22 July 2013

Research Report

BRE Bank Securities

Tarczyński

Buy

(New)

TAR PW; TARP.WA

A Growth Story

Food Producers

Poland

Current price	**PLN 11.74**
Target price	**PLN 17.40**
Market Capitalization	PLN 140m
Free Float	PLN 50m
Avg. daily trading volume (3M)	PLN 0.81m

Shareholder Structure

EJT Investment S.à r.l.	47.13%
Jacek and Elżbieta Tarczyński	8.82%
ING OFE	8.81%
AVIVA OFE	8.64%
Others	26.60%

Sector Outlook

In 2010-2012 soaring prices of grain drove up the costs of inputs and production for meat processors. Most producers raised sales prices at the beginning of 2012, and this, combined with a downturn in raw meat costs toward the end of the year, resulted in higher profit margins which continued to expand in H1 2013.

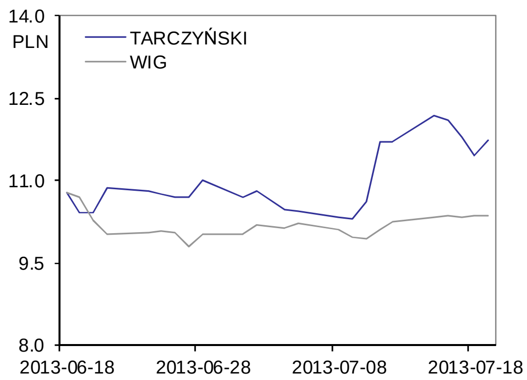
Company profile

Tarczyński produces high-quality premium meats including cold cuts and smoked hams. Its flagship product are kabanosy sausages.

Important dates

14.08 - H1 2013 report
08.11 - Consolidated Q3 2013 report

TAR vs. WIG



Jakub Szkopek
(48 22) 697 47 40
jakub.szkopek@dibre.com.pl
www.dibre.com.pl

Tarczyński is one of the fastest-growing producers of luncheon meats in Poland. In the span of seven years, the Company increased its production capacity 2.5 times to 35.2 thousand tonnes a year. Tarczyński's products are positioned as premium-quality luncheon meats in the upper-end price range. Tarczyński ranks fifth among Polish meat producers in terms of revenue, and its cutting-edge processing plant in Ujeździec Mały is currently operating at 95% of capacity (the average capacity utilization ratio for the Tarczyński Group is 70%). The Company's growth potential lies in the changing attitudes of Polish consumers who, like their Western European counterparts have done for some time, are increasingly opting for higher-quality luncheon meats. Further, Tarczyński has been benefitting from a downturn in pork prices observed since Q4 2012 which has had a positive effect on the Company's profit margins. Tarczyński raised PLN 45m through the recent IPO, and it is planning to spend the proceeds on capacity expansion at its meat processing plans in Ujeździec Mały. The Company is currently trading at 9.1x 2013E P/E ratio and 5.2x EV/EBITDA, showing discounts of 30% and 23%, respectively, to peer multiples. We are initiating coverage of Tarczyński with a Buy rating and a price target of PLN 17.4 per share.

A shift to new distribution models

Tarczyński markets 67% of its products through "traditional" distribution channels (small retail stores, wholesalers). In the future, the Company is planning to increase sales to big-box retailers (big-box distribution currently accounts for 28% of total sales), including for rebranding under private store labels (today, 75% of the Company's meats carry the "Tarczyński" label). Increased sales to fast-expanding retail chains guarantees higher sales volumes in the future.

Expanding margins

Grain prices were on a steep upward curve from 2010 through 2012, resulting in increasing prices of livestock and driving up the costs incurred by meat processors. Most producers raised sales prices at the beginning of 2012, and this, combined with a downturn in raw meat costs toward the end of the year, resulted in higher profit margins which continued to expand in H1 2013.

#1 market share in *kabanosy* sausage

A 2012 market study conducted by GfK estimated the value of the Polish market for *kabanosy* sausages at PLN 417.1m, and it identified Tarczyński as the market leader with a 12.4% (and rising) market share. Note that the study was completed prior to the launch by Tarczyński of a television advertising campaign this spring.

(PLN m)	2012	2013F	2014F	2015F	2016F
Revenue	386.7	452.1	493.7	550.5	612.5
EBITDA	33.3	35.1	36.0	39.5	40.7
EBITDA margin	8.6%	7.8%	7.3%	7.2%	6.7%
EBIT	21.2	22.9	23.4	22.7	23.6
Net profit	10.8	14.7	15.6	15.9	16.7
DYield	6.0%	1.0%	0.0%	7.0%	7.7%
P/E	6.9	9.1	8.5	8.4	8.0
P/CE	3.3	5.0	4.7	4.1	3.9
P/B	1.1	1.1	0.9	0.9	0.9
EV/EBITDA	5.0	5.2	4.9	4.4	4.2

** Incl. PLN 45m IPO proceeds*

Business Profile

Tarczyński is a leading Polish producer of packaged meats marketed under the brand names “Tarczyński,” “Dobrosława,” and “StarPeck.” It operates through three production plants located in Ujeździec Mały (dolnośląskie voivodeship), Sława (lubuskie voivodeship), and Bielsko-Biała (śląskie voivodeship). The meat processing plant in Ujeździeć Mały, opened in 2007, is one of the most cutting-edge facilities in Europe. Tarczyński sells its products via two channels: traditional (small retailers, distributors, and wholesalers), and modern (hypermarkets, supermarkets, discount stores). The majority of Tarczyński meats are made from pork (which accounted for roughly 79% of the volumes of raw materials purchased in 2012), and the rest are poultry products (ca. 21% of 2012 materials purchases). By using advanced equipment and leading-edge technology, Tarczyński is able to deliver reliable high quality and innovation to consumers.

History of Tarczyński Group

Tarczyński’s history dates back to 1989 when Mr. Jacek Tarczyński and his wife Elżbieta formed a meat processing company in the village of Sułów. In 1996, production was moved to a newly acquired processing site in Trzebnica near Wrocław. Mr. Tarczyński converted his business into a limited liability company called “Zakład Przetwórstwa Mięsnego Tarczyński” in 1998, and a further conversion into a joint-stock company was completed in 2004. In 2005, ZPM Tarczyński took over the meat producer and processor “Dobrosława" for PLN 15m. In the same year, the Company was granted a PLN 20m subsidy by the Agency for Development and Modernization of Agriculture (ARiMR) to help develop new meat processing facilities in Ujeździec Mały. Construction of the new plant began in 2006, and production was launched in 2007. Tarczyński moved its headquarters to Ujeździec Mały, and it sold seven of its wholesale locations, using the proceeds to fund working capital resources for the new plant.

History of Tarczyński Group

	Acquisition of a meat processing plant in Trzebnica		Conversion to a joint-stock company	Name change to "Tarczyński" S.A., acquisition of Dobrosława for PLN 15m	Construction begins in Ujeździec Mały		Investor brought in to help finance the acquisition of StarPeck (PLN 20m)	Tarczyński buys our Opera FIZ for PLN 32m
1989	**1996**	**1998**	**2004**	**2005**	**2006**	**2007**	**2010**	**2012**
Mr. Jacek Tarczyński establishes a meat processing plant in Sułów		Establishment of "Tarczyński" sp z o.o.		Tarczyński secures PLN 20m subsidy for new meat processing facilities		Launch of the new plant		

Source: Tarczyński, BRE Bank Securities

In 2010, Tarczyński brought in a financial investor, Opera FIZ (an investment fund which took a 16% stake in the Company) to help finance the acquisition of StarPeck with a capital injection of PLN 20m. Tarczyński saw a dip in earnings in 2011 (with EBIT decreasing to PLN 9.6m from PLN 19.0m in the year before) caused by a sharp rise in prices of meat. Under a clause in the investment contract with Opera FIZ which allowed the fund to increase holdings in the event of an earnings downturn, Tarczyński’s owners bought Opera FIZ out for PLN 32m using a PLN 25m bank loan. Today, Opera FIZ no longer has ownership interests in Tarczyński. Tarczyński successfully continued its expansion in modern distribution channels in 2012. The Company was able to pass the increasing costs of meat onto end customers throughout the first three quarters of the year, and it leveraged the price decline observed in the fourth quarter to generate higher profit margins which gave a boost to the annual earnings.

Sales Structure

Tarczyński’s core brand of “Tarczyński” luncheon meats is complemented by two smaller brands, “Dobrosława” and “StarPeck.” The “Tarczyński” line consists of about 300 products, including the flagship *kabanosy* sausages and other meats prepared in keeping with hundreds of years of curing tradition (including the "Oak Tradition" ham and sausage line and "Cold Cuts from the Cauldron"). Tarczyński is committed to expanding its range of meat products, and it is focused on delivering top quality and innovation. The Company’s constant search for new recipes and inspiration has resulted in new gourmet lines like “Flavors of the World,” “Monastic

Cold Cuts," and "Ostrich Cold Cuts." Also featured in the "Tarczyński" range are jarred meats including pâté, lard, and other meat preparations of classic Polish cuisine. The "Dobrosława" range of meats consists of over 140 types of high-quality pork and poultry sausages, meat loaf, and smoked hams. The "Starpeck" range comprises about 40 products including smoked meats and baked hams made from top-quality meat.

Tarczyński meat processing plants and product lines

Ujeździec Mały	Sława	Bielsko-Biała
dolnośląskie voivodeship	lubuskie voivodeship	śląskie voivodeship
Capacity: 70 tonnes of finished product per day (17.6 thousand tonnes per year*)	Capacity: 40 tonnes of finished product per day (10.0 thousand tonnes per year*)	Capacity: 30 tonnes of finished product per day (7.6 thousand tonnes per year*)
Approximately 300 meat products	Approximately 140 meat products	Approximately 40 meat products
Kabanosy, deli meats, meat preparations (lard, pâté, etc.)	Sausage, meatloaf, smoked meats	Coked and baked hams and smoked meats
Product lines: Oak Tradition, Cold Cuts From a Cauldron, Flavours of the World, Monastic Cold Cuts, Ostrich Cold Cuts	Product lines: Dobrosława	Product lines: StarPeck
Open in Q3'07, the plant features cutting-edge technology used by only a few other players in Europe	Dobrosława was formed in 2005 based on the assets of a former a meat processing plant with a history spanning 60 years. It became a member of the Tarczyński Group in April 2011.	Starpeck was acquired in 2010 by Tarczyński's wholly-owned subsidiary Starpeck sp. z o.o. It became a member of the Tarczyński Group in April 2011.

Source: Tarczyński, BRE Bank Securities
** Based on 21-day working month*

Tarczyński's core market is Poland, most notably the south-western region of Lower Silesia. Exports, mainly to England and the Netherlands, accounted for just 5.3% of the Company's sales in 2012.

Sales breakdown by channel (PLN m)

	2010		2011		2012	
Channel	**Revenue**	**Pct. share**	**Revenue**	**Pct. share**	**Revenue**	**Pct. share**
Exports	9.0	2.9%	16.3	4.3%	20.5	5.3%
Modern distribution	56.9	18.1%	75.0	19.8%	107.1	27.7%
Traditional channels	247.8	79.0%	287.5	75.9%	259.0	67.0%
Total	**313.8**		**378.8**		**386.7**	

Source: Tarczyński, BRE Bank Securities

Sales breakdown by source (PLN m)

	2010		2011		2012	
Source	**Revenue**	**Pct. share**	**Revenue**	**Pct. share**	**Revenue**	**Pct. share**
Meat	38.6	12.3%	34.4	9.1%	17.9	4.6%
Processed meat	258.8	82.5%	335.0	88.4%	359.9	93.1%
Goods	15.8	5.0%	8.7	2.3%	8.9	2.3%
Services	0.0	0.0%	0.0	0.0%	0.0	0.0%
Materials	0.7	0.2%	0.7	0.2%	0.0	0.0%
Total	**313.8**		**378.8**		**386.7**	

Source: Tarczyński, BRE Bank Securities

Tarczyński distributes its products through two types of sales channels:

- The traditional channel, comprising retail stores and wholesalers who resell the products to leading local chain retailers. In 2012, the traditional channel generated about 67.0% of the Company's total sales. Among retail chains, Tarczyński's main customers are Piotr i Paweł, Alma, and Społem; Major wholesale customers include Staropolskie Wędliny and Makton (member of Duda Group).
- Modern distribution by selling directly to hypermarkets, supermarkets, and discount store chains. The modern channel accounted for 27.7% of 2012 sales, but its role has been increasing since 2009. The main customers here include Real, Makro, Kaufland, Selgros, Tesco, Carrefour, and Auchan.

Tarczyński sells about 75% of its products under its own label, and markets about 10% of its meats under the private brands of its chain customers. In the future, the Company intends to increase the share of store brand items in its total sales. The upsides of producing for big-box house labels include a rapid boost to revenues and their continued growth as each chain expands its geographic presence. Another benefit are reduced advertising and marketing costs as the customer bears the burnt of the promotional burden. On the downside, house brand suppliers cannot implement instant or sharp price hikes as chain retailers are always determined to keep their prices lower than the competition. Consequently, suppliers may experience periods when they are not able to pass through higher costs to consumers.

None of the major customers accounted for more than 10% of Tarczyński's sales in 2012 after the loss in 2011 of the Bruno Tassi account which provided 10.1% of annual revenues. Tarczyński discontinued sales to the meat distributor following unsuccessful merger negotiations. In spite of this, the Company saw 2.1% growth in FY2012 sales revenues. Tarczyński and Bruno Tassi have no plans at this time to resume their business relationship in the future.

2012 sales breakdown by key customer (PLN m)

Customer	Revenue	Pct. share
Staropolskie Wędliny	28.1	7.3%
Real	25.5	6.6%
Tesco	22.4	5.8%
Piotr i Paweł	19.5	5.1%
Makton (member of Duda S.A.)	19.5	5.1%
Unia Meat	14.4	3.7%
Multi Food	13.6	3.5%
Kaufland	12.0	3.1%
Selgros	11.5	3.0%
Hurtownie Polskie	11.1	2.9%
Total	**386.7**	

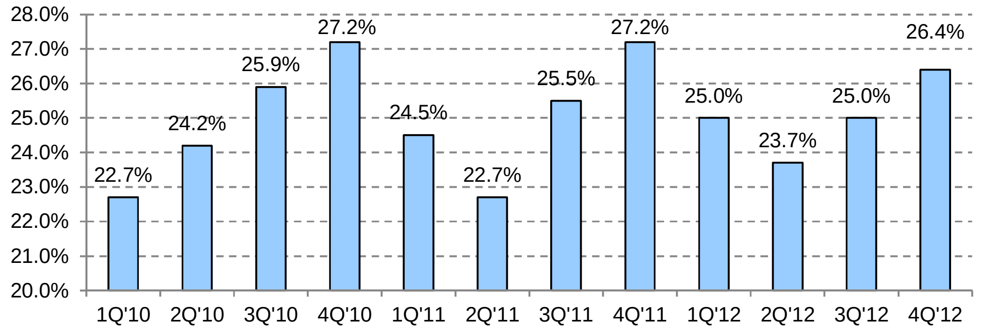
Source: Tarczyński, BRE Bank Securities

Seasonality

Seasonality does not have a material impact on Tarczyński's revenues. In the first quarter, revenues may fluctuate depending on the timing of Easter in a particular calendar year. The weeks leading up to Easter are always a bumper period for the meat industry, but since this is a moving holiday the peak sales period can fall either in the first or the second quarter. In the summertime, meat sales depend on the weather and whether it promotes outdoor activities like picnics and barbecues. A rainy and cold summer can hurt sales. As for fourth-quarter seasonality, Christmas in Poland is a period of increased consumption of fish rather than meat, moreover, November typically sees cutbacks in food expenses as consumers begin shopping for Christmas gifts. On the other hand, a cold winter can boost demand for meat and other high-calorie foods.

Other one-time factors which can drive demand for Tarczyński products are major cultural and sports events where snacks are served.

Seasonal fluctuations in Tarczyński's 2010-2012 quarterly sales (quarterly sales as pct. of annual sales)

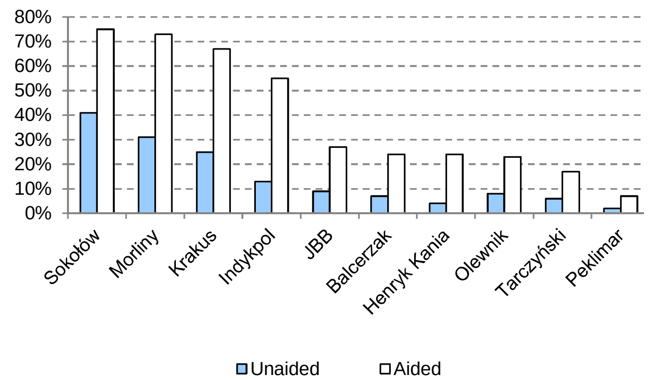


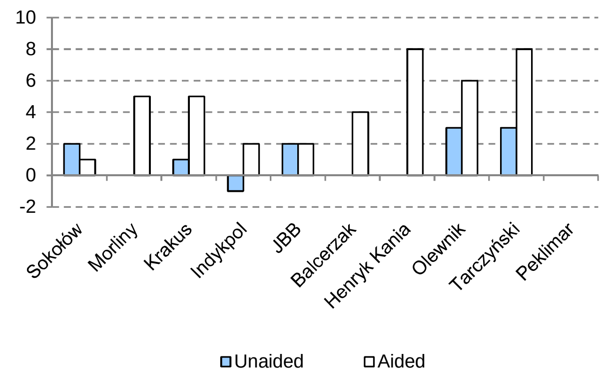
Source: Tarczyński, BRE Bank Securities

Brand Awareness

According to a consumer survey by TNS OBOP, the most recognizable packaged-meat brands in Poland in 2010 and 2011 were Sokołów, Morliny, Krakus, and Indykpol. Tarczyński ranked ninth in 2011, but consumer awareness of its brand is clearly on the rise, as demonstrated by the following charts.

TNS OBOP 2011 luncheon meat brand awareness survey (scores and y/y percentage point changes)



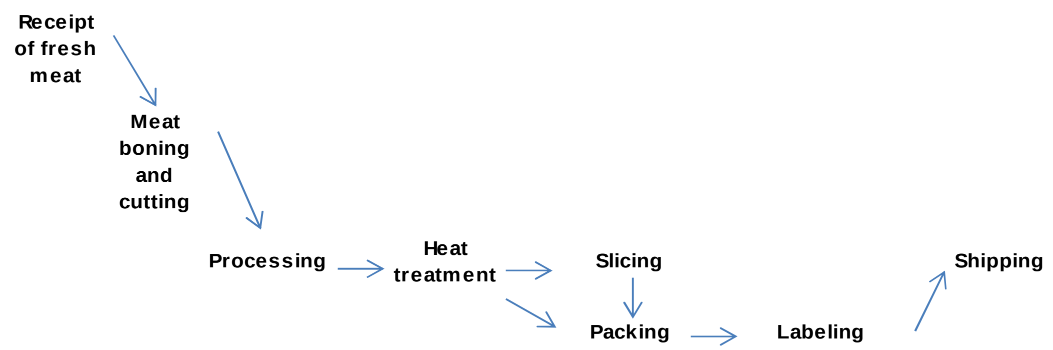


Source: Tarczyński, BRE Bank Securities

Production Cycle

The production cycle at Tarczyński starts with the arrival of pork half-carcasses at the plant. Tarczyński does not have in-house breeding or slaughter facilities. Animal slaughter has been a low-margin business in Poland since the Italian meat giant Bresaole Pini opened a slaughterhouse in here in Q1 2010 with target capacity of 2 million animals per year, and due to its non-specialized low-value-added nature. Moreover, imports of pork quarters from abroad often prove more cost effective than domestic purchases. For these reasons, Tarczyński has no plans to expand into in-house pig production.

Tarczyński production cycle



Source: Tarczyński, BRE Bank Securities

The next step in the production cycle is a preliminary quality check (temperatures, documentation) of the meat, which is sourced from local as well as international suppliers, depending on prices. Tarczyński purchased and installed equipment facilitating more careful selection of suppliers in 2012, thus eliminating losses incurred whenever the actual fat thickness of a carcass is greater than claimed by the supplier. At current prices, the difference between the price of 1 kilogram of fat and 1 kilogram of meat is 6 zlotys. This means that a 1% deviation from the fat content invoiced by the supplier can lead to losses as high as PLN 20,000 per 1000 kilograms of meat (translating into annual losses of PLN 1 million for Tarczyński's total capacity). Such losses can be prevented through more careful selection at the point of purchase, which also facilitates monthly savings to the tune of PLN 20-45 thousand (PLN 240-540 thousand annually). Installed at a cost of approximately PLN 1.5m, the supplier selection solution started to produce noticeable results in Q4 2012.

After the meat is received, Tarczyński initiates processes designed to ensure its traceability. An automated production management system is in place which requires that all fresh meat and each individual cut are registered to make sure that they can be traced all the way back to the supplier. Such registration includes details such as process duration, recipe compliance, and the employees involved in the process. The system also allows Tarczyński to perform complex technological and economic analyses of the various production processes.

Moving on, the pork quarters are deboned, the skin and fat cover are trimmed, and muscles are prepared for further processing. Once sorted and recorded in the weighing system, the cuts are delivered to the appropriate storages using conveyor belts. The process is controlled by a computer system which routes each container to its pre-programmed destination and which oversees meat compliance with recipe requirements. The system determines what is inside each container by scanning the barcode, making sure that only the right cuts are picked. Next, the meat cuts are minced and cured, and fillings and muscle are prepared for application. Further, using cutting-edge technology, the smoked meats are formed into loaves, and the mixtures are stuffed into artificial or natural animal or vegetable casings.
Next, depending on their type, the products are subjected to drying, smoking, blanching, or baking to give them the desired shelf life, look, taste, and smell.
Most of the meats are then placed in special ripening and drying chambers. Tarczyński uses specialist equipment to make raw cured meats like salami as well as dry and semi-dry sausages. The curing process can take from several days to several weeks. For packaging, Tarczyński uses state-of-the-art equipment and top-quality packing materials to make sure that its products stand out on the shelf. In the last stage of the production process, the ready-to-eat meats are moved to an automated high-bay storage facility. There, the warehouse management system, which is integrated with customer service, picks and assembles items for shipment based on customer orders.

Production Costs

The single highest cost item for Tarczyński in 2012, representing 73% of the total costs, were raw materials, of which 70% was fresh meat, the rest being labels, packaging, casings, spices, utilities (electricity, gas, fuel oil, water, sewage), and other materials like car fuel, spare parts, cleaning agents, etc. Services constituted 12.3% of total 2012 costs, and they included transportation and outsourcing. Payroll expenses accounted for 11.0% of last year's costs; Tarczyński employed 884 people on average in 2012, including outsourced staff facilitating the alignment of fixed costs with demand. The share of other expenses in the cost total was 4%.

Tarczyński's 2010-2012 cost overview

(PLN m)	2010	2011	2012
D&A expenses	10.0	11.1	12.0
Materials and utilities	208.7	270.5	262.9
Services	30.5	45.4	44.7
Payroll	38.6	42.2	40.0
Taxes and charges	1.3	1.4	1.3
Inventory revaluation losses	0.0	0.0	0.0
Other	1.6	1.8	1.7

Source: Tarczyński, BRE Bank Securities

Tarczyński purchases about 40-50% of its materials, most notably meat, abroad, to ensure diversified supplies and to maximize price and quality leverage. As for Polish suppliers, they have been seen to place more effort into ensuring better quality and offering greater specialization (pre-cut carcasses) since Bresaole Pini opened its slaughterhouse in Poland.

Tarczyński's domestic and international purchases in 2010-2012

(PLN m)	2010	2011	2012
Materials	230.2	280.5	260.9
Imports	97.7	118.9	100.0
(%)	*42.4%*	*42.4%*	*38.3%*
Goods	13.2	8.0	8.3
Imports	0.0	0.0	0.0
(%)	*0.3%*	*0.0%*	*0.0%*
Services	46.6	67.8	71.3
Imports	0.9	1.1	0.8
(%)	*1.8%*	*1.7%*	*1.1%*
Total	290.0	357.4	340.5
Imports	98.6	120.1	100.8
(%)	*34.0%*	*33.6%*	*29.6%*

Source: Tarczyński, BRE Bank Securities

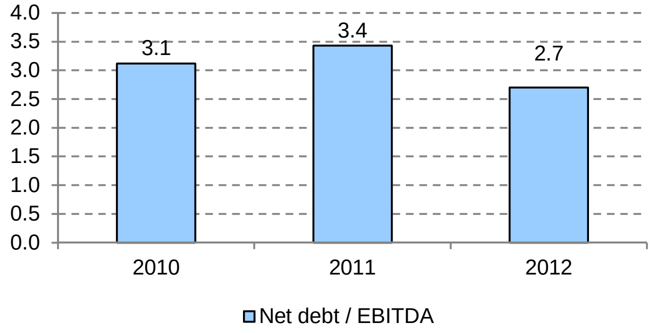
Imports become more affordable for Tarczyński when the zloty strengthens relative to the euro. In 2012, because of unfavorable EUR/PLN trends, the Company reduced the share of foreign purchases in total purchases by 4 percentage points. Imports of goods and services have a marginal, 2% share in total imports.

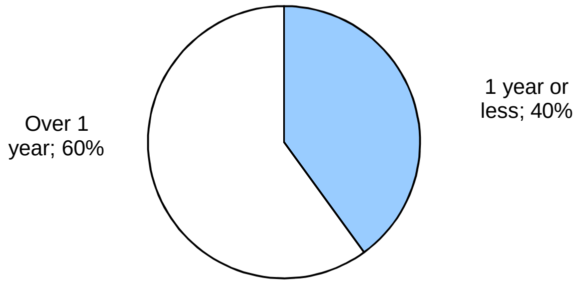
Debt Prior to Stock Issue

Tarczyński ended 2012 with net debt of PLN 90.5m (2.7x 2012 EBITDA). About 40% of the loans are payable within a year; the rest have longer repayment terms. 68% of Tarczyński's fixed assets were held as collateral for bank loans as of 31 December 2012. Finally, Tarczyński's debts include bills of exchange for PLN 12m securing lease payments.

After the IPO, Tarczyński's net debt as of 31 December 2013 is expected to amount to PLN 48.1m (1.4x 2013E EBITDA). At the current level, debt does not constitute a problem for Tarczyński.

Tarczyński's debt/EBITDA ratios (L), debt composition by maturity (R)





Source: Tarczyński, BRE Bank Securities

Strategic Goals

Tarczyński's priority efforts in the coming years will be focused on the "premium" products of smoked meats, *kabanosy*, and poultry meats. The Company wants to increase sales of these products, mainly in Poland, to increase their share in revenues. The goal is for the Tarczyński brand to be associated with finest quality gourmet deli meats. The sales expansion will be achieved mainly by harnessing the modern distribution channels, and reinforcing relationships with existing customers as well as acquiring new customers.

Investment Plans

To facilitate achievement of the target sales volumes, Tarczyński is planning to expand its meat processing facilities in Ujeździec Mały

Ongoing and planned capital investment

PLN m	CAPEX	Share issue proceeds	Subsidies	Internal cash	Completion	Benefits
Plant expansions in Ujeździec Mały*	65.0	40.0	14.5	10.5	Oct. 2014	Capacity expansion by ca. 40%
Modernization of cold storage, engine room, and water treatment facilities at the production plant in Sława**	1.5			1.5	H2 2013	Reduced operating expenses
Total	**66.5**	**40.0**	**14.5**	**12.0**		

Source: Tarczyński, BRE Bank Securities
** PLN 14.1m has already been incurred*
*** PLN 1.3m has already been incurred*

The most vital of the projects already underway is the PLN 65m plant expansion in Ujeździec Mały. The project was granted a PLN 14.5m subsidy by the Agency for Development and Modernization of Agriculture. Tarczyński has already spent PLN 14.1m on the project, and it plans to finance the remaining PLN 40m from the share issue proceeds. The objective is to expand the meat processing capacity by 40% through construction and fitting out of a new facility, and expansion of the warehouse receiving, storage, and shipping areas. The total size of the added areas is 14,000 square meters. Tarczyński was forced to fire the original contractor, Hochtief Polska S.A., in July 2011, because of material construction delays. The two companies settled the resulting dispute in court in November 2012. Tarczyński resumed construction work on the plant after raising the necessary cash through the IPO. The Company hopes to finish building the extensions by November 2014, and put the new facilities into operation in 2015.

The costs of modernizing cooling systems, the engine room, and water treatment facilities, at the meat processing plant in Sława are estimated at PLN 1.5m, and the project is expected to reduce operating costs in the future.

Tarczyński is also planning to build a sewage treatment plant in Bielsko-Biała in 2013-2014. The cost of the project is estimated at PLN 1.2m, of which PLN 1.0m will be financed with a loan. Captive sewage disposal facilities will help bring down Tarczyński's future operating expenses.

The IPO

Tarczyński raised approximately PLN 45 million through the IPO of which PLN 40m has been allocated to the expansion of the meat processing facilities in Ujeździec Mały.

Ownership structure prior to the stock issue

Owner	Number of shares	Equity stake	Number of votes	Voting stake
EJT Investment S.à r.l.	5,346,936	84.24%	8,346,936	89.30%
Jacek Tarczyński	500,000	7.88%	500,000	5.35%
Elżbieta Tarczyński	500,000	7.88%	500,000	5.35%
Total	6,346,936		9,346,936	

Source: Tarczyński, BRE Bank Securities

Ownership structure after the stock issue

Owner	Number of shares	Equity stake	Number of votes	Voting stake
EJT Investment S.à r.l.	5,346,936	47.13%	8,346,936	58.18%
Jacek Tarczyński	500,000	4.41%	500,000	3.49%
Elżbieta Tarczyński	500,000	4.41%	500,000	3.49%
New shareholders (new shares)	5,000,000	44.05%	5,000,000	34.84%
Total	11,346,936		14,346,936	

Source: Tarczyński, BRE Bank Securities

Tarczyński's main shareholder post-IPO remains EJT Investment, holding 5.35 million shares representing an equity stake of 47.13% and carrying 8.4 million votes representing a voting stake of 58.18%. Mr. Jacek Tarczyński and Ms. Elżbieta Tarczyński, between them, own 55.95% of the equity of Tarczyński S.A., and 65.16% of the votes (the shares held by EJT Investment represent preferred stock).

Financial results for Q1 2013

Tarczyński saw 2.9% expansion to PLN 99.5m in Q1 2013 sales revenue relative to the same period a year ago. Sales volumes declined by 3.7% to 5970 tons as the Company moved towards increasing the share of higher-margin processed meats (*kabanosy*, dry sausages) in total sales at the expense of raw meat. Cured meats require longer preparation times and engage more capacity than raw meat. Tarczyński is planning to phase out sales of uncured lower-margin meat going forward.

Overview of Q1 2013 results

(PLN m)	1Q'12	1Q'13	change
Revenue	**96.7**	**99.5**	**2.9%**
Gross profit	18.1	23.0	27.0%
margin	18.7%	23.1%	
Selling expenses	10.5	14.1	34.8%
Administrative expenses	3.0	3.5	17.2%
Other operating income/expenses	0.3	0.3	3.7%
EBIT	**4.9**	**5.7**	**15.1%**
margin	5.1%	5.7%	
EBITDA	**7.9**	**8.9**	**12.5%**
margin	8.1%	8.9%	
Pre-tax profit	3.1	4.2	34.4%
Net profit	**2.5**	**3.2**	**31.6%**
margin	2.5%	3.2%	
Sales volume ('000 tons)	**6.20**	**5.97**	**-3.7%**
Sales of processed meat ('000 tons)	5.65	5.52	-2.4%
Sales of raw meat ('000 tons)	0.55	0.45	-17.5%
Average sales price (PLN/kg)	**15.6**	**16.7**	**6.8%**

Source: Tarczyński, BRE Bank Securities

Tarczyński achieved an average sales price per kilogram of PLN 16.7 in Q1 2013, marking an increase of 6.8% from Q1 2012, led by price hikes introduced this year combined with a higher share of premium products in the sales volume, estimated at 50%.

Tarczyński struck a business partnership with two convenience store chains, "Lidl" and "Żabka," in Q1 2013, but the early contributions of the two new customers to the quarter's revenue was only about 2%.

Thanks to higher sales prices and lower costs of pork (pork prices dropped in Q4'12), Tarczyński posted a gross margin of 23.1% in Q1 2013, up over 4ppts from Q1 2012 (gross profit surged 27% relative to the year before).

Tarczyński reported an increase of 34.8% in Q1 selling expenses, driven by the spring TV advertising campaign (PLN 2m) and promotional events in supermarkets (ca. PLN 0.4m). Adjusted for the marketing costs, selling expenses in Q1 were 12% higher than a year ago.

EBIT and EBITDA showed respective year-on-year increases of 15.1% and 12.5% in Q1 2013, and they would have grown even more had it not been for the additional marketing costs which did not translate into higher sales before the final month of the quarter.

Q1 financing costs were 18.7% lower than in Q1 2012 at PLN 1.5m thanks to lower interest expenses and foreign-exchange losses.

At PLN 3.2m, the first-quarter net profit showed a year-on-year surge of 31.6% in spite of a relatively high effective tax rate (23.6%) which is expected to go down in the following quarters.

Q1 2013 cash flow summary

(PLN m)	1Q'12	1Q'13
D&A expenses	**2.9**	**3.2**
Change in inventory	-1.5	-5.5
Change in receivables	13.7	-2.3
Change in payables	-12.8	-0.6
Change in working capital	-0.6	-8.4
Cash flow from operating activities	**5.8**	**0.0**
Investment in fixed assets	-2.1	-4.4
Cash flow from investing activities	**-2.1**	**-4.4**
Change in loans and lease obligations	30.1	7.3
Share repurchase from Opera FIZ	-32.0	0.0
Dividends	-1.2	-1.3
Cash flow from financing activities	-4.1	4.8
Change in cash	-0.4	0.3
Cash at period-end	2.0	1.3
Net debt	**101.1**	**99.9**
(Net debt / 12M EBITDA)	4.6	2.9

Source: Tarczyński, BRE Bank Securities

Tarczyński's operating cash flow increased by only PLN 19,000 in Q1 2013 due to higher working capital which had been raised by PLN 8.4m. An increase of PLN 5.5m in inventories was necessitated by the new partnerships with Lidl and Żabka which requires larger quantities of packaging, meat, and casings. The PLN 2.3m increase in accounts receivable stemmed mainly from the higher tax burden; other receivables, including from customers, remained relatively steady. Last year, a strong decrease (+PLN 13.7m) in accounts receivable was owed to final settlement of invoices issued to a discontinued customer.

The negative cash flow of PLN -4.4m from investing activity posted in Q1 2013 included a PLN 1.8m payment to the building contractor Hochtief, and a PLN 2.6m payment for capacity enhancements needed to meet the increased demand from Lidl and Żabka.

Further, Tarczyński took out a PLN 7.3m credit facility (a PLN 3m revolving loan + credit lines), and paid PLN 1.3m dividends to its owners, in Q1 2013.

Tarczyński's net debt as of 31 March 2013 stood at PLN 99.9m (vs. PLN 90.6m at 31 December 2012), which was 2.9x trailing 12-month EBITDA.

Financial performance in H1 2013, Q2 2013 earnings estimates

We expect Tarczyński to post revenues of PLN 107.1m, EBITDA of PLN 9.6m, and net profit of PLN 3.7m, in Q2 2013. As a result, we anticipate that the Company will have achieved 45.7% of our FY2013 annual revenue forecast, 49.7% of the EBITDA estimate, and 47.4% of expected net profit, in the first half of 2013.

Given that Tarczyński commenced deliveries to the new customers, Lidl and Żabka, in April, we remain confident it can fulfill our sales forecasts for the year.

It is worth noting that operating profits in Q2 and Q3 2013 will no longer be weighed down by additional marketing costs which in Q1 approximated PLN 2.4m. Tarczyński is planning another advertising campaign this autumn at an estimated cost of PLN 1m which will be expensed against fourth-quarter profits.

Forecast delivery in H1 2013

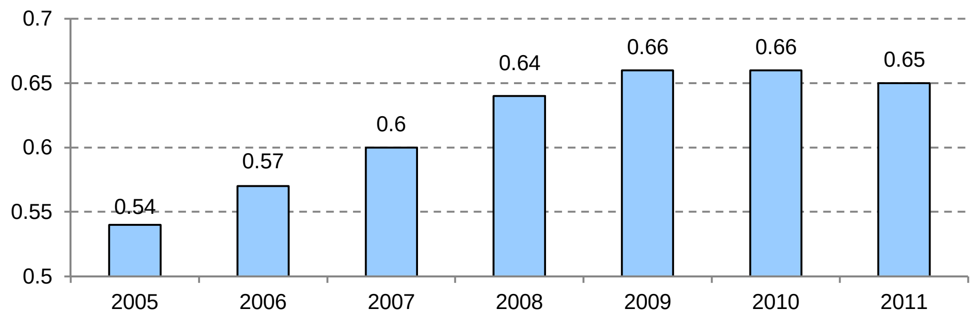
(PLN m)	1Q'13	2Q'13	H1'13	2013	H1 as pct. of annual forecast
Revenue	**99.5**	**107.1**	**206.6**	**452.1**	**45.7%**
EBIT	**5.7**	**6.2**	**11.9**	**22.9**	**52.1%**
margin	5.7%	5.8%	5.8%	5.1%	
EBITDA	**7.9**	**9.6**	**17.4**	**35.1**	**49.7%**
margin	7.9%	8.9%	8.4%	7.8%	
Net profit	**3.2**	**3.7**	**7.0**	**14.7**	**47.4%**
margin	3.2%	3.5%	3.4%	3.3%	
Sales volume ('000 tons)	**5.97**	**6.33**	**12.31**	**28.42**	**43.3%**
Sales of processed meat ('000 tons)	5.52	5.93	11.45	26.74	**42.8%**
Sales of raw meat ('000 tons)	0.45	0.40	0.85	1.68	**50.9%**
Average sales price (PLN/kg)	**16.7**	**16.9**	**16.8**		

Source: Tarczyński BRE Bank Securities

Business Environment

Poland's average monthly per-capita consumption of premium cold meats and dry sausages has been rising an average annual rate of 4.1% since 2005. According to the most recent data, in 2011 it amounted to 0.65 kilograms per person.

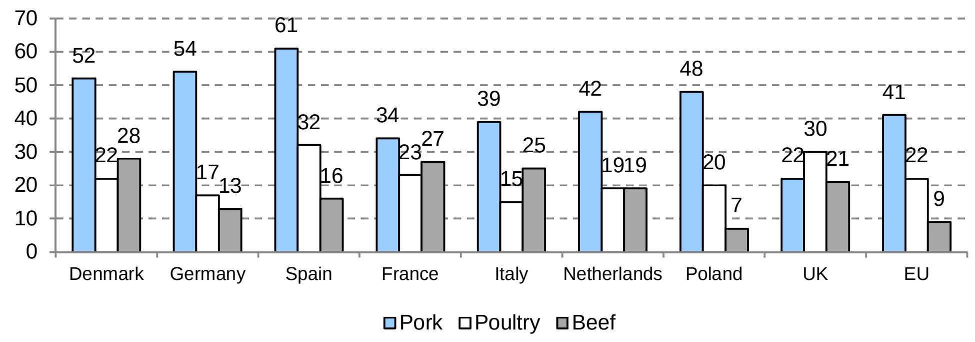
Poland's average monthly per-capita consumption of premium cold meats and dry sausages in 2005-2011 (kg)



Source: Tarczyński, BRE Bank Securities

Poland's per-capita meat consumption is much higher than the EU average in the case of pork, slightly lower in the case of poultry, and nearly three times lower in the case of beef. In the future, meat consumption should rise as the society's wealth increases. High pork consumption in Poland is a consequence of the local customs and tradition.

Average per-capita meat consumption in selected EU countries in 2007 (kg)



Source: Tarczyński, BRE Bank Securities

In 2009 and 2010, Tarczyński ranked as Poland's sixth-largest meat producer revenue-wise. In 2012, it moved up to the fifth place ahead of rival ZPM Kania. The current market leader is Animex, which is known for such luncheon meat brands as *Krakus*, *Mazury*, and *Yano*, as well as *Morliny* and *Berlinki* hot dogs. The second-biggest player in the market, Sokołów, makes a variety of hams, fillets, sausages, smoked sausages, salamis, hot dogs, pâtés, grilled and canned products, and raw packaged meat. Both Animex and Sokołów target the mass customer (medium-range and economy products). The fourth-largest player, JBB, makes sausages, homogenized sausages, offal products, and packaged, block and barrel meats. Tarczyński's sales are similar to the sales generated by the WSE-listed ZPM Kania and nearly three times lower than the sales of PKM Duda, another listed company. PKM Duda generates over 50% of its revenues from meat sales (through the subsidiary Makton), and derives the rest from pig slaughter and dressing (a low-margin business).

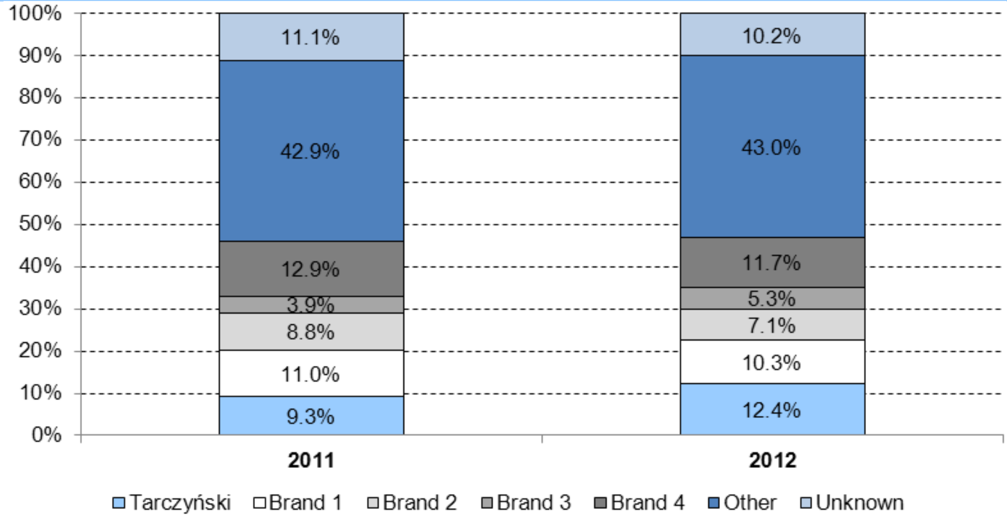
Poland's top meat producers by 2012 sales

(PLN m)	2012
Animex Sp. z o.o	3,490.9
Sokołów S.A.	2,427.9
PKM Duda S.A.	1,669.9
JBB ZPM S.A.	641.8
Tarczyński S.A.	**378.8**
ZPM Kania S.A.	310.5
Balcerzak Sp. z o.o.	229.3
PMB S.A.	221.2
ZM Olewnik Sp. J.	n/a

Source: Tarczyński, BRE Bank Securities

A 2012 GfK market study commissioned by Tarczyński estimated the value of the Polish market for kabanosy sausages at PLN 417.1m. Tarczyński controls the highest, 12.4% share of this market, and it ranks as the top-2 fastest-growing kabanosy producer.
Tarczyński's volume share in the kabanosy market according to the study was 9%, making the Company the largest producer in the country in terms of volumes.

Polish kabanosy market breakdown in 2011 and 2012 (%)



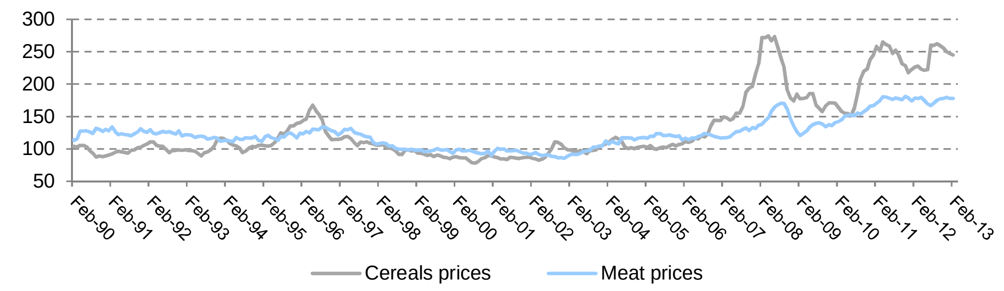
Source: GfK, BRE Bank Securities

Note that the GfK study was conducted before Tarczyński launched a nationwide media campaign in 2012. The television commercials running through March 2013 should help boost the Company's sales going forward.

Livestock and Grain Prices

Global meat prices are largely shaped by grain prices due to the role grain plays as animal feed. There is, however, a clear time lag. Rising grain prices push fodder prices up. When fodder becomes more expensive, margins on animal husbandry fall, leading to higher livestock prices. This encourages farmers to increase sales, resulting in reduces herd sizes and accelerated price growth.

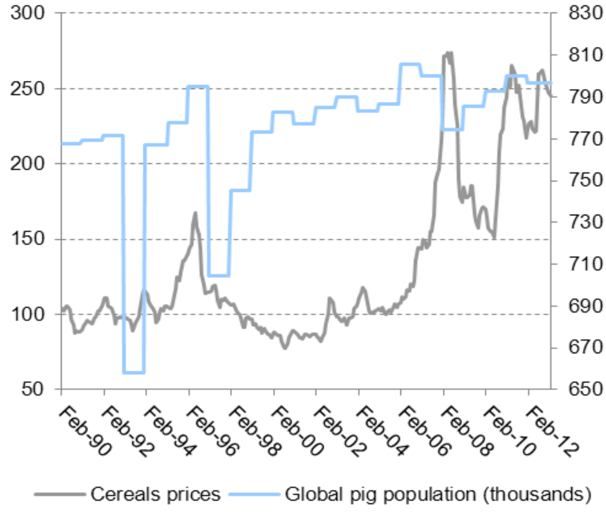
Correlation between FAO cereal and meat price indices in 1990-2013

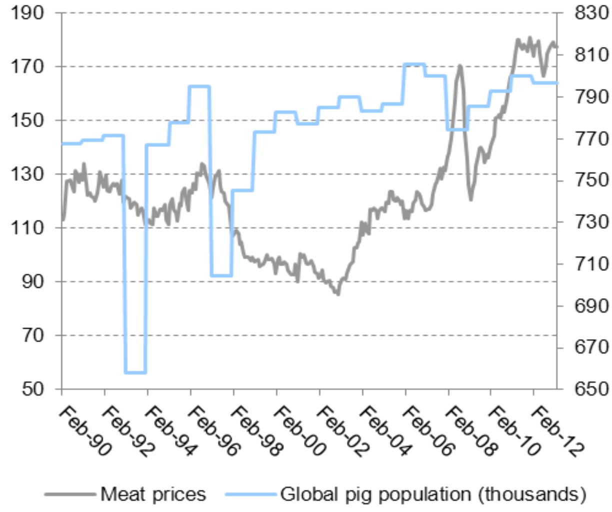


Source: Bloomberg, BRE Bank Securities

When grain prices fall, margins on animal production increase, leading to lower livestock prices. The rising margins also encourage new players to enter the market and to increase herd size, which pushes livestock prices further down. The FAO meat price index peaked in late 2011/early 2012, and has since receded, and the cereals index has been following a downward trend since its August 2012 peak which, luckily for meat processors, did not entail an equally rapid surge in prices of raw meat. With grain prices on a steady path, meat is not likely to go up in price in the coming months, either.

Global pig population vs. FAO cereals price index (L), meat prices vs. global pig population (R) (1990-2012)

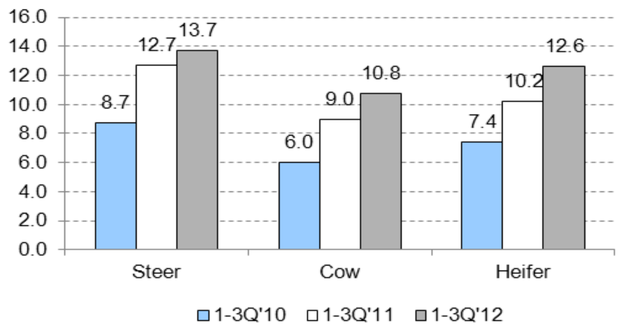


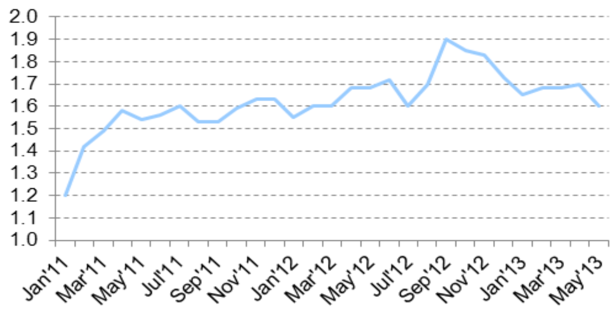


Source: Bloomberg, BRE Bank Securities

After an upturn in grain prices in mid-2012, pork prices as tracked by the German market and pricing agency ZMP followed suit in September, jumping from approximately EUR 1.6-1.7 to about EUR 1.9 per kilogram. This prompted price hikes among European meat processing companies which, however, spurred gradual declines in demand from end consumers in the face of the economic slowdown (livestock breeders today consider EUR 1.9 to be the maximum that consumers are willing to pay for a kilogram of pork). Worried about falling sales volumes, livestock and meat producers decided to lower prices back, causing the ZMP price gauge to retreat to EUR 1.67/kg in the first quarter of 2013. The downtrend in livestock prices, combined with steady trends in prices of luncheon meats, gave a boost to the profit margins of meat processing companies relative to Q1-Q3 2012.

Prices of slaughter cattle in Q1 2010-Q3 2012 (PLN/kg) (L), ZMP-tracked pork prices in 2011-2013 (EUR/kg) (R)

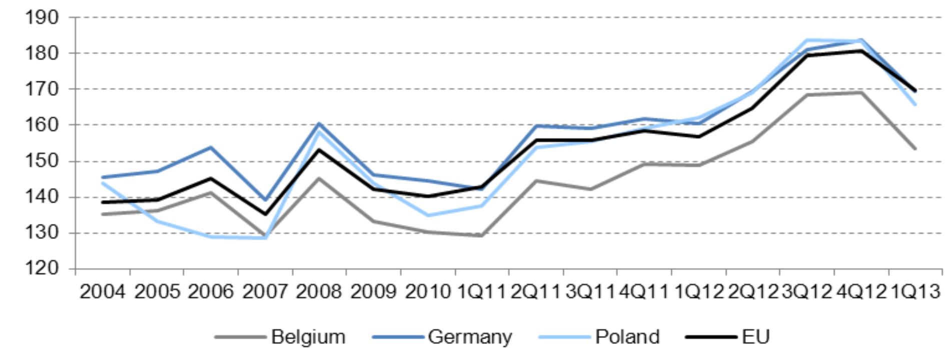




Source: Duda S.A., www.pig333.com, BRE Bank Securities

Contrary to common belief, prices of slaughter pigs and half-carcasses are about the same in Poland as in other EU countries (local prices of slaughter pigs have been 3% higher than EU averages since the beginning of 2013). In 2011 and 2012, compared to Poland, pork was cheaper in such countries as Belgium, Denmark, Ireland, France, Malta, Slovenia, Finland, Sweden, and the UK. What is more, many international producers offer pig quarters with more uniform characteristics, which allows high-volume processors to maintain consistent flavor in their cold cuts. In the future, Tarczyński will continue to diversify livestock suppliers by buying increasing volumes of meat abroad.

2004-2013 prices of slaughter pigs in select EU countries (EUR/100kg)



Source: Ministry of Agriculture, BRE Bank Securities,

Poland's pork production is currently at its lowest in many years. In the earlier medium-term cycles (2004-2005 and 2008-2009), any increase in livestock prices led to expanding herd sizes which in turn caused downturns in meat prices. By the same token, the current relatively high live-hog prices should theoretically eventually spur a rebuilding of herds (a pig is ready for slaughter at 6 to 9 months). No such herd rebuilding has been observed to date.

Risks

Economic situation in Poland

Tarczyński produces premium-quality luncheon meats, the demand for which can be dampened by a deterioration in Poland's economic situation, resulting in reduced consumer spending.

Increasing competition

At the moment, there is no reason to believe that competition in the luncheon meat industry is going to intensify rapidly, except in the event of the zloty's rapid appreciation versus the euro which can result in intensified imports from the European Union. Many meat producers are currently feeling the negative effects of rising livestock prices which result in lower earnings and reduced liquidity. To minimize the impact and stave off bankruptcy, some producers may be prompted to reduce sales prices in the short term. In the longer term, however, the weaker players will fail, leaving more room for their stronger competitors.

Rapid rise in pork prices

Pig quarters currently account for over 50% of Tarczyński's average total cost. When pig prices surge, so do production costs. In the short term, Tarczyński may not be able to implement matching hikes in sales prices, and this will result in lowered margins. An upward shift in grain prices can also pose an indirect threat as it would affect breeder margins and drive up the prices of livestock. Natural disasters such as droughts, ground frost, and floods may impact harvests and global grain prices. In the case of Tarczyński, a 1% rise in carcass prices not offset by a hike in sales prices can depress monthly profits by about PLN 100,000.

Foreign exchange rates

As the zloty appreciates relative to the euro, this creates an opportunity for meat processors to buy imported meat at lower cost. In turn, a weakening zloty creates greater demand for Polish meat abroad, potentially resulting in higher costs for local buyers.

Liquidity problems of main customers

Tarczyński is not currently dependent on a single major buyer, but if several of its customers were to face liquidity problems, payment bottlenecks could arise, leading to increased working capital needs. Retail chains tend to pay their bills within 30 to 75 days, while payments to livestock suppliers are made within 30-40 days. If the latter deadlines are not kept, a meat processor's bargaining power suffers, which ultimately leads to higher carcass costs.

Animal diseases

The animal diseases that the media have brought to the attention of the general public in the past few years (foot and mouth disease, mad cow disease, or the scandal concerning the use of industrial salt by some of Poland's meat producers) may affect the consumers attitudes towards meat products, hurting demand. Earnings may also be impacted by increasingly stringent health and safety requirements.

Rising costs of materials

Tarczyński's profits may be affected by rising prices of packaging (paper, film) and raw materials (sheep gut, spices). For example, in 2010, sheep gut prices surged by over 100% as a result of Middle Eastern droughts which curtailed supplies from the region. Similar developments may have a short-term impact on earnings in the future.

Change in consumer food preferences

As more and more consumers become interested in leading a healthy lifestyle, meat consumption may decline. On the other hand, increased consumer awareness might help premium-quality meat producers like Tarczyński.

Valuation

We estimated Tarczyński's value using DCF analysis and relative valuation. The discounted cash flow model indicates a value of PLN 16.5 per share, and relative valuation figures to PLN 15.8 per share.

(PLN)	Weight	Price
Relative Valuation	50%	15.8
DCF Analysis	50%	16.5
	Estimated value	16.2
	9M target price	**17.4**

The relative valuation model is a comparison of Tarczyński's financial multiples with the multiples of a peer group of Polish and international food processing companies comprising Atria, Campofrio Food Group, Colian, Cranswick, HK Scan, JBS, Marfrig Alimentos, Mieszko, Otmuchów, PKM Duda, Smithfield Foods, Tyson Foods, Wawel, Zhongpin, and ZM Kania.

The relative valuation model factors in the projected proceeds from the stock issue.

Relative valuation

	Country	Price (USD)	P/E 2011	P/E 2012	P/E 2013F	P/E 2014F	EV/ EBITDA 2011	EV/ EBITDA 2012	EV/ EBITDA 2013F	EV/ EBITDA 2014F
ATRIA PLC	Finland	8.7	-	18.4	11.4	8.5	9.0	6.7	6.4	6.0
CAMPOFRIO FOOD GROUP	Spain	6.8	16.8	21.3	18.1	10.9	6.0	6.3	6.0	5.2
COLIAN SA	Poland	0.8	10.5	12.7	11.5	10.1	6.6	8.0	-	-
CRANSWICK PLC	UK	17.9	16.4	17.2	15.3	13.8	9.7	9.8	9.2	8.4
HKSCAN OYJ-A SHS	Finland	4.8	19.1	24.1	11.2	7.8	6.1	5.9	5.8	5.4
JBS SA	Brazil	3.1	162.6	19.7	11.9	9.6	11.5	8.6	6.6	5.9
MARFRIG ALIMENTOS SA	Brazil	3.4	-	55.4	37.8	9.5	9.4	6.8	6.9	6.3
MIESZKO SA	Poland	1.3	-	9.8	9.7	8.8	-	8.1	8.0	7.8
OTMUCHOW SA	Poland	2.9	-	13.3	15.2	11.3	-	6.8	7.1	6.3
PKM DUDA SA	Poland	0.2	-	-	9.9	9.9	-	-	6.3	6.2
SMITHFIELD FOODS INC	USA	33.1	11.3	12.5	16.5	12.6	5.8	6.4	8.5	7.5
TYSON FOODS INC-CL A	USA	27.2	13.8	15.1	12.9	10.6	6.1	6.7	6.2	5.5
WAWEL SA	Poland	279.4	-	20.4	18.5	16.0	-	13.2	12.9	11.5
ZHONGPIN INC	China	13.4	7.0	10.9	-	-	7.5	9.0	-	-
ZM HENRYK KANIA	Poland	0.8	-	26.4	-	-	-	-	-	-
Maximum			162.6	55.4	37.8	16.0	11.5	13.2	12.9	11.5
Minimum			7.0	9.8	9.7	7.8	5.8	5.9	5.8	5.2
Median			**15.1**	**17.8**	**12.9**	**10.1**	**7.1**	**6.8**	**6.8**	**6.2**
Tarczyński (post IPO)				7.0	9.3	8.7		5.0	5.3	4.9
Premium (discount)				-60.4%	-28.1%	-13.7%		-26.6%	-22.3%	-20.5%
Implied price										
Median			15.1	17.8	12.9	10.1	7.1	6.8	6.8	6.2
Discount				0%	0%	0%		0%	0%	0%
Multiple weight						50%				50%
Year weight				0%	50%	50%		0%	50%	50%
Value per share (post IPO)			15.8							

Relative valuation is based on two multiples: price to earnings and enterprise value to EBITDA.

Finland's Atria produces and distributes meat and processed meat products using beef, pork, chicken and turkey. It operates in Finland and Sweden. Campofrio is an international food holding engaged in the production and worldwide distribution of poultry, pork and beef products. Colian is a Polish producer of sweets, pralines, spices, and non-alcoholic beverages. Cranswick produces and supplies meat products to UK retailers, including fresh port, sausages, cold meats, precooked peat and smoked bacon. HK Scan processes and sells pork, poultry, beef and turkey in the form of fresh meat, sausages, frankfurters, salami, salads, and precooked meals. It is present in Sweden, Finland, Poland and the Baltic countries. JBS processes beef and pork, selling roast, smoked and other products all over the world. Marfrig Almientos processes beef, pork, mutton and poultry, as well as producing frozen vegetables, canned meat, precooked meals, and pasta. Mieszko is a Polish confectionery producer. Otmuchów is a Polish producer of confectionery, cornflakes, and other breakfast cereals. It markets a variety of foods including frozen barbecue meat, chili, and pork meats using traditional and modern distribution channels as well as e-commerce. PKM Duda is a Polish supplier of port parts with its own slaughter operations. Smithfield Foods is a pork producer involved in animal farming, slaughter and dressing. Tyson Foods produces and distributes poultry, beef and pork, selling its products under its own brand as well as store brands.Wawel is a Polish confectionery producer. Zhongpin produces and distributes fresh and frozen pork, processed food, and vegetables in China as well as in other countries with substantial Chinese immigrant populations. The products are distributed via hypermarket chains. ZM Kania is a Polish producer of luncheon meats operating on a similar scale as Tarczyński.

DCF Analysis

The following are the assumptions underlying the DCF model:

- Risk-free rate is 4.3% (10Y T-bond yield).
- FCF growth after FY2020 = 2%.
- Beta is set at 1.2 to reflect Tarczyński's investment program whose effects will not be felt until 2015. Until then, market conditions can change dynamically, which is why we decided to apply a higher risk parameter.
- Net debt is as at year-end FY2012, and it includes the PLN 32m allocated toward the buyout of Opera FIZ in Q1 2013, but does not factor in the projected stock issue proceeds.
- The DCF model incorporates the stock issue proceeds estimated assuming a 15% discount to the average DCF-based and multiples comparison-based values, and taking into account the costs of the issue.
- We assume Tarczyński's sales prices will edge up 0.3% in 2013 after the steep price hikes (13.7% on the whole) made in the course of 2012, especially in the latter six months. Even with no hikes, prices in 2013 will be higher than the average price recorded in 2012.
- We assume a 19.1% (4,300 tons) increase in 2013 processed meat sales volumes driven by a supply deal for 20 cold cut ranges with the value retail chain Lidl. At the same time, we Tarczyński is expected to hire 35 extra employees and purchase a third *kabanosy* filling line for EUR 280,000 to handle the Lidl orders.
- We assume pork and poultry prices will remain steady, rising 2% in 2013.
- When projecting other operating income, we assume that over the next 24 years Tarczyński will be recognizing the subsidy used to fund plant expansion in Ujeźdźiec Mały (PLN 20m), and that over the next 8 years it will be recognizing the subsidy for machinery purchases (PLN 0.7m). We also assume that, starting in 2015, the Company will be recognizing the PLN 14.5m subsidy for the expansion of its Ujeździec facility over a period of 20 years. The non-cash subsidies do not affect valuation.
- We assume that Tarczyński will continue to incur sponsorship costs on the American football club KS Devils Wrocław on an annual basis. 2013 sponsorship costs are estimated at PLN 150,000.
- We assume that over the next eight years Tarczyński will use the tax credits arising trademark transfer to the subsidiary Tarczyński Marketing. We estimate the total value of the tax credits at PLN 6.5m, and we expect them to be exercised on an increasing basis from year to year.
- We project 2013+ advertising expenditures at PLN 3.5m.
- We assume that, following the installation of fat-measuring equipment at the Ujeździec plant, Tarczyński will generate savings of PLN 250,000 in 2013 stemming from improved supplier selection.
- Future cash flows are discounted to their present value as of late July 2013.

Additional assumptions

Volumes ('000 tons)	2010	2011	2012	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F
Sales of processed products	20.2	22.7	22.4	26.7	29.0	32.0	35.4	36.1	36.8	37.5	38.3	39.0
Sales of fresh meat	4.6	4.4	1.9	1.7	1.7	1.7	1.8	1.8	1.9	1.9	1.9	2.0
Total	**24.8**	**27.1**	**24.3**	**28.4**	**30.7**	**33.8**	**37.1**	**37.9**	**38.6**	**39.4**	**40.2**	**41.0**
Pork purchased	20.1	22.7	19.2	22.5	24.1	26.3	28.7	29.4	30.1	30.9	31.7	32.4
Poultry purchased	3.5	4.4	4.6	6.4	7.2	8.3	9.6	9.8	10.0	10.3	10.6	10.8
Total	**23.5**	**27.1**	**24.3**	**28.9**	**31.3**	**34.6**	**38.3**	**39.2**	**40.2**	**41.2**	**42.2**	**43.3**
Capacity utilization (%)	**2010**	**2011**	**2012**	**2013F**	**2014F**	**2015F**	**2016F**	**2017F**	**2018F**	**2019F**	**2020F**	**2021F**
Tarczyński	70%	77%	69%	81%	87%	80%	88%	89%	91%	93%	95%	97%
Prices (PLN/kg)	**2010**	**2011**	**2012**	**2013F**	**2014F**	**2015F**	**2016F**	**2017F**	**2018F**	**2019F**	**2020F**	**2021F**
Average prices of meat products	12.00	13.66	15.54	15.59	15.78	16.03	16.23	16.56	16.93	17.33	17.80	18.23
Pork	3.95	4.64	5.51	5.51	5.62	5.73	5.85	5.96	6.08	6.21	6.33	6.46
Poultry	3.45	4.11	4.26	4.26	4.35	4.43	4.52	4.61	4.70	4.80	4.89	4.99
Employment	**2010**	**2011**	**2012**	**2013F**	**2014F**	**2015F**	**2016F**	**2017F**	**2018F**	**2019F**	**2020F**	**2021F**
Headcount	856	917	884	921	946	977	1 010	1 017	1 024	1 030	1 037	1 044
Average monthly salary (PLN '000)*	3.8	3.8	3.8	3.9	4.0	4.1	4.2	4.3	4.5	4.6	4.7	4.9

** Basic salary and benefits*

DCF Model

(PLN m)	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	+
Revenue	**452.1**	**493.7**	**550.5**	**612.5**	**637.0**	**664.1**	**693.1**	**726.2**	**758.0**	**791.6**	**805.5**
change	16.9%	9.2%	11.5%	11.3%	4.0%	4.3%	4.4%	4.8%	4.4%	4.4%	1.8%
EBITDA	**35.1**	**36.0**	**39.5**	**40.7**	**39.9**	**40.4**	**41.6**	**45.7**	**47.2**	**49.3**	**48.2**
EBITDA margin	7.8%	7.3%	7.2%	6.7%	6.3%	6.1%	6.0%	6.3%	6.2%	6.2%	6.0%
D&A expenses	12.2	12.7	16.8	17.2	17.2	16.9	16.7	16.5	16.4	16.3	16.3
EBIT	**22.9**	**23.4**	**22.7**	**23.6**	**22.7**	**23.5**	**24.9**	**29.2**	**30.8**	**33.0**	**32.0**
EBIT margin	5.1%	4.7%	4.1%	3.8%	3.6%	3.5%	3.6%	4.0%	4.1%	4.2%	4.0%
Tax on EBIT	3.1	3.1	2.9	2.9	2.7	2.9	2.9	5.2	5.6	6.0	5.8
NOPLAT	**19.7**	**20.3**	**19.8**	**20.6**	**20.0**	**20.7**	**22.0**	**24.0**	**25.3**	**27.0**	**26.2**
CAPEX	-16.5	-16.8	-15.3	-10.5	-11.0	-11.7	-12.4	-13.1	-13.9	-14.8	-16.3
Working capital	-14.2	-4.2	-6.1	-7.1	-3.0	-3.4	-3.8	-4.4	-4.4	-4.7	-2.0
Property sale (Trzebnica)	3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	**4.8**	**12.0**	**15.2**	**20.2**	**23.1**	**22.5**	**22.6**	**23.0**	**23.4**	**23.8**	**24.2**
WACC	9.0%	9.1%	9.2%	9.3%	9.4%	9.6%	9.8%	9.9%	10.1%	10.2%	10.2%
Discount factor	0.96	0.88	0.81	0.74	0.67	0.61	0.55	0.50	0.45	0.40	0.36
PV FCF	4.6	10.6	12.3	14.9	15.5	13.7	12.4	11.4	10.4	9.6	8.8

WACC	9.0%	9.1%	9.2%	9.3%	9.4%	9.6%	9.8%	9.9%	10.1%	10.2%	10.2%
Cost of debt	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Risk-free rate	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Risk premium	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Effective tax rate	17.5%	16.6%	15.6%	14.8%	13.8%	13.4%	12.6%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	26.1%	23.5%	23.3%	21.4%	17.9%	13.9%	9.9%	5.8%	1.8%	0.0%	0.0%
Cost of equity	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%
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	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2

FCF growth after the forecast period	2.0%
Terminal value	296.1
Present value of terminal value (PV TV)	119.0
Present value of FCF in the forecast horizon	115.4
Enterprise value (EV)	234.4
Net debt	90.6
Purchase of shares from Opera TFI	0.0
IPO proceeds	-45.0
Dividend paid prior to IPO	1.3
Equity value	187.6
Number of shares (millions)	11.3
Equity value per share (PLN)	**16.5**
9-month cost of equity	7.5%
Target price	**17.8**

Sensitivity Analysis (PLN)

	FCF growth in perpetuity				
	0.0%	1.0%	2.0%	4.0%	5.0%
WACC +1.0pp	13.6	14.3	15.2	17.8	19.7
WACC +0.5pp	14.5	15.4	16.4	19.5	21.8
WACC	15.6	16.5	**17.8**	21.4	24.3
WACC -0.5pp	16.7	17.8	19.3	23.7	27.4
WACC -1.0pp	18.0	19.3	21.0	26.5	31.1

Income Statement

(PLN m)	2010	2011	2012	2013F	2014F	2015F	2016F	2017F
Revenue	**313.8**	**378.8**	**386.7**	**452.1**	**493.7**	**550.5**	**612.5**	**637.0**
Change	13.9%	20.7%	2.1%	16.9%	9.2%	11.5%	11.3%	4.0%
Product sales	298.0	370.1	377.8	443.0	484.4	541.0	602.8	627.2
Sales of goods	15.8	8.7	8.9	9.1	9.3	9.5	9.7	9.8
COGS	**251.2**	**311.6**	**309.5**	**364.6**	**399.3**	**449.1**	**500.9**	**522.0**
Products	238.0	303.6	301.2	356.2	390.6	440.3	491.9	512.8
Goods	13.2	8.0	8.3	8.5	8.6	8.8	9.0	9.2
Gross profit	**62.6**	**67.2**	**77.2**	**87.5**	**94.4**	**101.4**	**111.6**	**115.0**
Margin	*19.9%*	*17.7%*	*20.0%*	19.3%	19.1%	18.4%	18.2%	18.1%
Administrative expenses	11.0	11.2	11.5	12.4	13.0	13.7	14.4	15.0
Selling expenses	35.1	48.1	45.3	53.0	58.8	66.5	75.1	78.9
Other net operating income/expenses	2.5	1.8	0.9	0.8	0.8	1.5	1.5	1.5
incl. subsidies	1.4	1.1	0.0	0.9	0.9	1.6	1.6	1.6
EBIT	**19.0**	**9.6**	**21.2**	**22.9**	**23.4**	**22.7**	**23.6**	**22.7**
change	23.3%	-49.3%	120.7%	7.6%	2.3%	-2.9%	3.7%	-3.6%
EBIT margin	*6.1%*	*2.5%*	*5.5%*	5.1%	4.7%	4.1%	3.8%	3.6%
Financing income/expenses	-4.0	-4.9	-7.1	-5.0	-4.7	-3.9	-3.9	-3.1
Pre-tax income	**15.0**	**4.7**	**14.1**	**17.8**	**18.7**	**18.8**	**19.6**	**19.6**
Tax	-3.6	0.8	3.3	3.1	3.1	2.9	2.9	2.7
Net income	**18.7**	**3.9**	**10.8**	**14.7**	**15.6**	**15.9**	**16.7**	**16.9**
Change	111.7%	-79.3%	179.4%	36.0%	6.1%	1.7%	5.4%	1.0%
Margin	*5.9%*	*1.0%*	*2.8%*	3.3%	3.2%	2.9%	2.7%	2.6%
D&A expenses	10.0	11.1	12.0	12.2	12.7	16.8	17.2	17.2
EBITDA	**29.0**	**20.8**	**33.3**	**35.1**	**36.0**	**39.5**	**40.7**	**39.9**
Change	15.9%	-28.4%	60.2%	5.4%	2.8%	9.6%	3.1%	-2.1%
EBITDA margin	*9.2%*	*5.5%*	*8.6%*	7.8%	7.3%	7.2%	6.7%	6.3%
Shares at year-end (millions)	6.6	7.6	6.3	11.3	11.3	11.3	11.3	11.3
EPS	2.8	0.5	1.7	1.3	1.4	1.4	1.5	1.5
CEPS	4.4	2.0	3.6	2.4	2.5	2.9	3.0	3.0
ROAE	23.0%	4.2%	16.6%	11.6%	11.0%	10.7%	10.8%	10.5%
ROAA	8.9%	1.5%	4.6%	5.0%	5.2%	5.4%	5.4%	5.3%

Balance Sheet

(PLN m)	2010	2011	2012	2013F	2014F	2015F	2016F	2017F
ASSETS	**210.2**	**257.1**	**236.5**	**295.8**	**298.0**	**293.5**	**309.6**	**319.4**
Fixed assets	**147.7**	**156.4**	**155.0**	**163.0**	**168.0**	**168.2**	**163.1**	**158.6**
Intangible assets	2.0	4.8	4.8	4.8	4.8	4.7	4.6	4.4
Property, plant, and equipment	137.4	142.6	142.1	146.5	150.8	149.5	143.1	137.3
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term investment	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Long-term prepayments	8.1	8.7	8.0	11.6	12.4	13.9	15.4	16.9
Current assets	**62.5**	**100.7**	**81.4**	**132.9**	**130.0**	**125.3**	**146.5**	**160.8**
Inventory	16.4	25.2	22.7	27.6	30.2	33.6	37.4	38.9
Current receivables	39.5	67.4	51.6	69.1	77.3	88.9	101.9	107.2
Current investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash	2.8	2.4	1.0	33.5	19.8	0.1	4.4	11.9
Short-term prepayments	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0

(PLN m)	2010	2011	2012	2013F	2014F	2015F	2016F	2017F
EQUITY AND LIABILITIES	**210.2**	**257.1**	**236.5**	**295.8**	**298.0**	**293.5**	**309.6**	**319.4**
Equity	**81.1**	**91.3**	**65.2**	**126.3**	**141.9**	**148.4**	**154.8**	**160.8**
Share capital	7.0	7.6	6.3	6.3	6.3	6.3	6.3	6.3
Supplementary capital	9.3	18.7	0.0	45.0	45.0	45.0	45.0	45.0
Reserves	45.7	57.1	43.8	43.8	43.8	43.8	43.8	43.8
Retained earnings	19.0	7.5	14.9	28.4	43.9	50.5	56.9	62.9
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term liabilities	**53.4**	**57.1**	**55.1**	**55.1**	**55.1**	**35.1**	**35.1**	**35.1**
Debt	53.4	57.1	55.1	55.1	55.1	35.1	35.1	35.1
Current liabilities	**54.2**	**86.6**	**92.7**	**87.0**	**71.2**	**76.7**	**82.7**	**85.0**
Trade creditors	37.5	56.1	48.2	51.5	55.4	60.7	66.4	68.7
Debt	8.6	16.5	36.4	26.4	6.4	6.4	6.4	6.4
Provisions for liabilities	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other	21.2	21.8	23.2	27.1	29.6	33.0	36.7	38.2
Debt	62.0	73.5	91.5	81.5	61.5	41.5	41.5	41.5
Net debt	59.3	71.1	90.6	48.1	41.7	41.4	37.1	29.6
(Net debt / Equity)	73.1%	77.9%	139.0%	38.0%	29.4%	27.9%	24.0%	18.4%
(Net debt / EBITDA)	2.0	3.4	2.7	1.4	1.2	1.0	0.9	0.7
BVPS	12.3	12.1	10.3	11.1	12.5	13.1	13.6	14.2

Cash Flows

(PLN m)	2010	2011	2012	2013F	2014F	2015F	2016F	2017F
Cash flow from operating activities	**18.3**	**8.6**	**34.4**	**16.8**	**27.9**	**28.9**	**29.1**	**32.5**
Net income	18.7	3.9	10.8	14.7	15.6	15.9	16.7	16.9
D&A expenses	10.0	11.1	12.0	12.2	12.7	16.8	17.2	17.2
Working capital	-8.3	-9.7	2.6	-14.2	-4.2	-6.1	-7.1	-3.0
Other	-2.1	3.3	8.9	4.1	3.8	2.3	2.3	1.5
Cash flow from investing activities	**-28.7**	**-13.1**	**-9.1**	**-13.0**	**-16.8**	**-15.3**	**-10.5**	**-11.0**
CAPEX	-28.8	-13.1	-9.1	-16.5	-16.8	-15.3	-10.5	-11.0
Equity investment	0.1	0.0	0.0	3.5	0.0	0.0	0.0	0.0
Cash flow from financing activities	**10.4**	**4.1**	**-26.7**	**28.7**	**-24.7**	**-33.3**	**-14.2**	**-14.0**
Debt	6.9	2.0	18.0	-10.0	-20.0	-20.0	0.0	0.0
Interest on debt	-2.9	-3.8	-6.5	-5.7	-5.8	-4.3	-4.0	-3.4
Dividends	-4.3	-4.0	-4.5	-1.3	0.0	-9.4	-10.3	-10.9
Buy-back (shareholder buyout)	0.0	0.0	-32.0	0.0	0.0	0.0	0.0	0.0
Stock issue proceeds	10.0	9.8	0.0	45.0	0.0	0.0	0.0	0.0
Other	0.7	0.0	-1.7	0.7	1.1	0.4	0.1	0.2
Change in cash	**0.0**	**-0.4**	**-1.4**	**32.5**	**-13.7**	**-19.7**	**4.3**	**7.5**
Cash at period end	2.8	2.4	1.0	33.5	19.8	0.1	4.4	11.9
DPS (PLN)	0.6	0.5	0.7	0.1	0.0	0.8	0.9	1.0
FCF	-4.2	-3.1	23.3	4.8	12.0	15.2	20.2	23.1
(CAPEX / Sales)	-9.2%	-3.5%	-2.4%	-3.6%	-3.4%	-2.8%	-1.7%	-1.7%

Trading Multiples

	2010	2011	2012	2013F	2014F	2015F	2016F	2017F
P/E	4.1	22.9	6.9	9.1	8.5	8.4	8.0	7.9
P/CE	2.7	5.9	3.3	5.0	4.7	4.1	3.9	3.9
P/B	1.0	1.0	1.1	1.1	0.9	0.9	0.9	0.8
P/S	0.2	0.2	0.2	0.3	0.3	0.2	0.2	0.2
FCF/EV	-3.0%	-1.9%	14.1%	2.6%	6.8%	8.7%	11.9%	14.2%
EV/EBITDA	4.7	7.7	5.0	5.2	4.9	4.4	4.2	4.1
EV/EBIT	7.2	16.6	7.8	7.9	7.5	7.7	7.2	7.2
EV/S	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
CFO/EBITDA	63.0%	41.4%	103.3%	48.0%	77.3%	73.1%	71.4%	81.5%
DYield	5.50%	4.51%	6.05%	0.95%	0.00%	7.02%	7.74%	8.16%
Price (PLN)	**11.74**							
Shares at year-end (millions)	6.6	7.6	6.3	11.3	11.3	11.3	11.3	11.3
MC (PLN m)	77.3	88.7	74.5	133.2	133.2	133.2	133.2	133.2
Equity att. to min. shareholders (PLN m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	136.5	159.9	165.1	181.3	174.9	174.7	170.3	162.8

Michał Marczak tel. (+48 22) 697 47 38
Managing Director
Head of Research
michal.marczak@dibre.com.pl
Strategy, Telco, Mining, Metals

Research Department:

Kamil Kliszcz tel. (+48 22) 697 47 06
Deputy Director
kamil.kliszcz@dibre.com.pl
Fuels, Chemicals, Energy

Iza Rokicka tel. (+48 22) 697 47 37
iza.rokicka@dibre.com.pl
Banks

Jakub Szkopek tel. (+48 22) 697 47 40
jakub.szkopek@dibre.com.pl
Manufacturers

Paweł Szpigiel tel. (+48 22) 697 49 64
pawel.szpigiel@dibre.com.pl
Media, IT

Piotr Zybała tel. (+48 22) 697 47 01
piotr.zybala@dibre.com.pl
Construction, Real-Estate Developers

Sales and Trading:

Piotr Dudziński tel. (+48 22) 697 48 22
Director
piotr.dudzinski@dibre.com.pl

Marzena Łempicka-Wilim tel. (+48 22) 697 48 95
Deputy Director
marzena.lempicka@dibre.com.pl

Head of Foreign Institutional Sales:

Matthias Falkiewicz tel. (+48 22) 697 48 47
matthias.falkiewicz@dibre.com.pl

Traders:

Michał Jakubowski tel. (+48 22) 697 47 44
michal.jakubowski@dibre.com.pl

Tomasz Jakubiec tel. (+48 22) 697 47 31
tomasz.jakubiec@dibre.com.pl

Szymon Kubka tel. (+48 22) 697 48 16
szymon.kubka@dibre.com.pl

Anna Łagowska tel. (+48 22) 697 48 25
anna.lagowska@dibre.com.pl

Paweł Majewski tel. (+48 22) 697 49 68
pawel.majewski@dibre.com.pl

Adam Mizera tel. (+48 22) 697 48 76
adam.mizera@dibre.com.pl

Adam Prokop tel. (+48 22) 697 47 90
adam.prokop@dibre.com.pl

Michał Rożmiej tel. (+48 22) 697 49 85
michal.rozmiej@dibre.com.pl

Jakub Słotkowicz tel. (+48 22) 697 48 30
jakub.slotkowicz@dibre.com.pl

"Private Broker"

Jarosław Banasiak tel. (+48 22) 697 48 70
Director, Active Sales
jaroslaw.banasiak@dibre.com.pl

Dom Inwestycyjny
BRE Banku S.A.
ul. Wspólna 47/49
00-950 Warszawa
www.dibre.com.pl

List of abbreviations and ratios contained in the report:
EV *– net debt + market value*
EBIT *– Earnings Before Interest and Taxes*
EBITDA *– EBIT + Depreciation and Amortisation*
P/CE *– price to earnings with amortisation*
MC/S *– market capitalisation to sales*
EBIT/EV *– operating profit to economic value*
P/E *– (Price/Earnings) – price divided by annual net profit per share*
ROE *– (Return on Equity) – annual net profit divided by average equity*
P/BV *– (Price/Book Value) – price divided by book value per share*
Net debt *– credits + debt papers + interest bearing loans – cash and cash equivalents*
EBITDA margin *– EBITDA/Sales*

Recommendations of BRE Bank Securities
A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within 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 15%
ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from –5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
Recommendations are updated at least once every nine months.

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