygnity creates IT solutions and offers advisory services to customers across many different industries. The Company generates approximately PLN 280m in annual sales. Headquartered in Warsaw, Sygnity earns more than 95% its revenues in Poland.

SGN vs. WIG



Company	Target Price		Recommendation	
	new	old	new	old
Sygnity	39.00	35.80	sell	sell

Company	Current Price	Target Price	Downside
Sygnity	58.00	39.00	-32.8%

Forecast Update	2024E	2025E	2026E
Revenue	+1.5%	+1.5%	+1.5%
EBITDA	+2.3%	+3.7%	+3.1%
Net profit	-8.6%	-0.9%	-0.9%

Analyst:

Paweł Szpigiel
Equity Analyst, Expert
+48 509 603 258
pawel.szpigiel@mbank.pl

Key Risks

Mergers & Acquisitions

Growth through acquisitions represents one of the three main pillars of Sygnity's current strategy plan. There is a substantial amount of risk involved in business acquisitions, both at the stage of carrying out the transaction and in terms of achievable synergy.

At the moment, Sygnity is aiming to acquire between three and five software companies per year – a high number that seems an unrealistic goal in terms of the number of transactions achievable in the IT industry, indicating heightened risk of failure.

No Dividends

Sygnity as part of its business strategy plans to use free cash flow to pay for acquisitions. As such, in our view this strategy could lead to curbed medium-term dividend payments despite fairly good cash flow generation.

Dependence on Third-Party Solutions

Sygnity serves as a local partner to global technology companies, integrating their solutions into customer systems and providing a range of services from training to maintenance, upgrades, and extensions. If global software providers were to change the terms of their partner policies, for example by limiting the number of local partners, or by bringing implementation services in different markets in house, this could have a negative effect on revenues.

Increase in Labor Costs

Payroll accounts for a major part of Sygnity's operating expenses. According to an assessment by the recruitment agency Grafton, confirmed by Sygnity itself, 2024 is a year when companies are revisiting their staffing needs as regards IT professionals. There is less demand for programmers and more demand for AI, machine learning, cloud, Big Data. and cybersecurity skills. Salary growth in tech has slowed to its lowest pace in five years, and IT professionals seem to be placing more value on job stability and permanent employment contracts.

That being said, IT salaries are still very much trending upwards, and businesses with slow sales growth are struggling to remain profitable.

Public Contracts

Sygnity competes in government tenders for IT services which are typically awarded to the lowest bidder. Meanwhile, the biggest contracts usually require the onboarding of subcontractors, which heightens the risk of nonperformance.

Another risk are cost overruns on underestimated projects (Sygnity's 2013 e-Taxes contract is one example of an underrated budget).

Long-Term Contracts

The valuation and successful delivery of a long-term contract hinges on many factors, some of which are beyond the control of the supplier. For example, the actual figures at the end of the contract might miss the initial revenue, cost, and profit targets, leading to provisions, adjustments, and write-offs (cost overruns are the most common issue), and, in the worst case, to events of default.

Exchange Rate Risk

Sygnity's revenues and costs are affected by movements in the Polish zloty's exchange rates relative to the euro and the US dollar. On the balance sheet, assets and liabilities denominated in foreign currencies consist exclusively of trade receivables and trade payables.

Corruption Probe

In 2019, Sygnity became involved in an investigation into allegations of corruption in the award of contracts by the Polish Post Office brought against its employees, including the CEO and the Supervisory Board Chairman. The Company fully cooperated with the authorities and turned over all requested records and items.

Since we do not have insight into the current status of the case, we cannot tell whether or not it might affect the Company's business in the future.

Valuation

Using DCF analysis and relative valuation, we set our 12-month per-share price target for Sygnity at PLN 39.00.

Valuation Summary

(PLN)	Weight	Price
Relative Valuation	50%	30.40
DCF Analysis	50%	42.49
	Price	36.45
	12M Target Price	**39.00**

Source: mBank

Relative Valuation

We compared Sygnity with a group of comparable companies based on their forward P/E and EV/EBITDA multiples.

Each of the forecast years, calendar 2024, 2025, and 2026, is assigned an equal weight. Forecasts for Sygnity use expected 2024, 2025 and 2026 earnings, respectively. The 2024E valuation multiples use pro-forma financial data.

We have removed Comarch from the peer group due to a takeover tender offer by CVC, and we replaced it with two new companies: Asseco South Eastern Europe and Asseco Business Solutions.

Relative Valuation

	P/E			EV/EBITDA		
	2024E	2025E	2026E	2024E	2025E	2026E
Sap	29.8	21.8	18.7	45.1	32.7	27.7
Oracle	21.4	18.9	16.4	31.2	27.9	24.5
Cap Gemini	10.2	9.6	8.9	15.5	14.7	13.5
Sage Group	18.7	16.8	14.9	27.6	24.6	21.7
Atos	7.9	6.1	4.8	-	-	0.4
Indra Sistemas	6.0	5.5	5.0	11.0	9.8	8.6
Computacenter	7.0	6.5	6.2	14.1	12.8	12.0
Asseco Poland	4.8	4.5	4.4	15.5	13.3	11.8
Asseco South Eastern Europe	7.9	7.3	7.0	12.9	12.0	11.3
Asseco Business Solutions	10.7	9.6	8.8	17.0	15.3	13.8
maximum	29.8	21.8	18.7	45.1	32.7	27.7
minimum	4.8	4.5	4.4	11.0	9.8	0.4
median	9.1	8.5	7.9	15.5	14.7	12.7
Sygnity	19.8*	16.9	14.6	33.3*	27.4	24.6
premium / discount	127.7%	111.9%	97.6%	99.8%	87.7%	95.0%
Implied Valuation						
Value per share (PLN)	27.47	30.36	33.30	29.53	31.43	30.25
Multiple weight		50%			50%	
Year weight	33%	33%	33%	33%	33%	33%
Equity value per share (PLN) 30.40						

Source: mBank, *based on proforma figures

DCF Valuation

DCF model assumptions:

- The forecast period spans the years 2024-2033.
- The perpetuity risk-free rate is 4.5%.
- We have reduced the equity risk premium from 6.0% to 5.0% for all the companies in our coverage universe.
- We assume FCF after the forecast period will grow at a rate of 2.0%.
- Net debt is on an IFRS 16 basis as of December 2023, adjusted for payments for two acquisitions completed by Sygnity.
- Terminal period D&A expenses are equal to CAPEX.

DCF Model

(PLN m)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2033+
Revenue	**295.7**	**319.3**	**344.3**	**368.2**	**393.3**	**419.5**	**446.9**	**475.5**	**504.5**	**535.3**	
YoY change	10.3%	8.0%	7.8%	6.9%	6.8%	6.7%	6.5%	6.4%	6.1%	6.1%	
EBIT	**48.0**	**56.2**	**63.1**	**69.2**	**75.8**	**83.2**	**91.2**	**99.5**	**108.0**	**117.3**	
EBIT margin	16.2%	17.6%	18.3%	18.8%	19.3%	19.8%	20.4%	20.9%	21.4%	21.9%	
Tax on EBIT	7.8	9.6	11.1	12.5	14.0	15.4	16.9	18.4	20.0	21.7	
Effective tax rate	16.2%	17.1%	17.6%	18.0%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	
NOPLAT	**40.2**	**46.6**	**52.0**	**56.7**	**61.8**	**67.8**	**74.3**	**81.1**	**88.0**	**95.6**	
D&A	15.1	15.3	15.5	15.7	15.9	16.1	16.3	16.5	16.7	17.0	
CAPEX	-12.9	-13.3	-13.7	-14.1	-14.6	-15.0	-15.5	-16.0	-16.5	-17.0	
Working capital & other	-0.2	-0.7	-1.0	-0.4	0.4	0.8	0.9	0.9	0.9	1.0	
FCF	42.3	47.8	52.8	57.8	63.4	69.7	75.9	82.5	89.2	96.6	98.5
WACC	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Discount factor	1.0	0.9	0.8	0.7	0.7	0.6	0.5	0.5	0.4	0.4	
PV FCF	41.3	42.5	42.7	42.4	42.1	42.1	41.6	40.9	40.0	39.1	
WACC	9.3%	10.1%	9.9%	10.1%	10.5%	9.9%	10.4%	10.5%	10.5%	10.8%	9.5%
Cost of debt	5.3%	6.1%	5.9%	6.1%	6.5%	5.9%	6.4%	6.5%	6.5%	6.8%	5.5%
Risk-free rate	4.3%	5.1%	4.9%	5.1%	5.5%	4.9%	5.4%	5.5%	5.5%	5.8%	4.5%
Risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	16.2%	17.1%	17.6%	18.0%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	19.0%
Net debt / EV	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	9.3%	10.1%	9.9%	10.1%	10.5%	9.9%	10.4%	10.5%	10.5%	10.8%	9.5%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

FCF growth after the forecast period	2.0%
Terminal value	1313.4
Present value of terminal value	531.3
Present value of FCF in the forecast period	414.6
Goodwill (EV)	945.9
Net debt (adj. 2023 eop)	-21.2
Other noncore assets	0.0
Minority interest	0.0
Equity value	967.1
Shares outst. (millions)	22.8
Equity value per share (PLN)	**42.5**
12-month cost of equity	7.0%
Target price (PLN)	**45.5**
EV/EBITDA ('25) at target price	13.2
P/E('25) at target price	20.1
TV / EV	56.6%

Source: mBank

Sensitivity Analysis

	FCF growth in perpetuity				
	1.0%	1.5%	2.0%	2.5%	3.0%
RFR terminal period +1.0 p.p.	40.0	41.2	42.5	44.0	45.7
RFR terminal period 0.5 p.p.	41.1	42.4	43.9	45.6	47.5
RFR terminal period (g =4.5%)	42.3	43.8	45.5	47.4	49.6
RFR terminal period -0.5 p.p.	43.7	45.3	47.3	49.5	52.0
RFR terminal period -1.0 p.p.	45.2	47.1	49.3	51.9	54.9

P&L

(PLN m)	2022 Adj.	2023 Adj.	2024E	2025E	2026E
Revenue	**219.1**	**229.3**	**288.9**	**319.3**	**344.3**
YoY % change	6.4%	4.7%	26.0%	10.5%	7.8%
EBIT	**31.1**	**39.2**	**46.8**	**56.2**	**63.1**
Margin	14.2%	17.1%	16.2%	17.6%	18.3%
D&A	10.5	9.9	15.5	15.3	15.5
EBITDA	**41.5**	**49.0**	**62.3**	**71.5**	**78.6**
Financing activity	-1.9	0.6	-0.7	1.9	1.9
Pre-tax profit	-0.1	0.0	0.0	0.0	0.0
Margin	0.0%	0.0%	0.0%	0.0%	0.0%
Tax	2.5	-0.4	-7.5	-10.0	-11.4
Discontinued ops.	0.0	0.0	0.0	0.0	0.0
Net profit	**31.6**	**39.3**	**38.6**	**48.2**	**53.6**

Balance Sheet

(PLN m)	2022 Adj.	2023 Adj.	2024E	2025E	2026E
Fixed assets	**186.6**	**179.2**	**230.8**	**228.8**	**227.0**
Goodwill	157.2	157.2	157.2	157.2	157.2
Current assets	**114.1**	**147.0**	**137.3**	**190.9**	**249.8**
Inventory	0.1	0.1	0.1	0.1	0.1
Accounts receivable	1.5	1.2	1.2	1.2	1.2
Cash	72.4	102.9	89.0	138.5	192.9
Equity	**179.9**	**220.6**	**260.2**	**308.4**	**362.0**
Minority interest	0.0	0.0	0.0	0.0	0.0
Noncurrent liab.	**27.3**	**16.7**	**16.7**	**16.7**	**16.7**
Loans	0.0	12.0	12.0	12.0	12.0
Bonds	18.2	0.0	0.0	0.0	0.0
Current liabilities	**93.6**	**88.9**	**91.3**	**94.7**	**98.2**
Loans	0.0	12.0	12.0	12.0	12.0
Bonds	18.7	0.1	0.1	0.1	0.1
Trade and other payables	36.6	38.3	40.6	44.0	47.6
Net debt	**-35.5**	**-78.8**	**-64.9**	**-114.4**	**-168.8**
Net debt/EBITDA	-0.9	-1.6	-1.0	-1.6	-2.1

Source: mBank

Cash Flow

(PLN m)	2022 Adj.	2023 Adj.	2024E	2025E	2026E
Operating CF	**55.1**	**54.8**	**57.4**	**64.7**	**70.1**
Working capital	18.1	0.2	-0.2	-0.7	-1.0
Investing CF	**-8.2**	**-3.8**	**-58.9**	**-5.4**	**-5.9**
CAPEX	-8.2	-3.8	-5.0	-5.4	-5.9
Financing CF	**-26.4**	**-20.5**	**-12.4**	**-9.8**	**-9.8**
Change in debt	-18.0	-9.0	0.0	0.0	0.0
CF	**20.4**	**30.6**	**-13.8**	**49.4**	**54.4**
OCF/EBITDA	132.6%	111.8%	92.1%	90.5%	89.2%
FCFF	39.0	45.3	44.6	51.4	56.4
FCFF/EV	3.0%	3.7%	3.6%	4.3%	4.9%
FCFE	38.4	42.2	40.0	49.4	54.4
FCFE/MCAP	2.9%	3.2%	3.0%	3.7%	4.1%
ROIC	17.4%	22.2%	22.5%	23.4%	26.4%
ROCE growth	15.0%	17.6%	18.2%	18.7%	17.9%
DPS	0.00	0.00	0.00	0.00	0.00
Divid. payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend yield	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**

Key Ratios

	2022 Adj.	2023 Adj.	2024E	2025E	2026E
P/E	**41.8**	**33.6**	**34.2**	**27.4**	**24.6**
P/CE	31.4	26.9	24.4	20.8	19.1
EV/EBITDA	**30.9**	**25.3**	**20.1**	**16.9**	**14.6**
EV/EBIT	41.3	31.7	26.8	21.5	18.2
P/S	6.0	5.8	4.6	4.1	3.8
P/BV	7.3	6.0	5.1	4.3	3.6
P/FCFE	34.3	31.3	33.0	26.7	24.3
EBITDA margin	**19.0%**	**19.0%**	**21.4%**	**22.2%**	**23.2%**
YoY % EBITDA change	-8.1%	18.0%	27.1%	14.7%	10.0%
Net margin	14.4%	17.1%	13.4%	15.1%	15.6%
YoY net change	**19.2%**	**24.3%**	**-1.7%**	**24.7%**	**11.3%**
Price (PLN)	58.0	58.0	58.0	58.0	58.0
Shares outst. (millions)	22.8	22.8	22.8	22.8	22.8
MCap	**1,320.0**	**1,320.0**	**1,320.0**	**1,320.0**	**1,320.0**
EV	**1,284.5**	**1,241.2**	**1,255.1**	**1,205.6**	**1,151.2**

List of abbreviations and ratios used by mBank:
EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

Recommendations of Biuro maklerskie mBanku:
A recommendation is valid for a period of 12 months, unless a subsequent recommendation is issued in this period. Expected returns from individual recommendations are as follows:
BUY – we expect that the rate of return from an investment will be at least 10%
HOLD – we expect that the rate of return from an investment will range from 0% to +10%
SELL – we expect that an investment will bear a loss
The foregoing principle maybe waived where circumstances warrant, including but not limited to periods of increased share price volatility experienced by the company that is the subject of a recommendation immediately preceding the time the recommendation is issued.
Recommendations are updated at least once every twelve months.

mBank S.A. with its registered office in Warsaw at Prosta 18 renders brokerage services via a dedicated organisational unit, the Brokerage Bureau, which uses the Polish name Biuro maklerskie mBanku.

mBank S.A. as part of the Exchange's Analytical Coverage Support Programme ("Programme", https://www.gpw.pl/eacsp) prepares analytical reports for Sygnity. These documents are prepared at the request of Giełda Papierów Wartościowych w Warszawie S.A. ('WSE'), which is entitled to copyrights to these materials. mBank S.A. receives remuneration from the WSE for the preparation of the reports. All documents prepared for the Programme are available at: https://www.mdm.pl/ui-pub/site/market_and_analysis/analysis_and_recommendations/analytical_coverage_support_programme

This document has been created and published by Biuro maklerskie mBanku. This report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. This report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which Biuro maklerskie mBanku considers reliable, including information published by issuers, shares of which are subject to recommendations. However, Biuro maklerskie mBanku, in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts. mBank S.A. bears no responsibility for investment decisions taken on the basis of this report or for any damages incurred as a result of investment decisions taken on the basis of this report.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person This document does not constitute investment, legal, accounting or other advice, and mBank is not liable for damages resulting from or related to the use of data provided in the documents. This document may not be copied, duplicated and/or be directly or indirectly distributed in the United States, Canada, Australia or Japan, nor transferred to citizens or residents of a state where its distribution may be legally restricted, which does not limit the possibility of publishing materials prepared for the Programme on Sygnity, mBank or WSE websites. Persons who disseminate this document should be aware of the need to comply with such restrictions.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation.

Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

It is possible that mBank S.A. in its brokerage activity renders, will render or in the past has rendered services for companies and other entities mentioned in this report.

BM, as a separate organisational unit of the Bank, may buy or sell (or may have bought or sold in the past) the financial instruments discussed herein in the name and on behalf of clients subject to powers of attorney granted by the clients.
mTFI may hold (or may have held in the past) positions in the financial instruments discussed herein, or in related instruments, held in the investment portfolios of funds operated or managed by mTFI.
The Bank may hold (or may have held in the past) positions in the financial instruments discussed herein, or in related instruments, held in the trading portfolios or banking portfolios managed by the Bank.
The Bank and other members of the Bank's group of companies may hold (or may have held in the past) positions in the financial instruments discussed herein, or in related instruments, held in portfolios they manage.

mBank S.A. does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation.

Biuro Maklerskie mBanku S.A. ("BM") has put in place internal regulations governing the active management of conflicts of interest, which establish internal organizational and administrative frameworks and information barrier protocols to prevent and avoid conflicts of interest in connection with recommendations. Different types of brokerage activities are separated from each other within BM's internal organizational structure, including the equity research department, which is separated from other brokerage activities. Information barriers, called "Chinese walls," have been created to restrict the exchange of information between different organizational units and employees of BM.

Information concerning a conflict of interest arising in connection with issuing a recommendation (should such a conflict exist) is located below.

The present report was not transferred to the issuer prior to its publication.
mBank S.A. receives compensation from the Warsaw Stock Exchange for publishing equity research as part of the WSE's coverage support program.

The Issuer is a client of Biuro maklerskie mBanku.
The Issuer is a counterparty to mBank S.A.

The production of this recommendation was completed on 10 October 2024, 7:53 AM.
This recommendation was first disseminated on October 10, 2024, 8:30 AM.

This document is an extract from a recommendation produced by Biuro maklerskie mBanku.

mBank S.A., its shareholders and employees may hold long or short positions in the issuer's shares or other financial instruments related to the issuer's shares.

Recommendations are addressed to all Clients of Biuro maklerskie mBanku.

All investment recommendations and strategies issued by mBank S.A. over the last 12 months are available at: https://mdm.pl/bm/analizy

The activity of mBank S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of Biuro maklerskie mBanku authorised to access the premises in which recommendations are prepared and/or individuals having to access to recommendations based on their corporate roles, other than the analysts mentioned as the authors of this recommendations.

This publication constitutes investment research in the meaning of Art. 36.1 of Commission Delegated Regulation (EU) 2017/565.

The compensation of the research analysts responsible for preparing investment research is determined independently of and without regard to the compensation of or revenue generated by any other employee of the Bank, including but not limited to any employee whose business interests may reasonably be considered to conflict with the interests of the persons to whom the investment research prepared by the Research Department of Biuro maklerskie mBanku is disseminated. With that being said, since one of the factors taken into consideration when determining the compensation of research analysts is the degree of fulfillment of annual financial targets by customer service functions, there is a risk that the adequacy of compensation offered to persons preparing investment research will be questioned by a competent oversight body.

For U.S. persons only: This research report is a product of mBank SA which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.
This report is intended for distribution by mBank SA only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.
In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, mBank SA has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

Strong and weak points of valuation methods used in recommendations:
DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.
Relative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.
Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.
Discounted Dividends (DDM) – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.
NAV - valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank issued the following recommendations for Sygnity in the 12 months prior to publication:
Sygnity (Paweł Szpigiel)

recommendation	**sell**
date issued	2024-04-15
target price (PLN)	35.80
price on rating day	64.00

mBank S.A.
Prosta 18
00-850 Warszawa
http://www.mbank.pl/

Research Department

Kamil Kliszcz
director
+48 667 770 837
kamil.kliszcz@mbank.pl
energy, power generation

Mateusz Krupa, CFA
deputy director
+48 571 608 973
mateusz.krupa@mbank.pl
strategy

Paweł Szpigiel
+48 509 603 258
pawel.szpigiel@mbank.pl
media, IT, telco, e-commerce

Michał Konarski
+48 515 025 640
michal.konarski@mbank.pl
banks, financials

Mikołaj Lemańczyk, CFA
+48 501 663 511
mikolaj.lemanczyk@mbank.pl
banks, financials, property developers

Piotr Poniatowski
+48 509 603 046
piotr.poniatowski@mbank.pl
gaming

Janusz Pięta
+48 506 065 659
janusz.pieta@mbank.pl
retail, e-commerce

Beata Szparaga-Waśniewska, CFA
+48 510 929 021
beata.szparaga-wasniewska@mbank.pl
biotechnology, healthcare

Jakub Sargsyan
+48 519 419 895
marlen.sargsyan@mbank.pl
industrials, mining

Sales and Trading

Traders

Piotr Gawron
director
+48 698 832 853 | +48 22 697 48 95
piotr.gawron@mbank.pl

Paweł Cylkowski
+48 503 684 130 | +48 22 697 47 31
pawel.cylkowski@mbank.pl

Piotr Brożyna
+48 512 756 702 | +48 22 697 48 47
piotr.brozyna@mbank.pl

Andrzej Kowalczyk
+48 789 868 634 | +48 22 697 47 44
andrzej.kowalczyk@mbank.pl

Andrzej Sychowski
+48 605 848 003 | +48 22 697 48 46
andrzej.sychowski@mbank.pl

Łukasz Płaska
+48 784 449 962 | +48 22 697 47 90
lukasz.plaska@mbank.pl

Karol Kułaj
+48 509 602 984 | +48 22 697 49 85
karol.kulaj@mbank.pl

Sales, Foreign Markets

Marzena Łempicka-Wilim
deputy director
+48 696 427 249 | +48 22 697 48 82
marzena.lempicka-wilim@mbank.pl

Private Client Sales

Maciej Sokołowski
director
maciej.sokolowski@mbank.pl

Jarosław Banasiak
deputy director
jaroslaw.banasiak@mbank.pl