

Monday, November 25, 2019 | update

Comarch: buy (reiterated)

CMR.PW; CMR.WA | TMT, Poland

A Great Buy After Third-Quarter Earnings Beat

Comarch generated strong 2019 third-quarter earnings well ahead of analysts' estimates, with EBITDA adjusted for IFRS16 effects, a one-time fine reversal, and positive exchange-rate differences posting a year-over-year rebound of a whopping 41%. The main earnings driver in the period was an improved sales mix with a higher proportion of global sales facilitated by Comarch's expanding presence in fast-growing technology solutions for TMT, retail, and services. At the same time, Poland's share in the geographic sales mix decreased in the wake of a slump in government orders leading up to the October general election. After adjusting our outlook to reflect the third-quarter earnings beat, we now expect Comarch to generate FY2019 and FY2020 EBITDA and bottom-line results 10%-11% above what is currently assumed by the analysts' consensus. Meanwhile CMR stock at 5.9x 2019E EV/EBITDA and 5.7x 2020E earnings is trading at disproportionate discounts of 40% each relative to its comparable companies and its own earnings potential. After updating the valuation model, we raise our target price for Comarch to PLN 250.000 per share, and with nearly 32% implied upside potential we maintain our buy call for the stock.

Stellar third quarter

Comarch grew quarterly revenue at an annual rate of 2.7% in Q3 2019, owing largely to an improved sales mix capable of generating higher margins. Firstly, the Company increased global sales in the period while dramatically scaling the proportion of domestic sales down by 14.8pp compared to the year-ago period. Secondly, the core operating segments developing solutions for the TMT and Trading & Services sectors increased their share in total sales by 6.9pp in Q3, while the share of the Polish public sector got trimmed. The geographic sales shift was accompanied by changes in the product mix in favor of in-house solutions, and away from third-party hardware and software, with their combined share in total cut to 2.1% from 8.0% in the same period last year. Reported EBITDA in the third quarter amounted to PLN 89.9m. After stripping IFRS16 effects, the reversal of a PLN 24.2m provisions related to the now-settled contract dispute with ZUS, and positive FX trends, the adjusted EBITDA figured roughly to PLN 54.0m, showing a year-on-year boost of 41%.

Positive outlook for the medium term

Comarch revealed at the third-quarter earnings call that its remaining backlog for 2019 was 7%-9% higher than this time last year, and the backlog for 2020 also topped the year-ago levels by several percent. The Company hopes to see a few meaningful contract opportunities for the public sector in the near future, but its main focus in the mid- to long term is on developing the TMT business. The upcoming completion of an assignment as part of a major 5G network rollout in South Korea should give Comarch a foothold to capture more business in this area of the world. It is worth noting that Comarch has consistently improved sales profits since the beginning of 2018.

(PLN m)	2017	2018	2019E	2020E	2021E
Revenue	1,101.6	1,364.9	1,476.1	1,590.2	1,677.7
EBITDA	98.6	177.2	260.1	257.5	267.3
EBITDA margin	9.0%	13.0%	17.6%	16.2%	15.9%
EBIT	34.5	112.0	175.6	170.0	176.7
Net income	43.1	51.7	112.3	117.2	121.9
P/E	35.8	29.8	13.7	13.2	12.6
P/CE	14.4	13.2	7.8	7.5	7.3
P/B	1.8	1.8	1.6	1.4	1.3
EV/EBITDA	15.8	8.5	5.9	5.7	5.3
DPS	1.50	1.50	1.50	1.50	1.50
Dividend Yield	0.8%	0.8%	0.8%	0.8%	0.8%

Current Price	PLN 189.50
Target Price	PLN 250.00
Market Cap	PLN 1.43bn
Free Float	PLN 938m
ADTV (3M)	PLN 0.5m

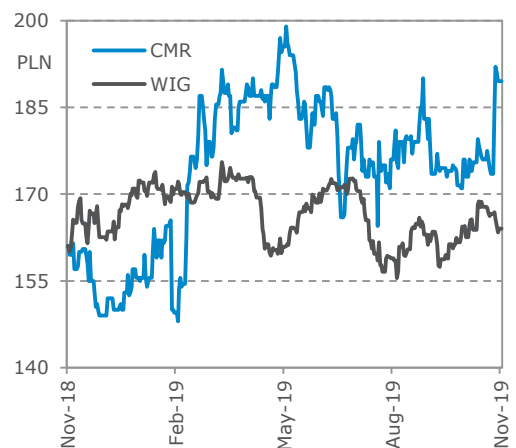
Ownership

Janusz Filipiak	24.55%
Elzbieta Filipiak	14.53%
NN PTE	10.41%
MetLife PTE	10.34%
Others	40.17%

Business Profile

Comarch is a software developer and integrator with a presence spanning over 100 countries on six continents. The Company has earned top marks in the Gartner Vendor Rating and the Truffle 100. Comarch operates its own data centers which support the delivery of services across various models, including SaaS, Cloud, and Managed Services.

CMR vs. WIG



Company	Target Price		Rating	
	new	old	new	old
Comarch	250.00	231.00	buy	buy

Company	Current Price	9MTP	Upside
Comarch	189.50	250.00	+31.9%

Forecast Update	2019E	2020E	2021E
Revenue	-1.7%	-1.0%	-0.7%
EBITDA	+15.3%	+6.8%	+6.5%
Net income	+19.5%	+12.7%	+10.6%

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Investment Risks

Increase in Labor Costs

Payroll accounts for a major part of Comarch's operating expenses. Salaries in the Polish IT sector are estimated to have increased by a further 5-8% in 2018 despite substantial raises already implemented in previous years. Comarch tries to mitigate pay pressures by taking on fresh graduates as interns and then hiring them full time. Internships offset staff attrition, however Comarch still faces risk of greater turnover and an unavailability of skilled tech specialists at its current pay rates.

Legislative Risk

Comarch's operations are governed by Polish laws and regulations, including in particular the Labor Law which determines the size of the Company's payroll expenses. There is a debate in Poland at the moment whether to remove caps on pension contributions for employees earning annual income more than 30 times the official average salary for the year. If passed, higher pension contributions would mean higher labor costs for employers, a very real risk to the tech industry where salary demands are constantly increasing.

Investment in Real Estate and Non-Core Assets

Comarch has invested substantial amounts of money in its own office buildings and data centers, and while we agree that some of these ventures were necessary in case of others the money would have been better spent on shareholder distributions. As a reminder, Comarch owns the MKS Cracovia local football team, based in Krakow, for which it wants to build new training facilities. To be fair, Cracovia did get paid handsomely for two of its players sold to foreign clubs over the last three years.

Low Dividends

Comarch enjoys a healthy balance-sheet position with zero net debt/EBITDA expected at the end of 2019 after years of net cash reported also in previous years. Nevertheless in 2019 Comarch offered its shareholders very modest dividends of just PLN 1.50 per share. In our opinion, the Company can afford much more generous payouts.

Liquidated Damages

Comarch is always at risk of default under its many contracts with various customers. For example, in February the Company received notice of partial contract termination by Poland's social security administration (ZUS), demanding liquidated damages of PLN 24.2m. Comarch set aside a provision for the potential damages, but was able to reverse it in Q3 after successfully settling the dispute.

Exchange-Rate Risk

Comarch generates a substantial portion of revenues in euros and dollars, causing EBIT to fall any time the zloty, which is the main currency in which the Company incurs expenses, strengthens vis-à-vis these currencies.

Public Procurement

Comarch's exposure to the public sector puts it at risk of low contract margins due to high competitive pressure, and results in slow periods in terms of new business acquisition. For example, back in 2017 Comarch outbid others in a PLN 374m tender for systems maintenance for a public authority with a price quote of PLN 242m compared to PLN 431m offered by the highest bidder. Despite having won the call, Comarch's shares fell after the announcement on rumors that at such a cheap price the contract left little by way of profit margin.

Risk Of Failed Acquisitions

Comarch buys other tech companies because it wants to gain access to new tools and new markets. In some cases, the investments do not bring the desired benefits, as was the case with Thanks Again, a US-based travel loyalty company bought in 2015 for \$8 million and written off completely by 2018 after a string of failures.

Transparency In Market Communications

The way Comarch communicates with investors and analysts seems to us less transparent than practiced by listed tech peers like Asseco Poland and Asseco South Eastern Europe. While others share up-to-date and detailed backlog status on a regular basis, Comarch offers very little by way of specifics, as evidenced by the vague statement at the Q1'19 earnings conference that growth in the order book at the time had reached "solid teens."

Valuation

Using DCF analysis and relative valuation, we set our new 9-month price target for Comarch at 250.00 per share.

(PLN)	weight	price
Relative Valuation	50%	259.01
DCF Analysis	50%	211.02
	price	235.02
9M target price		250.00

DCF Valuation

Assumptions:

- The forecast period is FY2019 through FY2028.
- The risk-free rate in the forecast period is 3.50%.
- We assume FCF after the forecast period will grow at a rate of 2.0%.

- Net debt is as of 31 December 2018, restated to IFRS16 (PLN 46.3m). Accordingly, our future estimates take into account depreciation of the right-of-use assets but do not factor in lease payments.
- D&A expenses in the terminal period are equal to CAPEX and lease payments.
- Beta = 1.0x.

DCF Model

(PLN m)	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2028+
Revenue	1,476	1,590	1,678	1,752	1,828	1,905	1,979	2,045	2,108	2,173	
change	8.1%	7.7%	5.5%	4.4%	4.3%	4.2%	3.9%	3.3%	3.1%	3.1%	
EBITDA	260.1	257.5	267.3	277.7	288.1	297.9	304.7	309.5	313.2	316.2	
EBITDA margin	17.6%	16.2%	15.9%	15.9%	15.8%	15.6%	15.4%	15.1%	14.9%	14.5%	
EBIT	175.6	170.0	176.7	183.8	190.7	196.9	200.0	200.8	200.3	199.2	
EBIT margin	11.9%	10.7%	10.5%	10.5%	10.4%	10.3%	10.1%	9.8%	9.5%	9.2%	
Tax on EBIT	50.2	50.3	52.3	54.0	55.7	57.1	57.6	57.4	56.9	56.2	
Effective tax rate	28.6%	29.6%	29.6%	29.4%	29.2%	29.0%	28.8%	28.6%	28.4%	28.2%	
NOPLAT	125.4	119.7	124.4	129.7	135.0	139.8	142.4	143.4	143.4	143.0	
CAPEX	-69.6	-96.1	-119.0	-115.8	-92.6	-96.2	-97.0	-97.5	-98.9	-99.5	
Working capital	-45.1	-9.7	-19.1	-19.3	-20.4	-21.6	-22.1	-22.0	-23.0	-24.9	
FCF	95.3	101.4	77.0	88.6	119.4	123.0	128.0	132.6	134.4	135.7	138.4
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	
discount factor	98.8%	91.1%	84.0%	77.4%	71.3%	65.7%	60.6%	55.8%	51.5%	47.4%	
PV FCF	94.2	92.4	64.6	68.6	85.2	80.8	77.6	74.1	69.2	64.3	
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Cost of debt	4.5%	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%	3.5%
Risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	28.6%	29.6%	29.6%	29.4%	29.2%	29.0%	28.8%	28.6%	28.4%	28.2%	28.4%
Net debt / EV	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

FCF growth after the forecast period	2.0%
Terminal value	2,129
Present value of terminal value	1,010
Present value of FCF in the forecast period	771
Enterprise value	1,781
Net debt (2018 eop, MSSF16)	46
Other noncore assets	0
Minority interests	18
Million shares outstanding (adj.)	8.13
Equity value per share (PLN)	211.0
9M cost of equity	6.4%
Target Price (PLN)	224.5

EV/EBITDA('19) at target price	6.8
P/E('19) at target price	15.3
TV / EV	57%

Sensitivity Analysis

	FCF growth in perpetuity				
	0.0%	1.0%	2.0%	3.0%	4.0%
WACC +1.0 p.p.	237.3	249.8	264.6	282.4	304.1
WACC +0.5 p.p.	220.4	230.8	242.9	257.2	274.4
WACC	205.7	214.4	224.5	236.2	250.0
WACC -0.5 p.p.	193.0	200.3	208.7	218.4	229.7
WACC -1.0 p.p.	181.7	188.0	195.1	203.2	212.6

Relative Valuation

We compared Comarch with a peer group based on forward P/E and EV/EBITDA multiples. Each of the forecast years 2019, 2020, and 2021, is assigned an equal weight. The FY2019 estimates are adjusted for a PLN 24.2m charge reversal.

Multiples Comparison

	EV/EBITDA			P/E		
	2019E	2020E	2021E	2019E	2020E	2021E
Sap AG	18.8	16.3	14.6	24.6	22.2	19.8
Oracle Corp	11.2	10.7	10.5	16.4	14.5	13.4
CAP Gemini	9.6	9.1	8.6	17.0	15.4	14.2
Sage Group PLC	16.8	16.3	15.2	24.9	24.3	22.6
Atos	7.5	7.2	6.7	8.9	8.3	7.7
Software AG	7.8	8.6	8.2	13.0	14.4	13.7
Indra Sistemas	6.9	6.6	6.2	12.4	10.7	9.6
Fiserv INC	26.1	18.8	16.0	28.6	23.2	19.6
Computacenter PLC	10.0	9.8	9.6	16.8	16.3	15.8
Asseco Poland	5.3	5.1	5.0	14.2	13.9	13.5
Maximum	26.1	18.8	16.0	28.6	24.3	22.6
Minimum	5.3	5.1	5.0	8.9	8.3	7.7
Median	9.8	9.5	9.1	16.6	15.0	13.9
Comarch	5.9	5.7	5.3	13.7	13.2	12.6
Premium / discount	-39.8%	-39.8%	-41.7%	-17.3%	-12.1%	-9.2%
Implied Valuation						
Value per share (PLN)	294.5	317.7	323.7	193.9	215.5	208.6
Multiple weight	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%
Equity value per share (PLN)	259.0					

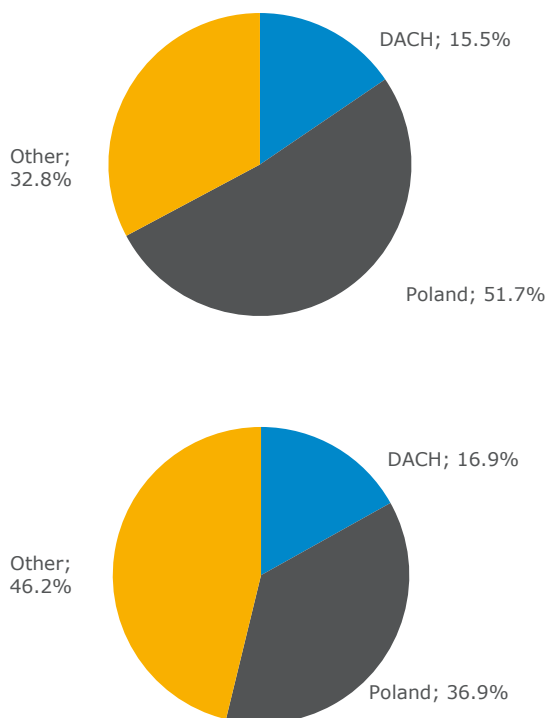
Business Update

2019 Q3 Results

Comarch grew quarterly revenue at an annual rate of 2.7% in Q3 2019, having shifted its geographic sales mix more toward global markets and pushing the product mix further toward proprietary solutions; at the same time, the core segments of TMT and Trade & Services showed an increasing share in total sales in the period. Comarch can be expected to generate better margins on the improved sales mix.

Further, Comarch benefitted from positive exchange-rate movements in Q3 2019, reflected in an increase in the average USDPLN exchange rate by 4.9% compared to Q3 2018 (+0.3% EURPLN).

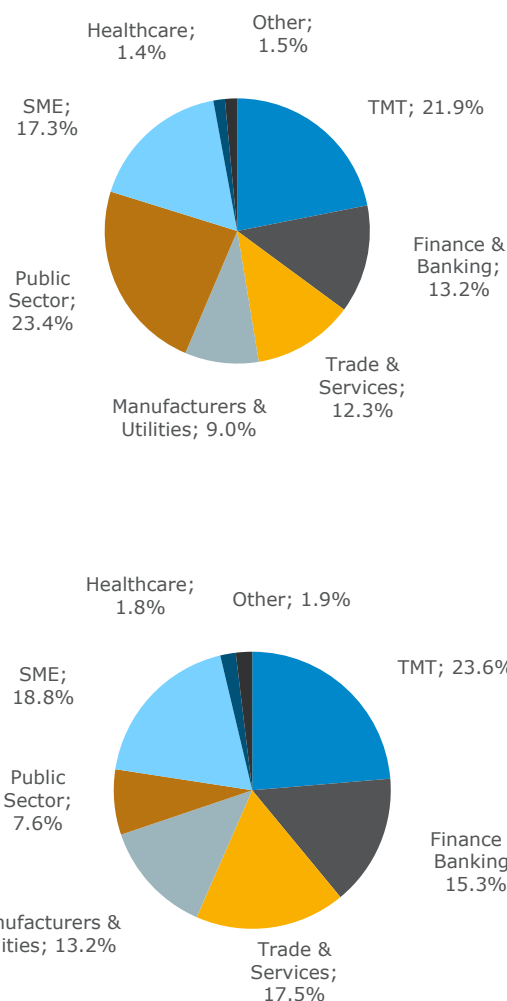
Geographic sales breakdown in Q3 2018 (top) vs. Q3 2019 (bottom)



Source: Comarch

Exports increased by PLN 56.9m or 34.1% in Q3 2019, driven by strong growth in solutions for trade, services, and manufacturing in the EU and Asia. At the same time, domestic sales in the period fell by PLN 47.7m or 26.7% due to a slump in orders from the public sector leading up to the October general election, underpinned by negative base effects – in Q2 and Q3 2018 Comarch recognized extra revenues from a big assignment for the Justice Ministry.

Revenue breakdown by end-market, Q3 2018 (top) vs. Q3 2019 (bottom)

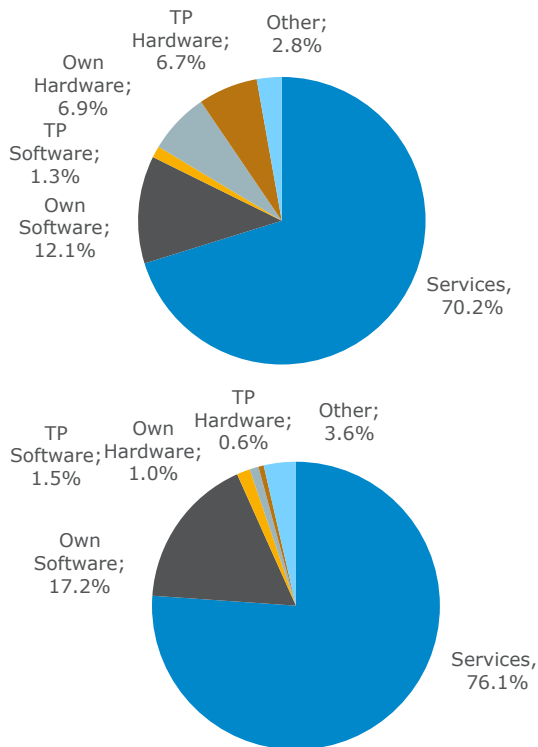


Source: Comarch

There was a major shift in Comarch's revenue sources in Q3 2019, reflected in an increased proportion of TMT solutions (23.6%) and Trade & Services solutions (17.5%), combined with a reduction in revenues from the Public Sector (7.6%).

Further, Comarch grew revenues from in-house solutions by 11.4% to PLN 27.5m, and ramped up sales of proprietary software by 46.0% to PLN 19.2m, owing to large contracts secured during 2018, most notably contracts from telecoms and the trade & services sector.

Revenue breakdown by in-house and third-party solutions, Q3 2018 (top) vs. Q3 2019 (bottom)



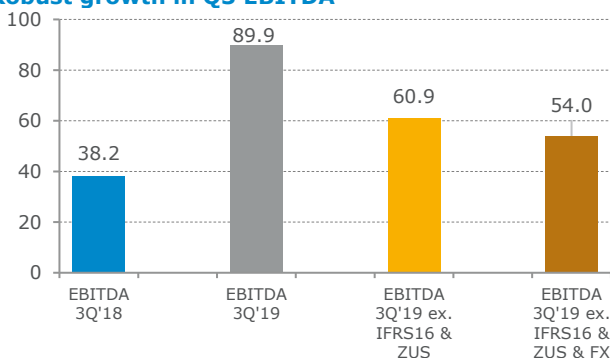
Source: Comarch

The sales profit for Q3 2019 was heavily impacted by one-time events. The operating profit received a boost of PLN 24.2m from a reversal related to a settled contract dispute with the social security agency ZUS. On a recurring basis, the gross profit margin at an estimated 32.7% would have been 6.2ppt higher than in Q3 2018.

SG&A expenses in Q3 2019 amounted to PLN 65.9m vs. PLN 58.3m a year ago. Comarch set aside a provision for doubtful receivables in the amount of PLN 8.2m in Q3 (the receivables in question are connected with business in the Middle East and South America).

After adjustment for the one-off ZUS reversal and positive IFRS 16 impacts in the amount of PLN 4.6m, comparable third-quarter EBITDA at ca. PLN 60.9m showed an impressive, 59.5% rebound from the year-ago period. Even if we exclude the positive effects of FX adjustments to accounts payable and receivable to reflect a weakened zloty (Comarch puts this effect at PLN 6.9m), at PLN 54.0m the quarterly EBITDA still shows robust growth at an annual rate of 41%.

Robust growth in Q3 EBITDA

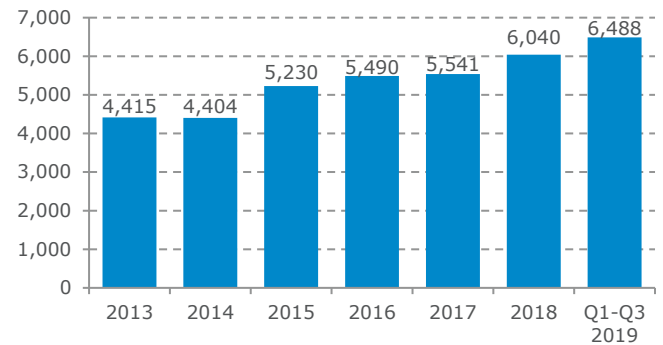


Source: Comarch, Dom Maklerski mBanku

EBIT came in at PLN 66.2m in Q3 2019 after a 144.7% year-over-year surge, and net profit attributable to shareholders posted a rebound of 134% at PLN 42.5m.

Operating cash flow after 9M'19 stood at PLN 80.1m, a big improvement from the year-ago OCF of PLN 23.3m. CAPEX for 9M'19 totaled PLN 36.4m.

Comarch's employee headcount



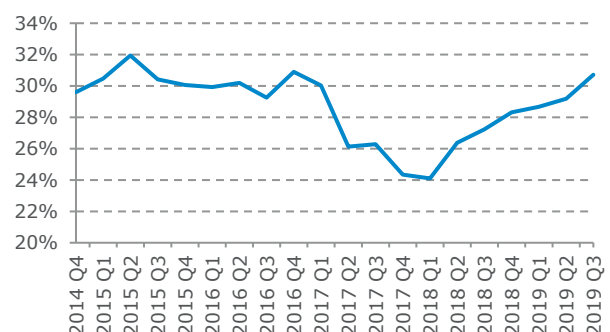
Source: Comarch

Comarch was employing 6,488 people as of 30 September 2019, indicating the addition of 448 FTEs since the end of 2018. Base payroll for the nine months to 30 September was up by 13.6% on the year.

Future Outlook

- Comarch revealed at the third-quarter earnings call that its remaining backlog for 2019 was 7-9% higher than this time last year, and the backlog for 2020 also tops the year-ago levels by several percent. Business acquired in Q4 2019 will be a major factor in shaping future revenues.
- Comarch hopes to see a few meaningful contract opportunities for the public sector in the near future, but its main focus in the mid- to long term is on developing the TMT business. The upcoming completion of an assignment as part of a major 5G network rollout in South Korea should give a foothold to capture more business in this area of the world.
- According to a top executive, R&D expenses in the year to 30 September 2019 were equivalent to about 15% of the period's revenues, a proportion which will most likely be maintained in the fourth quarter.
- It is worth noting that Comarch has consistently improved sales profits since the beginning of 2018. However we currently assume contraction in gross margins from 30.5% (after adjustment for the PLN 24.2m one-time gain posted in Q3) to 29.9% in 2020, followed by a further long-term decline of 1.9% to a target 28.0%.

Quarterly sales margins at Comarch (LTM)



Source: Comarch, Dom Maklerski mBanku

Income Statement*

(PLN m)	2017	2018	2019P	2020P	2021P	2022P	2023P
Revenue	1,101.6	1,364.9	1,476.1	1,590.2	1,677.7	1,751.9	1,827.9
change	-0.6%	23.9%	8.1%	7.7%	5.5%	4.4%	4.3%
Cost of sales	833.4	978.4	1,001.6	1,115.4	1,182.6	1,238.0	1,294.9
Gross profit	268.2	386.5	474.5	474.8	495.0	513.9	533.0
Other operating income	17.5	19.2	26.1	0.0	0.0	0.0	0.0
Sales and marketing costs	133.7	137.7	148.2	158.1	166.8	174.1	181.7
Administrative expenses	98.2	108.5	132.8	140.8	147.1	153.0	159.1
Other operating charges	19.3	47.6	44.0	6.0	4.5	3.0	1.5
EBIT	34.5	112.0	175.6	170.0	176.7	183.8	190.7
margin	3.1%	8.2%	11.9%	10.7%	10.5%	10.5%	10.4%
D&A expenses	64.2	65.2	84.5	87.5	90.6	93.9	97.4
EBITDA	98.6	177.2	260.1	257.5	267.3	277.7	288.1
margin	9.0%	13.0%	17.6%	16.2%	15.9%	15.9%	15.8%
Financing activity	31.8	-13.9	-18.3	-3.5	-3.5	-3.5	-3.5
Share in profits/losses of associates	-3.1	-11.1	0.0	0.0	0.0	0.0	0.0
Pre-tax income	63.2	87.0	157.3	166.5	173.2	180.3	187.2
margin	5.7%	6.4%	10.7%	10.5%	10.3%	10.3%	10.2%
Tax	18.5	33.4	45.0	49.3	51.3	53.0	54.7
Net Income	43.1	51.7	112.3	117.2	121.9	127.3	132.5
margin	3.9%	3.8%	7.6%	7.4%	7.3%	7.3%	7.2%
Shares outstanding at eop (millions)	8.13	8.13	8.13	8.13	8.13	8.13	8.13
EPS	5.30	6.35	13.81	14.41	14.99	15.65	16.29
CEPS	13.19	14.37	24.20	25.17	26.13	27.20	28.27
ROAE	4.9%	5.9%	12.1%	11.4%	10.7%	10.3%	10.0%
ROAA	2.9%	3.2%	6.3%	6.1%	5.9%	5.8%	5.7%

*IFRS15 from 2017, IFRS16 from 2019

Balance Sheet*

(PLN m)	2017	2018	2019P	2020P	2021P	2022P	2023P
ASSETS	1,503.1	1,740.3	1,849.8	2,010.8	2,152.0	2,263.8	2,381.3
Fixed assets	733.0	821.2	824.3	850.8	897.2	937.0	950.3
Property, plant and equipment	554.8	551.1	555.5	580.0	621.4	657.0	669.4
Investment property	15.4	32.7	32.7	32.7	32.7	32.7	32.7
Goodwill	42.2	42.2	42.2	42.2	42.2	42.2	42.2
Other intangible assets	63.6	59.4	58.1	60.1	65.0	69.3	70.2
Noncurrent prepayments	3.2	2.8	2.8	2.8	2.8	2.8	2.8
Deferred income tax assets	34.2	35.0	35.0	35.0	35.0	35.0	35.0
Other (including right-of-use assets)	19.6	98.0	98.0	98.0	98.0	98.0	98.0
Current assets	766.2	919.1	1025.5	1160.0	1254.9	1326.8	1431.0
Inventory	114.1	97.2	100.5	113.0	121.0	128.0	135.2
Trade and other receivables	393.1	435.4	475.5	517.4	551.3	581.5	612.8
Long-term contract receivables	40.5	134.8	145.8	157.0	165.7	173.0	180.5
Other	10.6	5.8	5.8	5.8	5.8	5.8	5.8
Cash	208.0	245.9	297.9	366.6	411.0	438.4	496.7
EQUITY & LIABILITIES	1,503.1	1,740.3	1,849.8	2,010.8	2,152.0	2,263.8	2,381.3
Equity	880.4	876.1	976.2	1,081.2	1,190.9	1,277.5	1,369.4
Non-current liabilities	237.5	287.3	287.3	287.3	287.3	287.3	287.3
Loans and borrowings	185.6	175.0	175.0	175.0	175.0	175.0	175.0
Provision for deferred income tax	6.9	43.6	43.6	43.6	43.6	43.6	43.6
Financial liabilities at fair value	0.7	1.3	1.3	1.3	1.3	1.3	1.3
Other financial obligations (incl. leases)	0.4	57.5	57.5	57.5	57.5	57.5	57.5
Other liabilities	43.8	9.8	9.8	9.8	9.8	9.8	9.8
Current liabilities	385.2	576.9	586.3	642.3	673.8	699.0	724.6
Trade and other payables	172.8	182.5	185.0	203.9	214.0	221.8	229.7
Current income tax liabilities	5.5	9.0	9.0	9.0	9.0	9.0	9.0
Revenue billed under long-term contracts	30.8	163.8	167.7	186.8	198.0	207.3	216.8
Loans and borrowings	39.1	40.3	40.3	40.3	40.3	40.3	40.3
Financial liabilities at fair value	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other financial obligations (incl. leases)	0.2	17.6	17.6	17.6	17.6	17.6	17.6
Provisions for other liabilities and charges	136.3	163.3	166.3	184.3	194.4	202.5	210.7
Debt	226.6	217.8	217.8	217.8	217.8	217.8	217.8
Net Debt	-	46.3	-5.7	-74.4	-118.7	-146.2	-204.4
Net Debt pre-IFRS 16	18.6	-28.1	-80.1	-148.8	-193.1	-220.6	-278.8
Pre-IFRS-16 Net Debt / Equity	0.0	0.0	-0.1	-0.1	-0.2	-0.2	-0.2
Net debt/ EBITDA**	0.2	-0.2	0.0	-0.3	-0.4	-0.5	-0.7
BVPS	108.2	107.7	120.0	132.9	146.4	157.1	168.4

*IFRS15 from 2017, IFRS16 from 2018 **2018 figure is ex-IFRS 16

Cash Flow*

(PLN m)	2017	2018	2019P	2020P	2021P	2022P	2023P
Cash flow from operating activities	61.1	180.6	170.1	198.5	197.0	205.4	213.0
Net income	43.1	51.7	112.3	117.2	121.9	127.3	132.5
D&A expenses	64.2	65.2	84.5	87.5	90.6	93.9	97.4
Financing activity	-31.8	13.9	18.3	3.5	3.5	3.5	3.5
Change in working capital and other	-14.4	49.9	-45.1	-9.7	-19.1	-19.3	-20.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from investing activities	-140.5	-86.6	-69.6	-96.1	-119.0	-115.8	-92.6
CAPEX	-140.5	-86.6	-69.6	-96.1	-119.0	-115.8	-92.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	69.5	-35.5	-48.5	-33.7	-33.7	-62.2	-62.2
Debt	49.9	-9.4	0.0	0.0	0.0	0.0	0.0
Share issue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends/Buyback	-12.2	-12.2	-12.2	-12.2	-12.2	-40.7	-40.7
Other (incl. lease payments)	31.8	-13.9	-36.3	-21.5	-21.5	-21.5	-21.5
Change in cash	-9.9	58.6	52.0	68.7	44.3	27.5	58.2
Cash at eop	208.0	245.9	297.9	366.6	411.0	438.4	496.7
DPS (PLN)	1.5	1.5	1.5	1.5	1.5	5.0	5.0
FCF	-47.6	80.2	64.2	80.9	56.5	68.1	98.9
CAPEX/Sales	12.8%	6.3%	4.7%	6.0%	7.1%	6.6%	5.1%

*IFRS15 from 2017, IFRS16 from 2019

Trading Multiples*

	2017	2018	2019P	2020P	2021P	2022P	2023P
P/E	35.8	29.8	13.7	13.2	12.6	12.1	11.6
P/CE	14.4	13.2	7.8	7.5	7.3	7.0	6.7
P/B	1.8	1.8	1.6	1.4	1.3	1.2	1.1
P/S	1.4	1.1	1.0	1.0	0.9	0.9	0.8
FCF/EV	-3.1%	5.3%	4.2%	5.5%	4.0%	4.9%	7.4%
EV/EBITDA**	15.8	8.5	5.9	5.7	5.3	5.0	4.6
EV/EBIT**	45.2	13.5	8.7	8.6	8.1	7.6	7.0
EV/S**	1.4	1.1	1.0	0.9	0.8	0.8	0.7
Dividend yield	0.8%	0.8%	0.8%	0.8%	0.8%	2.6%	2.6%
Price (PLN)	189.5	189.5	189.5	189.5	189.5	189.5	189.5
Shares outstanding at eop (millions)	8.1	8.1	8.1	8.1	8.1	8.1	8.1
MC (PLN m)	1,541	1,541	1,541	1,541	1,541	1,541	1,541
EV (PLN m)	1,560	1,513	1,536	1,467	1,423	1,395	1,337

*IFRS15 from 2017, IFRS16 from 2019 (from 2018 for balance-sheet positions) **2019 figure is 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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mBank issued the following recommendations for Comarch in the 12 months prior to this publication

recommendation	buy	buy	buy	hold	accumulate
date issued	2019-07-25	2019-04-17	2019-03-05	2019-02-04	2018-12-05
target price(PLN)	231.00	230.00	195.00	160.80	173.30
price on rating date	178.50	181.00	162.50	155.00	160.00

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