

12 September 2013

Europe | Poland | Mobile Services

DR. KALLIWODA
RESEARCH GmbH**Initiating Coverage****BUY**

Price target: PLN 0.60

Overview

Industry:	Mobile Services
Country:	Poland
ISIN:	PLPPWK000014
Reuters:	MIT.WA
Bloomberg:	MIT PW
Website:	www.mitsa.pl

Last price:	0.46	
	High	Low
Price 52 weeks:	0.53	0.27
Market cap. (PLNm)	73.44	
No of shares (m)	159.65	

Shareholders

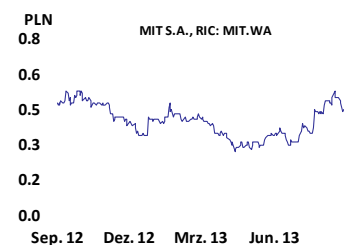
MNI S.A.	65.10%
Free float	34.90%

Performance

4 weeks	6.98%
13 weeks	38.24%
26 weeks	9.52%
52 weeks	-2.13%
YTD	11.90%

Dividend

	in PLN	in %
2009	0.00	0.00%
2010	0.00	0.00%
2011	0.00	0.00%
2012	0.00	0.00%

52-weeks chart**MIT S.A.****Cheap valuation given the potential of mobile**

■ MIT S.A., which has operated under this name since February 2010, distributes electronic devices and offers mobile services, mapping materials as well as business outsourcing. The company emerged out of PPWK S.A., a highly reputable provider of mapping materials in Poland, whose roots go back to the 1920s. In 2009, the technology holding MNI S.A. became PPWK's largest shareholder. Since then, management have grown the business mainly through acquisitions, while always keeping an eye on profitability.

■ In our view, the combination of digital GIS- and GPS-based mapmaking, proprietary mobile services as well as distribution of electronic devices e.g. navigation systems and tablets offers great growth opportunities. First, mobile applications can be combined with geolocalization, which is especially interesting for advertisers. Second, through its subsidiary Lark Europe MIT can sell electronic devices with its own software and thus improve monetization and margins. In general, most research firms regard the mobile segment as key growth driver for the Internet in the coming years. Global sales of smartphones have already surpassed those of PCs and tablets are expected to follow soon.

■ In H1/13, MIT generated revenues of PLN 51.1m, which decreased by 14.6% y-o-y. However, due to in our opinion strong development of high-margin segments Navigon and Lark Europe both EBIT (12% vs. 9.2% in H1/12) and net margin (6.2% vs. 1.8%) improved y-o-y. Following several larger investments in the recent past, MIT had net debt of PLN 56.6m at the end of June 2013, which equaled a net gearing of 15%.

■ Based on our DCF model, we have determined a 12-months PT for MIT of PLN 0.60, which implies an upside of 30.1% at present and a BUY rating. With an EV/EBITDA 2013E of 4.4x and a P/Tangible BVPS of 1x, the stock seems attractively valued, especially given the growth prospects of the mobile segment. However, in our view there are also negatives: (1) the business outsourcing segment, which is rather unrelated to the rest and we believe does not offer much growth potential (2) MIT's complicated history and (3) intransparency relating to its relations with MNI.

in PLNm	2010	2011	2012	2013E	2014E	2015E
Net sales	101.38	87.25	112.51	112.67	128.67	144.24
EBITDA	39.12	38.47	30.82	29.68	33.76	37.85
EBIT	29.01	26.52	14.46	13.63	15.83	18.17
Net income	20.19	19.64	5.14	6.18	7.98	9.91
EPS	0.30	0.14	0.04	0.04	0.05	0.06
Tangible BVPS	0.95	0.43	0.45	0.44	0.49	0.56
RoE	5.65%	5.40%	1.38%	1.64%	2.08%	2.52%
EBIT margin	28.61%	30.40%	12.85%	12.10%	12.30%	12.60%
P/E	1.53x	3.34x	12.98x	11.88x	9.20x	7.41x
P/Tangible BVPS	0.48x	1.07x	1.03x	1.04x	0.93x	0.83x
EV/EBITDA	3.32x	3.38x	4.22x	4.38x	3.85x	3.43x

Analysts

Adrian Kowollik
Email: ak@kalliwoda.com

Dr. Norbert Kalliwoda
Email: nk@kalliwoda.com

Phone: +49 69 97 20 58 53
www.kalliwoda.com

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1 Company profile

MIT Mobile Internet Technology S.A. is the oldest Polish company specializing in GIS (Geo Information System)- and GPS (Global Positioning System)- based digital mapping technologies. Through its subsidiaries, the Group also provides mobile services such as advertising campaigns, games, SMS lotteries, audio and video streaming, distributes electronic devices and offers business outsourcing services e.g. call center, digitalization of documents, surveys, creation and management of databases. At the end of June 2013, MIT had more than 300 employees (KRe).

2 SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> - Leading Polish provider of mobile, mapping and business outsourcing services; offers both distribution of electronic devices as well as production and distribution of content - Subsidiary Navigo has 50% market share when it comes to online maps of Poland; MNI Premium is a TOP 3 provider of value-added services for the media and telco sectors on the Polish market - Subsidiary Navigo benefits from the decade-long experience of its predecessor PPWK in mapping; it is the leader in the segment of digital map components for websites, mobile devices (iOS, Android and JAVA) and GPS-based navigation systems - Solid results in the last years - Despite several acquisitions and fast growth, net gearing amounted to only 15% at the end of June 2013 	<ul style="list-style-type: none"> - High goodwill position, which amounts to 81.8% of equity (30 June 2013) - CEO does not own any shares of MIT - Difficult company history: many acquisitions, re-organisations, legal disputes with former management - MIT offers many different services, which are not all related to each other e.g. subsidiary Scientific Services Sp. z.o.o - No institutional investor has more than 5% in MIT; almost all shares in the free float are owned by individuals - Business outsourcing services are a highly competitive segment with in our view only limited growth prospects - In the next two years, MIT has to repay PLN 59m of loans - MIT is a penny stock
Opportunities	Risks
<ul style="list-style-type: none"> - Focus on most promising and high-margin proprietary services; introduction of new and innovative ones - Strong expertise in mapping and mobile services offers tremendous opportunities e.g. relating to mobile location-based advertising - Combination of content with the devices of subsidiary Lark should boost sales figures and margins - Further value-accretive acquisitions, especially of ad agencies with expertise in design - According to Gemius, Poland lags other CEE countries when it comes to the share of mobile advertising (1.6% vs 3% on average) in total online marketing; the segment is expected to develop dynamically due to (1) increasing mobile data volumes and (2) unique technologies such as Near Field Communication, or geotargeting - According to PMR, the mobile market in Poland will almost triple by 2015 and reach PLN 2.7bn; at the same time, the number of Poles, who go online with their phones, will increase from 11.3m in 2012 to 16.2m - Strong operating leverage allows for high cash flow generation and dividend payouts in the long run 	<ul style="list-style-type: none"> - Dependence on the condition of the economy and the advertising sector, which is highly cyclical - High competition from larger media and telco companies - Low entry barriers - Loss of key employees - Dependence on largest shareholder MNI S.A. - Risk associated with capital measures in order to finance further acquisitions - Regulatory environment for lotteries in Poland is very tough

3 Valuation

Due to a lack of listed comparable companies with estimates we have only based our valuation of MIT on a DCF model. Our 12-months price target for the stock equals PLN 0.60, which implies an upside potential of 30.1% at present.

Discounted Cash Flow method (DCF)

Discounted Cash Flow Model (Basis 09/2013)									
	Phase 1								
in PLNm	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Net sales	112.67	128.67	144.24	159.38	172.13	183.32	192.49	200.19	206.19
(y-o-y change)	0.1%	14.2%	12.1%	10.5%	8.0%	6.5%	5.0%	4.0%	3.0%
Operating profit	13.63	15.83	18.17	20.40	22.64	24.11	25.12	25.92	26.50
(operating margin)	12.1%	12.3%	12.6%	12.8%	13.2%	13.2%	13.1%	13.0%	12.9%
NOPLAT	11.04	12.82	14.72	16.52	18.33	19.53	20.35	21.00	21.46
+ Depreciation & Amortization	16.04	17.93	19.67	21.26	22.44	23.35	23.94	24.30	24.41
= Net operating cash flow	27.08	30.75	34.39	37.78	40.78	42.88	44.29	45.30	45.87
- Total investments (Capex and WC)	-14.16	-30.92	-31.91	-32.77	-31.56	-30.86	-29.52	-28.46	-27.03
Capital expenditures	-15.33	-26.07	-27.31	-28.42	-28.08	-27.97	-27.33	-26.79	-25.93
Working capital	1.18	-4.85	-4.60	-4.35	-3.48	-2.90	-2.19	-1.67	-1.10
= Free cash flow (FCF)	12.93	-0.17	2.48	5.02	9.21	12.01	14.77	16.84	18.84
PV of FCFs	12.51	-0.15	1.94	3.52	5.81	6.81	7.52	7.70	7.75
PV of FCFs in explicit period	53.43								
PV of FCFs in terminal period	88.98								
Enterprise value (EV)	142.41								
+ Net cash / - net debt (30 June 2013)	-56.56								
Shareholder value	85.85								
Number of shares outstanding (m)	159.65								
WACC	11.3%								
Cost of equity	12.5%								
Debt costs before tax	8.0%								
Tax rate	19.0%								
Debt costs after tax	6.5%								
Equity ratio	80.0%								
Debt ratio	20.0%								
Fair value per share in PLN	0.54								
Fair value per share in PLN (in 12 months)	0.60								

Source: Dr. Kalliwoda Research GmbH

Sensitivity Analysis		Terminal EBIT margin						
		9.9%	10.9%	11.9%	12.9%	13.9%	14.9%	15.9%
WACC	8.3%	0.90	1.02	1.13	1.25	1.37	1.48	1.60
	9.3%	0.69	0.78	0.87	0.96	1.05	1.14	1.23
	10.3%	0.54	0.61	0.68	0.75	0.83	0.90	0.97
	11.3%	0.42	0.48	0.54	0.60	0.66	0.72	0.78
	12.3%	0.33	0.38	0.43	0.48	0.53	0.58	0.62
	13.3%	0.26	0.30	0.34	0.38	0.42	0.46	0.50

Peers

In the following, we provide a list of companies, which have comparable business models to MIT S.A.:

- (1) *One-2-One S.A.*: One-2-One, which is based in Poznan, provides interactive media and marketing solutions for businesses. Its service portfolio includes among others mobile marketing under the brand name mobijoy!; Internet and mobile television under the brand Comtica; a Mobile Advertising Platform and the social network platform Streemo. In fiscal-year 2012, One-2-One generated revenues of PLN 0.3m.
- (2) *Jet Multimedia SA*: Jet Multimedia is part of the Paris-based digital entertainment group Digital Virgo. It provides to its clients (media, telco operators, advertisers, public institutions) such services as management of web and mobile platforms, audience acquisition e.g. through lotteries and mobile marketing. In 2012, Digital Virgo and Jet Multimedia together had sales of EUR 207m.

- (3) *Buongiorno S.p.A.*: Buongiorno, which is based in Parma, develops and manages paid apps and contents that help consumers get greater enjoyment from mobile devices. The company has direct connections to more than 130 telco operators in 25 countries. Its webapps include Gamifive, MuchGossip, Fingerbooks, Appsfuel HTML5 Marketplace, Winga, Play.me and the mobile payments solution Cashlog. Buongiorno was taken over and delisted by Japan-based NTT Docomo Inc. in 2012 and at that time had estimated yearly revenues of EUR 240m.

4 H1/13 results and outlook

Net sales

In H1/13, MIT generated net sales of PLN 51.2m, which equaled a 14.6% decrease y-o-y. Between January and June 2013, the company sold less services (advertising, entertainment content, digital maps etc.; -6.6% to PLN 33.6m) and products (electronic devices; -26.6% to PLN 17.5m), which in our opinion stemmed from the relatively weak economic situation in Poland. Apart from that, the first half of the year is usually weaker than the second in the media and advertising sector.

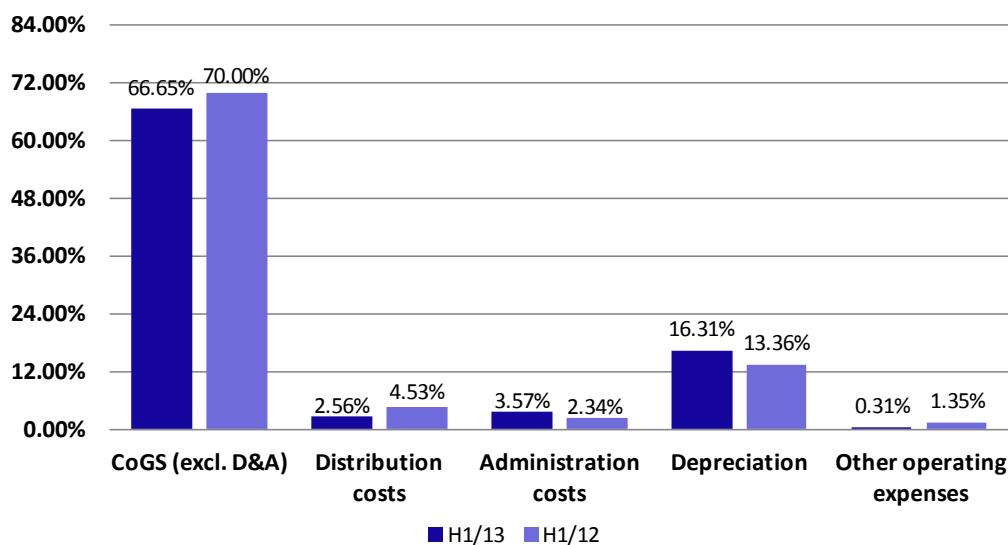
H1/13 results compared to previous year

H1/13 vs. previous year			
in PLNm	H1/13	H1/12	change (%)
Net sales	51.15	59.86	-14.6%
EBITDA	14.49	13.53	7.1%
EBITDA margin	28.3%	22.6%	
EBIT	6.15	5.53	11.2%
EBIT margin	12.0%	9.2%	
Net income	3.18	1.07	197.4%
Net margin	6.2%	1.8%	

Source: Company information, Dr. Kalliwoda Research GmbH

Profitability

Share of costs in total sales H1/13 vs. H1/12



Source: Company information, Dr. Kalliwoda Research GmbH

For H1/13, MIT reported an EBIT of PLN 6.2m, which corresponded to an 11.2% increase y-o-y. The main reason was a lower share of CoGS y-o-y as MIT benefitted from the solid development of its most profitable subsidiary Navigo (KRe). Net income (+197.4% to PLN 3.2m) was additionally positively affected by lower net interest expenses (PLN 2.4m vs. PLN 3.8m in H1/12) and effective tax rate (14.3% vs. 37.6%).

Balance Sheet and Cash Flow

As of 30 June 2013, the largest positions on MIT's balance sheet were equity of PLN 377.6m and goodwill of PLN 308.8m (thereof: MNI Premium S.A. PLN 291.3m; Lark Europe Sp. z.o.o PLN 15.1m), which resulted from acquisitions and re-organizations in the last years (MNI Premium, which was previously a subsidiary of main shareholder MNI S.A., was taken over by MIT in a share deal). Working capital amounted to PLN 8.1m compared to PLN 13.8m last year.

At the end of H1/13, MIT had interest-bearing debt of PLN 62.9m, thereof PLN 16.1m long-term. By February 2015, the company has to repay PLN 59m of bank loans. Given cash and short-term financial assets of PLN 6.3m as of 30 June 2013, the net debt position amounted to PLN 56.6m and the net gearing to 15%.

Between January and June 2013, MIT generated an operating cash flow of PLN 4.9m compared to PLN -0.9m last year. Apart from higher net income, the reasons were lower investments into working capital (PLN 7.5m vs. PLN 11.6m). Other than last year, when they accounted for the acquisitions of Lark Europe Sp. z.o.o for PLN 15m and c. PLN 20m of new intangible asset, cash flows from investing (PLN -1.3m vs. PLN -34.5m) and financing (PLN -5.1m vs. PLN 30.2m) were not affected in H1/13 by asset purchases and related capital measures. In total, the cash position decreased since January 2013 by PLN 1.5m to PLN 1.4m.

Outlook

We believe that MIT's businesses, which are related to mobile services, will develop very strongly in the coming years. We like the fact that through Lark Europe, which it acquired at the end of 2011, MIT is able to combine its own content with electronic devices (e.g. MP3/MP4 players, tablets, navigation systems) and thus generate higher gross margins. In addition, through subsidiary Navigon, which has very strong expertise in digital mapmaking due to its history as part of PPWK S.A., the company is able to create software with geolocalization and -targeting. In our view, this area is particularly promising when it comes to mobile advertising campaigns. However, on the other hand we expect declining revenues in case of the subsidiary Scientific Services Sp. z.o.o, which offers business outsourcing services such as document archiving, database management and call center. In our view, this business is highly competitive – we estimate that there are at least 10 companies in Poland, which provide similar services - and only offers limited growth potential.

We have modeled MIT's revenues according to subsidiaries. In our opinion, Lark Europe (CAGR 12-21 of 10.7%) and Navigon (CAGR 12-21 of 8.7%) will be the two main growth drivers in the coming years. We estimate that they will be able to generate average gross margins of 27% and 50% respectively. For EBIT margins on the Group level, we expect that they will increase from 12.1% in 2013E to >13% in the long run. In our view, this will be driven by improved monetization of MIT's own content and improvements of the cost structure. In general, we expect that in the coming years MIT will conduct further acquisitions in order to complement or expand its own product and service offering e.g. in advertising.

Based on our DCF model, we have determined a 12-months price target for MIT of PLN 0.60 per share, which implies an upside of 30.1% at current level and a BUY rating. We believe that with current EV/EBITDA 2013E and P/Tangible BVPS of 4.4x and 1x the stock is attractively valued given the high growth potential of the mobile segment. However, we also see risks at the company: (1) the Business Outsourcing segment, which is only little related to the rest and in our view does not offer much growth potential (2) MIT's complicated history and (3) intransparency relating to its relations with MNI.

Sales model 2013E-2015E

Sales split 2013E-2015E			
in PLNm	2013E	2014E	2015E
MIT S.A. + EL2 Sp. z.o.o	5.40	5.91	6.34
(% of sales)	4.8%	4.6%	4.4%
Gross margin	30.0%	30.0%	30.0%
MNI Premium Sp. z.o.o	42.51	46.94	50.82
(% of sales)	37.7%	36.5%	35.2%
Gross margin	28.0%	28.0%	28.0%
Navigon Sp. z.o.o	3.24	3.76	4.29
(% of sales)	2.9%	2.9%	3.0%
Gross margin	50.0%	50.0%	50.0%
Scientific Services Sp. z.o.o	8.56	9.01	9.23
(% of sales)	7.6%	7.0%	6.4%
Gross margin	35.0%	35.0%	35.0%
Lark Europe Sp. z.o.o	52.95	63.05	73.56
(% of sales)	47.0%	49.0%	51.0%
Gross margin	27.0%	27.0%	27.0%
Total revenues	112.67	128.67	144.24
(change y-o-y)	0.1%	14.2%	12.1%

Source: Dr. Kalliwoda Research GmbH

Our forecasts 2013E-2015E

Our estimates 2013E-2015E			
in PLNm	2013E	2014E	2015E
Net sales	112.67	128.67	144.24
EBITDA	29.68	33.76	37.85
EBITDA margin	26.3%	26.2%	26.2%
EBIT	13.63	15.83	18.17
EBIT margin	12.1%	12.3%	12.6%
Net income	6.18	7.98	9.91
Net margin	5.5%	6.2%	6.9%

Source: Dr. Kalliwoda Research GmbH

Quarterly results and estimates 2013

in PLNm	Q1/11	Q2/11	Q3/11	Q4/11	2011	Q1/12	Q2/12	Q3/12	Q4/12	2012
Net sales	18.71	18.56	19.99	29.99	87.25	30.87	28.99	26.82	25.84	112.51
<i>y-o-y change</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	65.0%	56.2%	34.2%	-13.8%	29.0%
EBITDA	8.08	-6.73	14.67	22.46	38.47	7.16	6.37	0.26	17.02	30.82
<i>EBITDA margin</i>	43.2%	-36.3%	73.4%	74.9%	44.1%	23.2%	22.0%	1.0%	65.9%	27.4%
EBIT	5.18	-4.42	7.24	18.52	26.52	3.34	2.20	1.70	7.22	14.46
<i>EBIT margin</i>	27.7%	-23.8%	36.2%	61.8%	30.4%	10.8%	7.6%	6.4%	28.0%	12.9%
Net income	3.67	-5.59	5.91	15.65	19.64	1.75	-0.68	0.08	3.99	5.14
<i>Net margin</i>	19.6%	-30.1%	29.6%	52.2%	22.5%	5.7%	-2.4%	0.3%	15.5%	4.6%

in PLNm	Q1/13	Q2/13	Q3/13E	Q4/13E	2013E
Net sales	22.30	28.85	28.00	33.52	112.67
<i>y-o-y change</i>	-27.8%	-0.5%	4.4%	29.8%	0.1%
EBITDA	7.89	6.60	6.70	8.49	29.68
<i>EBITDA margin</i>	35.4%	22.9%	23.9%	25.3%	26.3%
EBIT	3.70	2.45	3.40	4.09	13.63
<i>EBIT margin</i>	16.6%	8.5%	12.1%	12.2%	12.1%
Net income	2.22	0.96	1.00	2.01	6.18
<i>Net margin</i>	10.0%	3.3%	3.6%	6.0%	5.5%

Source: Company information, Dr. Kalliwoda Research GmbH

5 Business model

MIT Mobile Internet Technology S.A., which is based in Warsaw, was originally a publishing house for maps called Polskie Przedsiębiorstwo Wydawnictw Kartograficznych im. Eugeniusza Romera (PPWK S.A.). In 2009, the company, which had been listed on the WSE since 1996, was taken over by MNI S.A. and following an exchange of assets changed its name to MIT in February 2010. Today, after the acquisition of Lark Europe Sp. z.o.o in 2011 and the foundation of subsidiary Scientific Services Sp. z.o.o in 2012 the company's offering consists of digital mapmaking, production and distribution of entertainment content, mobile services, sale of electronic devices, and business process outsourcing. It targets both retail and business customers.

As of 30 June 2013, MIT S.A., whose main shareholder is the media and telco holding MNI S.A., had more than 300 employees (KRe). Currently, the company consists of the following fully-owned subsidiaries:

EL2 Sp. z.o.o

EL2, whose share in 2012 sales we estimate at 2.1%, was acquired by PPWK S.A., the predecessor of MIT, in 2007. It provides m-marketing, m-payment, m-entertainment and m-business services for mobile operators, TV and radio stations (e.g. Polish public TV broadcaster TVP), financial institutions, media agencies and clients from the FMCG (Fast Moving Consumer Goods) sector.

M-marketing and m-payment services include creation of mobile advertising campaigns, execution of SMS lotteries, contests as well as provision of SMS Premium services and m-coupons. Mobile devices are very attractive for these kinds of services as they are always available and thus allow very effective targeting of specific customer groups.

In addition to the above, EL2 also offers services relating to m-business and m-entertainment. They include among others SMS/MMS/WAP/MT campaigns, which the company is able to conduct on all mobile networks in Poland, and a large catalogue with multimedia content e.g. ringtones, games and animations, which it offers through the portal Wapacz.pl.

MNI Premium S.A.

MNI Premium was taken over by MIT in 2010 from MNI S.A. in an exchange of shares. According to our estimates, the subsidiary generated 43% of MIT's total sales in 2012.

MNI Premium provides the following services:

- (1) Distribution of content for smartphones and PDA/MDAs to Polish and foreign media
- (2) Organization of interactive SMS services for media such as contests, lotteries, surveys, chats, exchange of opinions
- (3) Other value-added mobile services e.g. news services, entertainment services, phone personalization, games
- (4) Market research through own contact center, which can be used by all major telco operators in Poland: infolines for business customers, market surveys, product sales on the phone, organization of meetings, creation and verification of databases, help with direct marketing campaigns

Apart from Poland, MNI Premium is also active in the Ukraine, which according to our estimates accounted for c. PLN 6.5m of sales in 2012.

Navigo Sp. z.o.o

The brand Navigo was introduced on the market by PPWK, the predecessor of MIT, in 2003. We estimate its share in MIT's 2012 revenues at 2.8%. According to MIT, c. 50% of online maps of Poland, which are available on the Internet, have been created by Navigo.

The subsidiary has developed the following applications:

- (1) Navigo Web Map – interactive map service, which allows the presentation of maps on corporate websites
- (2) NavigoX – ActiveX element, which provides map functions that can be easily integrated with own applications; allows the presentation of maps as graphical objects
- (3) Navigo CarTrack – application, which is used for visualization of vehicle routes; option Navigo Security allows to show the current status of moving and static objects
- (4) Navigo SQL Cache – the application reads the localization of objects from the SQL database and places them as the user's points of interest (e.g. cinemas, restaurants, pubs) on the map

Based on its proprietary software, Navigo offers different products for retail and business customers:

- (1) GPS-based satellite navigation system with a detailed map of Poland; among others its software is used in devices of MIT's subsidiary Lark Europe
- (2) Navigo 2, a route planner for PDA devices with a very detailed map of Poland
- (3) Maps as MMS (Multimedia Message Systems) and for smartphones
- (4) For business customers of T-Mobile, one of the largest mobile operators in Poland, Navigo implemented a service, which allows the localization and visualization of SIM cards on maps

Scientific Services Sp. z.o.o

According to our estimates, in 2012 Scientific Services Sp. z.o.o had a share of 8.5% in MIT's total revenues. The subsidiary operates in the area of business process outsourcing. It provides among others the following services:

- (1) Data input, database management, scanning and archiving of documents, promotional and loyalty campaigns, consumer lotteries
- (2) Call Center services, infolines, information campaigns, market research and surveys

Lark Europe Sp. z.o.o

Lark Europe, whose share in 2012 total revenues we estimate at 40.7%, was bought by MIT S.A. in November 2011 for a consideration of PLN 15m. With the acquisition, MIT expanded its product offering with consumer electronic devices such as tablets, GPS-based navigation systems, MP3 & MP4 players and DVB-T/IPTV decoders. Thus, the company gained an additional distribution channel for its own maps and multimedia content.

6 Market environment

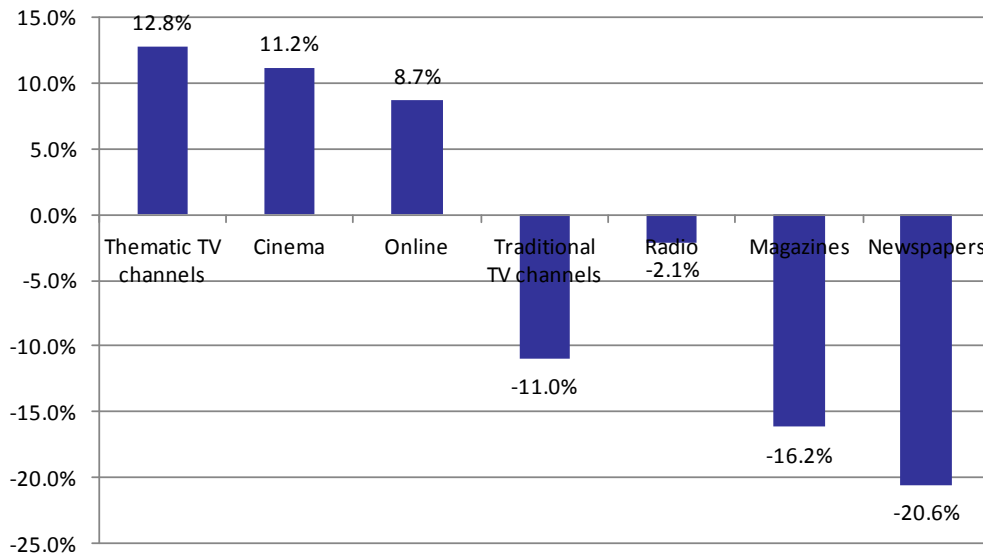
Online and Mobile advertising in Poland

According to e.g. Businessinsider.com, the main growth driver of the Internet sector are nowadays mobile devices. Sales of smartphones, which generate 12% of worldwide online traffic, have already surpassed those of PCs and tablets are expected to follow soon. For Poland, IAB estimates that 65% of online users (54% of the population) use smartphones. We believe that there are currently 4-4.2m such devices in use in Poland and the respective sales figures grow at double-digit rates y-o-y.

According to media house Starlink, the volume of the Polish advertising market in 2012 decreased by 5.2% to PLN 7.1bn, which resulted from a slowdown in the sectors Pharma and Finance as well as lower than expected advertising spending during the Euro Soccer Cup 2012. While advertising volumes in traditional TV, magazines and newspapers declined y-o-y, Online, Cinema and Thematic TV Channels increased their share compared to 2011. For 2013, most research houses forecast a similar development, with the Online segment being driven by Mobile, Online Video and Search Engine Marketing.

According to research firm Gemius, the share of online ads, which was displayed on mobile devices in Poland in Q4/12, equaled 1.6%. Although this was very little compared to CEE average (3%) and countries such as Lithuania (4.6%), the figure constituted a two-and-a-half times increase over 2011. Gemius sees tremendous potential for mobile advertising in the coming years due to (1) increasing mobile data volumes and (2) unique technologies/functions such as GPS/BTS, NFC (Near Field Communication), and applications which recognize voice and pictures. They allow much more effective targeting of customer groups.

Development of the different advertising segments in 2012

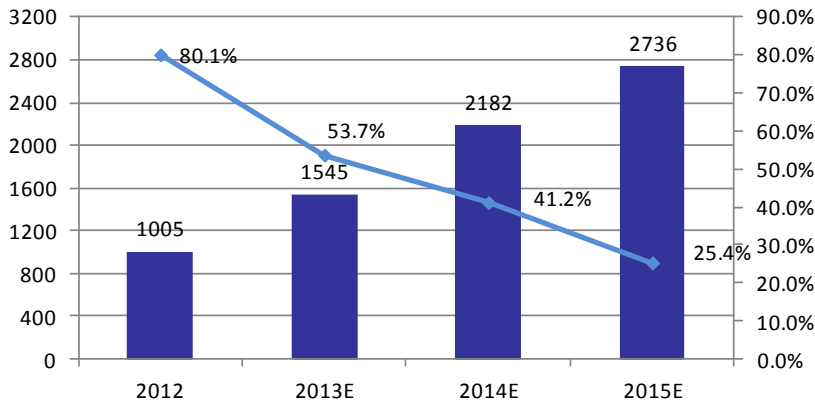


Source: Starlink, Dr. Kalliwoda Research GmbH

Mobile and fixed-line value-added services in Poland

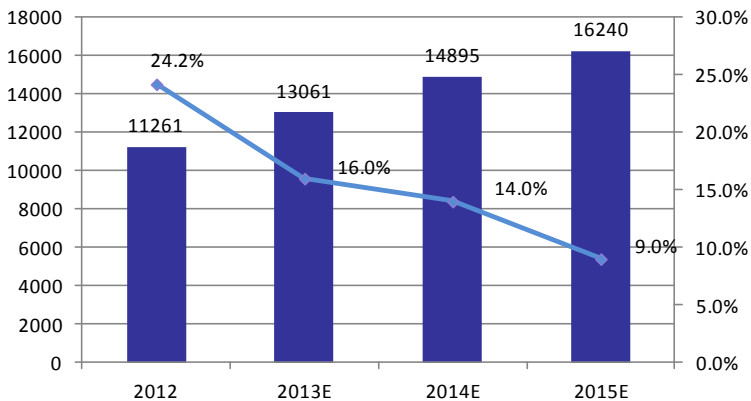
According to PMR, the value of the mobile market in Poland will increase from an estimated PLN 1bn in 2012 to PLN 2.7bn in 2015 and thus at a CAGR 12-15 of 39.6%. At the same time, the number of Poles, who go online with their phones, will increase from 11.3m to 16.2m. Based on data from hardware manufacturer Ericsson, the three services, which most Polish mobile phone users would like to have on their devices, are a navigation system, an automatic backup system, and mobile tickets. On the other hand, the three most often used services on the mobile phone in Poland are games, online messengers and route planners (Source: Freakstudio).

Development of the mobile segment 2012-2015E (in PLNm)



Source: PMR, Dr. Kalliwoda Research GmbH

Number of Poles who go online with their mobile phones (in k)



Source: PMR, Dr. Kalliwoda Research GmbH

According to PMR, the market for value-added fixed-lines services (infolines, games over the phone, contests) in Poland will decrease from an estimated PLN 60m in 2012 to PLN 54m in 2015. The reasons are growing availability of free entertainment content on the Internet, popularity of SMS services and VoIP (Voice-over-IP), which is much cheaper than a traditional fixed-line phone. However, despite an expected decline of the total market, business clients will continue to use infolines in order to improve their relations with clients.

7 Profit and loss statement

Profit and loss statement - MIT						
in PLNm	Fiscal year					
	2010	2011	2012	2013E	2014E	2015E
Revenues	101.38	87.25	112.51	112.67	128.67	144.24
<i>Cost of goods sold</i>	-58.27	-45.72	-77.21	-80.23	-91.70	-102.87
Gross profit	43.11	41.53	35.30	32.44	36.97	41.37
<i>Other operating income</i>	4.16	2.26	5.01	5.11	5.21	5.31
<i>Distribution costs</i>	-0.99	-0.94	-4.71	-3.06	-3.22	-3.38
<i>Administration costs</i>	-2.57	-2.03	-3.62	-3.80	-3.99	-4.19
<i>Other operating expenses</i>	-4.59	-2.34	-1.15	-1.00	-1.21	-1.26
EBITDA	39.12	38.47	30.82	29.68	33.76	37.85
<i>Depreciation</i>	-10.11	-11.95	-16.36	-16.04	-17.93	-19.67
Operating income	29.01	26.52	14.46	13.63	15.83	18.17
<i>Net financial result</i>	-3.75	-2.93	-8.07	-6.00	-5.97	-5.94
EBT	25.25	23.60	6.39	7.63	9.86	12.23
<i>Income taxes</i>	-5.07	-3.95	-1.25	-1.45	-1.87	-2.32
Net income / loss	20.19	19.64	5.14	6.18	7.98	9.91
<i>EPS</i>	0.30	0.14	0.04	0.04	0.05	0.06
<i>DPS</i>	0.00	0.00	0.00	0.00	0.04	0.04
Change y-o-y						
<i>Revenues</i>	n.a	-13.94%	28.95%	0.14%	14.20%	12.10%
<i>Cost of goods sold</i>	n.a	-21.54%	68.87%	3.91%	14.29%	12.19%
<i>Gross profit</i>	n.a	-3.67%	-15.00%	-8.10%	13.98%	11.89%
<i>Other operating income</i>	n.a	-45.78%	122.04%	2.00%	2.00%	2.00%
<i>Distribution costs</i>	n.a	-5.06%	402.02%	-35.00%	5.00%	5.00%
<i>Administration costs</i>	n.a	-21.12%	78.65%	5.00%	5.00%	5.00%
<i>Other operating expenses</i>	n.a	-48.97%	-50.79%	-13.17%	20.86%	4.38%
<i>EBITDA</i>	n.a	-1.65%	-19.90%	-3.70%	13.77%	12.10%
<i>Depreciation</i>	n.a	18.17%	36.87%	-1.93%	11.79%	9.69%
<i>Operating income</i>	n.a	-8.56%	-45.48%	-5.71%	16.09%	14.83%
<i>Net financial result</i>	n.a	-22.01%	175.77%	-25.64%	-0.50%	-0.50%
<i>EBT</i>	n.a	-6.57%	-72.92%	19.47%	29.13%	24.12%
<i>Income taxes</i>	n.a	-21.99%	-68.50%	16.49%	29.13%	24.12%
<i>Net income / loss</i>	n.a	-2.69%	-73.81%	20.19%	29.13%	24.12%
<i>EPS</i>	n.a	-54.18%	-74.30%	9.31%	29.13%	24.12%
Share in total sales						
<i>Revenues</i>	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
<i>Cost of goods sold</i>	-57.48 %	-52.40 %	-68.63 %	-71.21 %	-71.27 %	-71.32 %
<i>Gross profit</i>	42.52 %	47.60 %	31.37 %	28.79 %	28.73 %	28.68 %
<i>Other operating income</i>	4.10 %	2.58 %	4.45 %	4.53 %	4.05 %	3.68 %
<i>Distribution costs</i>	-0.98 %	-1.08 %	-4.19 %	-2.72 %	-2.50 %	-2.34 %
<i>Administration costs</i>	-2.54 %	-2.32 %	-3.22 %	-3.38 %	-3.10 %	-2.91 %
<i>Other operating expenses</i>	-4.53 %	-2.69 %	-1.02 %	-0.89 %	-0.94 %	-0.88 %
<i>EBITDA</i>	38.58 %	44.09 %	27.39 %	26.34 %	26.24 %	26.24 %
<i>Depreciation</i>	-9.97 %	-13.70 %	-14.54 %	-14.24 %	-13.94 %	-13.64 %
<i>Operating income</i>	28.61 %	30.40 %	12.85 %	12.10 %	12.30 %	12.60 %
<i>Net financial result</i>	-3.70 %	-3.35 %	-7.17 %	-5.33 %	-4.64 %	-4.12 %
<i>EBT</i>	24.91 %	27.04 %	5.68 %	6.77 %	7.66 %	8.48 %
<i>Income taxes</i>	-5.00 %	-4.53 %	-1.11 %	-1.29 %	-1.46 %	-1.61 %
<i>Net income / loss</i>	19.91 %	22.51 %	4.57 %	5.49 %	6.20 %	6.87 %

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8 Balance sheet

Balance sheet - MIT						
in PLNm	Fiscal year					
	2010	2011	2012	2013E	2014E	2015E
Assets						
Cash and equivalents	3.81	6.61	2.98	0.84	0.22	0.57
Short-term financial assets	0.00	5.12	4.80	4.69	5.23	5.72
Inventories	0.41	4.47	4.77	4.84	5.41	5.93
Trade accounts and notes receivables	30.29	37.02	27.62	27.04	30.17	33.03
Other current assets	39.69	52.78	41.85	41.91	47.86	53.65
Current assets, total	74.19	106.01	82.01	79.33	88.89	98.90
Property, plant and equipment	41.31	36.72	32.84	32.94	33.04	33.14
Other intangible assets	25.18	50.77	64.64	63.83	71.87	79.41
Goodwill	293.70	308.78	308.78	308.78	308.78	308.78
Other long-term assets	1.78	4.55	3.02	3.02	3.45	3.87
Deferred tax assets	1.41	1.21	0.99	0.00	0.00	0.00
Non-current assets, total	363.38	402.04	410.28	408.58	417.14	425.20
Total assets	437.57	508.04	492.29	487.91	506.03	524.10
Liabilities						
Trade payables	37.85	27.94	26.92	27.75	31.46	35.01
Other short-term liabilities	24.27	41.46	8.65	8.55	9.64	10.66
Short-term financial debt	4.04	30.08	46.44	31.44	16.44	0.00
Pension provision	0.26	0.20	0.15	0.15	0.17	0.19
Provisions	1.44	0.58	0.61	0.61	0.69	0.78
Current liabilities, total	67.85	100.25	82.77	68.50	58.41	46.65
Long-term financial debt	10.97	7.51	20.14	25.00	44.00	62.00
Other long-term liabilities	0.05	28.66	13.94	13.96	15.95	17.87
Deferred tax liabilities	1.32	1.78	1.92	0.75	0.00	0.00
Long-term liabilities, total	12.34	37.95	36.01	39.71	59.95	79.87
Total liabilities	80.19	138.20	118.78	108.22	118.36	126.52
Shareholders equity, total	357.38	369.84	373.51	379.69	387.67	397.58
Minority interests	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities and equity	437.57	508.04	492.29	487.91	506.03	524.10

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9 Cash flow statement

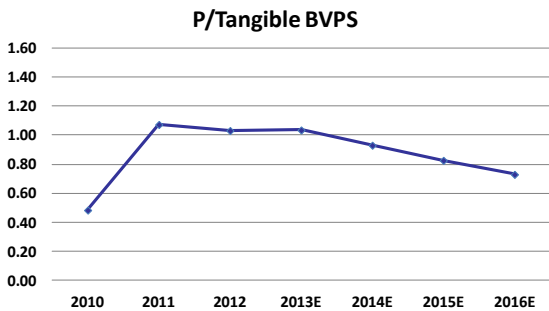
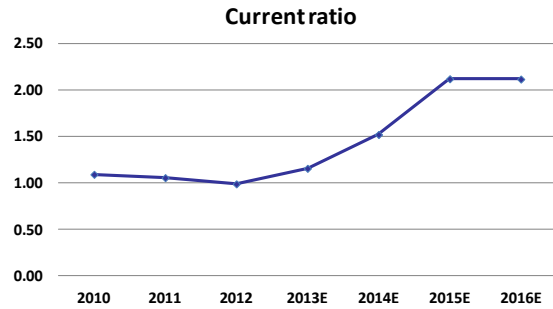
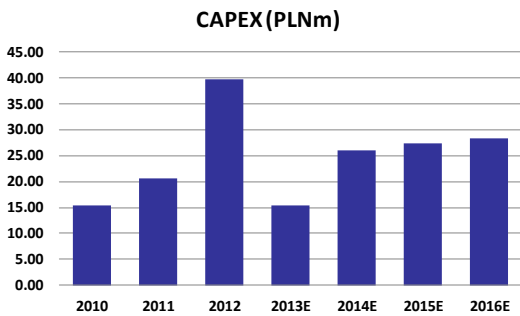
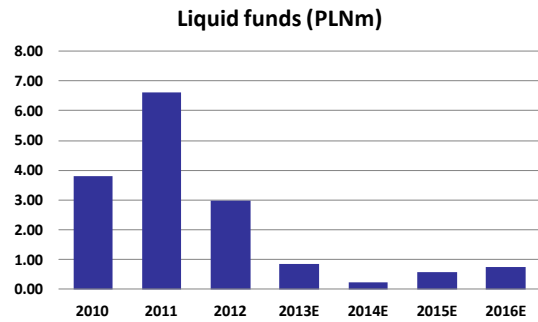
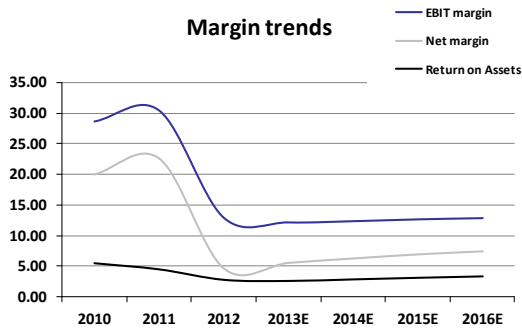
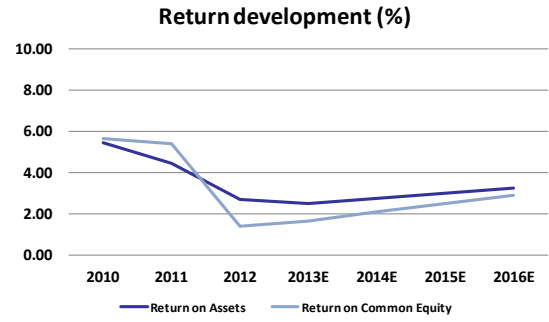
Cash flow statement - MIT						
in PLNm	Fiscal year					
	2010	2011	2012	2013E	2014E	2015E
Net income / loss	20.19	19.64	5.14	6.18	7.98	9.91
Depreciation	10.11	11.95	16.36	16.04	17.93	19.67
Change of working capital	-2.44	-4.41	-10.96	1.18	-4.85	-4.60
Others	-9.29	-6.83	1.73	-0.18	-0.66	0.08
Net operating cash flow	18.57	20.35	12.27	23.22	20.40	25.07
Cash flow from investing	-15.29	-20.53	-39.71	-15.33	-26.07	-27.31
Free cash flow	3.28	-0.18	-27.44	7.89	-5.67	-2.24
Cash flow from financing	-5.89	2.99	23.80	-10.02	5.04	2.60
Change of cash	-2.61	2.81	-3.63	-2.13	-0.63	0.36
Cash at the beginning of the period	6.41	3.81	6.61	2.98	0.84	0.22
Cash at the end of the period	3.81	6.61	2.98	0.84	0.22	0.57

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10 Financial ratios

Fiscal year	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Gross margin	42.52%	47.60%	31.37%	28.79%	28.73%	28.68%	28.62%	28.58%
EBITDA margin	38.58%	44.09%	27.39%	26.34%	26.24%	26.24%	26.14%	26.19%
EBIT margin	28.61%	30.40%	12.85%	12.10%	12.30%	12.60%	12.80%	13.15%
Net margin	19.91%	22.51%	4.57%	5.49%	6.20%	6.87%	7.36%	7.88%
Return on equity (ROE)	5.65%	5.40%	1.38%	1.64%	2.08%	2.52%	2.91%	3.26%
Return on assets (ROA)	5.47%	4.44%	2.68%	2.50%	2.76%	3.02%	3.26%	3.51%
Return on capital employed (ROCE)	6.27%	5.41%	2.84%	2.63%	2.86%	3.08%	3.37%	3.67%
Net debt (in PLNm)	11.46	26.04	58.97	51.06	55.17	55.91	54.13	48.37
Net gearing	3.21%	7.04%	15.79%	13.45%	14.23%	14.06%	13.22%	11.44%
Equity ratio	81.67%	72.80%	75.87%	77.82%	76.61%	75.86%	75.66%	76.34%
Current ratio	1.09	1.06	0.99	1.16	1.52	2.12	2.12	2.11
Quick ratio	0.50	0.49	0.43	0.48	0.61	0.84	0.83	0.81
Net interest cover	7.73	9.06	1.79	2.27	2.65	3.06	3.45	3.85
Net debt/EBITDA	0.29	0.68	1.91	1.72	1.63	1.48	1.30	1.07
Tangible BVPS	0.95	0.43	0.45	0.44	0.49	0.56	0.63	0.71
CAPEX/Sales	n.a	55.06%	23.42%	13.61%	20.26%	18.94%	17.83%	16.32%
Working capital/Sales	8.15%	28.50%	34.37%	33.28%	32.91%	32.54%	32.18%	31.82%
EV/Sales	1.28	1.49	1.16	1.15	1.01	0.90	0.82	0.76
EV/EBITDA	3.32	3.38	4.22	4.38	3.85	3.43	3.12	2.88
EV/EBIT	4.48	4.90	8.99	9.54	8.21	7.15	6.37	5.74
P/Tangible BVPS	0.48	1.07	1.03	1.04	0.93	0.83	0.73	0.64
P/E	1.53	3.34	12.98	11.88	9.20	7.41	6.26	5.41
P/FCF	22.41	-403.50	-2.68	9.31	-12.96	-32.72	236.46	16.25

Source: Company information, Dr. Kalliwoda Research GmbH



Source: Company information, Dr. Kalliwoda Research GmbH

DR. KALLIWODA RESEARCH GmbH		Arndtstr. 47 60325 Frankfurt Tel.: 069-97 20 58 53 Fax: 069-13 81 92 15 www.kalliwoda.com
Primary Research Fair Value Analysis International Roadshows		
Head: Dr. Norbert Kalliwoda E-Mail: nk@kalliwoda.com	CEFA-Analyst; University of Frankfurt/Main; PhD in Economics; Dipl.-Kfm.	<u>Sectors:</u> IT, Software, Electricals & Electronics, Mechanical Engineering, Logistics, Laser, Technology, Raw Materials
Dr. Peter Arendarski E-Mail: pa@kalliwoda.com	Senior-Analyst, Msc & Ph.D in Finance (Poznan Univers. of Economics), CFA Level 3 Candidate	<u>Sectors:</u> Technology, Raw Materials, Banks & Insurances, Financial-Modelling (Quant., Buyside)
Patrick Bellmann E-Mail: pb@kalliwoda.com	Junior-Analyst; WHU - Otto Beisheim School of Management, Vallendar	<u>Sectors:</u> Support Research and Quantitative Approach
Andreas Braun E-Mail: rb@kalliwoda.com	Junior-Analyst; University of Frankfurt/Main	<u>Sectors:</u> Support Research and Quantitative Approach
Michael John E-Mail: mj@kalliwoda.com	Dipl.-Ing. (Aachen)	<u>Sectors:</u> Chemicals, Chemical Engineering, Basic Metals, Renewable Energies, Laser/Physics
Rainer Koch E-Mail: rk@kalliwoda.com	Computer-Science/Dipl.-Betriebw, (Frankfurt); seasoned international Executive IT-Industry	<u>Sectors:</u> IT, IT-Services, Internet, Media, Internet, Emerging Markets
Adrian Kowollik E-Mail: ak@kalliwoda.com	Dipl.-Kfm.; Humboldt-Universität zu Berlin, CFA Candidate	<u>Sectors:</u> Media, Internet, Gaming, Technology, Eastern European stocks
Maximilian F. Kaessens E-Mail: mk@kalliwoda.com	Bachelor of Science in Business Administration (Babson College, Babson Park, MA (US))	<u>Sectors:</u> Financials, Real Estate
Dr. Christoph Piechaczek E-Mail: cp@kalliwoda.com	Dipl.-Biologist; Technical University Darmstadt; Univ. Witten-Herdecke.	<u>Sectors:</u> Biotech & Healthcare; Medical Technology Pharmaceutical
Dario Maugeri E-Mail: dm@kalliwoda.com	Master of Science in Corporate Finance; Rotterdam School of Management norb	<u>Sectors:</u> Automotive, Technology
Hellmut Schaarschmidt; E-Mail: hs@kalliwoda.com	Dipl.-Geophysicists; University of Frankfurt/Main.	<u>Sectors:</u> Oil, Regenerative Energies, Specialities Chemicals, Utilities
Dr. Erik Schneider E-Mail: es@kalliwoda.com	Dipl.-Biologist; Technical University Darmstadt; Univ. Hamburg.	<u>Sectors:</u> Biotech & Healthcare; Medical Technology Pharmaceutical
David Schreindorfer E-Mail: ds@kalliwoda.com	MBA, Economic Investment Management; Univ. Frankfurt/ Univ. Iowa (US).	<u>Sectors:</u> IT/Logistics; Quantitative Modelling
Rainer Wochele E-Mail: rw@kalliwoda.com	Bachelor of Science in Economics and Business Administration (Goethe University Frankfurt M. / Graduation Fall 2013)	<u>Junior-Analyst</u>
Nele Rave E-Mail: nr@kalliwoda.com	Lawyer; Native Speaker, German School London	<u>Legal adviser</u>

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