

Tuesday, 18 October 2022 | update

Sygnity: sell (reiterated)

SGN.PW; SGN.WA | IT, Poland

Overvalued With Weak Growth Prospects

Shares in Sygnity plummeted 20% over the past month, underperforming the broad market index by 14pp, but we nevertheless maintain our bearish call on the Company after updating our models to include earnings results for the nine months ended 30 June 2022 (9M'21/22).

Sales at Sygnity have been on a consistent upward trend for several quarters, and in the third quarter of fiscal FY2021/22 (calendar Q2 2022) they showed a marked acceleration.

At the same time, there is persistent upward pressure on salaries in the tech industry as a whole, with a 10% increase or more forecast in 2022, that leads us to expect a slight profit decline at Sygnity in the coming quarters.

With all this in mind, we have cut FY2022/23 EBITDA forecast for Sygnity by 7% to PLN 42.0m, and we have revised the expected net profit 4.1% lower to PLN 25.4m. On the updated estimates, SGN stock is trading at implied EV/EBITDA and P/E ratios of 9.4x and 16.1x, respectively, showing respective premiums of 16% and 31% relative to the median peer ratios, and far outpricing the multiples of Asseco Poland and Comarch – two much better alternatives at the current levels given their size and liquidity.

After also updating our models to assume a market risk premium of 6.00% and updated risk-free rate assumptions, we lower our target price for Sygnity to PLN 13.30, implying 27% downside potential and a sell recommendation.

Good FY2022/22 Q3 Results

Sygnity delivered the first major revenue increase in a long time in the third quarter of fiscal FY2021/22; in the two previous quarters, year-on-year topline growth was constrained at 2-4%. At the same time, sales margins continued to weaken in Q3 while SG&A expenses increased, resulting in substantial contraction in quarterly profits. Sygnity is not able to grow revenues fast enough to offset rising costs.

Pay Pressures Expected to Weigh

Payroll accounts for a major part of Sygnity's operating expenses. In 2021, the average salary offered in the Polish tech industry remained on an upward trajectory despite the coronavirus pandemic, with the average salary rising in the high single digits as selected specialists received 10% more on average in pay than in 2020. Sygnity has to offer competitive salaries if it wants to attract top talent and skilled specialists for its teams.

Increasing Exposure to Government Contracts

The public sector accounted for 41% of Sygnity's revenue in H1 FY'2021/22, and it has been responsible for a large part of this year's revenue growth. Since then, the Company has added several big orders from the Ministry of Finance – a bad strategy in our view given its poor track record with government contracts in the past; we would rather see Sygnity reduce its exposure to the public sector.

(PLN m)	19/20	20/21	21/22E	22/23E	23/24E
revenue	230.0	204.1	215.5	229.2	240.4
EBITDA	53.0	61.0	39.7	42.0	43.8
EBITDA margin	23.1%	29.9%	18.4%	18.3%	18.2%
EBIT	36.9	49.2	29.1	31.1	32.8
net profit	29.2	46.6	28.5	25.4	26.5
P/E	14.0	8.8	14.4	16.1	15.5
P/CE	9.0	7.0	10.5	11.3	10.9
P/B	4.3	2.9	2.4	2.1	1.8
EV/EBITDA	8.7	7.4	10.5	9.4	8.5
DPS	0.0	0.0	0.0	0.0	0.0
DYield	0.00%	0.00%	0.00%	0.00%	0.00%

current price	PLN 18.15
target price	PLN 13.30
mCap	PLN 410m
ADTV (3M)	PLN 0.8m

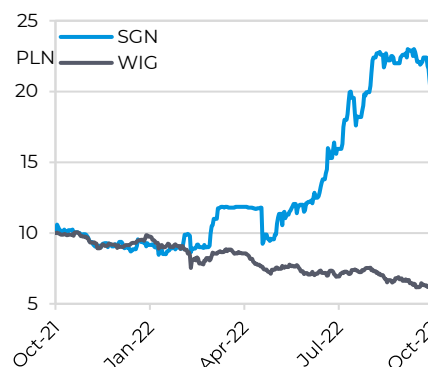
Ownership

TSS Europe B.V.	72.68%
NN PTE	10.67%
Others	16.65%

About Sygnity

Sygnity creates IT solutions and offers advisory services to customers across many different industries. The Company generates approximately PLN 215m in annual sales. Headquartered in Warsaw, Sygnity earns more than 95% its revenues in Poland.

SGN vs. WIG



name	target price		recommendation	
	new	old	new	old
Sygnity	13.30	13.50	sell	sell
name	current price	target price	upside	
	Sygnity	18.15	13.30	-26.7%
forecast revision		21/22E	22/23E	23/24E
revenue		+1.0%	+2.3%	+2.6%
EBITDA		-10.4%	-7.0%	-4.6%
net profit		+16.7%	-4.1%	-2.0%

Analyst:

Paweł Szpigiel
+48 22 438 24 06
pawel.szpigiel@mbank.pl



Key Risks

Goodwill Impairment

Sygnity recorded goodwill in the amount of PLN 157.2m as of 30 June 2022, representing more than half of the balance sheet total. A deterioration in the Company's financial standing could lead to impairment of that goodwill which in turn could lead to a violation of debt covenants.

No Dividends

Sygnity's net debt is relatively low, with the IFRS 16 ending FY2021/22 balance expected to approximate PLN 8m, equivalent to 0.2x adjusted EBITDA. At the same time, however, the Company has a relatively small asset base after several years of curbed capital expenditures.

If Sygnity increases investment and expenses on customer acquisition, this could result in negative changes in working capital, leading to curbed medium-term dividend payments despite good cash flow generation.

Supplier Risk

Sygnity serves as a local partner to global technology companies, integrating their solutions into customer systems and providing a range of services from training, to maintenance, upgrades, and extensions. If global software providers were to change the terms of their partner policies, for example by limiting the number of local partners or by bringing implementation services in different markets in house, this could have a negative effect on revenues.

Increase in Labor Costs

Payroll accounts for a major part of Sygnity's operating expenses. The average salary offered in the Polish IT industry has been on a steady rise for the last several years, rising in the high single digits in 2021 as the monthly earnings of selected specialists increased more than 10% compared to 2020.

Sygnity has to offer competitive salaries if it wants to attract top talent and skilled specialists for its teams.

Liquidated Damages

Sygnity is always at risk of claims under liquidated damages and warranty clauses contained in its many contracts with customers and business partners. As of 30 June 2022, the Company reported having conditional off-balance-sheet obligations under performance and warranty clauses in the amount of PLN 13.2m.

Public Contracts

Sygnity competes in government tenders for IT services which are typically awarded to the lowest bidder. Meanwhile, the biggest contracts usually require the onboarding of subcontractors, which heightens the risk of default. Another risk are cost overruns on underestimated projects (Sygnity's 2013 e-Taxes contract is one example of an underrated budget).

Long-Term Contracts

The pricing and successful delivery a long-term contract hinges on many factors, some of which are beyond the control of the supplier. For example, the actual figures at the end of the contract might miss the initial revenue, cost, and profit targets, leading to provisions, adjustments and write-offs (cost overruns are the most common issue), and in the worst case to events of default.

Exchange Rate Risk

Sygnity's revenues and costs are affected by changes in the zloty's exchange rates relative to the euro and the US dollar. On the balance sheet, assets and liabilities denominated in foreign currencies consist exclusively of trade receivables and trade payables.

Corruption Probe

In 2019, Sygnity became involved in an investigation into allegations of corruption in the award of contracts by the Polish Post Office brought against its employees, including the CEO and the Supervisory Board Chairman. The Company cooperated with the authorities and turned over all requested records and items. Since we do not have knowledge about the current status of the case, we cannot tell whether or not it might affect the Company's business in the future.

Valuation

Using DCF analysis and relative valuation, we set our nine-month per-share price target for Sygnity at PLN 13.30.

Multiples Comparison

We compared Sygnity with its peer group based on forward P/E and EV/EBITDA multiples, each with an equal weight in the valuation outcome.

Each of the forecast years, calendar 2022, 2023, and 2024, is assigned an equal weight. For Sygnity, we took fiscal years of

Valuation Summary

(PLN)	weight	price
relative valuation	50%	12.34
DCF analysis	50%	11.99
	valuation	12.17
	9M target price	13.30

Source: mBank

FY2021/22, 2022/23, and 2023/24 as corresponding to the calendar years.

We applied a 15% discount to the valuation outcome to reflect Sygnity's slower earnings growth.

Our model takes into account the NPV of a deferred tax asset arising from prior years' losses.

Multiples Comparison

	P/E			EV/EBITDA		
	2022E	2023E	2024E	2022E	2023E	2024E
Sap	18.3	15.8	14.0	13.6	12.0	10.7
Oracle	13.7	13.2	11.6	11.7	10.0	9.3
Cap Gemini	15.6	14.0	12.5	10.0	9.2	8.3
Sage Group	26.2	23.3	20.8	17.1	15.3	13.9
Atos	17.2	6.2	3.4	4.7	4.3	3.6
Software AG	15.2	12.3	10.3	9.7	8.2	7.0
Indra Sistemas	8.2	7.6	6.9	5.2	5.0	4.7
Computacenter	14.7	13.0	11.5	11.6	10.5	9.6
Asseco Poland	11.6	11.4	10.9	6.1	5.9	5.7
Comarch	11.4	12.1	10.5	4.1	5.5	6.7
maximum	26.2	23.3	20.8	17.1	15.3	13.9
minimum	8.2	6.2	3.4	3.4	3.6	3.4
median	14.7	12.3	10.9	9.7	8.2	7.0
Sygnity**	14.4	16.1	15.5	10.5	9.4	8.5
premium / discount	-2.4%	31.0%	42.0%	8.5%	15.8%	21.5%
Implied Valuation						
value per share (PLN)	17.92	11.89	11.88	18.02	13.87	13.54
multiple weight		50%			50%	
year weight	33%	33%	33%	33%	33%	33%
equity value per share (PLN)*	12.34					

Source: mBank, *after a 15% discount; ** FY2020/21, 2022/23, 2023/24, respectively



DCF Valuation

Assumptions:

- The forecast period spans the fiscal years of FY2021/22 – 2030/31.
- The perpetuity risk-free rate is 4.50%.
- We assume FCF after the forecast period will grow at a rate of 2.0%.
- Net debt is ex IFRS 16 as of 30 September 2021.
- Perpetuity D&A expenses and CAPEX are assumed to be equal.

DCF Model

(PLN m)	21/22E	22/23E	23/24E	24/25E	25/26E	26/27E	27/28E	28/29E	29/30E	30/31E	+
EBIT	29.1	31.1	32.8	34.3	35.8	37.2	38.7	40.2	41.7	43.1	
EBIT margin	13.5%	13.6%	13.6%	13.6%	13.6%	13.5%	13.4%	13.4%	13.3%	13.2%	
tax on EBIT	5.5	5.9	6.2	6.5	6.8	7.1	7.4	7.6	7.9	8.2	
effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	
NOPLAT	23.5	25.2	26.6	27.8	29.0	30.2	31.4	32.6	33.8	34.9	
D&A	3.1	3.2	3.4	3.6	3.7	3.9	4.1	4.3	4.4	4.6	
CAPEX	-5.7	-5.8	-5.7	-5.7	-5.7	-5.7	-5.6	-5.6	-4.4	-4.6	
working capital & other	8.6	-1.3	-1.5	-1.6	-1.8	-0.1	-0.1	-0.1	-0.1	-0.1	
FCF	29.5	21.4	22.7	24.0	25.2	28.3	29.8	31.2	33.7	34.9	35.6
WACC	12.3%	12.3%	12.6%	12.8%	11.4%	11.2%	11.8%	11.7%	11.8%	11.8%	
discount factor	0.98	0.87	0.77	0.68	0.61	0.55	0.49	0.44	0.40	0.35	
PV FCF	28.8	18.6	17.5	16.4	15.5	15.6	14.7	13.8	13.3	12.3	
WACC	12.3%	12.3%	12.6%	12.8%	11.4%	11.2%	11.8%	11.7%	11.8%	11.8%	10.5%
cost of debt	7.5%	7.3%	7.6%	7.8%	6.4%	6.2%	6.8%	6.7%	6.8%	6.8%	5.5%
risk-free rate	6.5%	6.3%	6.6%	6.8%	5.4%	5.2%	5.8%	5.7%	5.8%	5.8%	4.5%
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	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
net debt / EV	1.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
cost of equity	12.5%	12.3%	12.6%	12.8%	11.4%	11.2%	11.8%	11.7%	11.8%	11.8%	10.5%
risk premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
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	431.0
Present value of terminal value	149.0
Present value of FCF in the forecast period	166.5
Enterprise value	315.5
Net debt (eop FY'20/21)	42.5
Other noncore assets	0.0
Minority interests	0.0
Equity value	272.9
Shares outst. (m)	22.8
Equity value per share (PLN)	11.99
9M cost of equity	9.4%
Target price	13.11

EV/EBITDA ('22) at target price	7.9
P/E('22) at target price	10.5
TV / EV	47.2%

Source: mBank

Sensitivity Analysis

	FCF growth in perpetuity				
	-1.0%	-0.5%	0.0%	0.5%	1.0%
WACC +1.0 p.p.	11.03	11.32	11.65	12.01	12.42
WACC +0.5 p.p.	11.63	11.97	12.34	12.76	13.23
WACC	12.29	12.68	13.11	13.60	14.15
WACC -0.5 p.p.	13.03	13.48	13.98	14.56	15.21
WACC -1.0 p.p.	13.86	10.99	11.41	11.89	12.44

Financial Results for Q3 FY2021/22

Sygnity missed our estimates with its financial results for the three months ended 30 June 2022 (Q3 of FY2021/22).

Revenue amounted to PLN 54.4m in the period after an 8.9% rebound from the same period a year earlier. The gross margin posted a year-over-year **decrease of 1.6pp** at 30.5%. SG&A expenses increased to PLN 10.2m from PLN 8.1m a year ago. Other operating activity provided a PLN 0.2m gain.

After all this, EBIT came in at PLN 6.5m in Q3'21/22 and **EBITDA** amounted to PLN 9.2m, a **year-over-year fall of nearly 17%**.

Financing activity was neutral to the quarterly results, and the effective tax rate was 16.9%, resulting in net profit of PLN 5.4m.

Financial Results for Q3 FY2021/22

(PLN m)	3Q'21/22	3Q'20/21	change	3Q'21/22E	differ.
revenue	54.2	49.8	8.9%	52.0	4.2%
EBITDA	9.2	11.0	-16.6%	10.1	-9.3%
margin	17.0%	22.2%	-	19.5%	-
EBIT	6.5	8.2	-21.1%	7.5	-13.4%
pre-tax profit	6.5	7.1	-8.2%	5.6	15.5%
net profit	5.4	5.6	-3.2%	4.5	18.5%

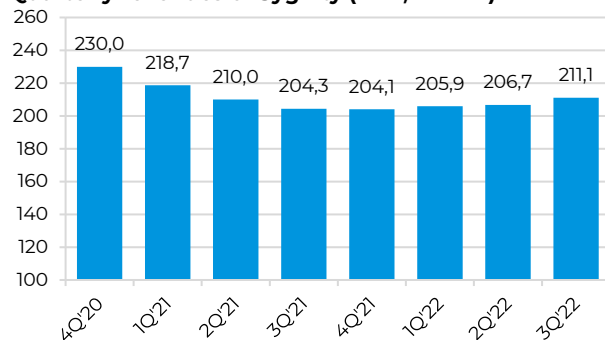
Source: Sygnity, E – mBank estimates

Sygnity delivered the **first major revenue increase in a long time** in Q3 FY2021/22; in the two previous quarters, year-on-year topline growth was constrained to 2-4%.

At the same time, sales margins continued to weaken while SG&A expenses increased, resulting in substantial contraction in quarterly profits.

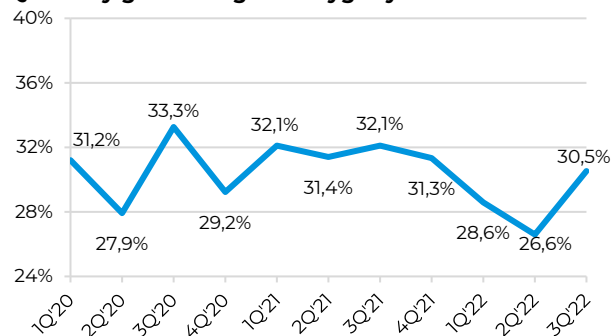
Sygnity is not able to grow revenues fast enough to offset rising costs.

Quarterly revenues of Sygnity (LTM, PLN m)



Source: Sygnity

Quarterly gross margins of Sygnity



Source: Sygnity, E – mBank estimates

Future Prospects

Sygnity did not disclose the current size of its order backlog at the Q3'21/22 earnings conference.

Nonetheless, we do see a pickup in revenue momentum, backed by new large contacts added in the last few months. They include:

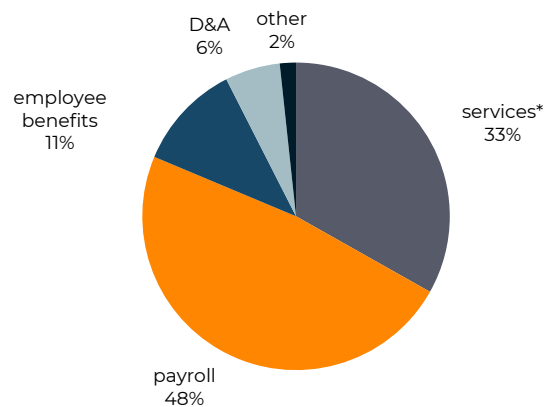
- (1) A 24-month systems support framework agreement with the Information Technology Center of the Finance Ministry, with a maximum value of PLN 99m gross, and
- (2) Another framework with the Ministry regarding outsourcing of specialists over a period of 36 months, with a total maximum value of PLN 77.2m gross.

We have raised our revenue forecasts for Sygnity after factoring the new contracts into our models.

At the same time, to reflect the fact that the salaries of the Company's tech personnel, which account for a major portion of annual costs, are estimated to increase more than 10% a year, we assume as a baseline scenario that Sygnity's future sales margins will be narrowing.

As for EBITDA margins, they could be in the 14.5-15% range assuming a reasonable approach to SG&A expenses.

Breakdown of 1H'21/22 operating expenses of Sygnity



Source: Sygnity, *Mostly payroll

Our **EBITDA** forecasts for Sygnity for FY2021/22 and FY2022/23 have been revised downwards.

Revenue and EBITDA forecast revision

(PLN m)	Revenue '21/22E	Revenue '22/23E	EBITDA '21/22E	EBITDA '22/23E
old	213.3	224.1	44.3	45.1
new	215.5	229.2	39.7	42.0
change	+1.0%	+2.3%	-10.4%	-7.0%

Source: mBank



P&L

(PLN m)	19/20	20/21	21/22E	22/23E	23/24E
revenue	230.0	204.1	215.5	229.2	240.4
YoY % change	-2.0%	-11.3%	5.6%	6.4%	4.9%
COGS	160.0	139.3	153.2	163.7	172.0
gross profit	69.9	64.8	62.3	65.6	68.4
other operating income	1.3	15.5	0.9	0.0	0.0
sales and marketing costs	8.7	6.7	7.0	7.5	7.8
administrative expenses	24.7	23.9	27.0	27.0	27.8
other operating charges	1.0	0.6	0.1	0.0	0.0
EBIT	36.9	49.2	29.1	31.1	32.8
margin	16.0%	24.1%	13.5%	13.6%	13.6%
D&A	16.2	11.8	10.7	10.8	11.0
EBITDA	53.0	61.0	39.7	42.0	43.8
financing activity	-7.1	3.2	-1.9	-0.5	-0.5
pre-tax profit	29.8	52.3	27.2	30.6	32.3
margin	13.0%	25.6%	12.6%	13.4%	13.4%
tax	-2.0	-5.8	1.3	-5.2	-5.8
discontinued ops.	1.4	0.0	0.0	0.0	0.0
net profit	29.2	46.6	28.5	25.4	26.5

Balance Sheet

(PLN m)	19/20	20/21	21/22E	22/23E	23/24E
fixed assets	202.5	188.9	191.5	194.0	196.4
PP&E	2.4	2.3	2.3	2.3	2.3
intangible assets	6.2	4.2	6.9	9.4	11.8
goodwill	157.2	157.2	157.2	157.2	157.2
current assets	93.9	90.2	118.0	143.3	169.3
inventory	0.3	0.0	0.0	0.0	0.0
accounts receivable	31.8	39.5	32.9	36.6	40.0
cash	38.5	24.8	59.2	80.8	103.4
equity	94.3	141.6	170.1	195.5	222.0
minority interest	0.0	0.0	0.0	0.0	0.0
noncurrent liab.	93.2	48.8	48.8	48.8	48.8
loans	13.5	0.0	0.0	0.0	0.0
bonds	2.1	36.0	36.0	36.0	36.0
current liabilities	108.9	88.7	90.6	93.0	94.9
loans	9.5	0.0	0.0	0.0	0.0
bonds	6.6	18.1	18.1	18.1	18.1
trade and other payables	66.7	35.3	37.3	39.7	41.6
net debt	54.0	42.5	8.1	-13.5	-36.1
net debt/EBITDA	1.0	0.7	0.2	-0.3	-0.8

Source: mBank

Cash Flow

(PLN m)	19/20	20/21	21/22E	22/23E	23/24E
operating CF	52.0	20.2	55.4	35.5	36.5
working capital	3.5	-24.3	8.6	-1.3	-1.5
investing CF	-1.9	-2.0	-5.7	-5.8	-5.7
CAPEX	-1.7	-0.4	-5.7	-5.8	-5.7
financing CF	-30.1	-30.8	-15.3	-8.1	-8.1
change in debt	-11.5	22.5	0.0	0.0	0.0
CF	19.9	-12.6	33.3	21.6	22.6
OCF/EBITDA	98.0%	33.1%	83.5%	86.1%	84.2%
FCFF	41.9	9.6	42.1	22.1	23.1
FCFF/EV	9.0%	2.1%	10.1%	5.6%	6.2%
FCFE	43.2	-25.3	49.7	29.7	30.7
FCFE/MCAP	10.5%	-6.2%	12.1%	7.2%	7.5%
ROIC	25.6%	29.6%	16.0%	17.3%	17.8%
ROCE growth	22.3%	26.0%	14.2%	13.4%	12.7%
DPS	0	0	0	0	0
divid. payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%

Key Ratios

	19/20	20/21	21/22E	22/23E	23/24E
P/E	14.0	8.8	14.4	16.1	15.5
P/CE	9.0	7.0	10.5	11.3	10.9
EV/EBITDA	8.7	7.4	10.5	9.4	8.5
EV/EBIT	12.6	9.2	14.4	12.7	11.4
P/S	1.8	2.0	1.9	1.8	1.7
P/B	4.3	2.9	2.4	2.1	1.8
P/FCFE	9.5	-16.2	8.2	13.8	13.3
EBITDA margin	23.1%	29.9%	18.4%	18.3%	18.2%
y/y % EBITDA change	41.8%	15.0%	-34.9%	5.7%	4.4%
net margin	12.7%	22.8%	13.2%	11.1%	11.0%
y/y net change	83.4%	59.4%	-38.9%	-10.7%	4.1%
price (PLN)	18.15	18.15	18.15	18.15	18.15
shares outst. (millions)	22.8	22.8	22.8	22.8	22.8
mCap	410	410	410	410	410
EV	464	452	418	396	374

List of abbreviations and ratios used by mBank:

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases) - Lease Payments
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

Recommendations of Biuro maklerskie mBanku:

A recommendation is valid for a period of 9 months, unless a subsequent recommendation is issued in this period. Expected returns from individual recommendations are as follows:

BUY – we expect that the rate of return from an investment will be at least 15%
ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
 Recommendations are updated at least once every nine months.

mBank S.A. with its registered office in Warsaw at Prosta 18 renders brokerage services via a dedicated organisational unit, the Brokerage Bureau, which uses the Polish name Biuro maklerskie mBanku.

mBank S.A. as part of the Exchange's Analytical Coverage Support Programme ("Programme", <https://www.gpw.pl/eacsp>) prepares analytical reports for the following companies: Cognor Holding, Compremum, Sygnity. These documents are prepared at the request of Giełda Papierów Wartościowych w Warszawie S.A. ('WSE'), which is entitled to copyrights to these materials. mBank S.A. receives remuneration from the WSE for the preparation of the reports. All documents prepared for the Programme are available at: https://www.mdm.pl/ui-pub/site/market_and_analysis/analysis_and_recommendations/analytical_coverage_support_programme

This document has been created and published by Biuro maklerskie mBanku. This report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. This report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which Biuro maklerskie mBanku considers reliable, including information published by issuers, shares of which are subject to recommendations. However, Biuro maklerskie mBanku, in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts. mBank S.A. bears no responsibility for investment decisions taken on the basis of this report or for any damages incurred as a result of investment decisions taken on the basis of this report.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document does not constitute investment, legal, accounting or other advice, and mBank is not liable for damages resulting from or related to the use of data provided in the documents. This document may not be copied, duplicated and/or be directly or indirectly distributed in the United States, Canada, Australia or Japan, nor transferred to citizens or residents of a state where its distribution may be legally restricted, which does not limit the possibility of publishing materials prepared for the Programme on Cognor Holding, Compremum, Sygnity, mBank or WSE websites. Persons who disseminate this document should be aware of the need to comply with such restrictions.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation.

Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

It is possible that mBank S.A. in its brokerage activity renders, will render or in the past has rendered services for companies and other entities mentioned in this report.

mBank S.A. does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation. Information concerning a conflict of interest arising in connection with issuing a recommendation (should such a conflict exist) is located below.

The present report was not transferred to the issuer prior to its publication.

mBank S.A. may have received compensation for services provided to the Issuer in the last 12 months.
 mBank S.A. receives compensation from GPW, operator of the Warsaw Stock Exchange, for publishing equity research as part of the WSE's coverage support program.

The production of this recommendation was completed on October 18, 2022, 7:40 AM.
 This recommendation was first disseminated on October 18, 2022, 8:40 AM.

mBank S.A., its shareholders and employees may hold long or short positions in the issuer's shares or other financial instruments related to the issuer's shares.

Copying or publishing this report, in full or in part, or disseminating in any way information contained in this report requires the prior written consent of mBank S.A.

Recommendations are addressed to all Clients of Biuro maklerskie mBanku.

All investment recommendations and strategies issued by mBank S.A. over the last 12 months are available at:
http://www.mdm.pl/ui-pub/site/market_and_analysis/analysis_and_recommendations/fundamental_analysis/recommendations?recent_filter_active=true&lang=en

The activity of mBank S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of Biuro maklerskie mBanku authorised to access the premises in which recommendations are prepared and/or individuals having to access to recommendations based on their corporate roles, other than the analysts mentioned as the authors of this recommendations.

This publication constitutes investment research in the meaning of Art. 36.1 of Commission Delegated Regulation (EU) 2017/565.

The compensation of the research analysts responsible for preparing investment research is determined independently of and without regard to the compensation of or revenue generated by any other employee of the Bank, including but not limited to any employee whose business interests may reasonably be considered to conflict with the interests of the persons to whom the investment research prepared by the Research Department of Biuro maklerskie mBanku is disseminated. With that being said, since one of the factors taken into consideration when determining the compensation of research analysts is the degree of fulfillment of annual financial targets by customer service functions, there is a risk that the adequacy of compensation offered to persons preparing investment research will be questioned by a competent oversight body.

For U.S. persons only: This research report is a product of mBank SA which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by mBank SA only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, mBank SA has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

Strong and weak points of valuation methods used in recommendations:

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.

Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

Discounted Dividends (DDM) – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

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 recommendations for Sygnity in the 12 months prior to this publication:

Sygnity (Pawel Szpigiel)

recommendation	sell	accumulate	reduce	buy
date issued	2022-07-08	2022-05-06	2022-04-07	2022-03-04
target price (PLN)	13.50	10.70	10.70	10.70
price on rating day	15.80	9.40	11.80	9.18



mBank S.A.

Prosta 18
00-850 Warszawa
<http://www.mbank.pl/>

Research Department

Kamil Kliszcz
director
+48 667 770 837
kamil.klischcz@mbank.pl
energy, power generation

Piotr Poniatowski
+48 509 603 046
piotr.poniatowski@mbank.pl
gaming

Mateusz Krupa, CFA
+48 571 608 973
mateusz.krupa@mbank.pl
strategy

Michał Konarski
+48 515 025 640
michal.konarski@mbank.pl
banks, financials

Mikołaj Lemańczyk, CFA
+48 501 663 511
mikolaj.lemanczyk@mbank.pl
banks, financials

Beata Szparaga-Waśniewska, CFA
+48 510 929 021
beata.szparaga-wasniewska@mbank.pl
biotechnology, healthcare

Paweł Szpigiel
+48 509 603 258
pawel.szpigiel@mbank.pl
media, IT, telco, e-commerce

Janusz Pięta
+48 506 065 659
janusz.pieta@mbank.pl
retail, e-commerce

Paweł Wieprzowski, PhD
+48 789 443 768
pawel.wieprzowski@mbank.pl
industrials, mining

Sales and Trading

Traders

Piotr Gawron
director
+48 698 832 853
piotr.gawron@mbank.pl

Andrzej Kowalczyk
+48 601 053 470
andrzej.kowalczyk@mbank.pl

Karol Kułaj
+48 509 602 984
karol.kulaj@mbank.pl

Paweł Cyłkowski
+48 503 684 130
pawel.cylkowski@mbank.pl

Andrzej Sychowski
+48 605 848 003
andrzej.sychowski@mbank.pl

Piotr Brożyna
+48 512 756 702
piotr.brozyna@mbank.pl

Łukasz Płaska
+48 22 697 47 90
lukasz.plaska@mbank.pl

Sales, Foreign Markets

Marzena Łempicka-Wilim
deputy director
+48 696 427 249
marzena.lempicka-wilim@mbank.pl

Private Client Sales

Kamil Szymański
director
kamil.szymanski@mbank.pl

Jarosław Banasiak
deputy director
jaroslaw.banasiak@mbank.pl

