

Investment Risks

Economic Slowdown

VRG faces a slowdown in sales any time there is a decline in consumer demand. At the moment, consumer demand in Poland is strong, supported by rising employment and wages, coupled with various welfare programs run by the Polish government.

Exchange Rate Risk

VRG reports an increasing share of foreign-currency payments to international suppliers. At the end of 2018, orders in USD, EUR, and CHF accounted for 35%, 22%, and 8%, respectively, of total purchases. This means that any depreciation in the zloty vis-à-vis the other currencies could raise merchandise costs for the Company, causing a squeeze on sales margins. The same is true for SG&A expenses, with euro-denominated SG&A accounting for approximately 24% of total annual SG&A in 2018.

Price War Risk

VRG operates in a challenging and fiercely competitive business where rivals sometimes engage in price wars that can be potentially destructive to sales profits.

Risk of Failed Fashion Collections

VRG has to stay on top of the changing tastes of consumers, and so far it has been successful in keeping up with demands, as evidenced by increasing like-for-like sales. The Company also works on increasing foot traffic at its stores by engaging celebrities in its marketing campaigns. However, if a collection should fail to appeal to shoppers, this can potentially hurt sales.

Pricing Policy

A pricing policy that seeks to maximize margins at the expense of revenues would be a mistake in case of a fashion retailer operating in an intensely competitive market characterized by extremely price-conscious customers. VRG is aware of the risks, and its pricing policies to date have been successful in driving sales.

Risk Of Failed Acquisitions

VRG aims to become a house of brands by acquiring companies based in Poland and across the CEE region. The Company's M&A track record has been good so far, however there is a chance that a future acquisition might fail to deliver the desired synergies, or take longer than hoped to produce them.

Valuation

We used two valuation methods to determine the value of VRG: the Discounted Cash Flow method, indicating a per-share valuation of PLN 5.00, and the Relative Valuation method, yielding a value of PLN 4.80 per share.

(PLN)	weight	price
Relative Valuation	50%	5.00
DCF Analysis	50%	4.80
		price 4.90
9M target price		5.20

Relative Valuation

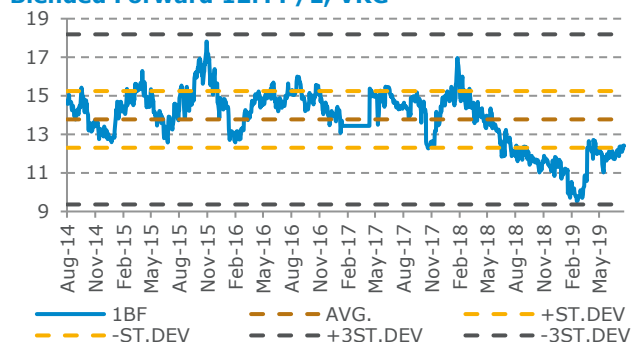
We compared the forward P/E and EV/EBITDA multiples of VRG with the multiples of two peer groups as projected for fiscal 2019 through 2021. Each of the forecast years is assigned an equal weight. The two peer groups analyzed

consist of comparable fashion retailers and jewelry retailers, respectively. Note that the growth potential of VRG measured using the PEG ratio is greater when compared to most peers, implying premium valuation.

Multiples Comparison

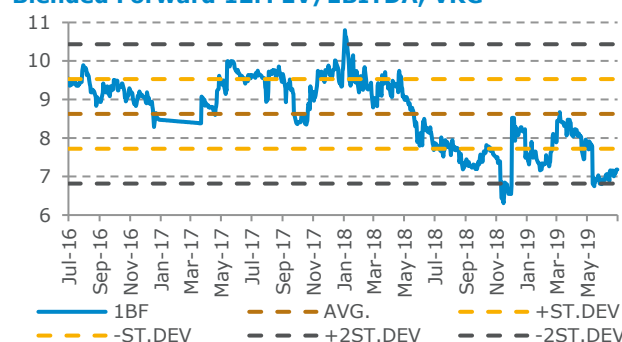
	Price	PEG			P/E			EV/EBITDA		
		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Clothing Retailers										
HENNES & MAURI-B	168.04	4.6	4.3	4.0	21.8	20.2	19.1	10.7	10.0	9.5
INDITEX	27.5	3.9	3.6	3.4	24.6	22.6	21.2	15.4	11.6	10.9
KAPPAHL AB	13.89	-0.6	-0.5	-0.5	8.0	7.6	7.5	5.5	4.5	4.5
MARKS & SPENCER	211.7	0.1	0.1	0.1	8.8	10.5	10.5	4.8	5.1	5.2
NEXT PLC	5658	3.5	3.3	3.2	13.1	12.6	12.1	9.8	9.9	9.8
HUGO BOSS -ORD	57.7	1.5	1.3	1.2	15.4	13.8	12.6	9.6	8.9	8.3
CCC SA	157	0.3	0.2	0.2	25.4	18.5	15.5	10.4	8.7	7.4
LPP	7825	1.3	1.1	1.0	22.1	19.1	17.7	12.5	11.5	10.5
Jewelry Retailers										
TIFFANY & CO	94.4	0.9	0.9	0.8	20.2	19.1	17.6	12.7	12.3	11.4
PANDORA A/S	262.3	-2.5	-2.5	-2.3	6.4	6.4	6.0	5.7	5.7	5.4
LAO FENG XIANG-A	45.4	1.3	1.1	1.0	17.4	15.2	13.4	9.0	8.0	7.0
CHOW SANG SANG	11.2	0.8	0.8	0.7	6.9	6.4	5.9	4.9	4.5	4.2
LUK FOOK HLDGS I	25.1	1.4	1.3	1.2	9.9	9.6	8.7	7.9	7.4	6.8
CHOW TAI FOOK JE	7.6	1.4	1.2	1.1	17.1	14.6	13.0	11.7	10.2	9.2
LAO FEN XIANG-B	3.5	0.7	0.6	0.5	9.2	8.1	7.1	9.0	8.0	7.0
Minimum		-2.5	-2.5	-2.3	6.4	6.4	5.9	4.8	4.5	4.2
Maximum		4.6	4.3	4.0	25.4	22.6	21.2	15.4	12.3	11.4
Median (fashion)		1.4	1.2	1.1	18.6	16.1	14.1	10.1	9.4	8.9
Median (jewelers)		0.9	0.9	0.8	9.9	9.6	8.7	9.0	8.0	7.0
Median		1.3	1.1	1.0	15.4	13.8	12.6	9.6	8.7	7.4
Total VRG		0.6	0.6	0.5	13.4	11.6	10.5	8.4	7.1	6.2
premium / discount		-	-	-	-13%	-16%	-17%	-12%	-18%	-15%
Implied Valuation										
Median		1.3	1.1	1.0	15.4	13.8	12.6	9.6	8.7	7.4
Multiple weight						50%			50%	
Year weight					17%	17%	17%	17%	17%	17%
Premium/Discount										
Equity value per share (PLN)	5.00									

Blended Forward 12M P/E, VRG



Source: VRG, Dom Maklerski mBanku

Blended Forward 12M EV/EBITDA, VRG



Source: VRG, Dom Maklerski mBanku

Additional Assumptions

Sales Efficiency Metrics*

	2015	2016	2017	2018*	2019P	2020P	2021P	2022P
Sales area (1,000 sqm)								
Total VRG	28.0	30.5	33.3	51.6	55.4	59.0	62.5	66.3
Y/Y change	7%	9%	9%	55%	7%	6%	6%	6%
Fashion Stores	20.6	22.2	24.6	42.1	45.0	47.7	50.6	53.6
Y/Y change	8.2%	8.2%	10.7%	70.9%	7.0%	6.0%	6.0%	6.0%
Jewelry Stores	7	8	9	10	10	11	12	13
Y/Y change	3.4%	11.2%	5.0%	10.0%	9.0%	8.0%	6.0%	6.0%
Sales per Square Meter (PLN)								
Total VRG	1,581	1,705	1,798	1,581	1,612	1,651	1,699	1,719
Y/Y change	9.6%	7.8%	5.5%	-12.1%	1.9%	2.4%	3.0%	1.1%
Fashion Stores	1,308	1,413	1,495	1,207	1,264	1,294	1,329	1,353
Y/Y change	7.9%	8.1%	5.8%	-19.3%	4.7%	2.4%	2.7%	1.8%
Jewelry Stores	2,283	2,374	2,602	2,814	2,951	3,061	3,178	3,178
Y/Y change	13.1%	4.0%	9.6%	8.2%	4.9%	3.7%	3.8%	0.0%
SG&A per sqm (PLN)								
Total VRG	698	744	766	668	677	691	709	716
Y/Y change	6.4%	6.6%	2.9%	-12.9%	1.5%	2.0%	2.6%	1.0%
Fashion Stores	571	618	618	420	530	541	553	559
Y/Y change	2.1%	8.3%	0.0%	-32.1%	26.3%	2.1%	2.2%	1.0%
Jewelry Stores	964	970	1,062	1,118	1,175	1,219	1,266	1,279
Y/Y change	12.6%	0.5%	9.5%	5.3%	5.2%	3.7%	3.9%	1.0%
Cash conversion cycle (days)	364	362	350	427	377	372	372	372
Days inventory outstanding	11	13	11	11	12	13	15	16
Days receivables outstanding	174	154	121	179	149	149	149	149
Days payables outstanding	201	220	240	259	241	237	238	240

P – projections by Dom Maklerski mBanku; *Comparability of 2018 numbers affected by the acquisition of Bytom

Sales & Profit Forecast by Operating Segment

	2015	2016	2017	2018*	2019P	2020P	2021P	2022P
Fashion								
Revenue	310	363	420	483	660	720	784	846
Gross profit	166	189	214	245	340	375	408	441
SG&A expenses	141	165	183	212	287	310	336	359
Other operating gains/losses	-1	0	0	2	-1	-1	-1	-1
EBIT	24	24	32	35	53	64	72	80
Gross profit margin	53.4%	52.0%	50.9%	50.7%	51.5%	52.1%	52.1%	52.1%
y/y change (p.p.)	0.2	-1.4	-1.1	-0.2	0.8	0.6	0.0	0.0
EBIT margin	7.6%	6.6%	7.6%	7.3%	8.0%	8.9%	9.1%	9.5%
y/y change (p.p.)	1.5	-1.0	0.9	-0.3	0.7	0.9	0.2	0.3
SG&A/Sales	45.4%	45.5%	43.5%	43.9%	43.4%	43.1%	42.8%	42.5%
y/y change (p.p.)	-2.0	0.1	-2.0	0.4	-0.5	-0.3	-0.2	-0.3
Jewelry								
Revenue	204	236	271	323	369	413	455	482
Gross profit	107	123	145	167	193	216	236	250
SG&A expenses	86	96	111	128	147	165	181	194
Other operating gains/losses	-1	0	-1	1	0	0	0	0
EBIT	20	27	34	40	46	52	54	56
Gross profit margin	52.6%	52.3%	53.6%	51.9%	52.3%	52.3%	51.8%	51.8%
y/y change (p.p.)	-1.8	-0.3	1.3	-1.7	0.4	0.0	-0.5	0.0
EBIT margin	9.7%	11.4%	12.5%	12.3%	12.4%	12.5%	12.0%	11.6%
y/y change (p.p.)	-2.0	1.7	1.1	-0.2	0.1	0.0	-0.5	-0.4
SG&A/Sales	42.2%	40.8%	40.8%	39.7%	39.8%	39.8%	39.8%	40.2%
y/y change (p.p.)	-0.2	-1.4	0.0	-1.1	0.1	0.0	0.0	0.4

P – projections by Dom Maklerski mBanku; *Comparability of 2018 numbers affected by the acquisition of Bytom

DCF Valuation

Assumptions:

- Cash flow is discounted at the end of July 2019. Equity value calculations factor in net debt as of 31 December 2018.
- We assume gross margin expansion by 0.7pp to 51.9% in 2019 and further growth to 52% in 2020.
- Average CAPEX in 2019-28E at PLN 25.9m.

- The DCF model does not account for the impact of exchange-rate differences on profits.
- Figures are presented ex-IFRS 16.
- We assume an annual tax rate of 19% in 2019-28E.
- The risk-free rate is 3.5%.
- We assume that FCF after FY2026 will grow at an annual rate of 2.0%.
- Unleveraged beta=1.0, leveraged beta=1.08.

DCF Model

(PLN m)	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	+
Revenue	1,035	1,133	1,239	1,328	1,397	1,463	1,540	1,623	1,709	1,800	
change	28.5%	9.4%	9.3%	7.2%	5.2%	4.7%	5.3%	5.3%	5.3%	5.3%	
EBITDA	124	138	149	159	161	163	175	183	192	201	
EBITDA margin	11.9%	12.2%	12.0%	12.0%	11.5%	11.2%	11.4%	11.3%	11.2%	11.1%	
D&A expenses	22.3	22.7	23.1	23.6	24.1	24.7	25.2	25.7	26.2	26.4	
EBIT	101	116	126	136	136	139	150	158	166	174	
EBIT margin	9.8%	10.2%	10.2%	10.2%	9.8%	9.5%	9.7%	9.7%	9.7%	9.7%	
Tax on EBIT	18.4	22.0	23.9	25.8	25.9	26.3	28.5	29.9	31.5	33.1	
NOPLAT	83	94	102	110	111	112	121	128	134	141	
CAPEX	-25.0	-24.2	-24.5	-25.4	-25.9	-26.3	-26.8	-27.2	-27.6	-26.4	
Working capital	-51.3	-27.5	-40.6	-34.4	-28.5	-27.4	-32.2	-34.3	-36.4	-38.7	
FCF	29	65	60	74	80	83	88	92	96	102	104
WACC	8.8%	9.1%	9.0%	9.0%	8.9%	8.9%	8.8%	8.8%	8.7%	8.7%	
discount factor	96.4%	88.4%	81.1%	74.4%	68.3%	62.7%	57.6%	53.0%	48.7%	44.9%	
PV FCF	28.0	57.1	48.7	54.8	54.8	52.3	50.5	48.7	46.9	45.9	

WACC	8.8%	9.1%	9.0%	9.0%	8.9%	8.9%	8.8%	8.8%	8.7%	8.7%
Cost of debt	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	18.1%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	5.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	9.1%	9.1%	9.0%	9.0%	8.9%	8.9%	8.8%	8.8%	8.7%	8.7%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.0	1.0

FCF growth after the forecast period	2.00%
Terminal value	1,564
Present value of terminal value	702
Present value of FCF in the forecast period	488
Enterprise value	1,189
Net Debt	63
Minority interests	0.0
Equity value	1,126
Shares outstanding (millions)	234.46
Equity value per share (PLN)	4.80
9M cost of equity	6.3%
Target Price (PLN)	5.10

EV/EBITDA ('19) at target price	9.1
EV/EBITDA ('19) at target price	16.2
TV / EV	59.0%

Sensitivity Analysis

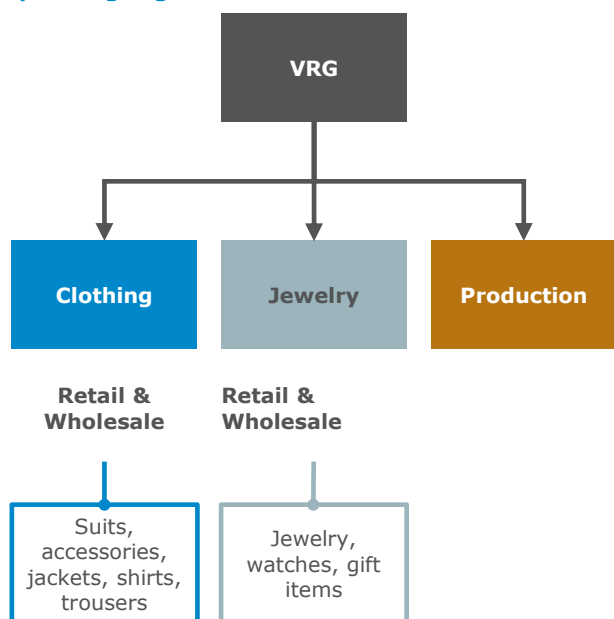
	FCF growth in perpetuity				
	0.0%	1.0%	2.0%	3.0%	5.0%
WACC +1.0 p.p.	5.9	6.3	6.7	7.2	7.8
WACC +0.5 p.p.	5.0	5.2	5.5	5.8	6.2
WACC	4.6	4.8	5.1	5.3	5.6
WACC -0.5 p.p.	4.3	4.5	4.7	4.9	5.2
WACC -1.0 p.p.	3.8	3.9	4.1	4.2	4.4

Business Model & Strategy

VRG as a House of Brands

VRG designs and sells high-quality men's and women's apparel and jewelry. The Company runs the fashion labels Bytom, freshly acquired in 2018, Vistula, Wólczanka, and Deni Cler, and the chain jewelry brand W. Kruk. VRG owes its fast-paced expansion to a strategy of organic growth complemented by mergers and acquisitions. As of this writing the Company is looking into the books of a potential new target, the Czech jewelry retailer Klenoty Aurum. **Vistula aims to become a "house of brands" with a presence across the CEE region capable of delivering consistent growth in profits.**

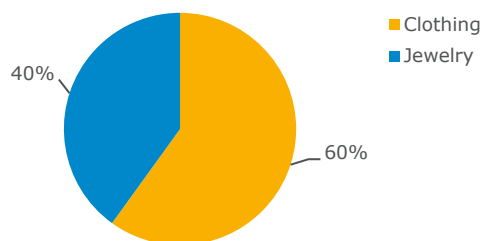
Operating segments of VRG



Source: VRG, Dom Maklerski mBanku

For financial reporting purposes, VRG identifies its two core operating segments as 'Clothing' and 'Jewelry,' alongside a third, supporting segment called 'Production.'

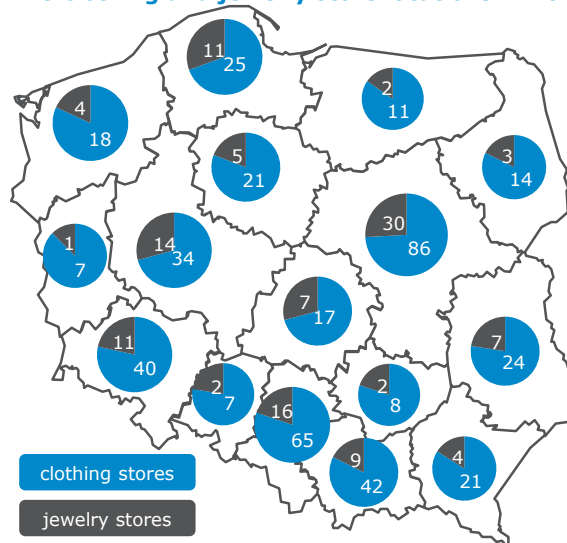
Sales breakdown by operating segment



Source: VRG, Dom Maklerski mBanku

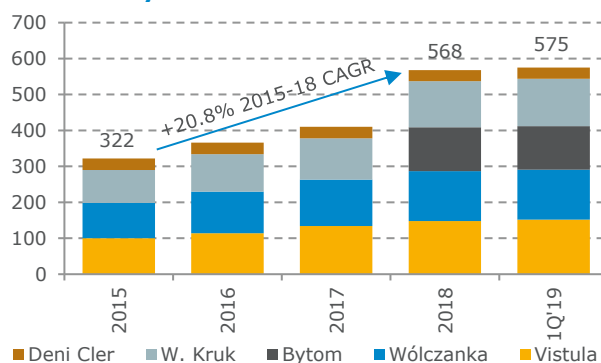
VRG operated 575 stores with a combined trading area of 52.4 thousand square meters as of 31 March 2019. Of these, 26% were 'Vistula' stores, 24% were 'Wólczanka' stores, and 21% were 'Bytom' stores. In the years 2015-2018, VRG expanded its store network at an average annual rate of 20.8% with the 2018 acquisition, Bytom, factored in, and 11.5% ex. Bytom.

VRG clothing and jewelry store locations in Poland



Source: VRG, Dom Maklerski mBanku

Store count by label



Source: VRG, Dom Maklerski mBanku

VRG constantly improves the strength of its brands by openings new stores, engaging in marketing campaigns, and developing the e-commerce channel. **Between 2013 and 2018, VRG's sales area increased at an average annual rate of 25.6% incl. Bytom and 10.5% ex. Bytom. In 2019, the Company wants to expand the total store area by 8%.**

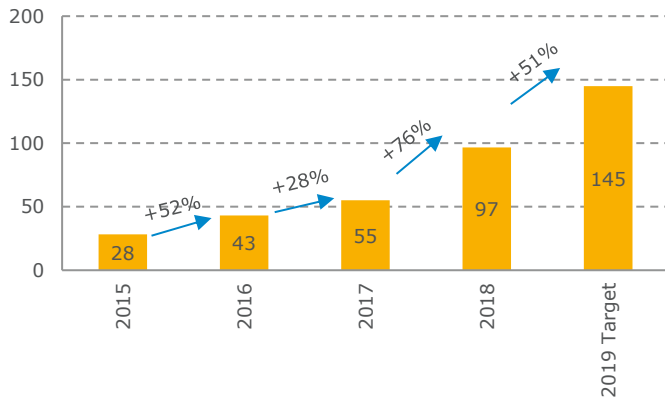
VRG store area expansion (1,000 sqm)



Source: VRG, Dom Maklerski mBanku

Aside from brick-and-mortar locations, VRG is working to develop online shopping channels through various sales and logistics initiatives completed over the recent years. **In 2015-2018, online sales increased at an average annual rate of 50.6%,** with Web stores accounting for 12% of total sales in 2018 at PLN 97m, set to increase by 51% to a target PLN 146m in 2019.

VRG online sales growth (PLN m)



Source: VRG, Dom Maklerski mBanku

Brands

VRG keeps growing the sales mix at fashion its stores to include smart casual styles, high-quality leather items, and footwear. The Retailer operates under five brands:

- Vistula – est. in 1967, is a lifestyle men's lifestyle brand for the modern man.
- Bytom, est. 1945, is a men's suit label.
- Wólczanka, est. 1948, offers primarily men's shirts.
- W.Kruk, est. 1840, is a jewelry brand and a distributor for top watch labels like Rolex (for which it has exclusive sales rights in Poland), IWC, Breitling, Omega, and Tag Heuer.
- Deni Cler Milano is a designer fashion label for women managed by the subsidiary company DCG S.A.

Growth Strategy

VRG has been pursuing the House-of-Brands strategy since 2000. The Company moved away from manufacturing garments in-house to more competitive overseas suppliers, mainly in Asia. VRG's long-term growth strategy has five pillars:

1. Expansion of the store network,
2. Development of online sales,
3. Creation of a house of brands through M&A activity,
4. Strengthening the market position of brands through smart marketing campaigns, and
5. A low-cost sourcing strategy.

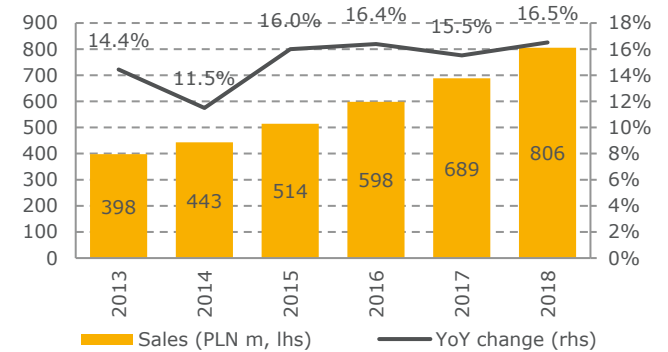
Healthy Growth

VRG doubled the amount of annual sales to PLN 806m between 2013 and 2018, when the topline received a boost from consolidation of Bytom's revenues during the month December. The average rate of sales growth in 2013-18 was 15.2%.

The main sales drivers over the last six years included:

1. Constant expansion of the sales area,
2. Each brand improving their respective sales mix,
3. The growing wealth of Polish consumers, and
4. Fast development of digital and omnichannel strategies.

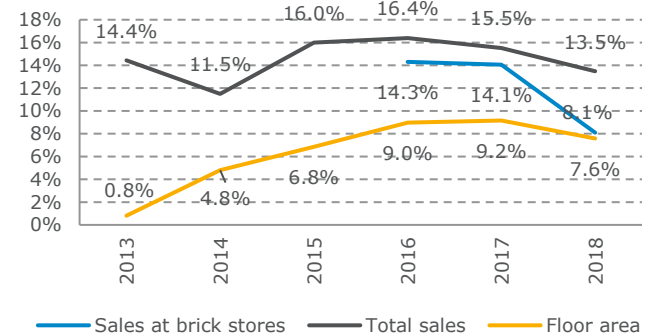
YoY sales growth at VRG, 2013-18



Source: VRG, Dom Maklerski mBanku

VRG increased sales at a faster rate than the trading space during each year in 2013-2018, achieving consistent improvement in sales efficiency. Even adjusted for Web sales and Bytom, sales at brick stores outpaced floor space in 2013-18.

Growth in sales vs. growth in store area

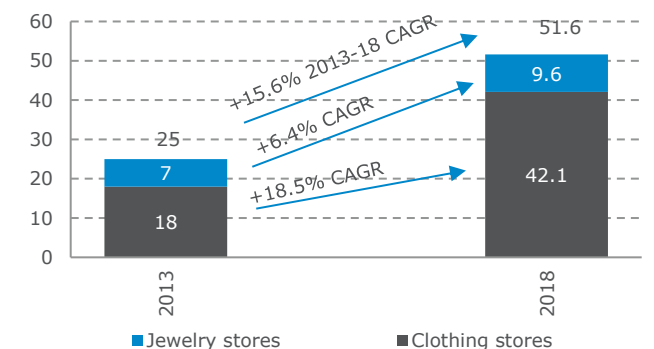


Source: VRG, Dom Maklerski mBanku

Constant Expansion

VRG grew its store area at an average annual rate of 18.5% in 2013-18 incl. Bytom and 7.5% ex. Bytom, driven by 7.8% expansion in fashion stores.

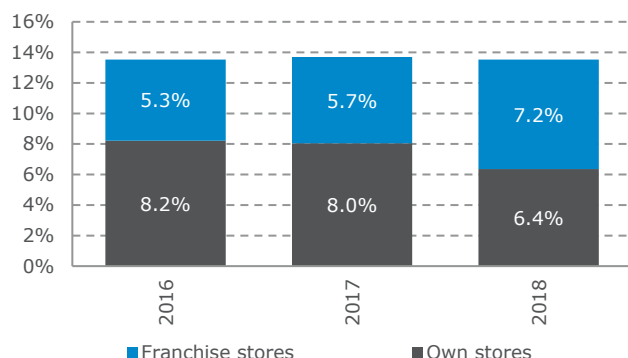
2013-2018 store area growth by operating segment



Source: VRG, Dom Maklerski mBanku

The expansion of clothing stores was fueled in a large part by a developing franchise model. In the 2015-18 period, the share of franchise stores in total floor space increased by 8.2pp to 17.5% after rising consistently from year to year, with franchise accounting for 7.2% of the total floor space growth in 2018.

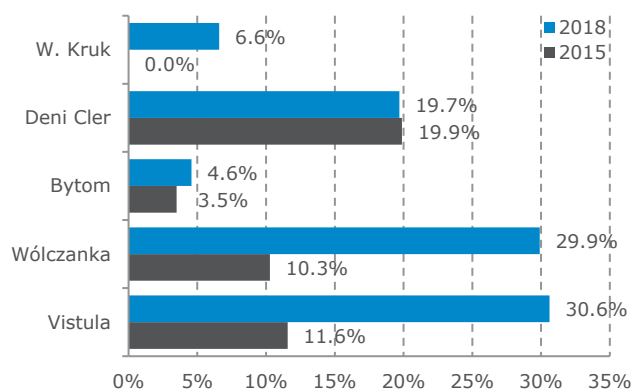
Own vs. franchise stores as drivers of sales area growth (ex. Bytom)



Source: VRG, Dom Maklerski mBanku

The Vistula and Wólczanka brands added the most new franchise stores in the 2015-2018 period, with their share in the total franchise area at 30% as of year-end 2018. In 2017 VRG also adopted the franchise model for the W.Kruk jewelry brand. **We expect an acceleration in the W.Kruk franchise expansion in the coming years, and we see potential to further build the Bytom franchise.**

Franchise stores as a % of VRG's total sales area by brand

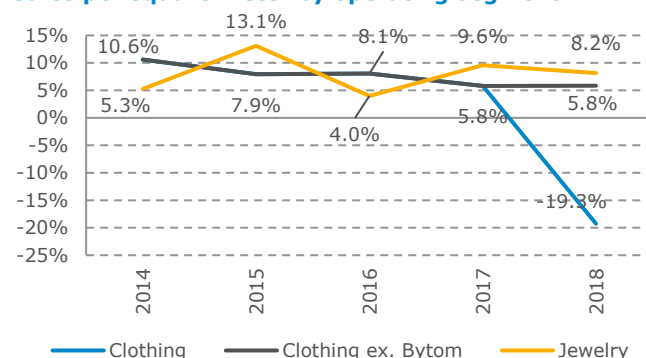


Source: Vistula Retail Group, Dom Maklerski mBanku

Creating the Right Sales Mix and Pricing Strategy

VRG achieved positive growth in sales per square meter in both operating segments in each year during the 2014-18 period. In 2018, unit revenue registered a drop following the acquisition of Bytom, added to the consolidated statements from December 2018. The growth in previous years was driven by successful management of the sales mix (with an increased share of casual fashion lines, the introduction of collections for special occasions, and the launch of women's shirt lines), supported by favorable market trends.

Sales per square meter by operating segment



Source: VRG, Dom Maklerski mBanku

The brand with the strongest momentum in per-sqm sales in 2015-18 was Wólczanka. Vistula experienced a decline in 2018 relative to the high sales generated in 2016 and part of 2017, when its suits were advertised by the popular footballer Robert Lewandowski. The introduction of a Sunday trading ban in Poland last year was also part of the reason behind the slowdown. At W.Kruk, an uninterrupted rise in sales since 2015 was fueled by a larger selection of watches and a jewelry marketing campaign featuring TV personality Martyna Wojciechowska.

Sales per square meter by brand

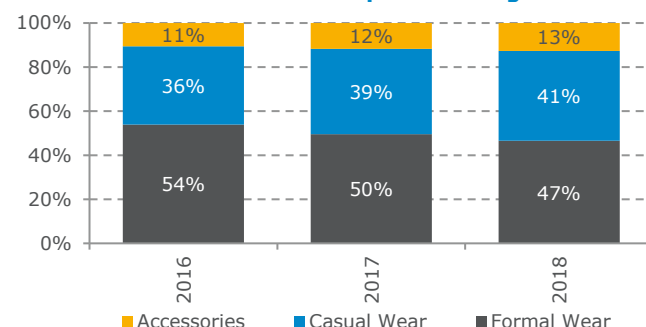
PLN	2015	2016	2017	2018	2015-18 CAGR
Vistula	1,125	1,265	1,298	1,302	5.0%
Wólczanka	1,475	1,739	1,937	2,045	11.5%
Deni Cler	1,034	1,121	1,095	1,169	4.2%
W. Kruk	2,329	2,412	2,613	2,886	7.4%

YoY change			
Vistula		12.4%	2.6%
Wólczanka		17.9%	11.4%
Deni Cler		8.4%	-2.3%
W. Kruk		3.6%	8.3%

Source: VRG, Dom Maklerski mBanku

Vistula stores increasingly feature leather accessories and casual apparel, sourced from low-cost suppliers in South-East Asia and sold at solid margins. Collections designed for special occasions are also a big sales driver for Vistula stores, accounting for 12% and 9%, respectively, of annual sales in 2016 and 2017. **This year, VRG has teamed up with the Polish streetwear label PROSTO, a partnership with potential to boost Ifl sales in the coming quarters**

Breakdown of a Vistula store product range

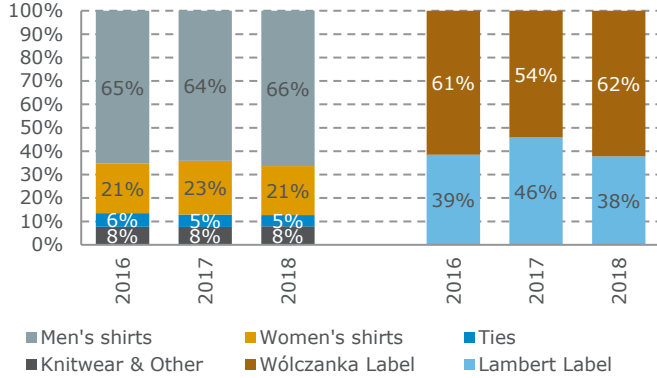


Source: VRG, Dom Maklerski mBanku



Wólczanka has been more conservative when it comes to changing its sales mix, nevertheless its revenues in the 2016-2018 period increased at a CAGR of 19.5%.

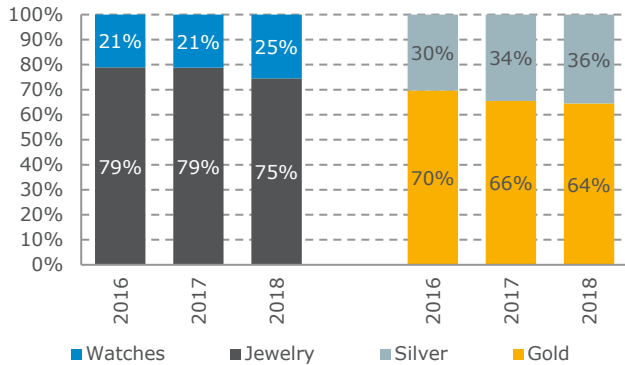
Breakdown of a Wólczanka store product range



Source: VRG, Dom Maklerski mBanku

At W.Kruk, strong 2018 sales were fueled mainly by silver jewelry, combined with increased sales of watches, which, however, generate lower sales margins.

Breakdown of a W.Kruk store product range

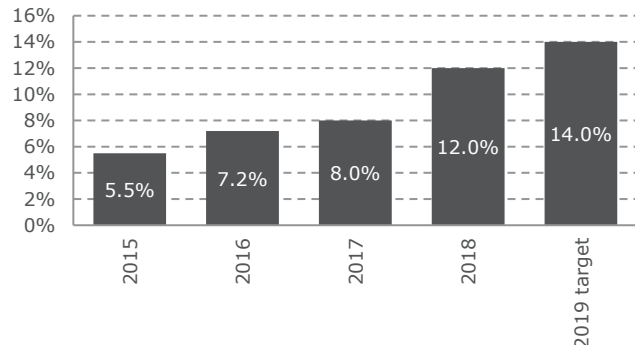


Source: VRG, Dom Maklerski mBanku

Online Sales Keep Hitting New Record Highs

VRG Web stores increased sales at a 2015-2018 CAGR of 50.6%, and in 2019 growth is expected to surpass 50% as well at a target 51%. Nevertheless the online channels still have plenty of room for expansion given their still-low share in the total sales of the different labels.

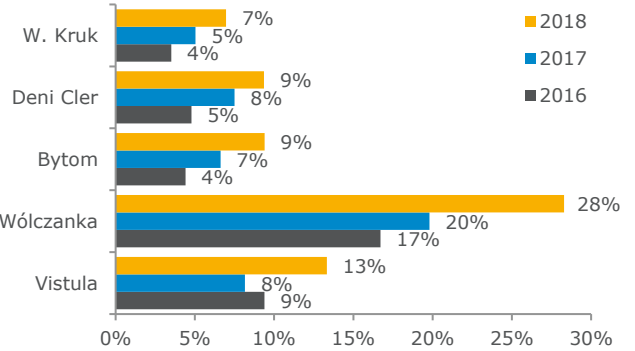
Share of online sales in total VRG sales



Source: VRG, Dom Maklerski mBanku

Wólczanka sells the most clothes via its online store of all VRG brands (28% in 2018), followed by Vistula, which in 2017 reported flat online growth after a change in the accounting approach to customer returns. We see potential for further online sales growth at Vistula, Wólczanka, and Bytom (at Bytom, a digital sales ratio equivalent to that achieved by Vistula in 2018 would indicate growth potential of 50%).

Online sales as a pct. of total sales by brand

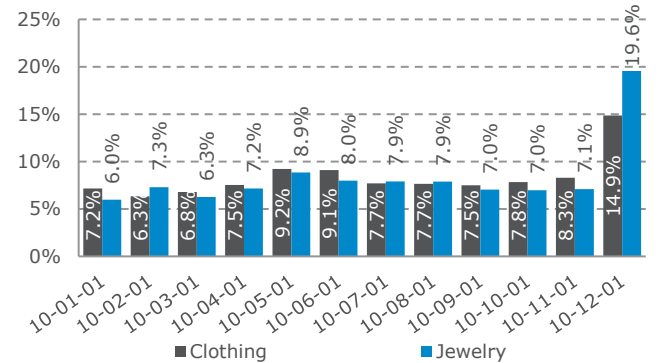


Source: VRG, Dom Maklerski mBanku

Seasonality

VRG generates the highest sales in the second and fourth quarter of the year, with December the top sales month for both apparel and jewelry. VRG has relatively low sensitivity to weather conditions thanks to a sourcing strategy which allows flexibility in adjusting orders to the weather.

Monthly sales as a pct. of yearly sales, 2013-18



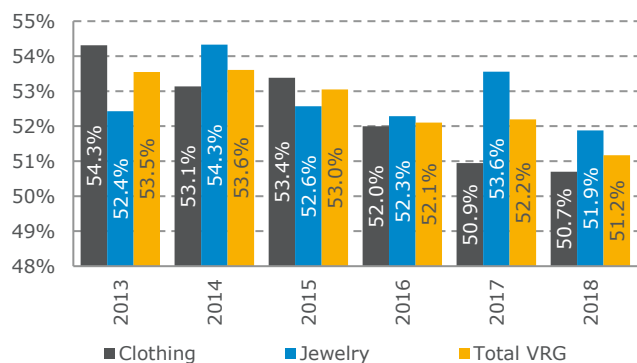
Source: VRG, Dom Maklerski mBanku

Room for Gross Margin Growth

Between 2005 and 2018, VRG's annual sales margin contracted from 53.5% to 51.2%. By operating segment, sales profits in Jewelry were stable, while the gross margin on Clothing in the period fell by 3.6pp to 50.7%, due probably to higher marketing expenditures and an increasing share of online sales. Going forward, factors that will play the biggest role in shaping sales margins include:

1. The merger with Bytom (new strategy and sourcing synergies), and
2. Smart sourcing.

Gross margins by operating segment

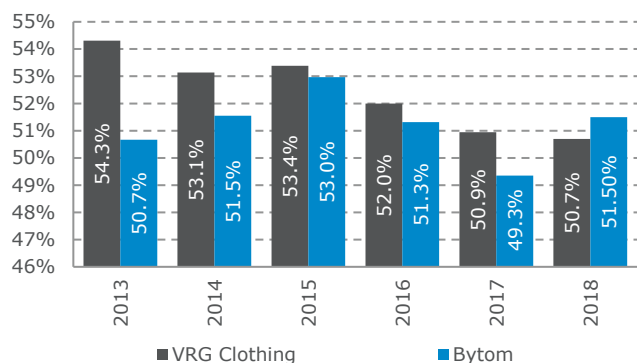


Source: VRG, Dom Maklerski mBanku

Synergies

Both VRG Clothing and Bytom experienced downward pressure on profits from 2016 through 2018, stemming probably from more intense price competition during clearance seasons. VRG expects to extract margin synergies of PLN 8-10m on the Bytom merger, on top of cost synergies estimated at PLN 2m.

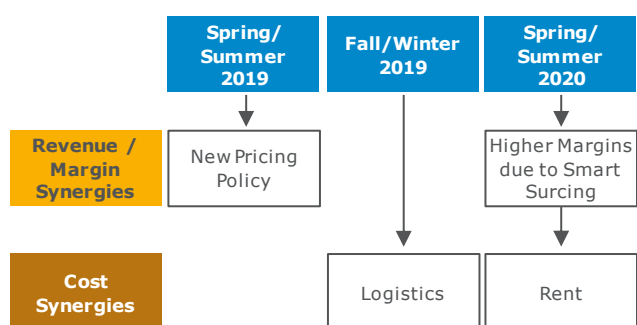
Sales margins, VRG Clothing vs. Bytom



Source: VRG, Bytom, Dom Maklerski mBanku; *Bytom's margins are calculated based on quarterly earnings reports and information disclosed in a VRG presentation

The first step in the Bytom synergy roadmap was the adoption of a new pricing policy – a move which initially might temporarily hurt the sales efficiency of the clothing labels.

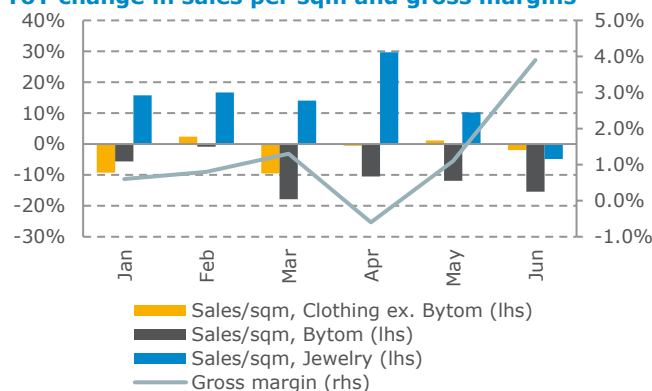
Bytom synergy timeline



Source: VRG, Dom Maklerski mBanku

VRG significantly improved its quarterly sales margin in Q2 2019 (+1.6pp) despite having paid more in dollar terms for spring/summer fashion collections. One of the reasons was a drop-off in sales of low-margin watches in June.

YoY change in sales per sqm and gross margins



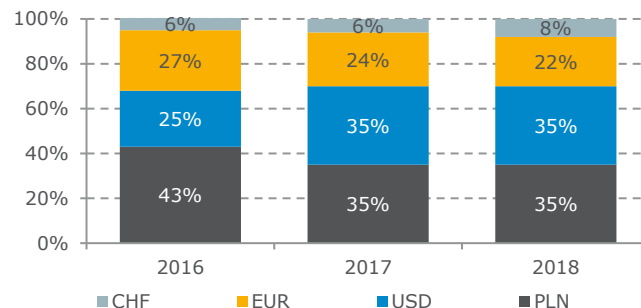
Source: VRG, Dom Maklerski mBanku

The 2020 autumn/winter lines were purchased at a time of more favorable USDPLN exchange-rate movements, indicating further growth in sales margins in the second half of the year.

Smart sourcing

VRG tries to minimize the costs of fashion collections by ordering larger quantities of merchandise from low-cost countries. This policy is supported by the increasing share of accessories and casual clothing in the sales mix. In 2016-2018, VRG reported higher payments in dollars (reflecting bigger purchases from Asian suppliers) and Swiss francs (due to the broadening watch range). The merger with Bytom is likely to further boost dollar-denominated payments in the future.

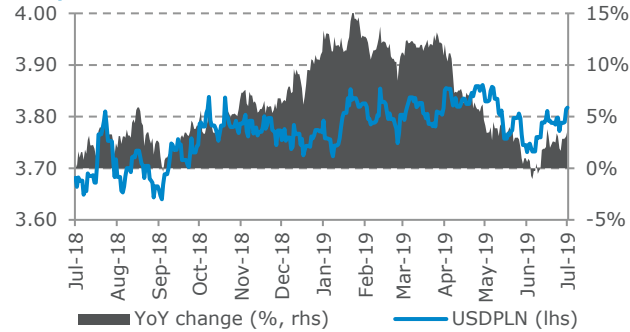
Currency breakdown of VRG merchandise costs



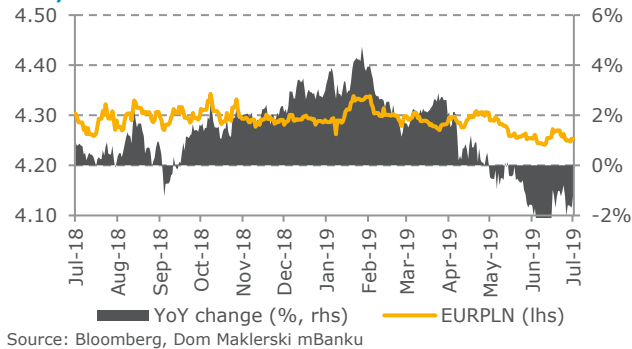
Source: VRG, Dom Maklerski mBanku

The USDPLN exchange rate was 10% higher at the time VRG paid for the 2019 spring/summer collection than at the same time the previous year, but thanks to a successful new pricing policy the Company still managed to generate higher sales margins in H1 2019. USDPLN when VRG paid for the 2020 autumn/winter lines per our observations was slightly higher on average than in the same year-ago period. When it comes to the EURPLN pair, its recent movements indicate reduced merchandise costs in H2 2019 relative to H2 2018 (last year VRG paid 22% of COGS in euro).

USD/PLN chart

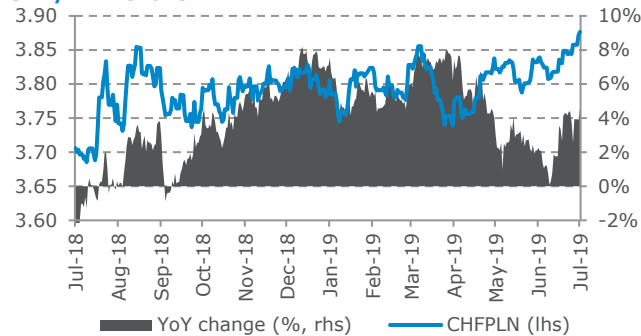


EUR/PLN chart



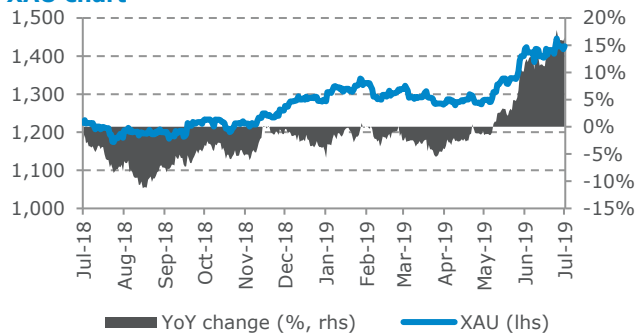
After selling more watches in 2018, VRG's CHF/PLN exposure increased in 2018. This year, the movements in the Swiss currency indicate slightly lower margins on sales in future quarters.

CHF/PLN chart



Prices of gold rose sharply in June 2019, but this is not likely to impact the VRG's jewelry profits because the company adjusts its sales prices to the market rates on input commodities.

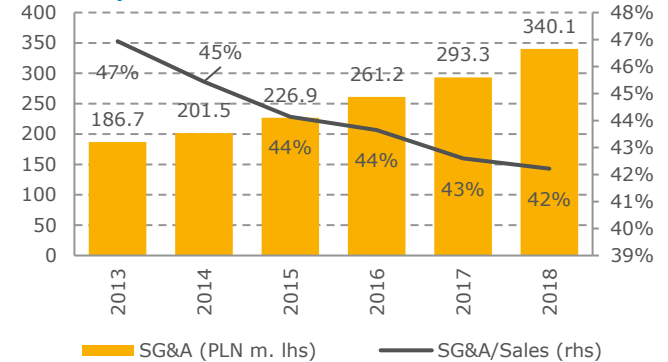
XAU chart



Tightly-Managed SG&A

VRG reported 12.8% average growth in SG&A expenses in the 2013-2018 period against a corresponding increase in sales of 15.2%. Thanks to tight cost discipline and successful sales management, the SG&A/Sales ratio in the period consistently decreased from year to year, and it is likely to hold at a stable level this year with improving sales efficiency offsetting any further pay pressures.

SG&A expenses in 2013-2018



W. Kruk stores incurred the highest SG&A per square meter of store area in 2018, consistent with high sales and the fast-paced expansion of franchise stores. At other stores, costs per square meter in the last six years increased at lower single-digit rates than revenues. Bytom incurs lower costs per unit of store area on average than VRG, which means it will help bring the ratio down in the coming years (on the downside, the same is true for the sales/sqm ratio).

Monthly per-sqm SG&A at VRG stores

	2015	2016	2017	2018	2015-18 change
Vistula	377.0	418.0	429.0	446.0	5.8%
Wólczanka	529.0	674.0	732.0	761.0	12.9%
Bytom			411.0	424.0	
Deni Cler	372.0	399.0	402.0	426.0	4.6%
W. Kruk	664.0	721.0	779.0	866.0	9.3%
VRG*	535.5	584.4	602.1	535.4	0.0%

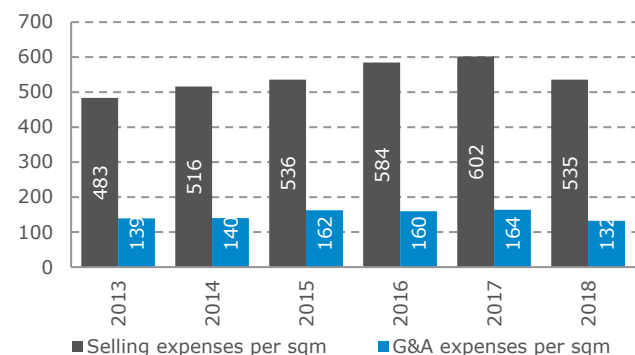
YoY change

Vistula	10.9%	2.6%	4.0%
Wólczanka	27.4%	8.6%	4.0%
Bytom			3.2%
Deni Cler	7.3%	0.8%	6.0%
W. Kruk	8.6%	8.0%	11.2%
Total VRG	9.1%	3.0%	-11.1%

Source: VRG, Dom Maklerski mBanku

A breakdown of the SG&A category shows a faster rise in monthly selling expenses compared to administrative expenses, with respective 2013-2017 CAGR at 5.7% vs. 4.2%. In 2018, metrics were distorted by the acquisition of Bytom. **We see potential for a decrease in per-sqm G&A expenses in the coming years.**

Avg. monthly per-sqm selling expenses vs. administrative expenses (PLN)

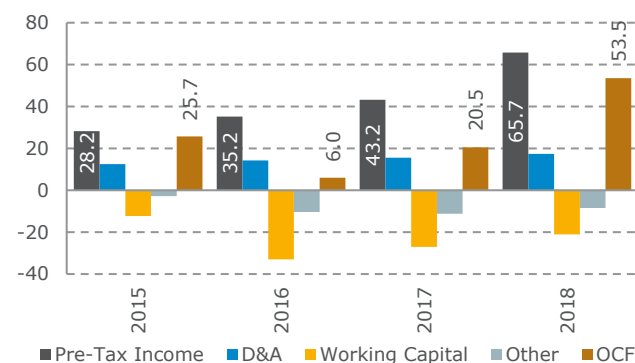


Source: VRG, Dom Maklerski mBanku

High Demand For Working Capital

VRG requires large working capital because of a substantial quantity of jewelry-related inventory. As its business grows, and profits improve, the Company is able to generate increasing cash flow from operations even as it keeps adding new stores. In 2018, operating cash flow increased to PLN 54m from PLN 26m the previous year, driven by higher profits.

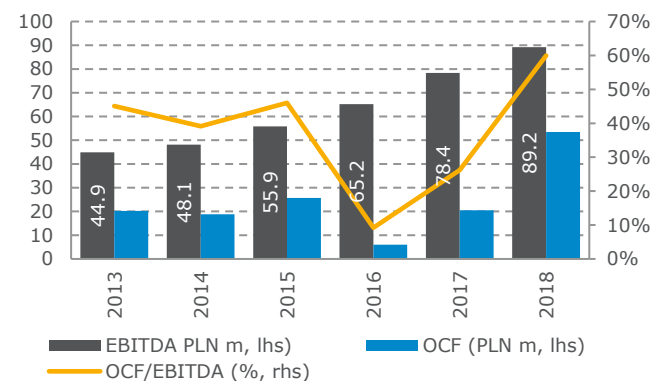
Operating Cash Flow of VRG (PLN m)



Source: VRG, Dom Maklerski mBanku

The average ratio of OCF to EBITDA in 2013-2018 was 37.6%, peaking in 2018. In the future, higher profits and the consolidation of Bytom, with its shorter cash conversion cycle, should help offset the likely further rise in working-capital, driven by the expansion of jewelry stores, and help maintain high OCF/EBITDA ratios.

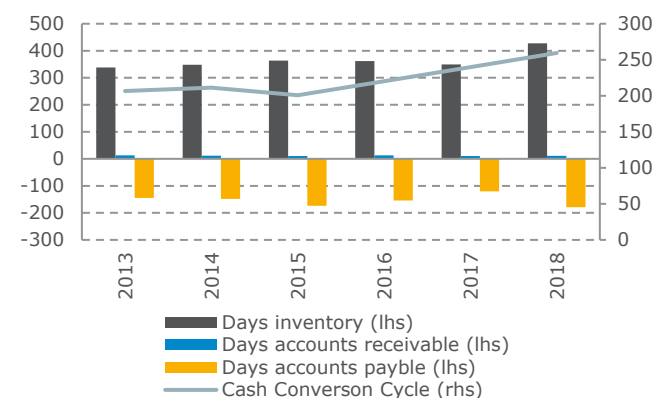
EBITDA in PLN m and as a ratio of OCF



Source: VRG, Dom Maklerski mBanku

VRG reports a long cash conversion cycle due to the high jewelry stock. We see potential to optimize inventories in the medium term. In addition, VRG recognized PLN 20.9m from reverse factoring after the Bytom acquisition in 2018, and if it opts to increase the utilization of reverse factoring in the future this can help extend the payables cycle.

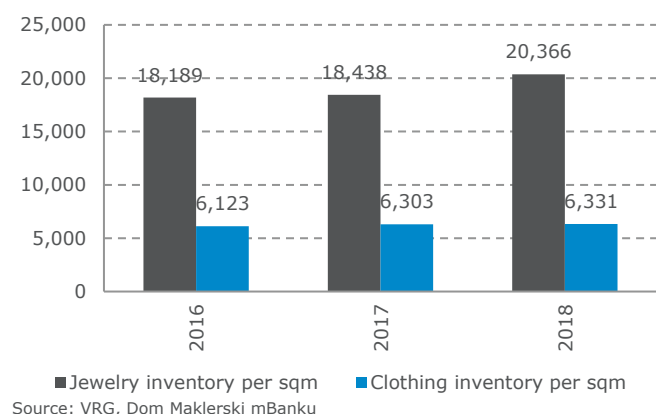
VRG cash conversion cycle



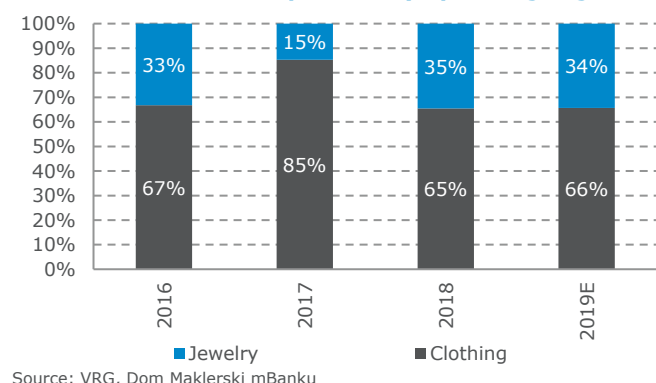
Source: VRG, Dom Maklerski mBanku

In 2018, per-square-meter inventory at VRG increased by 10.5% after the addition of a batch of watches and other items pre-ordered ahead of the acceleration of jewelry store expansion to the target annual rate of 15% set for 2019 (+1.4k sqm in 2019 vs. 0.9k sqm in 2018). Assuming 1% higher unit inventory in both operating segments, given the expansion plans, we expect VRG to grow the total inventory to PLN 54m in 2019.

Per-sqm clothing and jewelry inventory (PLN)



Annual rate of store expansion by operating segment

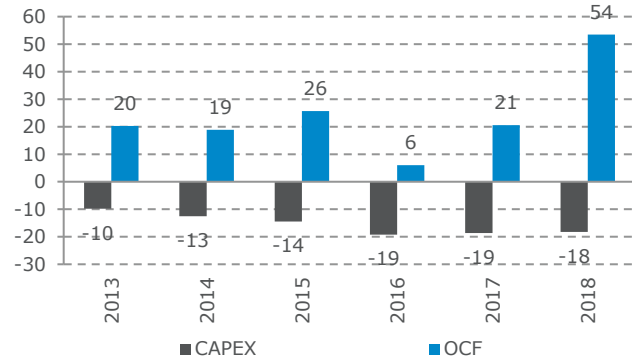


Source: VRG, Dom Maklerski mBanku

Franchise Stabilizes CAPEX

VRG generates enough cash flow to pay for all necessary capital investment. In the past, CAPEX at VRG consisted in a large part of new store expenditures, combined with investment in IT. In the future, we expect CAPEX to be lower thanks to the development of the franchise model.

2013-2018 CAPEX & OCF (PLN m)

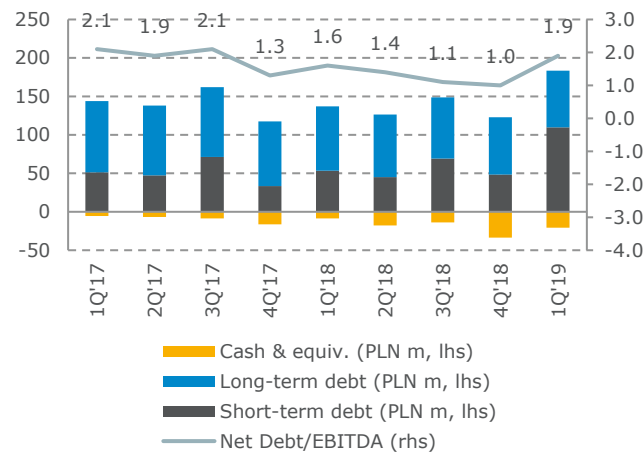


Source: VRG, Dom Maklerski mBanku

Safe Leverage Ratio

VRG reported an increased ratio of net debt to EBITDA as of 31 March after a period of intensified stockpiling and the recognition of reverse factoring in the amount of PLN 16.6m. **As cash flow improves, the leverage ratio in future years is also poised to improve.**

Debt in PLN m and as a multiple of EBITDA



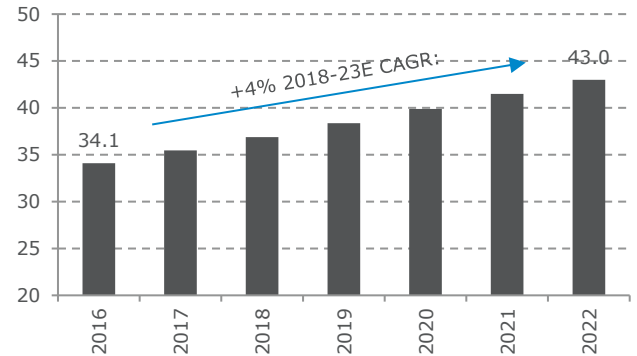
Source: VRG, Dom Maklerski mBanku

Market Outlook

Fashion

In a 2017 industry report, PMR market experts assessed the value of the Polish retail market for clothing and footwear at PLN 34.1bn in total in 2016, of which PLN 26.3bn attributed to clothing. PMR forecasts that between 2016 and 2020 the market will grow at an average annual rate of ca. 4% to a target PLN 43bn. There are currently more than 2,000 registered clothing retailers in Poland. Leading names in terms of size include Inditex, H&M, LPP, Monnari Trade, and CCC.

2016-2020 growth forecast for Poland's fashion market (PLN bn)

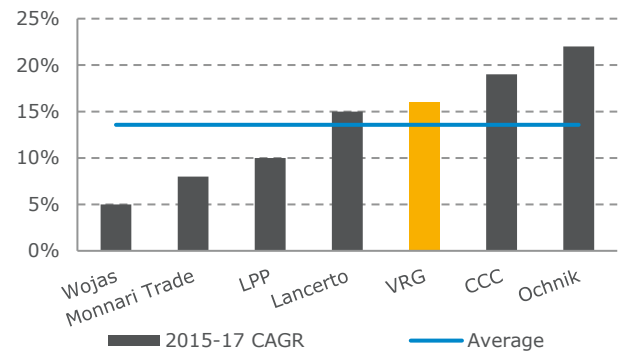


Source: PMR, Dom Maklerski mBanku

The fashion industry has to keep up with and adjust to the changing tastes of consumers. Retailers also have to deploy technology to drive sales and conduct successful marketing campaigns.

Between 2015 and 2017, the aggregate sales revenues of Polish fashion retailers grew at an average annual rate of 13.6%. By comparison, the fashion segment of VRG achieved higher-than-average sales momentum of 16.0%, equivalent to additional revenue of PLN 53.5m a year.

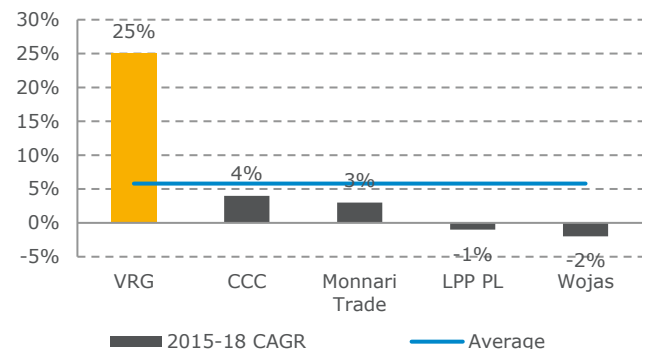
2015-2017 revenue CAGR of selected Polish clothing and footwear retailers



Source: Companies, Dom Maklerski mBanku

Some Polish retailers are observed to be closing underperforming stores while upsizing the trading areas in top locations to allow more space for merchandise and more room for shoppers while reducing costs per square meter (owing to lower rent and labor costs per unit of space).

Change in avg. store count of Polish fashion retailers, 2015-2018

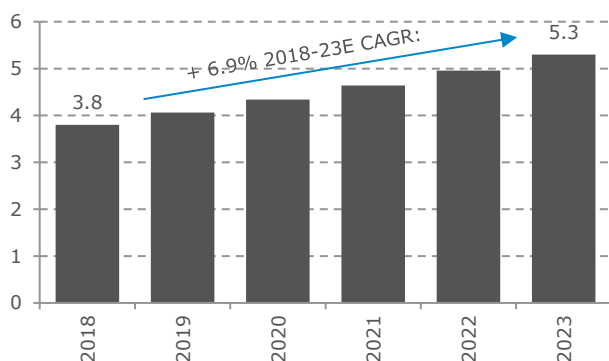


Source: Companies, Dom Maklerski mBanku

Jewelry Market

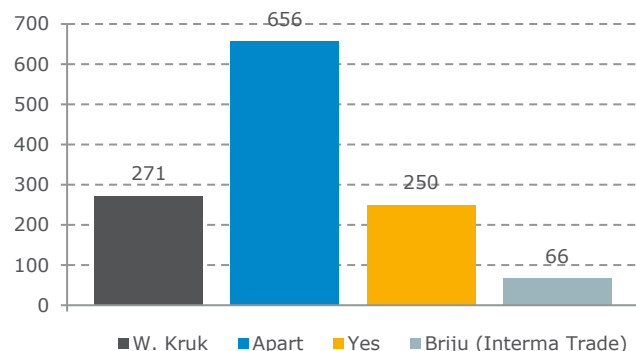
According to a study by KPMG, the Polish market for jewelry and watches was worth an estimated PLN 3.8bn in 2018, of which PLN 3bn spent on jewelry and PLN 0.8bn spent on watches. By 2023, KPMG predicts that the local market for luxury jewelry and watches may grow to PLN 5.3bn after expanding at a 2018-2023E CAGR of 6.9%, fueled by the increasing wealth of the Polish population. In 2018, the number of people categorized by KPMG as "affluent" increased by 8.7% to 1,303,000, generating total combined pre-tax income of PLN 284 billion (+9.1% y/y).

Growth forecast for the Polish jewelry and watch market (PLN bn)



Source: KPMG, Dom Maklerski mBanku

2017 annual revenues of Polish jewelry retailers (PLN m)



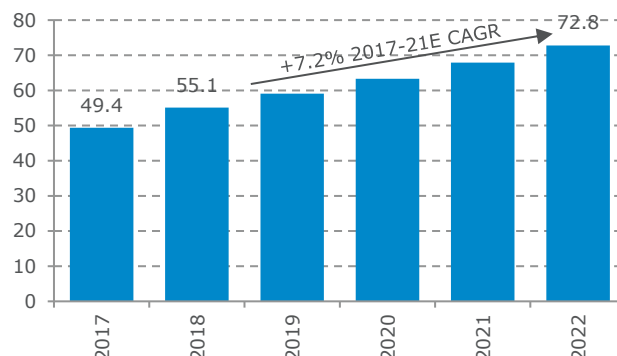
Source: Companies, Dom Maklerski mBanku

The Polish jewelry market is highly fragmented with over 11.5 thousand stores operating across the country (as estimated by the *Rzeczpospolita* newspaper). The Top-3 players are Apart, W.Kruk, and Yes, with smaller shares of the market held by Briju, Jubitom, and Schubert.

e-Commerce

e-Commerce is an integral part of today's fashion business. Polish e-commerce was estimated to be worth PLN 49.4bn in 2018, and in 2019 it is expected to grow by 11.5% to PLN 55.1bn. According to a Gemius study spanning 2017, 54% of Polish Internet users did shopping online that year, up from 50% in 2016. Digital purchases accounted for 12.4% of total retail sales in Poland in 2017 compared to a EU average of 11.3% (source: DPDgroup, *Barometr E-shopper 2017* report).

2017-2022 growth forecast for the Polish e-commerce market (PLN bn)



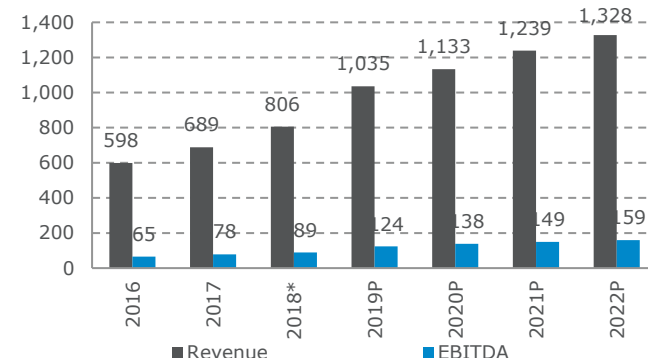
Source: PMR, Dom Maklerski mBanku

Fashion is one of the segments of the e-commerce market that has the greatest growth potential going forward. According to a recent study of the Polish digital shopping market, within each category of retailer (i.e. apparel, make-up, electronics, etc.), 80% of online traffic is controlled by the five largest brands. In today's world, a Web store is not only an additional sales channel, but also serves as a platform to communicate with customers and as a marketing tool.

Earnings Forecast for VRG

With Bytom added to the consolidated financial statements, supported by emerging synergies, we expect VRG to report 28.5% revenue growth to PLN 1,035m in 2019, combined with a 39% boost to PLN 124m in the annual net profit. The main drivers aside from higher sales will include improving sales margins and tight cost discipline. In 2020/21, earnings momentum is likely to be less robust given store downsizing plans.

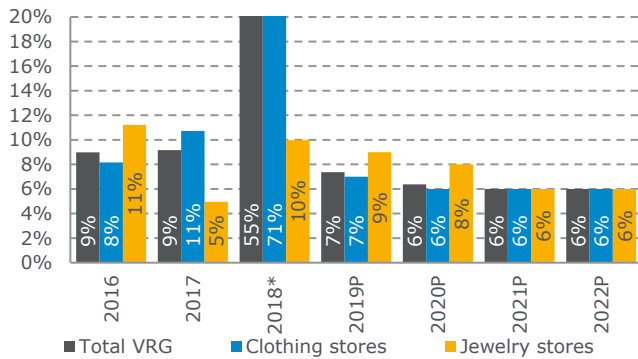
Historical results and 2019-2022 sales and EBITDA forecast (PLN m)



Source: VRG, Dom Maklerski mBanku

We assume VRG will fulfil its targets when it comes to 2019 store area growth, and in subsequent years we anticipate an acceleration in the jewelry chain expansion, driven by franchise stores. On average, we forecast that VRG's total trading area in 2018-2022 will increase at an average annual rate of 6.4%.

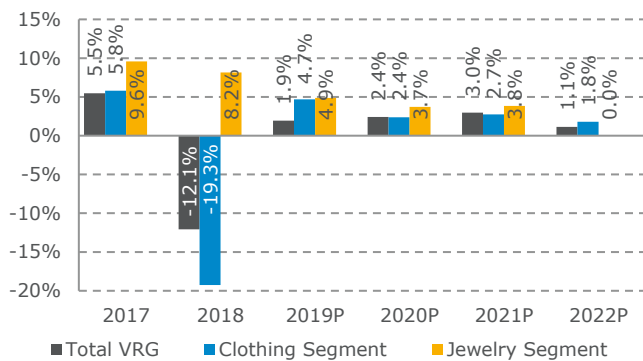
Sales area growth projection by segment



Source: VRG, Dom Maklerski mBanku * comparability affected by the Bytom merger

The W.Kruk jewelry stores are expected to continue delivering positive trends in upcoming years, owing to a larger selection of watches, and at fashion stores we expect to see the effects of the new pricing policy. **In all, we predict a 2018-2022 CAGR for group-wide per-square-meter revenues of 2.1%.**

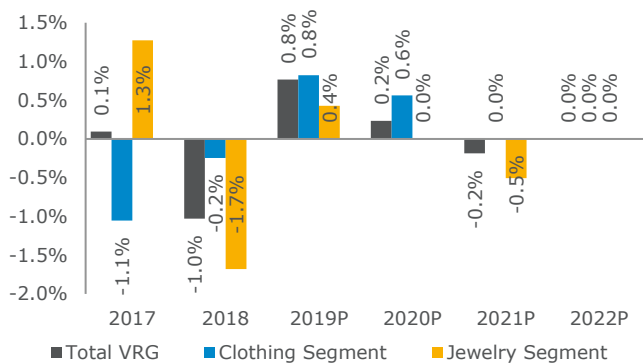
YoY change in avg. annual revenues per square meter



Source: VRG, Dom Maklerski mBanku * comparability affected by the Bytom merger

After a decline in 2018, VRG's gross margin is likely to rebound in 2019 thanks to the new pricing policy and more favorable USDPLN movements in the second half of the year. In 2020, the profitability of the fashion segment should improve with the materialization of sourcing synergies. We have more conservative assumptions as to the profitability of the jewelry segment in 2021.

Historical and expected YoY change in VRG gross margins

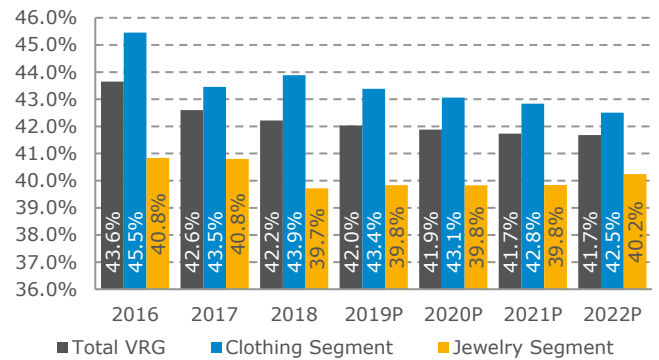


Source: VRG, Dom Maklerski mBanku

As sales effectiveness increases, this should offset the upward pressure on salaries experienced by VRG. Based on

this assumption, we predict that the **SG&A/Sales ratio will remain fairly stable in the 2019-22 period.**

SG&A as a percentage of sales



Source: VRG, Dom Maklerski mBanku

All things considered, we expect VRG's EBIT margin to increase by 0.9pp to 9.8% in 2019, and stay at or close to this level in subsequent years.

Key Efficiency Metrics

	'17	'18	'19P	'20P	'21P
Sales per square meter (PLN)	1,798.4	1,581.1	1,611.7	1,650.5	1,699.5
Gross margin	52.2%	51.2%	51.9%	52.2%	52.0%
SG&A/Sales	42.6%	42.2%	42.0%	41.9%	41.7%
SG&A per sqm	766.1	667.5	677.5	691.3	709.3
EBIT margin	9.1%	8.9%	9.8%	10.2%	10.2%
Total store area (1,000 sqm)	33.3	51.6	55.4	59.0	62.5

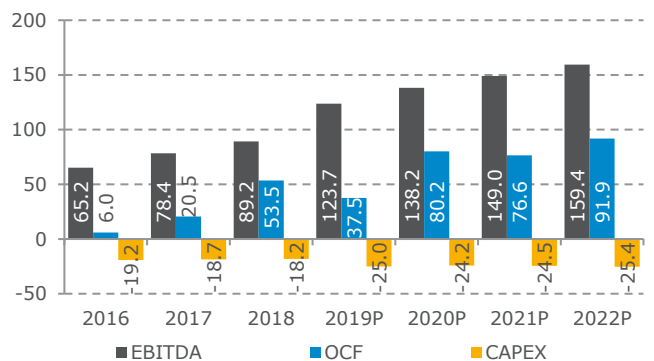
YoY change

	'17	'18	'19P	'20P	'21P
Sales per square meter	5.5%	-12.1%	1.9%	2.4%	3.0%
Gross margin	0.1p.p.	-1p.p.	0.8p.p.	0.2p.p.	-0.2p.p.
SG&A/Sales	-1p.p.	-0.4p.p.	-0.2p.p.	-0.2p.p.	-0.1p.p.
SG&A per sqm	2.9%	-12.9%	1.5%	2.0%	2.6%
EBIT margin	0.6p.p.	-0.2p.p.	0.9p.p.	0.4p.p.	0p.p.
Total store area (1,000 sqm)	9.2%	55.0%	7.4%	6.4%	6.0%

Source: VRG, Dom Maklerski mBanku

When it comes to cash flow, we predict an average OCF/EBITDA (ex. IFRS 16) ratio of 49% in the 2019-2022 period, indicating a decline from the 60% registered in 2018 due to higher working-capital requirements as VRG continues to expand its jewelry stores.

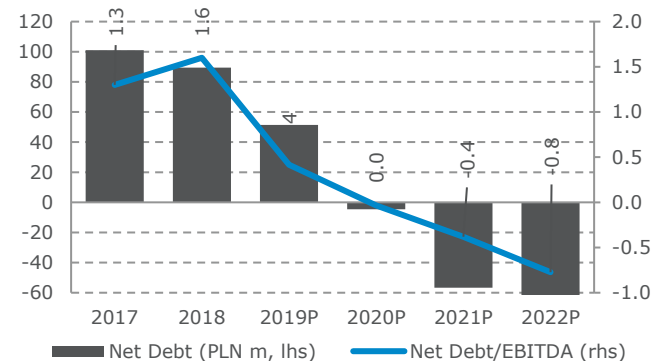
EBITDA, OCF* & CAPEX forecast



Source: VRG, Dom Maklerski mBanku *ex-IFRS 16

On increasing earnings and curbed CAPEX thanks to a higher share of franchise stores, VRG should be able to **reduce the ratio of net debt to EBITDA (ex-IFRS 16) to zero in 2020.**

Forecast of net debt in PLN m and as a multiple of EBITDA



Source: VRG, Dom Maklerski mBanku

Forecast of 2019 Q2 Results

Vistula is set to report 39% growth in sales in Q2 2019 based on monthly sales reports, alongside a 1.6pp y/y rebound to 53.7% in the quarterly sales margin, achieved despite higher costs in dollars of summer collections. Our expectation for EBITDA is that it will show a 53% boost versus the year-ago result at an estimated PLN 36.1m.

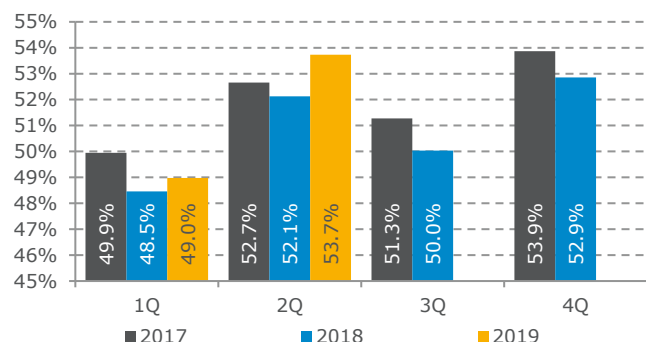
2019 Q2 estimates

(PLN m)	2Q'19E	2Q'18	y/y	2019E	YTD
Revenue	269.0	192.9	39%	1085.0	33%
Gross profit	144.5	100.6	44%	562.1	32%
margin	53.7%	52.1%		51.8%	
EBITDA	36.1	23.6	53%	122.9	24%
EBITDA margin	13.4%	12.2%		11.3%	
EBIT	30.5	19.2	59%	100.9	21%
Pre-tax income	27.8	17.6	58%	89.7	20%
Net profit	22.5	14.1	59%	74.9	19%

Source: VRG,E – estimates by Dom Maklerski mBanku

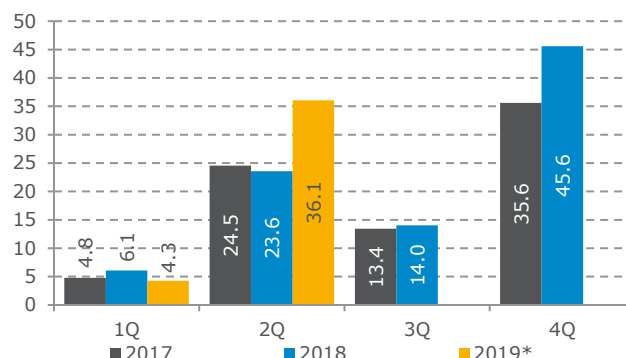
In subsequent quarters, year-over-year growth in sales margins and EBITDA will be additionally supported by positive base effects.

Quarterly sales margins in 2017-2019



Source: VRG, Dom Maklerski mBanku

Quarterly EBITDA in 2017-2019E (PLN m)



Source: VRG, Dom Maklerski mBanku *our estimate

VRG Management Incentive Plan Performance Targets vs. Our Expectations

On 27 June 2018, Vistula's shareholders approved a Management Incentive Plan (MIP) for the years 2018-2020. For MIP purposes, the Company will issue 7,050,000 warrants convertible to P-class stock in three equal annual installments of 2,350,000 shares each. The underlying Performance Targets include (1) outperformance of VRG's share price of no less than 7.5pp over the WIG index during each year, (2) EBITDA of PLN 95m in 2018, PLN 130m in 2019, and PLN 145m in 2020, (3) and net profit of PLN 54m in 2018, PLN 77m in 2019, and PLN 85m in 2020. VRG assigned weights of 50% for Target 1 and 25% each for Targets 2 and 3. The fulfillment of over 90% of Targets 2 and 3 in a given year authorizes eligible managers to acquire 50% of the year's warrant allocation.

MIP Targets vs. Our Forecasts

	2018	2019E	2020E
Outperformance vs. WIG	+7.5pp	+7.5pp	+7.5pp
EBITDA	95	130	145
Net profit	55	78	90

Our Estimates

EBITDA	89	206	225
Net profit	54	74	85

Our Estimates as a % of MIP Target

VRG PW vs. WIG	+1.7pp		
EBITDA	93.9%	158.2%	155.5%
Net profit	97.3%	94.7%	94.4%

Source: VRG, Dom Maklerski mBanku

Our forecasts indicate that VRG will fulfill 90-100% of the EBITDA and net profit targets set for 2018-20, implying an allocation of 25% of eligible warrants (1,762,5000 in total). VRG stock did not achieve target outperformance in 2018, however under the MIP the leftover warrants from last year can be allocated in 2019 in case of 15pp outperformance and in 2020 in case of 22.5ppt outperformance.

Retail Tax

A recent ruling by the EU Court of Justice to dismiss a decision by the European Commission that Poland's planned new tax on big-box retailers was in breach of EU state aid rules brings Poland one step closer to imposing the new levy. For now, the Commission has appealed the ruling, however the government has prepared an amendment to its original tax bill which requires companies to file tax returns from September 2019. If the Commission's appeal is dismissed, retailers will have three

months to pay the new tax, which will be levied on monthly sales in brick-and-mortar stores using three tax rates: (1) zero tax on monthly brick sales of PLN 17m or less, (2) 0.8% on sales between PLN 17m and PLN 170m, and (3) 1.4% on sales over PLN 170m. VRG estimates is 2020 tax burden under the new regime at PLN 4m. **We assume that VRG will try and offset the higher tax by adjusting its pricing policy, and we therefore do not factor the new tax into our future forecasts.**

Earnings History and Future Projections

(PLN m)	2014	2015	2016	2017	2018	2019P	2020P	2021P	2022P
Revenue	443.4	514.2	598.5	688.5	805.7	1,035.3	1,132.9	1,238.6	1,327.7
change	11.5%	16.0%	16.4%	15.0%	17.0%	28.5%	9.4%	9.3%	7.2%
COGS	205.7	241.4	286.7	329.1	393.4	497.6	541.9	594.7	637.5
Gross profit	237.7	272.7	311.8	359.4	412.3	537.7	591.0	643.8	690.2
Gross margin	53.6%	53.0%	52.1%	52.2%	51.2%	51.9%	52.2%	52.0%	52.0%
Selling expenses	158.5	174.1	205.1	230.5	272.8	414.9	474.5	516.9	553.4
Administrative expenses	43.0	52.8	56.1	62.8	67.3	20.2	0.0	0.0	0.0
Other operating activity (net)	0.6	-2.5	0.4	-3.2	-0.2	-1.1	-1.0	-1.0	-1.0
EBIT	36.8	43.3	50.9	62.8	71.9	101.4	115.5	125.9	135.8
change	9.4%	17.8%	17.6%	23.3%	14.4%	41.1%	14.0%	9.0%	7.8%
EBIT margin	8.3%	8.4%	8.5%	9.1%	8.9%	9.8%	10.2%	10.2%	10.2%
Net financing gains/losses	-11.3	-11.2	-6.6	-7.8	-6.2	-11.2	-10.6	-9.8	-9.0
Pre-tax income	25.5	32.1	44.3	55.0	65.7	90.2	104.9	116.1	126.8
Tax	-5.2	-6.8	-9.3	-11.8	-12.2	-16.3	-19.9	-22.1	-24.1
Net income	20.3	25.4	35.0	43.2	53.5	73.9	85.0	94.0	102.7
change	-55.0%	25.0%	38.2%	23.3%	23.9%	38.0%	15.0%	10.7%	9.2%
margin	4.6%	4.9%	5.9%	6.3%	6.6%	7.1%	7.5%	7.6%	7.7%
D&A expenses	11.3	12.5	14.2	15.5	17.3	22.3	22.7	23.1	23.6
EBITDA	48.1	55.9	65.2	78.4	89.2	205.6	225.5	241.5	257.4
EBITDA (ex. IFRS 16)	48.1	55.9	65.2	78.4	89.2	123.7	138.2	149.0	159.4
change	7.1%	16.0%	16.7%	20.2%	13.8%	38.7%	11.7%	7.8%	7.0%
EBITDA margin	10.9%	10.9%	10.9%	11.4%	11.1%	11.9%	12.2%	12.0%	12.0%
Shares at year-end (millions)	173.9	173.9	173.9	173.9	234.5	234.5	234.5	234.5	234.5
EPS	0.1	0.1	0.2	0.2	0.2	0.3	0.4	0.4	0.4
ROA	3.2%	3.8%	4.8%	5.6%	5.7%	5.5%	5.2%	5.4%	5.5%
ROE	4.8%	5.7%	7.4%	8.3%	7.9%	8.8%	9.2%	9.3%	9.3%

Balance Sheet

(PLN m)	2014	2015	2016	2017	2018	2019P	2020P	2021P	2022P
ASSETS	645.3	697.3	751.5	778.8	1,113.4	1,569.4	1,680.7	1,804.5	1,934.2
Fixed assets	420.2	424.6	428.5	425.5	593.2	918.4	940.1	961.7	985.0
Property, plant and equipment	52.0	57.0	61.3	59.4	78.0	84.0	85.5	86.8	88.7
Intangible assets	359.2	357.7	357.6	358.8	507.3	507.1	507.1	507.1	507.1
Deferred tax assets	7.4	7.9	8.2	5.8	6.4	6.4	6.4	6.4	6.4
Other	1.6	2.0	1.3	1.5	1.5	320.8	341.0	361.3	382.8
Current assets	225.1	272.7	323.0	353.4	520.1	651.1	740.6	842.9	949.2
Inventory	196.1	240.6	284.0	315.3	460.8	514.6	553.0	606.9	650.6
Accounts receivable	14.5	15.2	21.0	20.2	23.9	34.3	41.5	49.7	57.9
Cash and cash equivalents	13.2	15.6	16.8	16.4	33.5	98.8	142.8	182.9	237.4
Other	1.4	1.4	1.3	1.4	1.9	3.3	3.3	3.3	3.3
(PLN m)	2014	2015	2016	2017	2018	2019P	2020P	2021P	2022P
EQUITY & LIABILITIES	645.3	697.3	751.5	778.8	1,113.4	1,569.4	1,680.7	1,804.5	1,934.2
Equity	430.6	458.5	494.4	542.5	805.1	879.2	964.1	1,058.2	1,160.9
Non-current liabilities	109.6	101.1	95.1	85.3	76.8	283.4	283.4	283.4	283.4
Loans and borrowings	0.0	98.1	91.9	82.1	70.8	70.5	70.5	70.5	70.5
Other	109.6	3.0	3.2	3.2	6.0	212.9	212.9	212.9	212.9
Current liabilities	105.1	137.7	162.0	151.0	231.5	406.9	433.1	463.0	489.9
Loans and borrowings	6.0	5.9	17.7	20.4	14.6	79.7	67.7	55.7	43.7
Trade creditors	83.7	114.9	121.2	108.8	192.8	203.0	221.0	242.6	260.1
Finance leases	0.0	0.0	0.0	0.0	0.0	114.3	134.5	154.8	176.2
Other	15.4	16.9	23.2	21.8	24.0	9.9	9.9	9.9	9.9
Debt	6.0	103.9	109.6	102.6	85.4	150.2	138.2	126.2	114.2
Net Debt	-7.2	88.4	92.8	86.2	51.9	51.4	-4.6	-56.7	-123.1
Net debt / Equity	-1.7%	19.3%	18.8%	15.9%	6.4%	5.8%	-0.5%	-5.4%	-10.6%
Net debt/ EBITDA	-0.1	1.6	1.4	1.1	0.6	0.3	0.0	-0.2	-0.5
BVPS	2.5	2.6	2.8	3.1	3.4	3.7	4.1	4.5	5.0

Cash Flow

(PLN m)	2014	2015	2016	2017	2018	2019P	2020P	2021P	2022P
Cash flow from operating activities	18.8	25.7	6.0	20.5	53.5	119.4	167.4	169.0	189.9
Pre-tax income	20.3	28.2	35.2	43.2	65.7	72.3	85.0	94.0	102.7
D&A expenses	11.3	12.5	14.2	15.5	17.3	22.3	22.7	23.1	23.6
Amortization of assets held u. finance leases	0.0	0.0	0.0	0.0	0.0	81.9	87.2	92.5	98.0
Change in provisions	0.6	1.8	2.3	0.5	-2.9	-2.6	0.0	0.0	0.0
Working capital	-12.5	-12.3	-33.0	-27.0	-21.1	-51.3	-27.5	-40.6	-34.4
Other	-0.9	-4.6	-12.7	-11.8	-5.6	-3.2	0.0	0.0	0.0
Cash flow from investing activities	-12.3	-12.6	-18.0	-15.3	-18.6	-24.8	-24.2	-24.5	-25.4
CAPEX	-12.5	-14.4	-19.2	-18.7	-18.2	-25.0	-24.2	-24.5	-25.4
Other	0.2	1.8	1.2	3.4	-0.4	0.3	0.0	0.0	0.0
Cash flow from financing activities	-11.6	-10.7	13.2	-5.0	-17.8	-29.4	-99.2	-104.5	-110.0
Loans and borrowings	-0.8	108.1	9.4	-8.4	8.0	53.6	-12.0	-12.0	-12.0
Debt securities	-10.5	-119.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-0.3	0.2	3.9	3.4	-25.8	-83.0	-87.2	-92.5	-98.0
Change in cash	-5.0	2.4	1.3	0.3	17.1	65.3	44.0	40.1	54.4
FX effects	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0
Cash at eop	13.2	15.6	16.8	16.4	33.5	98.8	142.8	182.9	237.4
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	15.7	20.0	2.3	19.2	36.6	29.1	64.6	60.0	73.7
CAPEX/Sales	2.8%	2.8%	3.2%	2.7%	2.3%	2.4%	2.1%	2.0%	1.9%

Trading Multiples*

	2014	2015	2016	2017	2018	2019P	2020P	2021P	2022P
P/E*	36.0	28.8	20.8	16.9	18.4	13.3	11.6	10.5	9.6
P/CE*	23.1	19.3	14.8	12.4	13.9	10.2	9.1	8.4	7.8
P/B	1.7	1.6	1.5	1.3	1.2	1.1	1.0	0.9	0.8
P/S	1.6	1.4	1.2	1.1	1.2	1.0	0.9	0.8	0.7
FCF/EV*	0.9%	-0.1%	2.7%	2.2%	0.6%	0.2%	2.5%	3.4%	5.4%
EV/EBITDA	20.8	23.3	33.8	18.8	14.4	12.3	11.1	9.7	8.7
EV/EBIT*	27.5	33.7	73.8	28.4	21.1	18.0	16.7	14.3	12.6
EV/S*	1.9	1.6	1.4	1.2	1.3	1.0	0.9	0.7	0.6
OCF/EBITDA	39%	46%	9%	26%	60%	30%	58%	51%	58%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price (PLN)	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Shares outstanding at eop (millions)	173.9	173.9	173.9	173.9	234.5	234.5	234.5	234.5	234.5
MC (PLN m)	730	730	730	730	985	985	985	985	985
Minority interest (PLN m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV (PLN m)*	831	828	837	829	1,048	1,036	980	928	862

*ex. IFRS 16

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

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

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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%
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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.

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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 investment recommendations for VRG in the 12 months prior to this publication

Rating	overweight	overweight	overweight	overweight
Rating date	2019-05-29	2019-03-28	2018-12-05	2018-11-08
Target price (PLN)	-	-	-	-
Price on rating day	3.90	4.29	3.83	4.06

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