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## VRG – Preliminary 2020 Q2 Figures Top Expectations

Rating: accumulate | target price: PLN 2.43 | current price: PLN 2.22

**VRG PW; VRGP.WA | Retail, Poland**

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**VRG's 2020 second-quarter recurring EBIT estimate came out better than expected thanks to lower-than-anticipated operating expenses. The Company booked a PLN 13.9m inventory write-off in Q2 stemming largely from unsold fashion collections left over from before the 2020 Spring/Summer season.**

- Preliminary 2020 Q2 revenue and gross margin results are consistent with those calculated based on monthly sales reports.
- VRG reduced quarterly SG&A expenses by 28.4% to an estimated PLN 82.7m, with **SG&A per square meter of store area down 27% from the same period a year earlier**, owing to general cost discipline combined with rent relief and crisis assistance.

- VRG booked a PLN 13.9m inventory write-off in Q2 affecting mostly unsold fashion collections from before the 2020 Spring/Summer season. The one-time charge will most likely depress the quarterly net profit by PLN 11.2m.
- **In conclusion, reduced SG&A were the main driver behind the improvement that VRG is expected to post in the second quarter. Costs in the third quarter are not likely to fall at the same strong rate, but it is encouraging to note that VRG's sales in July recovered significantly to show zero falls from to the same year-ago month, and the monthly gross margin was only slightly lower than in July 2019. We are hoping the recovery continues in the months to follow. VRG stock should get a boost today from the better-than-expected second-quarter results.**

### Preliminary 2020 Q2 results vs. expectations

(PLN m)	2Q'20	2Q'19	change	2Q'20E	differ.	Consensus (median)	differ.	2020E	2019	change
Revenue	174.9	270.2	-35.3%	174.0	0.5%	173.3	0.9%	823.7	1,068.3	-22.9%
Gross profit margin	82.1	144.6	-43.2%	82.1	0.0%			394.3	556.1	-29.1%
Operating costs	46.9%	53.5%	-6.6p.p.	47.2%	-0.2p.p.			47.9%	52.1%	-4.2p.p.
EBIT	82.7	115.5	-28.4%	105.5	-21.6%			411.0	468.6	-12.3%
EBIT (adj.)	-10.4	28.6		-11.9		-7.4		-16.8	87.5	-119.1%
Net profit	3.5	28.6		-11.9		-7.4				
	-2.3	23.9		-18.3				-36.0	65.9	-154.6%

Source: VRG, E - mBank estimates; Consensus estimates provided by PAP

**List of abbreviations and ratios contained in the report:**

**EV** – net debt + market value (EV – economic value)  
**EBIT** – Earnings Before Interest and Taxes  
**EBITDA** – EBIT + Depreciation and Amortisation  
**PBA** – Profit on Banking Activity  
**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

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**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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**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.

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