Thursday, February 4, 2021 | initiating report

Answear: buy (new)

ANR PW; ANR.WA | e-Commerce, Poland

100% Digital

Global e-Commerce growth gathered greater momentum in 2020 with brick-and-mortar stores put on lockdown as a way to help contain the coronavirus pandemic. Propelled by tailwinds, Answear.com S.A. ("Answear," the "Company") is committed to building its presence in the CEE region as as a multi-brand e-Commerce platform. Between 2014 and 2019, Answer increased its sales ten-fold to PLN 311 million (58.6% CAGR), and in the next three years revenue is expected to double. Answear is able to maintain its steep growth trajectory by expanding its presence in the fast-growing CEE market, broadening the digital mix of products and brands, and investing in logistics and technology. The Company has enough working capital to further invest in sales growth, and it plans to channel part of the funds raised from the Initial Public Offering into growing brand awareness in its seven markets as a way of boosting sales and increasing conversion rates in the future. In the 2017-2019 period, With a steady rise in sales, Answear was able to bring down sales costs in recent years, and as a result in 2019 its EBITDA margin increased by 4.6pp to 3.1%, and in the year to 30 September 2020 it doubled to 6.6%. Answear has the capacity to scale up further in existing and target markets. According to our estimates, by 2024 the Company will achieve EBITDA of PLN 64m after projected 2020-2024 CAGR of 23.5%. An investment in Answear is a play on a sustained positive momentum in the CEE's fast-growing e-Commerce industry.

Rapid Expansion of CEE e-Commerce
The European e-Commerce market is projected to grow at a compound annual growth rate of 7% from 2020 to 2024, and according to RetailX the most room for digital sales expansion can be found in eastern and southern regions. Answear, which already has a foothold in Ukraine and Romania as two of the core markets, is a beneficiary of this trend.

Deploying IPO Funds For Growth
Answear plans to use part of the IPO proceeds to build brand awareness and increase conversion rates for its Website from 1.8% in 2019 to match the market average of ca. 2.7%. Sales are also set to receive a boost from the intensified marketing efforts, and the rapid growth might put a strain on profit margins in the next 2-3 years, but Answear is expected to leverage scale to maintain EBITDA margins in the 5-6% range through 2024, followed by expansion above 6%, i.e. similar levels as achieved by the competition.

Investing in Working Capital
Over the last few years, Answear has had to tone down its growth ambitions due to insufficient working capital. However from 2019 the Company generates enough cash flow to fund day-to-day operations, and with the capital raised from investors we believe it can maintain fast-paced sales growth in 2021 even after the strong rebound of 2020.

(PLN m)	2018	2019	2020E	2021E	2022E
Revenue	220.8	311.2	407.8	519.4	661.3
EBITDA	-3.4	9.6	27.6	29.8	38.5
EBITDA margin	-1.5%	3.1%	6.8%	5.7%	5.8%
EBIT	-7.0	4.4	19.3	20.8	29.1
Net profit	-8.3	10.9	12.4	14.9	21.7
P/E	-	38.5	39.4	32.8	22.6
P/CE	-	26.0	26.6	22.8	17.2
P/BV	11.9	7.7	4.3	3.8	3.3
EV/EBITDA	-	46.3	17.7	17.0	13.2
DPS	0.00	0.00	0.00	0.00	0.00
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

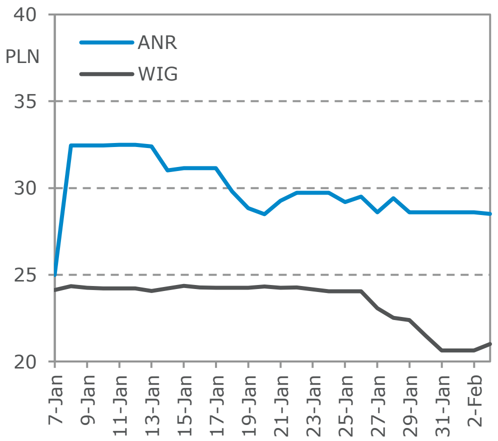
Current Price	PLN 28.51
Target Price	PLN 44.50
MCap	PLN 490.1m
Free Float	PLN 44.1m
ADTV (20D)	PLN 2.6m

Ownership

Forum X	67.12%
MCI	23.89%
Others	8.99%

About
Answear.com is a digital fashion marketplace listing 80,000+ items from more than 350 global brands. The most-shopped brands on answear.com range from affordable labels (Mango, Vero Moda) to top sports names (Adidas, Nike, New Balance), jeans (Levi's, Lee, Wrangler), and designer fashion (Diesel, Guess Jeans, CK, Tommy Hilfiger, Valentino, DKNY). Answear has also created its own line of apparel and shoes, answear.LAB, which has become a top seller in the digital store and which accounts for a major portion of revenues from entry-level brand sales. Answear runs online stores in seven countries in the CEE, and it delivers orders to customers from a Polish fulfillment facility located near Krakow. In the future, Answear plans to further expand in the CEE market.

ANR vs. WIG



Company	Target Price new	Target Price old	Recommendation new	Recommendation old
Answear	44.50	-	buy	-

Company	Current Price	Target Price	Upside
Answear	28.51	44.50	+56.1%

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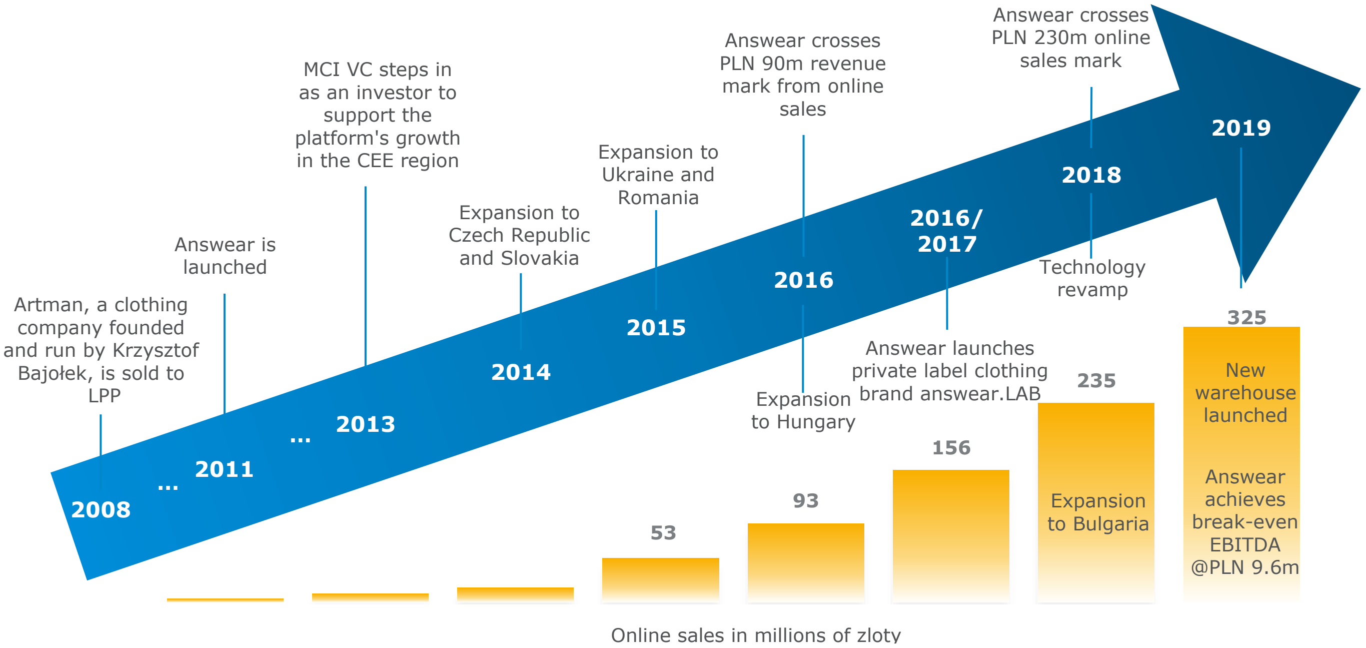
About Answear

Major Milestones



Source: Answear, mBank

Answear At a Glance

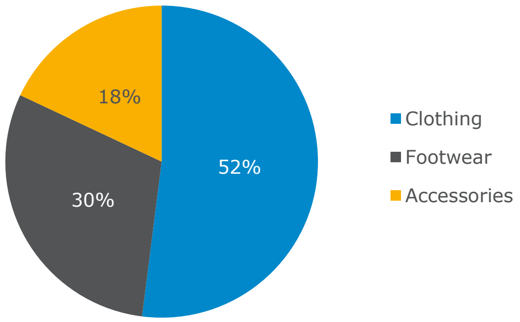
Answear is an internet platform that offers women's, men's and children's fashion. As of 30 September, 2020, the platform offered approx. 80 thousand products - clothes, shoes, and accessories for women, men and children from over 350 global brands. Among them are popular clothing brands (Mango, Vero Moda), sports brands (Adidas, Nike, New Balance), jeans brands (Levi's, Lee, Wrangler), as well as premium brands (Diesel, Guess Jeans, CK, Tommy Hilfiger, Valentino, DKNY). The Company has its own brand, Answear.LAB, which is currently the best-selling brand on the platform, and is largely responsible for the sales at the lower-end of the price spectrum. At present, the platform is available in seven countries to which shipment is supported from a logistics center located in Poland, near Krakow. The platform plans to continue its expansion into other CEE markets.

Main Business Markets and Planned Expansion Markets

Source: Answear, mBank; *not shown on the map: Russia, Kazakhstan, Greece

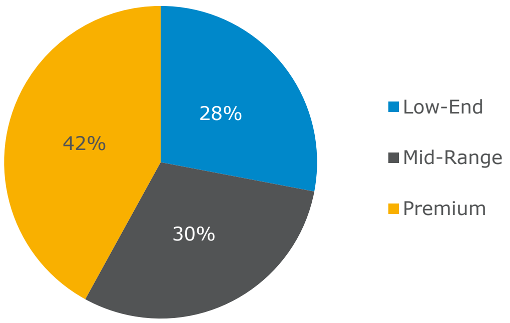
The main part of Answear's offer is clothing (52%), followed by footwear (30%), and accessories (18%). In terms of pricing, premium goods (42%) represent the largest portion, the mid-range price tier (commercial segment) accounts for 30% of the offer, and the low-end tier makes up 28% of the offer.

Breakdown of products offered on answear.com by category



Source: Answear, mBank

Breakdown of products by price tiers



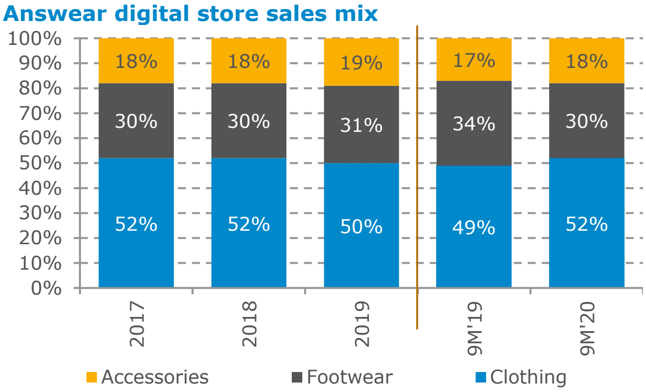
Source: Answear, mBank

Shopping on Answear

The Answear offer is very diversified. Out of the 350 brands offered on the platform as of 30 September, fewer than 30 generated sales exceeding 1% of total revenue, and none exceeded 8%. The best-selling brands include: Guess Jeans, Tommy Hilfiger, Calvin Klein, Mango, Desigual, Polo Ralph Lauren, Karl Lagerfeld, Medicine, Emporio Armani, Liu Jo, Adidas, Nike, and Answear.LAB.

The years 2017-19 saw a slight decline of the share of clothes in the offer, and an increase of the share of accessories and footwear. In the 9 months to 30 September 2020 (9M'20), disturbed by the COVID-19 pandemic, the footwear selection narrowed while the availability of other categories increased compared to the same period the year before – a change which help improve this year's margin on sales.

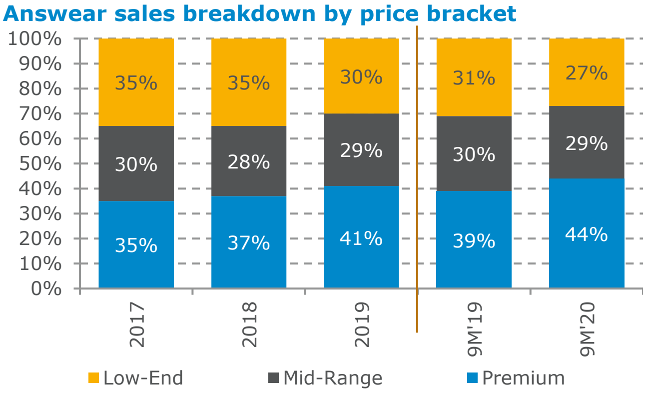
Answear digital store sales mix



Source: Answear, mBank

In the years 2017-19, there is a trend of increasing sales of the highest-priced products (premium). The share of this category increased by 6 p.p. yoy, to 41% in 2019. A relatively stable share in sales was recorded in the mid-range price brackets in the years 2017-19, while a big drop in that period was recorded by the low-end segment (from 35% in 2017 to 30% in 2019). In 9M'20, similar trends could be observed as in the period 2017-19 (an increase in the share of premium and a decrease in the low price brackets).

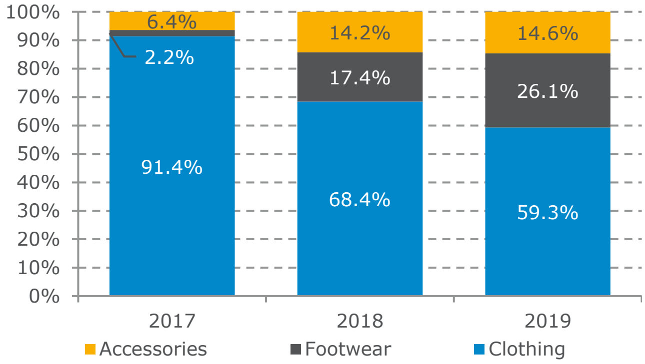
Answear sales breakdown by price bracket



Source: Answear, mBank

In the low price brackets, there is the proprietary Answear.LAB brand established in 2016/17. Footwear, clothes and accessories for women are offered within this brand. Initially, the brand focused on offering basic products and accessories. At present, the brand supplements the offer of bestsellers and fashion products in the low price range. The proprietary brand allows Answear to stand out among other platforms and attract customers with low prices. The goods for the proprietary brand are manufactured in Turkey, Poland and Asia. In 2017-19, the increasing share of the brand in the offer was achieved by footwear and accessories. A dedicated team of more than ten people is responsible for preparing and purchasing the Answear.LAB collection. In 2019, the largest part of the offer was still made up by clothing.

Breakdown of Answear.LAB lines by category

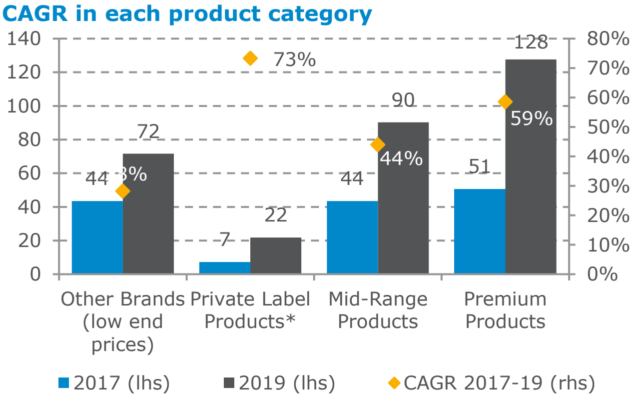


Source: Answear, mBank

In 2019, the proprietary brand offer constituted more than 6,000 SKU's. In 2019, sales of Answear.LAB products increased by 80% yoy. The own brand share in total sales amounted to ca. 7% in 2017-19.

According to our calculations, the slowest growing product category in recent years has been the low price range, not including the proprietary brand. The fastest sales CAGR in 2017-19 was attributed to the proprietary brand. The products in the middle and high price brackets recorded 2017-19 CAGR at 44% and 59% respectively. In accordance with the strategy adopted, in subsequent years the platform wants to focus on further development of its own brand and on the increase in sales in the premium segment.

Estimated sales revenue (PLN m, lhs) and revenue CAGR in each product category



Source: Answear, mBank; * assuming 5%/7% of share in sales in 2017/19

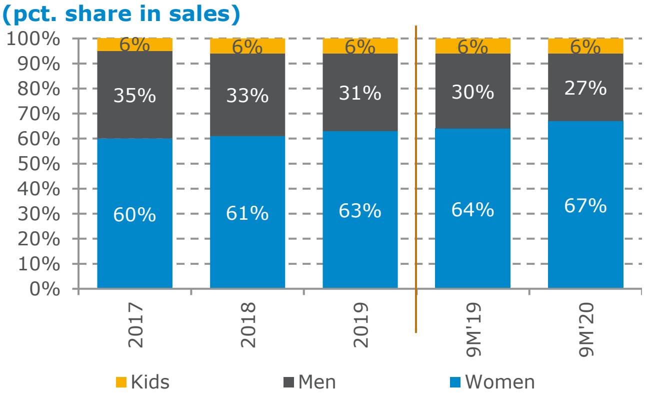
Within 4-5 years, the own brand should reach approximately 15% of the total sales of the Company. Additionally, Answear plans to gradually increase the offer by 15-20 thousand products per year to approx. 150 thousand SKU's and 500 brands in 2024. The increase in the offer will be focused on the medium and high price range.

Target Consumer

The Answear target group are people aged 20-40. About 63% of orders in 2019 were made by women. On average, customers placing orders on the platform earn more than the average salary in the country, and they are willing to spend more than PLN 250 per order and repeat orders at least several times a year. In 2019, on average, 2.1 items were ordered within one order, while the average frequency of orders from one customer was 2.2 orders per year.

In the years 2017-19, the share of orders placed by women increased from year to year while purchases by men decreased. The above trend accelerated in the pandemic environment in 9M'20.

Women represent the majority of Answear shoppers (pct. share in sales)



Source: Answear, mBank

Customer Service

Answear has in place its own customer support department which employs approximately 40 people. About half of the consultants work in Krakow, while the remaining ones operate in local markets. This allows to match the quality of services to the specific customer needs typical for individual markets. Good customer service and the platform activity in markets where the consumer is less inclined to return goods allows the platform to record a low return ratio (approx. 28.8% in 2019). The quality of services provided by Answear has been recognized by customers on the Opineo review Website, where the online store has a 4.8 mark out of 5, and by the industry through various awards.

Own Sales Platform

The sales platform is the main element of the system architecture of the Answear online store responsible for performing online sales in individual markets. In the previous years, the implementation of the system was the responsibility of an external company. Currently, Answear.com (Poland) and Answear.ua (Ukraine) operate on the system provided by an external company. In 2021, the two stores are to migrate to a new platform.

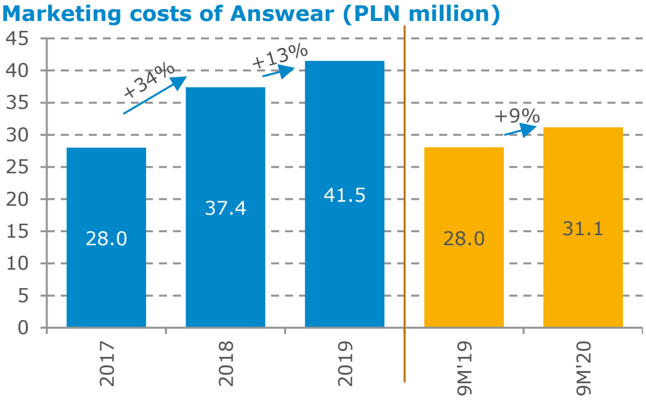
Since 2017 works have been carried out to build a proprietary online store system with the support of an internal development team. Its own software should allow Answear to: 1) be independent from external suppliers of sales systems; 2) accelerate and increase flexibility in terms of implementation of new functionalities; 3) better protect its acquired knowledge, developed solutions and their impact on sales; 4) reduce the costs of operation of the system in the future. Since 2018 the following shops have been activated or migrated to the news system: Answear.bg, Answear.sk, Answear.hu, Answear.ro, and Answear.cz.

The mobile Answear app was launched in the Polish, Czech, Slovak and Romanian markets. The application in the Bulgarian and Hungarian market was launched at the end of 2020, while in Ukraine - after migration of sales to the Company's own e-Commerce system.

Effective Marketing

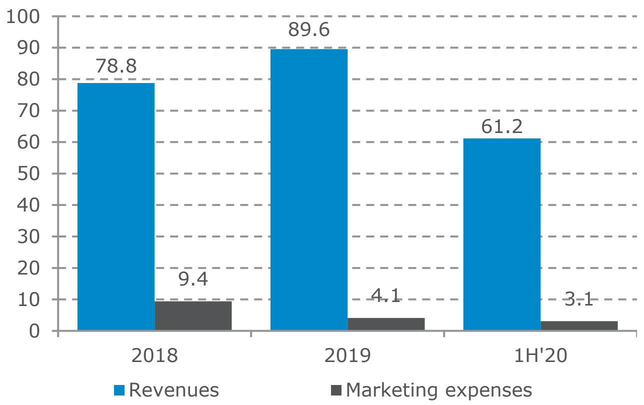
Marketing costs constitute one of the most important factors contributing to the increase in the scale of the business, but also to its profitability. In the years 2017-19, marketing costs increased at an average annual rate of 23.9%, which was slower than the sales growth. With each subsequent period time, a slower increase in marketing costs is observed. At the same time, the marginal efficiency of marketing costs calculated as a marginal annual increase in sales to the marginal increase in marketing is increasing in every period.

Marketing costs of Answear (PLN million)



Source: Answear, mBank

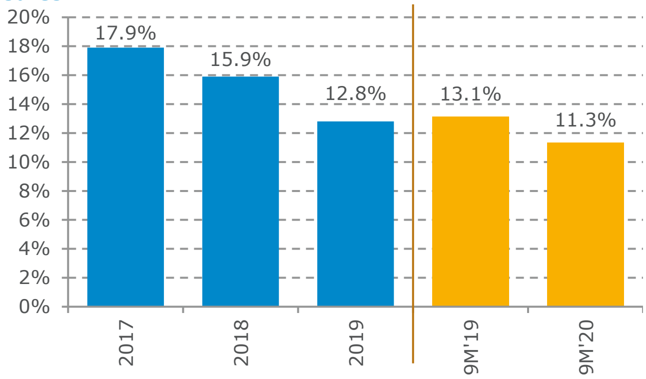
Nominal YoY growth in sales and marketing expenses (PLN million)



Source: Answear, mBank

The trend described above is reflected in a decrease in the mark-up of marketing costs on online sales. The value of the ratio was reduced from 17.9% in 2017 to 12.8% in 2019, which had a direct impact on the business profitability. This trend is continued in 2020. In our opinion, the decision to focus on further scaling of the business may result in a temporary increase of this ratio in coming years. According to the plans of the Management Board, the aim will be to keep the ratio below 12% in the medium term.

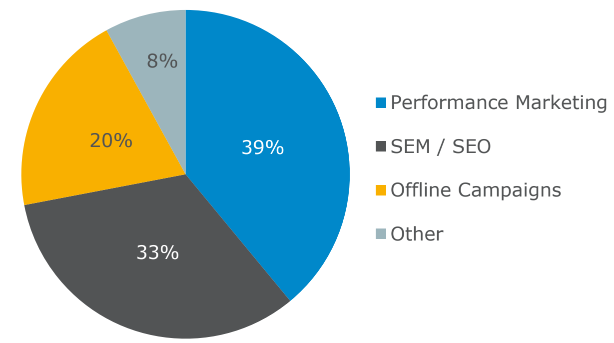
Marketing expenses of Answear as a proportion of sales



Source: Answear, mBank

In 2019, performance marketing had the largest share in marketing expenses (39%), including price checkers, affiliation programs, retargeting, and mail marketing. The second in terms of expenses (33%) was Search Engine Marketing / Search Engine Optimization (SEM/SEO), including Google Ads, YouTube campaigns, Facebook advertising, Instagram advertising, Pinterest advertising. Another category included offline activities (20% of marketing expenditure) including advertising channels such as TV, printed press, influencers, SMS marketing, events, etc. The last category (8% of marketing expenditure) included direct cooperation with horizontal portals, the largest websites, and programmatic buying. High expenditure on performance marketing had a positive impact on the volume of cohorts acquired; however, in most cases, customers drawn in by low prices tend to be less loyal. Focusing on other marketing channels should result in higher retention of sales from the acquired cohorts in the future. The medium-term objective is to increase the ADV and the share of free traffic on the website.

2019 marketing expenses by channel



Source: Answear, mBank

Logistics

Orders from Answear are shipped from the Company's single logistics center in Poland. Investments in the logistics center increased its capacity to handle annual orders up to PLN 2 billion of GMV (Gross Merchandise Value). Additionally, the investments made it possible to reduce parcel packing time, improved inventory management, and simplified parcel collection processes.

Answear Logistics Center Location

Source: Answear, mBank

Foreign shipments are transported by local logistics companies (on routes up to 400 km) to local handling centers. The use of smaller logistics companies allows to optimize shipping costs. Within each country orders are delivered by global courier companies. Such a delivery scheme allows Answear to avoid significantly higher transport rates charged by global courier companies for cross-border transport.

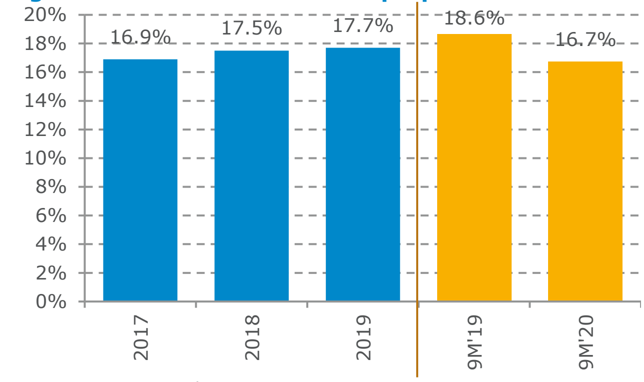
Average delivery times offered by Answear and its competition in different countries (business days)

	answear	zalando	asos	ABOUT YOU	eobuwie.pl	GOMEZ	bonprix
Poland	24h	2-5	1-5	3-6	1-2	24h	2-4
Czech Republic	1-2	2-5	1-2	2-4	1-2	1-2	2-4
Slovakia	1-2		1-6	2-4	1-3		2-4
Hungary	2-3		1-6	2-4	3-4	2-3	4-7
Romania	2-3		1-7		2-3	2-3	2-5
Ukraine	2-5		20		6-8		21
Bulgaria	2-5		1-7		2-4	2-5	20

Source: Answear, companies, mBank

Most orders are delivered within one-two working days to customers in countries where the platform operates. In Poland, most packages are delivered within 24 hours. The maximum delivery time for an order is 5 working days. It applies in Bulgaria and Ukraine.

Logistics costs of Answear as a proportion of sales



Source: Answear, mBank

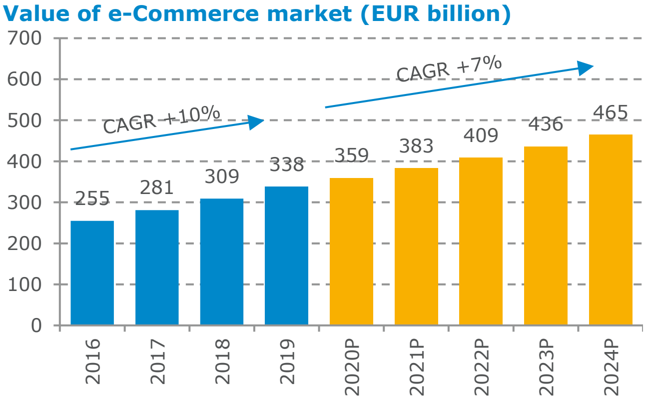
Logistics costs as a proportion of sales increased from 16.9% in 2017 to 17.7% in 2019 despite Answear's continued growth at the time. In our opinion, the larger costs were driven by an increasing number of foreign shipments, and relocation to a new, larger distribution center in 2019, together with one-off costs of that operation. In 9M'20, the ratio decreased compared to the same period in 2019, which might have resulted from above-average demand registered in the period, and potentially also from cost savings provided by the 2019 modernization of the logistics center.

Market Overview

Continued Dynamic Growth e-Commerce

The value of the e-Commerce market in Europe is to projected grow at 7% CAGR in the 2020-24 period. This represents a slightly lower rate of the annual average growth as compared to the years 2016-19. The presented estimates do not take into account the positive impact of the COVID-19 pandemic on the growth of the e-Commerce market. In our opinion, the pandemic contributed to an acceleration of the previously observed trends, and new users of e-Commerce platforms should continue their purchases in this channel in the future.

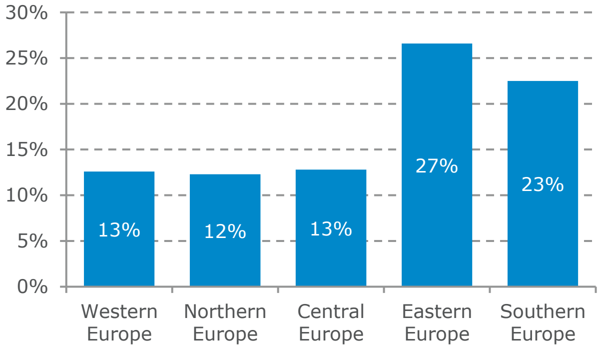
Value of e-Commerce market (EUR billion)



Source: Statista, mBank

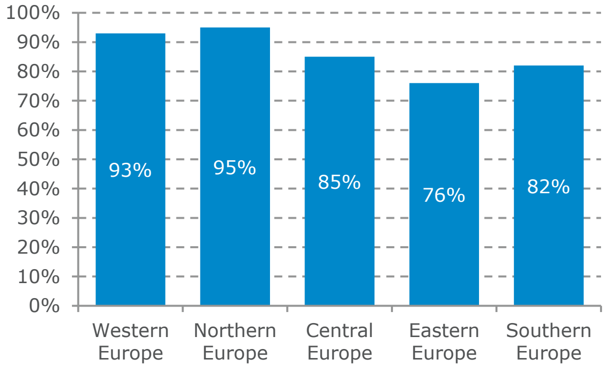
As per geographical distribution, the highest growth rate of B2C sales in e-Commerce in 2019 was recorded in Eastern Europe and Southern Europe. The high dynamics corresponds with relatively lower internet penetration in these regions. In our view, penetration convergence to the average European level should allow for higher sales dynamics than the average in Europe.

YoY growth in B2C e-Commerce in 2019



Source: RetailX Analysis, mBank

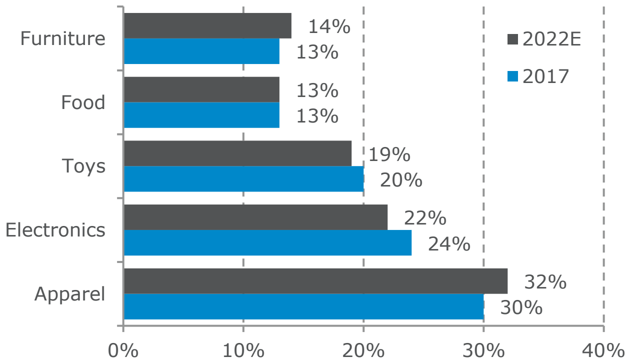
Internet penetration rates in regions of Europe



Source: RetailX Analysis, mBank

According to data published by Statista, the share of fashion in e-Commerce sales should increase at the fastest rate of all segment, reaching 32% at the end of 2022. The above trend should partially justify the faster growth of this category vs. the average growth rate of the e-Commerce market.

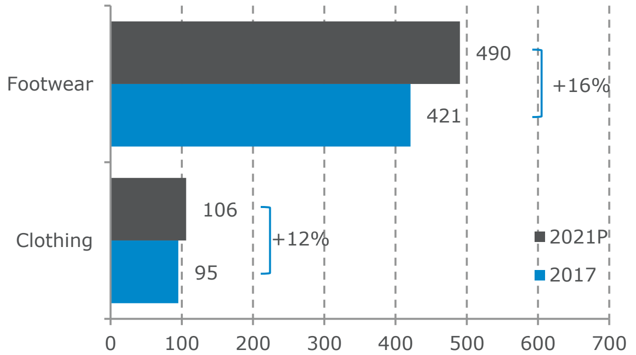
Breakdown of Europe e-Commerce sales by category



Source: Statista, mBank

According to Statista forecasts, the value of the clothing market in Europe will grow faster than the value of the footwear market in Europe in 2017-21 (assumed 3.9% vs. 2.8% CAGR 2017-21). The implementation of accommodations for the customer such as free returns, product selection assistants, size selection assistants, extended return times, extended payment deadlines, etc. has a positive impact on moving trade from offline to online.

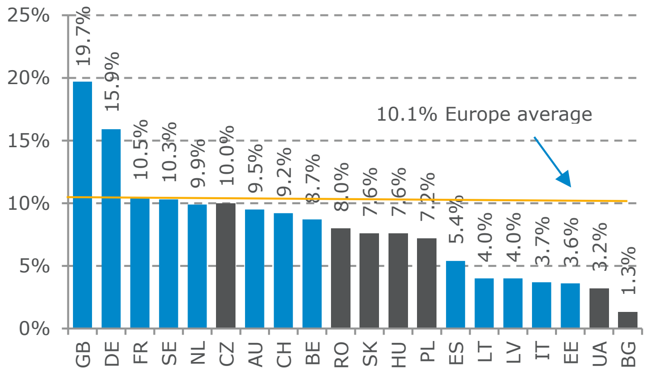
Value of European footwear and clothing market (EUR billion)



Source: Statista, mBank

Taking into account the degree of e-Commerce penetration in CEE countries, a large potential for growth of this market is still visible. Assuming that the penetration rate in Romania, Slovakia, Hungary and Poland is going to follow the European average, the average growth potential would be more than 30%.

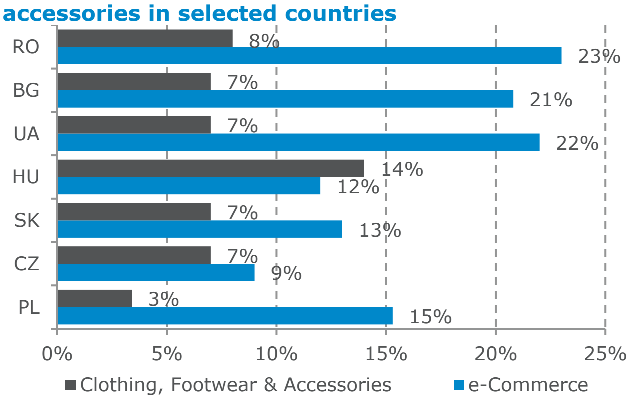
e-Commerce penetration rates in selected countries in Europe in 2019



Source: Ecommerce Europe, mBank

From among the countries in which the Answear platform operates, the e-Commerce market is expected to grow the most in Romania, Ukraine, Bulgaria and Poland. The estimated annual average growth of e-Commerce in all analyzed markets is supposed to be higher than the growth dynamics of the clothing, footwear and accessories market.

Comparison of estimated 2019-24 CAGR for e-Commerce versus clothing, footwear and accessories in selected countries

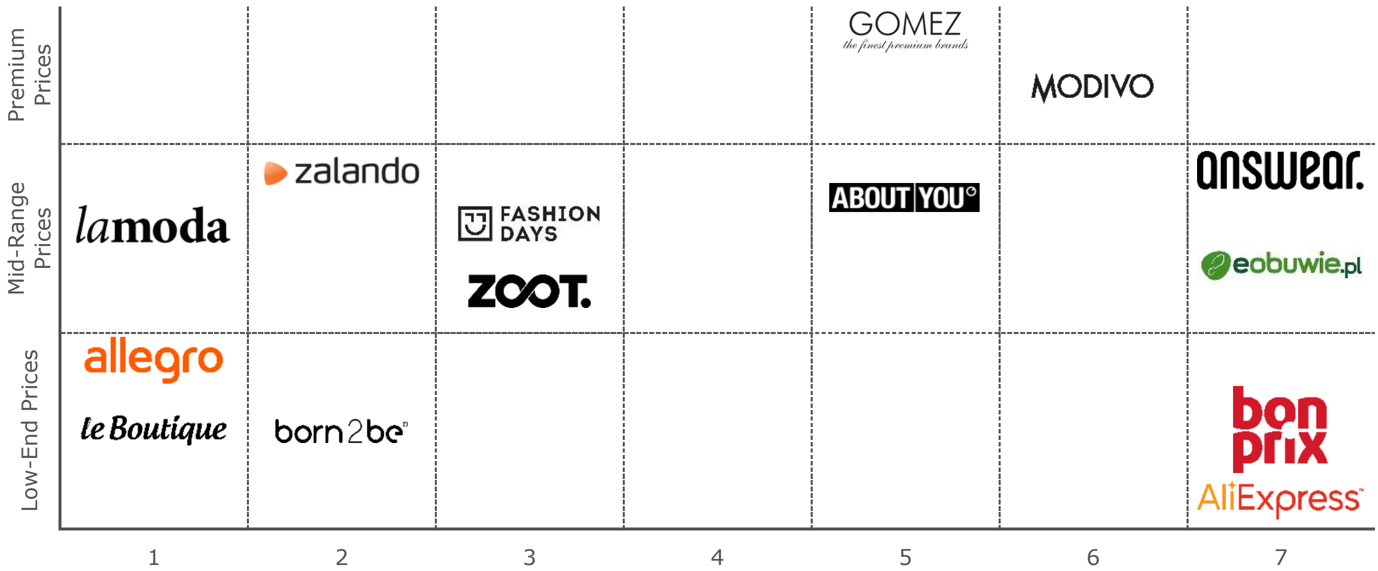


Source: Euromonitor, PMR, Statista, Heureka (e-Commerce in Bulgaria), mBank

Competition

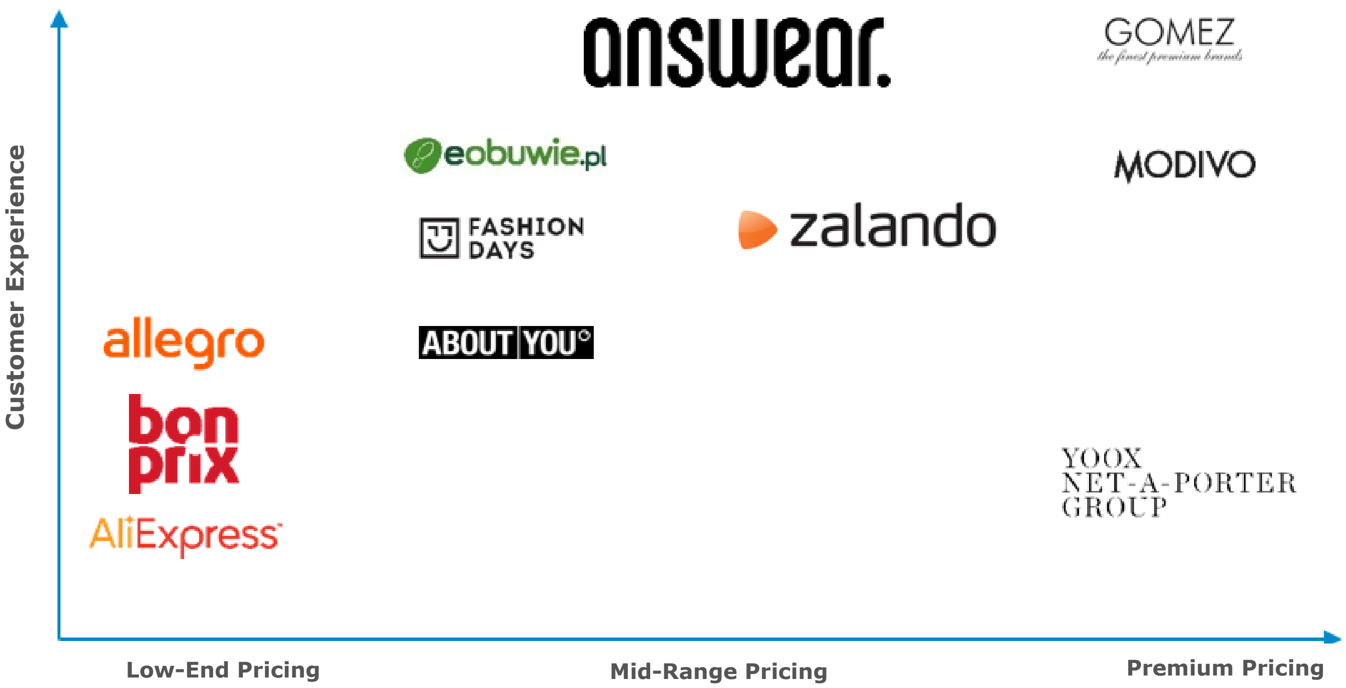
The e-Commerce market in CEE has been dynamically growing. It offers attractive growth prospects in the future, which results in the emergence of new market players. At present, the Answear platform is available in seven CEE markets, while foreign sales in the Company accounted for approx. 70% of sales in 9M'20. Among the multibrand online stores operating in the area of clothing and footwear trade, the Company's main competitors include ASOS, About You, Modivo, eobuwie and Bon Prix (these entities share at least five markets with Answear). In Poland and in the Czech Republic, the Company competes with Zalando and Zoot, in Poland and in Slovakia with Zoot, in Romania, Bulgaria and Hungary with Fashion Days, and in Ukraine with La Moda.

Comparison of Answear with competitors in terms of the number of common markets and positioning of the product offer



Source: Answear, companies, mBank

Comparison of Answear and competitors in terms of their offers



Source: Answear, companies, mBank

zalando

German Internet platform with a wide range of products. It operates throughout Western Europe, Poland and the Czech Republic. Zalando's business model assumes the sale of products on the stock in warehouses and through the marketplace (goods held by the supplier).

allegro

The largest e-Commerce platform in Poland. The platform makes it possible to submit offers of purchase and sale - of clothing and footwear, among other things - which makes an indirect competitor of Answear. The Allegro community is made up of approximately 14 million users, and 760 thousand goods are sold on a daily basis through the platform.

bonprix

An online store which is a part of OTTO Versand from Hamburg - the largest corporation of this kind in the world. The platform offer includes women's, men's, children's clothing and industrial products for households.

eobuwie.pl

Internet platform of the CCC Group. It focuses on selling footwear, bags and accessories in a multibrand formula. The platform has been conducting aggressive expansion in recent years, supported by GK CCC. Currently, ebuwie operates in all the Answear markets.

MODIVO

It is an Internet platform established within the eobuwie Group. The first information about the platform was published at the end of 2018. The platform currently operates in 14 markets and offers premium clothing brands. The platform has been growing dynamically based on expansion into new markets, and the opening of modern stationary stores in locations with a high commercial potential.

lamoda

A Russian e-Commerce leader in the fashion segment. The company's online store offer includes clothing, footwear, accessories, cosmetics and perfumes. The platform offers over 1,000 brands of footwear and clothing in various price categories. La Moda operates in Russia, Ukraine, Belarus and Kazakhstan.

ZOOT.

An Internet platform from the Czech Republic offering clothes, shoes and accessories for women, men and children. The sales are carried out through its own Internet platform and mobile platform, mainly to its own collection points. The Company competes directly with Answear in the Czech Republic and Slovakia.

FASHION DAYS

An Internet seller from Romania, belonging to the EMag Group, mainly operating in the electronics and household appliances segment. The platform offers hundreds of thousands products of various brands in clothing, shoes and accessories. Fashion Days is a direct competitor of Answear in Romania, Bulgaria and Hungary.

GOMEZ
the finest premium brands

The company operates multibrand stationary stores, and an online fashion store gomez.pl offering clothing, shoes, purses and accessories of premium brands. The platform competes with Answear in Poland, the Czech Republic, Romania, Bulgaria and Hungary.

born2be

An on-line store offering footwear and women's and men's clothing. The platform is available in Poland and Ukraine.

According to the presented comparison, the average delivery time in Answear is shorter than in the case of its competitors, especially in the Hungarian, Romanian, Ukrainian and Bulgarian markets. The shorter delivery time may have a positive impact on the customer's satisfaction with using the platform.

Answear average delivery times in individual markets vs. competition (business days)

	answear	zalando	asos	ABOUT YOU	eobuwie.pl	GOMEZ	bonprix
Poland	24h	2-5	1-5	3-6	1-2	24h	2-4
Czech Republic	1-2	2-5	1-2	2-4	1-2	1-2	2-4
Slovakia	1-2		1-6	2-4	1-3		2-4
Hungary	2-3		1-6	2-4	3-4	2-3	4-7
Romania	2-3		1-7		2-3	2-3	2-5
Ukraine	2-5		20		6-8		21
Bulgaria	2-5		1-7		2-4	2-5	20

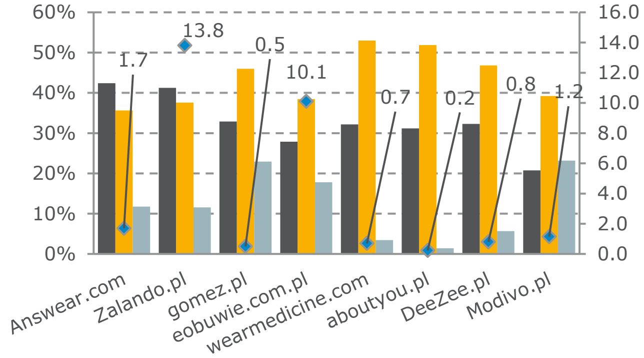
Source: Answear, companies, mBank

Comparison of monthly Website visits (October 2020) and the share of key channels in the generation of Website, Answear vs. selected platforms

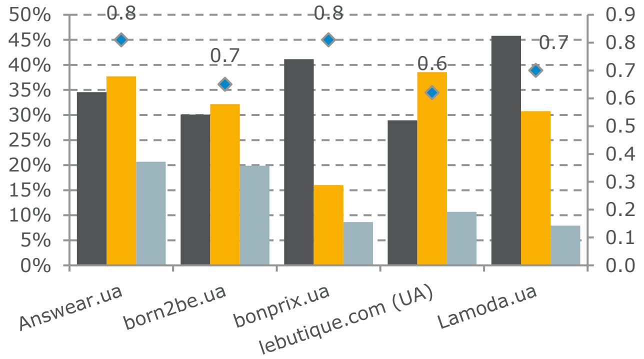
Key

- Direct traffic (lhs)
- Total search traffic (lhs)
- Paid search traffic (lhs)
- Total visits (millions, rhs)

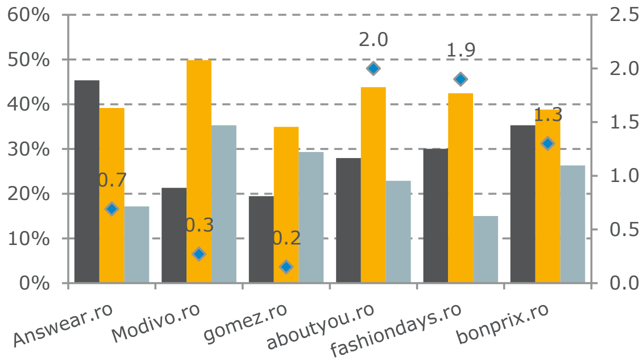
Poland



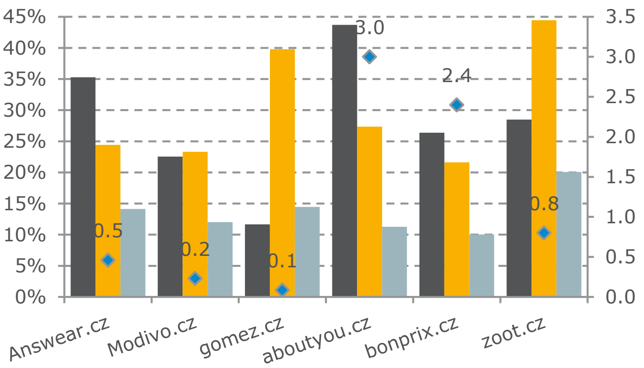
Ukraine



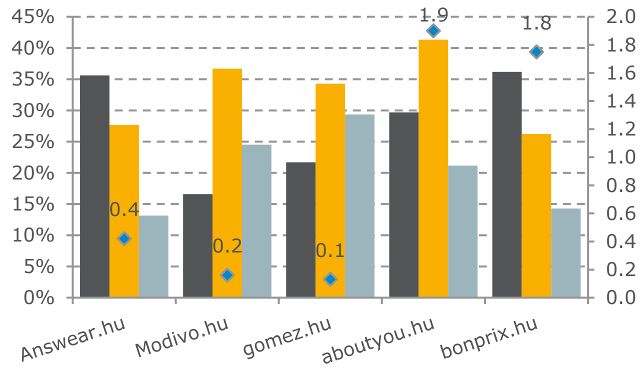
Romania



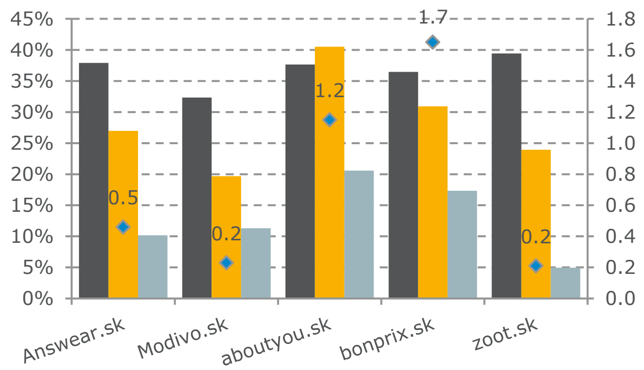
Czech Republic



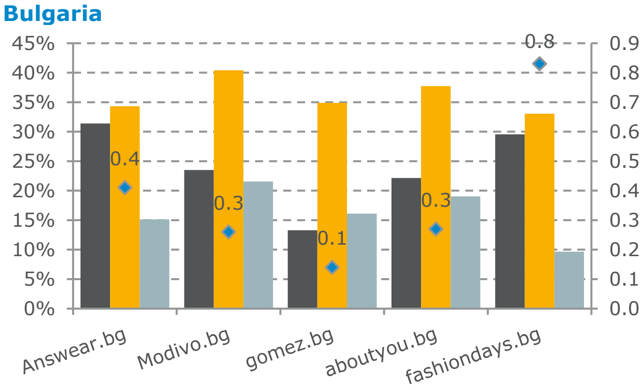
Hungary



Slovakia



Bulgaria

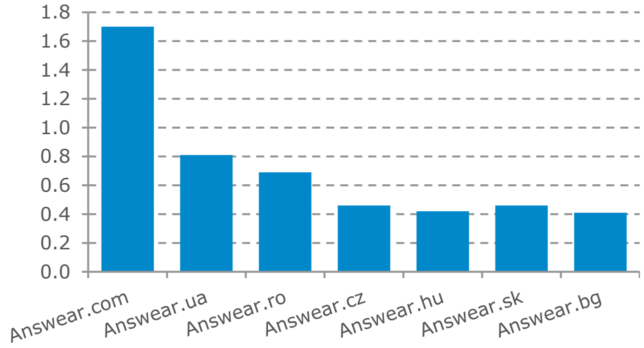


Source: Similarweb, mBank; Similarweb data refers only to the desktop platform

The graphs show the number of visits in October 2020, estimated by the Scoreweb portal, and the share of two main channels of recorded traffic: 1) direct visits; and 2) visits through a browser. Additionally, we have presented how many of the search engine visits are generated by paid traffic, which partially illustrates the marketing policy of entities in individual markets.

Analyzing the charts above, we would like to draw your attention to the aggressive policy of buying traffic by Modivo and Gomez in Poland, Romania and Hungary. The rate of the paid traffic from the search engines for Answear is relatively low as compared to the competition in most markets. Except for the Ukrainian market, which is the second largest market for Answear as regards the number of visits.

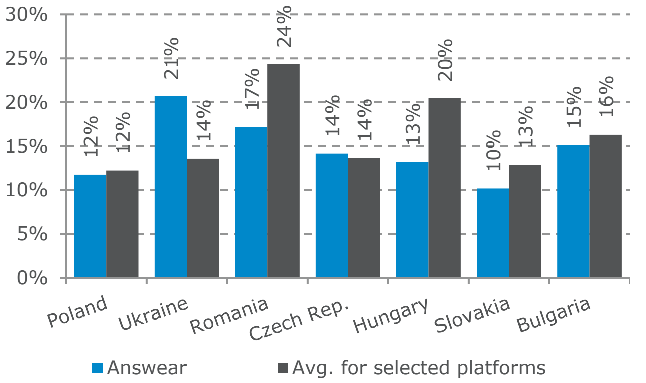
Monthly visitors to Answear Websites in October 2020 (millions)



Source: Similarweb, mBank

The aggressive policy of buying traffic, adopted by the competitors in Romania and Hungary, may pose a risk to Answear's market position in these countries in the medium term. The second scenario is a potential increase in marketing expenditures by Answear, which could put some pressure on the platform's profitability.

Share of paid traffic from search engines in the total number of visits for Answear vs. average for selected companies



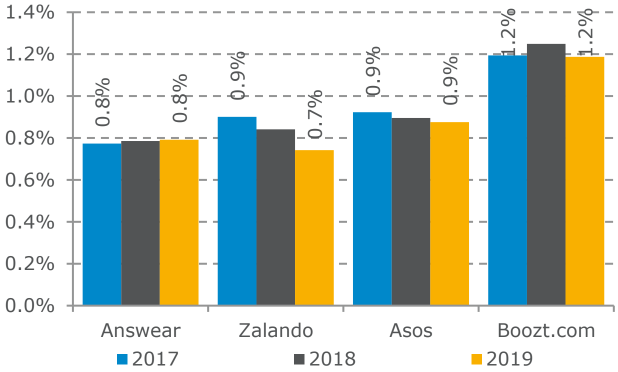
Source: Similarweb, mBank

Comparing Answear Other Listed e-Commerce Companies

KPI

Our KPI analysis refers to key indicators for public companies, the majority of which (except for Zalando) are not significant competitors of Answear. The entities compared are much higher in terms of generated turnover, number of visits on website, and the number of active customers. The ratio of the number of active customers to the number of visits at Answear is similar to the values recorded by Zalando or Asos.

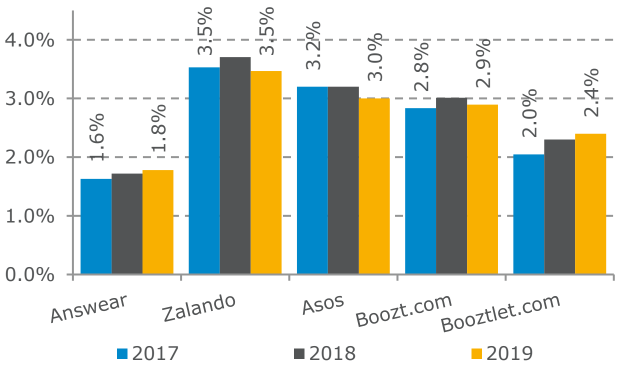
Ratio of active customers to the total number of visits on Answear vs. other companies



Source: Answear, data of companies, mBank

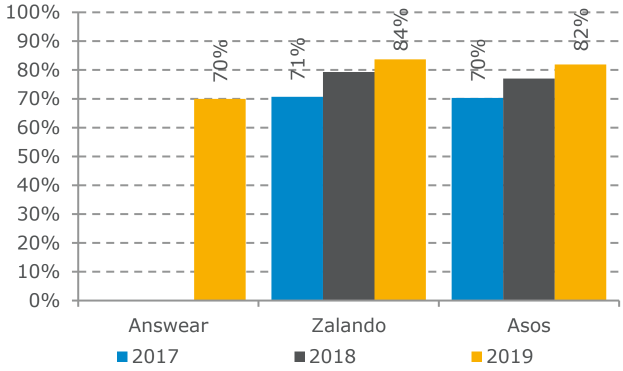
The conversion rate of Answear is significantly below the ratio achieved by other analyzed companies. This may result from the lower number of product offered, lower brand awareness, and less frequent use of the mobile application by the customers, which generates higher conversion (the application is to be available in the Bulgarian and Hungarian markets in November and in 1Q'21 it will launch in Ukraine). The percentage of mobile application users is lower for Answear than in the case of its competitors.

Conversion rate, Answear vs. other companies



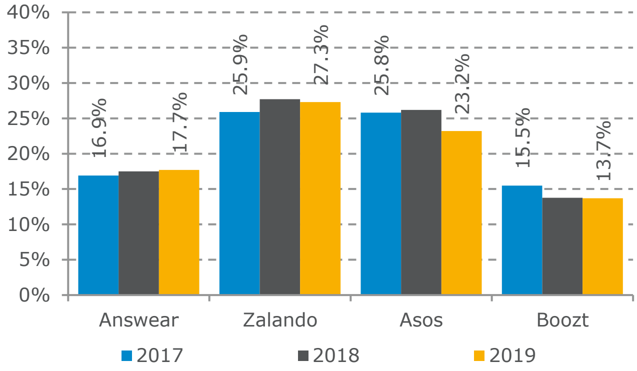
Source: Answear, data of companies, mBank

Share of mobile app visits



Source: Answear, data of companies, mBank

Answear logistics costs vs. other entities

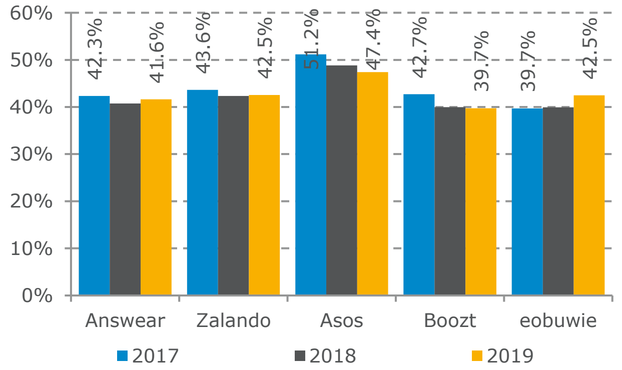


Source: Answear, data of companies, mBank

Comparison of Profitability and Cost Efficiency

The gross margin of Answear is slightly lower than in Zalando and significantly lower than in Asos (higher share of proprietary brands). We would like to point out that the gross margin in Answear sales is positively affected by revenue from services impacted, inter alia by consignment sale commissions, services related to the operating of the online store www.wearmedicine.com, fees for shipments below the logistical minimum, turnover bonuses from suppliers (we have not adjusted profitability against these events). According to the information provided by the Company, the adjusted gross margin on online sales was 37% in 2019. The lower platform profitability vs. other companies may result from worse purchasing conditions (lower scale), lower margins on the proprietary brand, the loyalty program (additional promotions), and more aggressive promotions (to attract new customers). An increase in the scale of operations and an increased volume of sales of the proprietary brand should be conducive to the improvement of gross margins on Answear sales in the near future. The risk in this scenario may be a more aggressive pricing policy of the competitors in Answear's markets (potential further expansion of Zalando into CEE markets, and continuation of the geographical expansion of the Modivo platform - planned entry into Ukraine in 1Q'21).

Gross margin on Answear sales vs. other companies

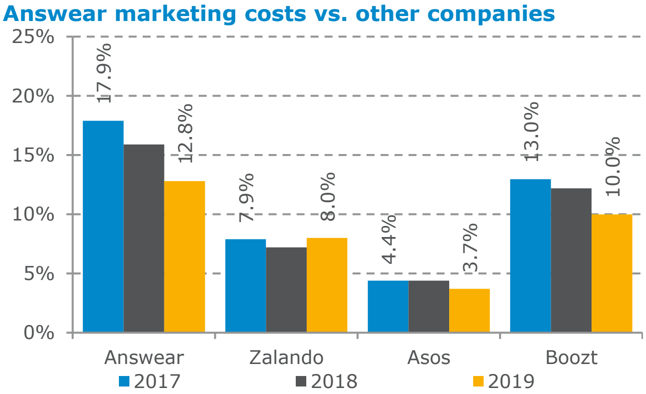


Source: Answear, data of companies, mBank

Answear records lower logistics costs as a percentage of sales than Zalando and Asos (higher employee wage costs in Western Europe and a high percentage of returns), and a slightly higher level than Boozt. We expect that the Company should be able to optimize its logistics costs in the future.

The ratio of marketing costs to sales is at a significantly higher level at Answear than at the comparable companies, which results from the lower scale of the Company's operations. In our opinion, further investments in the development of sales powered by marketing may cause the ratio to remain relatively high in the medium term.

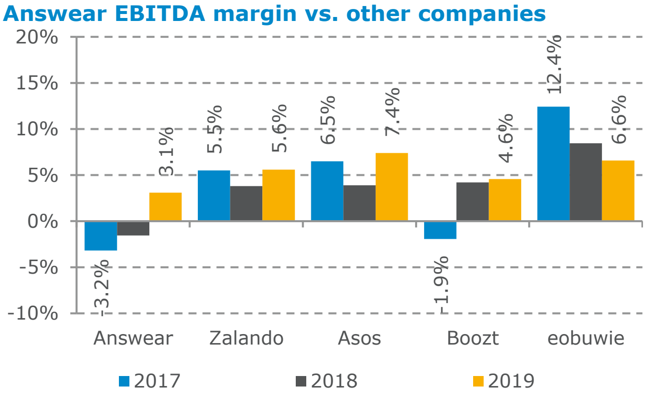
Answear marketing costs vs. other companies



Source: Answear, data of companies, mBank

The smaller scale, lower gross margin on sales, and a relatively high mark-up of marketing costs on sales result in Answear earning lower EBITDA profitability than the other entities. Nevertheless, we would like to point out that the further increase in the scale of operations, improvement of sales profitability, and optimization of logistics costs should allow the Company to improve its EBTIDA margin in the medium term.

Answear EBITDA margin vs. other companies



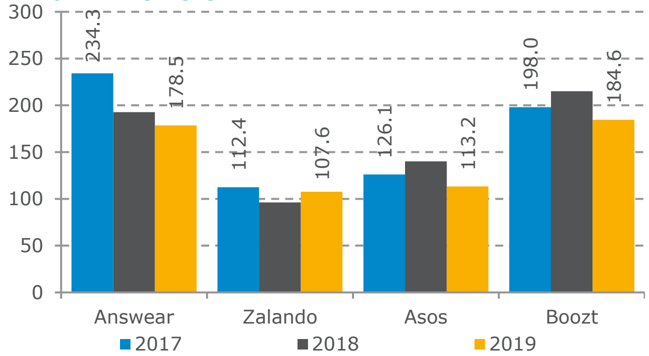
Source: Answear, data of companies, mBank

Comparison of Cash Conversion Cycles

Answear improved its cash conversion cycle over the years 2017-19, but its cash cycle still the highest in comparison with the other entities. Particular attention should be paid to the long cycle of inventory conversion, which is partly due to the scale of the business and the Company's lower gross margins on sales. We expect this ratio to gradually decrease in the coming years. The conversion cycle of receivables is much higher than the competition's, which may result from less favorable agreements with payment intermediaries and a greater volume of pay-on-delivery orders. Please remember that our calculations may differ from those of Answear due to lower data availability. However, we decided to recalculate the indicators in order to ensure comparability with the other industry players.

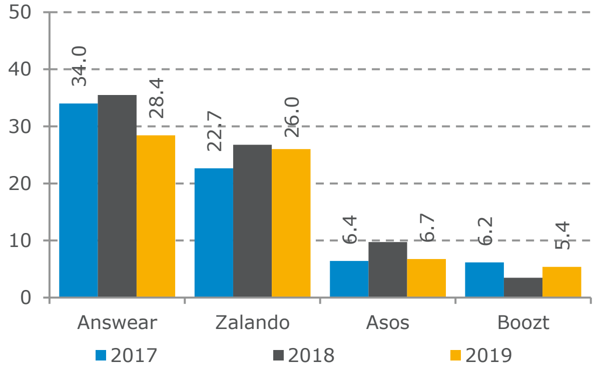
Answear's payables conversion cycle is comparable to the value recorded by Boozt. The significantly higher payables cycles reported by Zalando and Asos result from the scale of operations of these entities, and probably their use of suppliers finance instruments. As a result, these companies record negative cash conversion cycles (which is a very good result). Answear's relatively high cycle of cash conversion means growing demand for working capital as its grows its business.

Answear inventory conversion cycle vs. other companies (days)



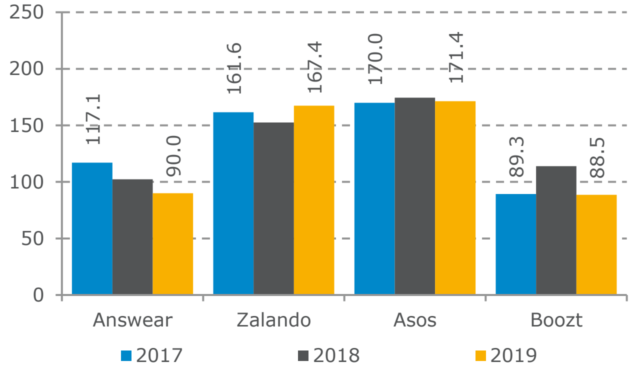
Source: Answear, data of companies, mBank

Answear receivables conversion cycle vs. other companies (days)



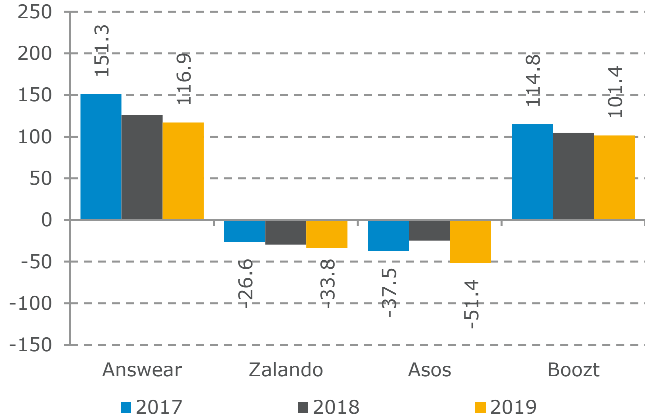
Source: Answear, data of companies, mBank

Answear payables conversion cycle vs. other companies (days)



Source: Answear, data of companies, mBank

Answear cash conversion cycle vs. other companies (days)



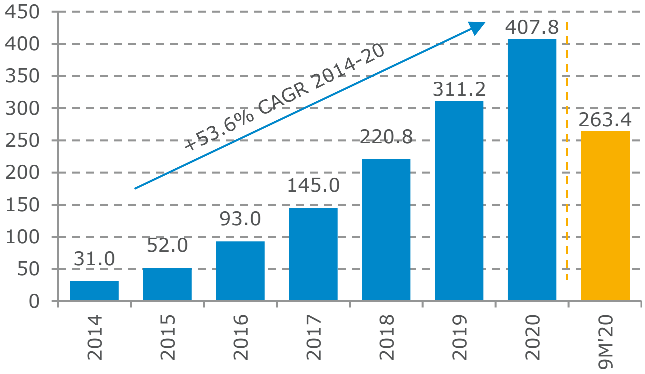
Source: Answear, data of companies, mBank

Profit and Loss Analysis

Sales

In 2019, Answear generated sales revenue of PLN 311.2 million (+41% yoy). The average annual sales growth rate in 2014-19 was 58.6%, however the strongest growth was recorded in the initial period. In 9M'20, the platform increased sales by 28.1% yoy, to PLN 263.4 million, and sales for the full year grew by an estimated 31% to PLN 408m after a deceleration despite opportunities created by the COVID-19 pandemic.

Answear sales in 2014-2020E (PLN million)

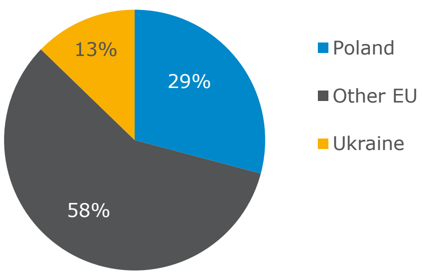


Source: Answear, mBank

As shown in the analysis of key business KPIs presented earlier, the number of customers, the conversion rate, and the average value of the shopping basket improved in 2017-19. Despite the increased scale of the business, the ratio of returns did not change significantly in 2017-19.

In 2019, the largest share in sales was attributed to the countries of the European Union except for Poland (Czech Republic, Slovakia, Romania, Hungary and Bulgaria). The Polish business accounted for 29% of the revenue, and that of Ukraine for 13% of the revenue.

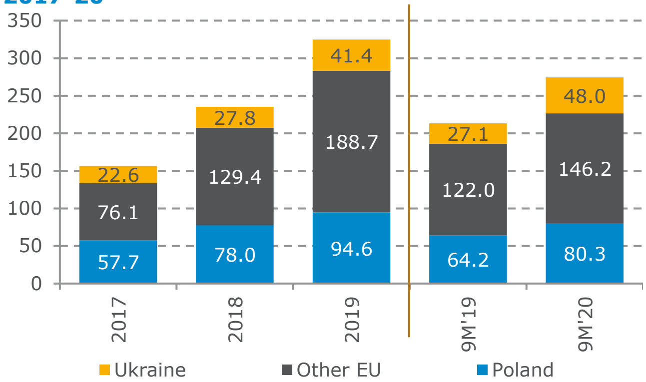
Geographical distribution of sales in 2019



Source: Answear, mBank

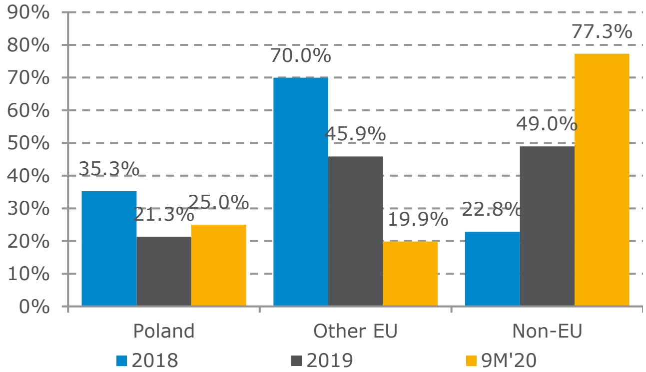
In 2017-19, the highest increase in sales was recorded by the segment of the other EU countries (+57.5% CAGR. 2017-19), followed by the Ukrainian market (+35.3% CAGR, 2017-19), and finally the Polish market (+28.1% CAGR, 2017-19). Answear is best recognized in Poland. We see the potential for the Company to increase its scale in other CEE markets concentrated in the Other EU segment. In 9M'20, the fastest growing market was Ukraine (increased consumption and favorable UAH-PLN rate in 1H'20). Despite the favorable environment connected with the transfer of more transactions to the e-Commerce segment, sales in Poland recorded a slightly higher growth year on year than in 2019, while the pace of improvement in sales yoy in the Other EU segment slowed down in 2019 after strong growth in previous years.

Breakdown of sales by geographic segment in 2017-20



Source: Answear, mBank

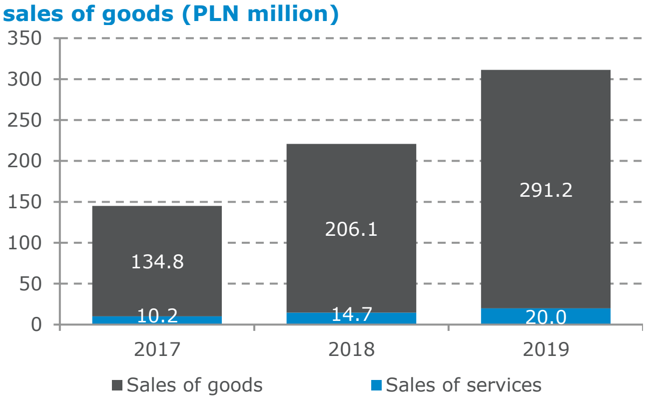
YoY growth in sales in individual geographic segment



Source: Answear, mBank

Answear recognizes as sales revenue sales of services, including: 1) remuneration from BrandBQ, an affiliate (remuneration for the operation of Wearmedicine.com, an online store, and commissions for the consignment sales of Medicine products on the Answear platform (for a detailed description, please refer to the chapter "Transactions with affiliates"); and 2) remuneration for the consignment sale of other brands, fees for parcels below the logistics minimum, and turnover bonuses from suppliers.

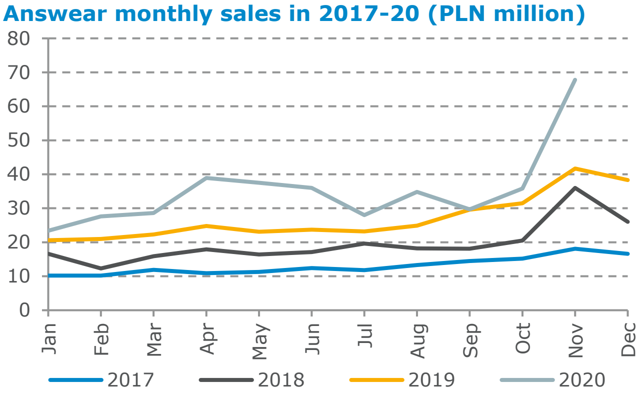
Revenues from sales of products and services and sales of goods (PLN million)



Source: Answear, mBank

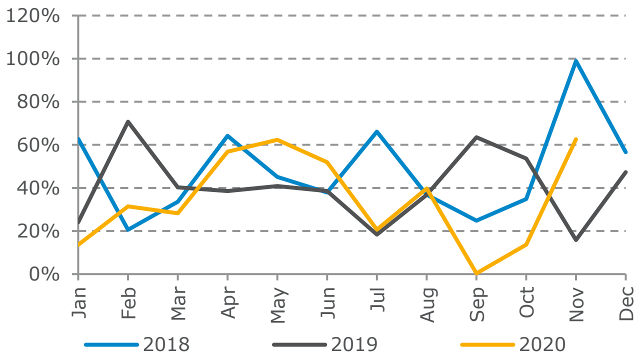
Taking into account the monthly distribution of Answear sales, an increase in the seasonality of revenue in 4Q is visible. This is partly due to the promotions of Black Friday, Christmas period and the higher unit price of the goods offered in the autumn-winter collection. In 2018-19, the growing popularity of Black Friday is visible in November. In 2020, the data illustrates the impact of the COVID-19 pandemic on the Company's sales. We would like to draw your attention to the slowdown of the sales growth yoy from July 2020 onwards, which - according to the Company - results from the customers' saturation with purchases in 2Q and product shortages in the offer following the high turnover in 2Q, also due to disruptions in the supply chains of the Company's suppliers.

Answear monthly sales in 2017-20 (PLN million)



Source: Answear, mBank

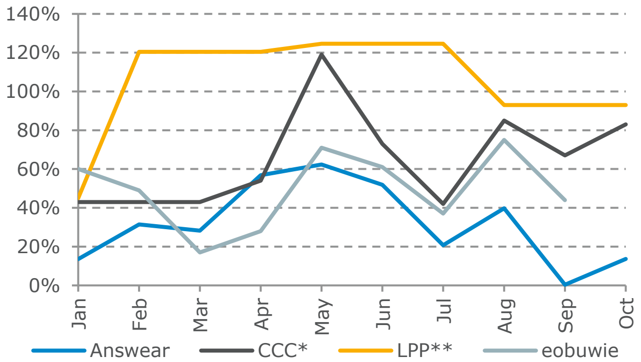
YoY pct, growth in monthly sales, 2018-20



Source: Answear, mBank

The dynamics of monthly sales yoy in Answear in 2020 is lower than that recorded by the e-Commerce platforms of CCC (eobuwie, CCC.eu, DeeZee, Modivo), and LPP. A similar trend is visible in the costs of marketing. In the case of CCC and LPP, online transactions in 2020 are additionally supported by customers migration from offline to online.

Comparison of 2020 monthly online sales of Answear, CCC, and LPP (YoY pct. growth)

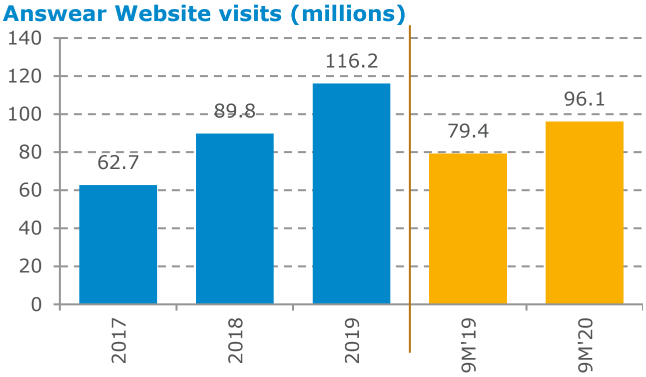


Source: Answear, mBank; *quarterly average for 1Q'20, **average quarterly dynamics

Website Traffic and Sales Generated by Cohorts

The number of visits on Answear websites was growing at 36.1% CAGR 2017-19 vs. the average annual increase in sales at the rate of 46.4% in the same period. This indicates an improvement of other components of the sales growth, such as conversion, average value of the basket, and the frequency of purchases.

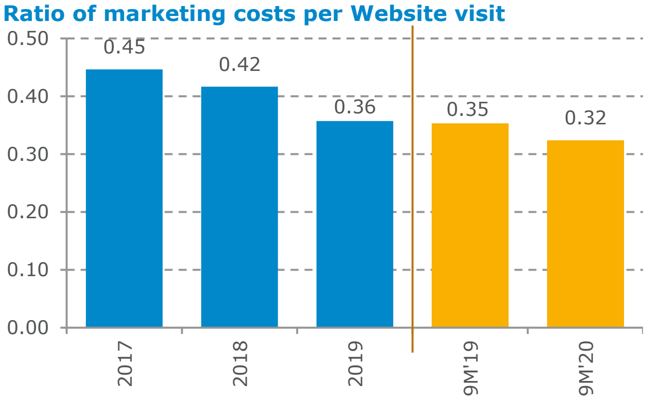
Answear Website visits (millions)



Source: Answear, mBank

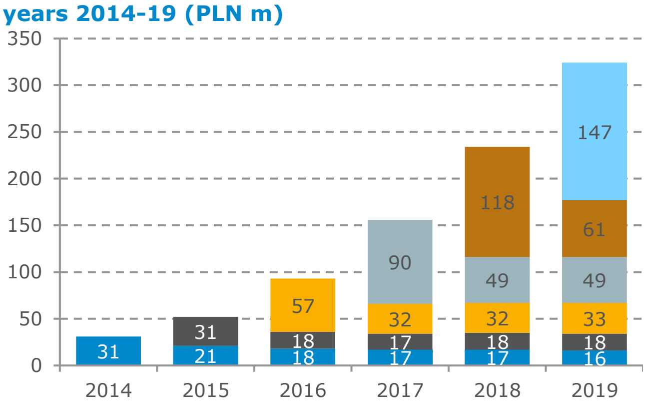
In 2017-19, the generation of increased traffic on the platform was more and more costly. According to our calculations, a ratio calculated as marketing expense per visit increased at an average annual rate of 10.5% in 2017-19.

Ratio of marketing costs per Website visit



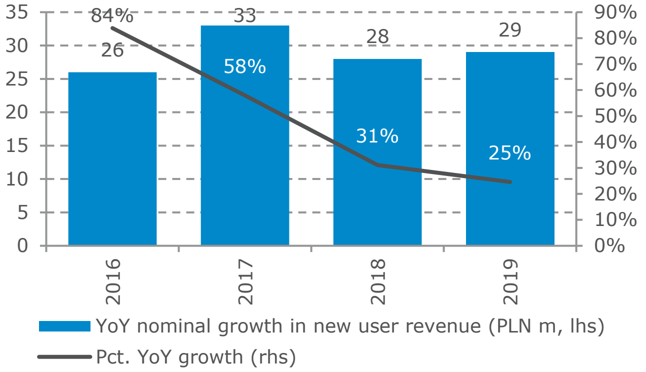
Source: Answear, mBank

Sales generated by cohorts of acquired users in the years 2014-19 (PLN m)



Source: Answear, mBank

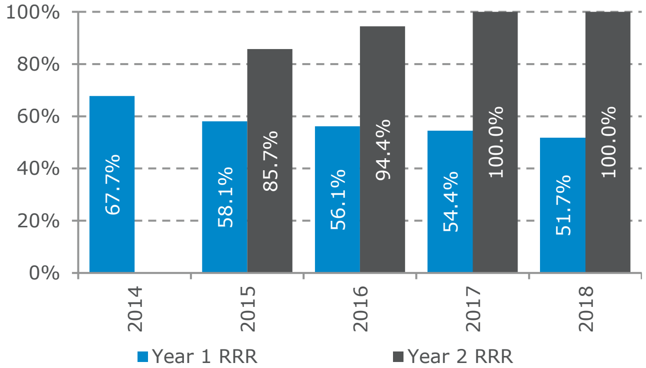
Nominal and percentage change in revenue generated by new platform users in 2016-19



Source: Answear, mBank

The sales retention rate in the first year decreases in each subsequent period in the years 2015-18, which may result from generating increasingly higher revenue by the cohorts of acquired users in each subsequent period. The retention of sales generated by users from the cohorts in the second year improved in 2015-18.

Revenue Retention Rate (RRR) generated by cohorts in Year 1 and Year 2

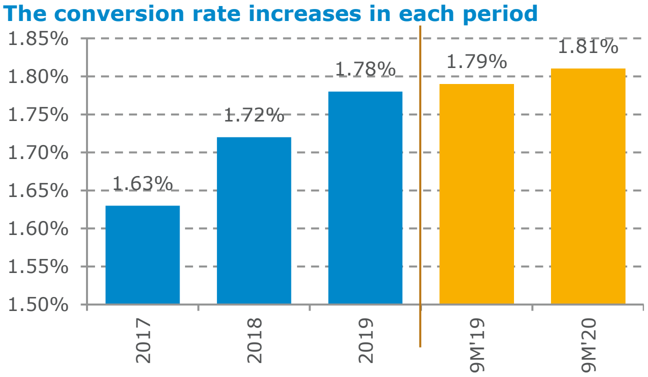


Source: Answear, mBank

Key Performance Indicators

In the years 2017-19, the platform consistently improved its conversion rate. The average yearly increase in the value of that ratio increased by 4.5% in the period under discussion. The increasing traffic on mobile devices seems conducive to the ratio growth. The pace of the ratio improvement yoy slowed down to 1.1% in 9M'20.

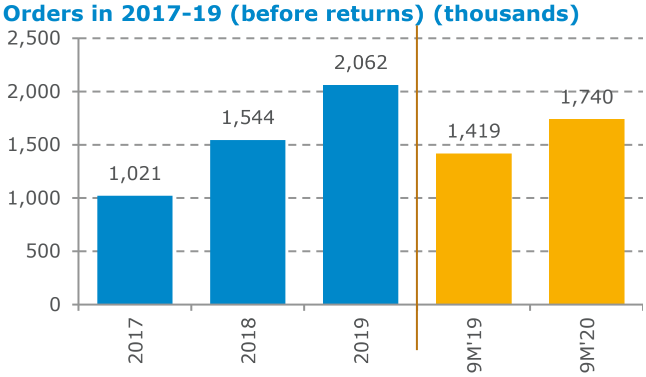
The conversion rate increases in each period



Source: Answear, mBank

A consistent increase in the number of visits, and the improvement in the conversion rate, translate into an increase in the number of orders in each subsequent period in the years 2017-19 (+42.1% CAGR, 2017-19). The number of orders in 9M'20 yoy grows faster than in 2019 (22.6% yoy vs. 33.5% yoy).

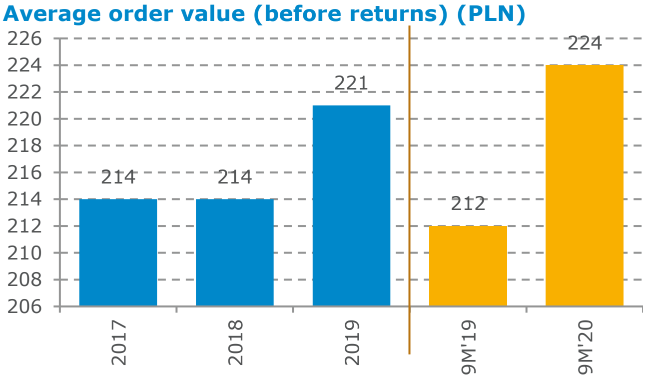
Orders in 2017-19 (before returns) (thousands)



Source: Answear, mBank

The net value of an average order (before returns) was at a similar level in 2017-18 and increased in 2019. This trend could have been influenced by the increasing share of the mid-range and premium segments in total sales. Taking into account data for the whole year of 2019 and the first nine months, we can predict that the average order value in the fourth quarter of 2020 will increase further. In 9M'20, continuation of the trend in the increase in average order value is visible, which could have been indirectly impacted by the market environment.

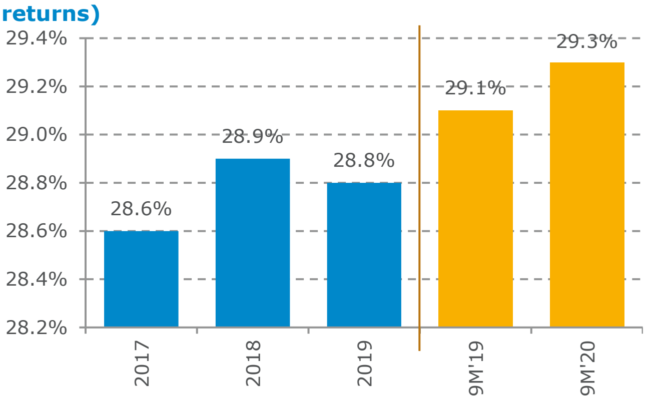
Average order value (before returns) (PLN)



Source: Answear, mBank

The percentage of returns remained relatively stable in 2017-19, despite a significant increase in the number of users, number of orders, and the average order value. In 9M'2020, the percentage of refunds increased by 0.2 p.p. yoy, to 29.3%. The rate of returns in Answear is lower than in Zalando, which may result from the fact that Answear operates in CEE countries where consumers are less willing to return purchased goods than consumers in Western European countries.

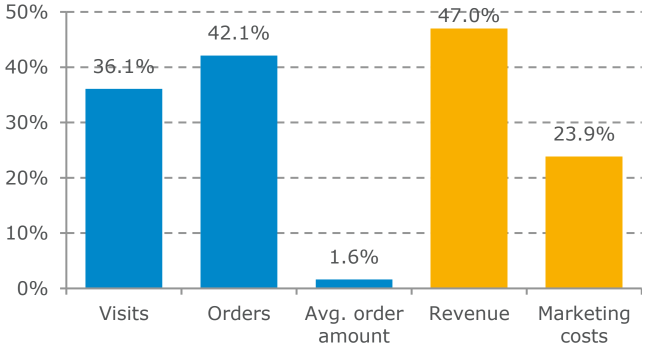
Order return rate of Answear (% of sales after returns)



Source: Answear, mBank

Summing up, each KPI improved in 2017-19. The increase in sales in this period was mainly driven by the number of visits, then by the increasing number of orders (improvement of the conversion ratio), and by increased average value per shopping cart (the lowest impact). At the same time, we would like to draw your attention to the much lower average annual increase of marketing costs in comparison with sales achieved in the years 2017-19.

2017-19 CAGR of individual KPI's



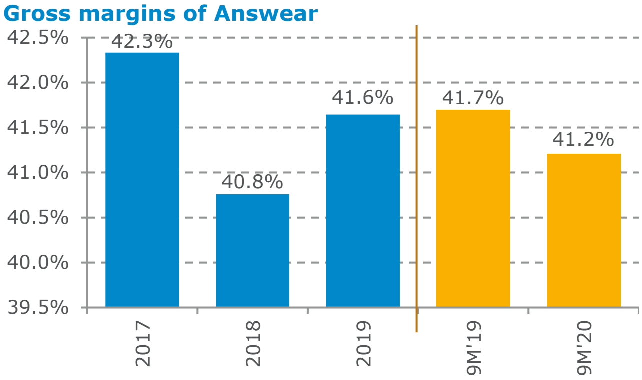
Source: Answear, mBank

Sales Margin

In 2019, Answear managed to partially restore its gross margin on sales yoy. However, its recorded profitability was lower than in 2017. The improved profitability of sales in 2019 was caused by the increase in the business scale, obtaining increasingly better purchasing terms and conditions, gradual increase in the share of the proprietary brand in the turnover, and increased sales of goods from the high-price segment (premium). The decrease in profitability in 2018 resulted from a more aggressive promotional policy aimed at building faster recognition of the platform in the new markets.

In 9M'20, the sales margin decreased by 0.5 p.p. yoy, to 41.2%, which could have been caused by a more aggressive pricing policy imposed by the competitive environment. The lower gross margins supported the growth in sales registered in 9M'20.

Gross margins of Answear



Source: Answear, mBank

We would like to point out that the sales margin is positively influenced by the provision of services to the sister company BrandBQ Sp. z o.o. (the Medicine brand; platform sale on the basis of a consignment contract, operation of the wearmedicine.com store). According to the data provided by the Company, the gross margin on online sales of the Answear platform amounted to 37% in 2019, i.e. by 4.6 p.p. below the profitability level reported for the Group. The gradual increase of the business scale coupled with the boosted share of the proprietary brand should enable Answear to improve its sales gross margin in the coming years.

Operating Expenses

In 2017-19, Answear's operating expenses increased at a lower average annual than sales, respectively at 34.2% vs 45.2%. Major cost categories include: third-party services (36% of total on average in 2017-19), other costs (32%), and salaries (24%). In 2017-19 all analyzed cost categories decreased as a ratio of sales, led by other costs (-4.4 p.p.), salaries (-2.0 p.p.), and in third-party services (-0.5 p.p.).

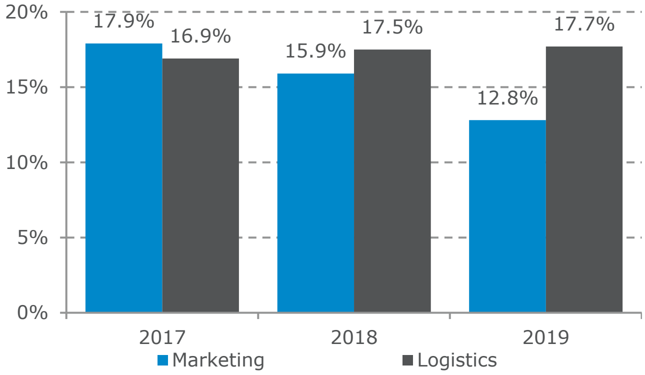
Operating expenses in 2017-2019

	2017	2018	2019
Total OPEX (PLN million)			
Depreciation and amortization	3.2	3.6	5.2
Materials and energy:	2.2	3.8	4.3
Third-party services	22.8	33.4	47.3
Taxes and fees	0.3	0.5	0.5
Wages and salaries	16.2	23.9	28.8
Other	23.4	31.2	36.5
Total	**68.2**	**96.3**	**122.7**
As % of sales			
Depreciation and amortization	2.2%	1.6%	1.7%
Materials and energy	1.5%	1.7%	1.4%
Third-party services	15.7%	15.1%	15.2%
Taxes and fees	0.2%	0.2%	0.2%
Wages and salaries	11.2%	10.8%	9.2%
Other	16.1%	14.1%	11.7%
Total	**47.0%**	**43.6%**	**39.4%**
Yoy change (p.p.)			
Depreciation and amortization		-0.6	0.1
Materials and energy		0.2	-0.3
Third-party services		-0.6	0.1
Taxes and fees		0.0	-0.1
Wages and salaries		-0.4	-1.6
Other		-2.0	-2.4
Total		**-3.4**	**-4.2**

Source: Answear, mBank

The main cost drivers for a business like Answear's are marketing and logistic, where costs are largely distributed between third-party services, salaries, and other costs. As a proportion of sales, logistics and marketing costs decreased from 34.8% in 2017 to 30.5% in 2019, which means they were responsible for a half of the improvement in the period in the ratio for total operating expenses.

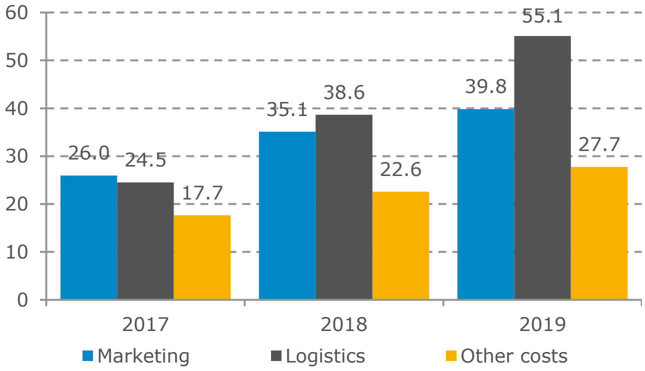
Marketing and logistics costs as a percentage of sales



Source: Answear mBank

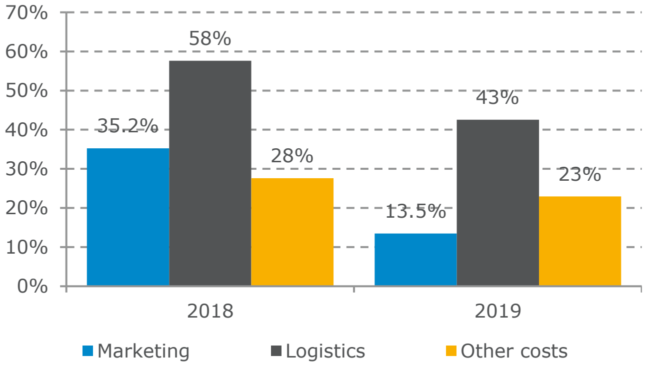
The marketing costs and other costs (including G&A costs) increased at a rate lower than revenues in 2017-19.

Marketing, logistics and other costs (PLN million)



Source: Answear mBank

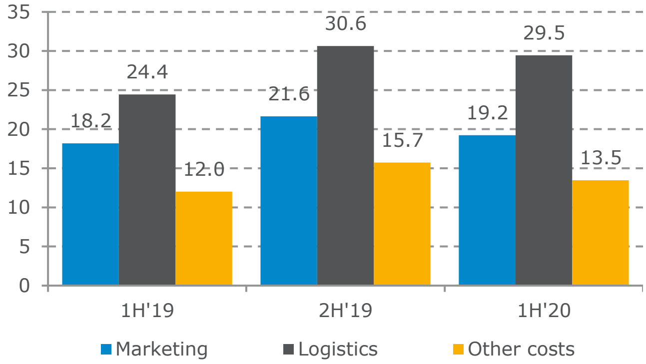
YoY pct. change in marketing, logistics and other costs



Source: Answear mBank

Semi-annually, an increase in logistics costs is visible in 2H'19, which could have been caused by the seasonally increased utilization of the distribution center capacity (the Company had to hire additional workers), and one-off costs related to the opening of the new distribution center. According to our calculations, the sales in 2H'19 increased by 34% as compared to 1H'19 vs. a 25% increase in logistics costs in the same period. Despite the occurrence of one-off additional costs related to the new distribution center, the logistics costs would rise slower than the sales seen as 2H'19 vs. 1H'19.

Costs of marketing, logistics and other costs semi-annually (PLN m)



Source: Answear mBank

Operating Margins

The EBITDA margin improved from -3.2% in 2017 to 3.1% in 2019. The improved profitability resulted from the dilution of marketing costs, and the dilution of other costs (G&A costs are recognized in this category). A certain pressure on the EBITDA margin was exerted by the slight decrease in the gross margin on sales, and by the increase in the mark-up of logistics costs for sales in the years 2017-19.

Answear sales and profits in 2017-2019

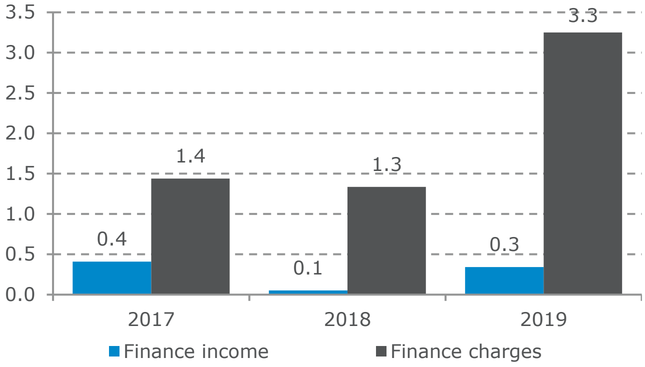
(PLN million)	2017	2018	2019
Sales	145.0	220.8	311.2
Gross profit on sales	61.4	90.0	129.6
Marketing costs	26.0	35.1	39.8
Logistics costs	24.5	38.6	55.1
Other expenses by type	17.7	22.6	27.7
EBIT	-7.8	-7.0	4.4
Depreciation and amortization	3.2	3.6	5.2
EBITDA	-4.6	-3.4	9.6
As a % of sales			
Gross profit on sales	42.3%	40.8%	41.6%
Marketing costs	17.9%	15.9%	12.8%
Logistics costs	16.9%	17.5%	17.7%
Other costs	12.2%	10.2%	8.9%
EBIT	-5.4%	-3.2%	1.4%
Depreciation and amortization	2.2%	1.6%	1.7%
EBITDA	-3.2%	-1.5%	3.1%

Source: Answear, mBank

Financing Activity and Taxes

The company's financial activities had a low impact on its results in the years 2017-19. The financial costs dropped slightly yoy in 2018 despite an increase in debt from PLN 23.3 million in 2017 to PLN 30.8 million in 2018. In 2019, the increase in financial costs resulted from the posting of the valuation of settlements in a foreign currency, and an increase in the amount of interest accrued on bank debt, and loans from a shareholder, converted to capital.

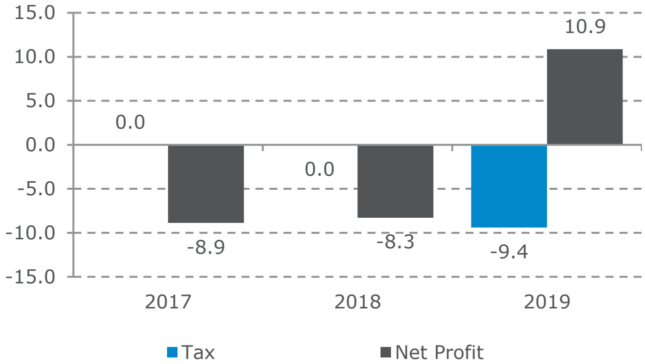
Finance income and charges (PLN million)



Source: Answear mBank

The company's income tax was around 0 in 2017-18, while in 2019 the Company recognized PLN 9.4 million, which resulted from the recognition of deferred tax assets, mainly on tax losses from previous years. Answear reported a net loss in 2017-18, and net profit in 2019.

Income tax and net profit in 2017-2019 (PLN m)



Source: Answear mBank

Fixed Assets

The increase of the fixed assets value in the years 2017-19 results primarily from investments in fixed assets, and from the implementation of IFRS 16. At the end of 2019, the largest non-current asset was the right to use the asset, property, plant and equipment and deferred income tax. The increase in the rights of use of the asset in 2019 results (yoy) from the introduction of IFRS 16. The property, plant and equipment increased due to the investment in the distribution center, while the deferred income tax due to recognition of the deferred tax assets, mainly on tax loss from previous years. The increase in receivables and loans is related to the conclusion of a contract for the sublease of part of the warehouse space in 2019.

Fixed assets of Answear

(PLN million)	2017	2018	2019
Fixed assets	**11.4**	**11.7**	**80.7**
Intangible assets	2.9	4.5	6.0
Property, plant and equipment	1.5	1.5	17.6
Right to use	4.0	2.7	38.3
Subsidiaries	2.9	2.9	2.9
Loans and receivables	0.1	0.0	5.1
Deferred income tax	0.0	0.0	10.7
Structure %			
Intangible assets	25%	39%	7%
Property, plant and equipment	13%	13%	22%
Right to use	35%	23%	47%
Subsidiaries	26%	25%	4%
Loans and receivables	1%	0%	6%
Deferred income tax	0%	0%	13%

Source: Answear, mBank

Current Assets

The largest share in the Company's current assets in 2019 was made up by the inventories (70% of current assets), receivables (19% of current assets), and cash and cash equivalents (10% of current assets). Both the inventories and receivables increased at the average annual rate lower than the increase in sales in 2017-19. Receivables include advances for deliveries which accounted for 12.8%/4.3%/0.7% of this item respectively in the years 2017-19. As the Company develops its business, it keeps improving the purchasing terms and conditions, reducing at the same time the number of orders that must be confirmed with an advance payment.

Current assets in 2017-19

(PLN million)	2017	2018	2019
Current assets	**73.5**	**99.4**	**126.6**
Inventory	53.7	69.1	88.8
Amounts receivable	13.5	21.5	24.2
Cash	5.0	7.5	12.2
Other	1.3	1.3	1.3
Structure %			
Inventory	73%	69%	70%
Amounts receivable	18%	22%	19%
Cash	7%	8%	10%
Other	2%	1%	1%

Source: Answear, mBank

The largest part of the stock held is made up of the current collection (on average 92.6% in 2017-19), while collections up to 2 years accounted for on average 98.1% of goods held in 2017-19. The value of write-downs on inventories in relation to sales remained at a low average level of 0.6% in 2017-19. In accordance with the policy adopted, the Company recognizes revaluation write-downs in accordance with the following principles: 1) 50% of the purchase value for collection older than 2 years; 2) 70% of the purchase value for collections older than 3 years; 3) and 90% of the purchase value for collections older than 4 years.

Age structure of collections, and write-downs on inventories

	2017	2018	2019
Current	93.9%	91.7%	93.9%
1-2 years	4.4%	6.2%	4.4%
2–3 years	0.8%	1.0%	0.8%
3-4 years	0.3%	0.5%	0.3%
4 years +	0.5%	0.6%	0.5%
Write-down on inventories	0.8	1.3	2.0
as % of sales	0.6%	0.6%	0.7%

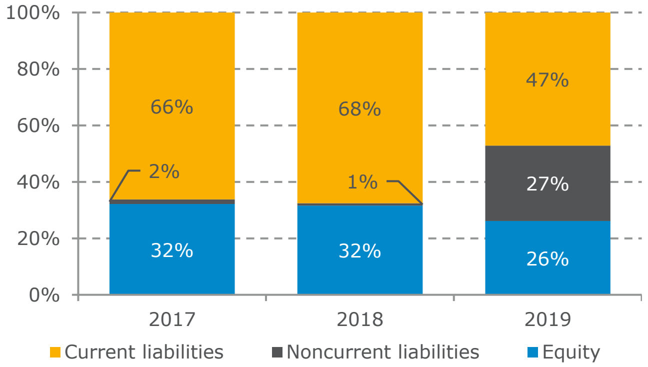
Source: Answear, mBank

One of the published goals of the IPO is to increase the platform's offer. Therefore, the Company plans to increase the budget for ordering the SS2021 collection by 55% yoy, to PLN 170.2 million (the budget for AW'2020 increased by 42% yoy, to PLN 1557 million). The high order dynamics yoy should ensure for the Company a basis for future growth of sales yoy. At the same time, the increase in inventories should result in a temporary increase in the inventory conversion cycle in 2021.

Liabilities

In 2019, short-term obligations had the highest share in liabilities. Due to the application of IFRS 16 the value of long-term liabilities rose significantly. The company's equity accounted for 26.2% in liabilities in 2019 vs. 32.2% in 2017.

Liabilities structure in 2017-19



Source: Answear, mBank

Equity

The highest item in equity is the capital stemming from the sales of shares over the nominal price. This item eliminates the accumulated losses from previous years, whose value amounted to PLN -54.3 million at the end of 2019.

Equity in 2017-19

(PLN million)	2017	2018	2019
Equity	27.3	35.1	54.2
Share capital and supplementary capital	0.7	0.7	0.8
Equity from the sale of shares	83.6	99.5	107.8
Retained earnings	-56.9	-65.2	-54.3

Source: Answear, mBank

Long-Term And Short-Term Liabilities

In the years 2017-19, the Company's lease liabilities constituted the most important component of long-term liabilities. The value of these liabilities was low in 2017-18, and recorded a significant increase in line with the introduction of IFRS 16 in 2019. In short-term liabilities, the largest share in the years 2017-19 was trade liabilities (on average 43%), and loans and borrowings (on average 41%). Among other short-term liabilities, a significant increase yoy in 2019 was recorded in lease liabilities (an effect of the implementation of IFRS 16).

Answear liabilities in 2017-19

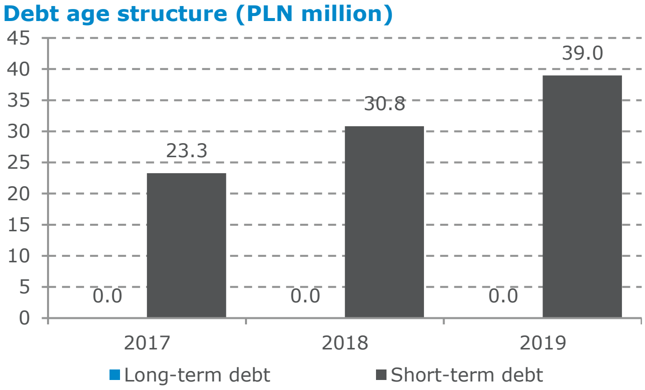
(PLN million)	2017	2018	2019
Long-term liabilities	**1.4**	**1.0**	**55.3**
Leases	1.4	0.9	54.0
Other	0.0	0.0	1.3
Short-term liabilities	**56.2**	**75.0**	**97.7**
Commercial liabilities	24.3	32.4	40.4
Other liabilities	2.5	4.3	4.4
Loans and borrowings	23.3	30.8	39.0
Leases	2.3	1.4	5.4
Employee benefits	2.3	3.3	3.7
Prepayments and accruals	1.6	2.9	4.8
Long-term liabilities	**100%**	**100%**	**100%**
Leases	99%	99%	98%
Other	1%	1%	2%
Short-term liabilities	**100%**	**100%**	**100%**
Commercial liabilities	43%	43%	41%
Other liabilities	4%	6%	5%
Loans and borrowings	41%	41%	40%
Leases	4%	2%	6%
Employee benefits	4%	4%	4%
Prepayments and accruals	3%	4%	5%

Source: Answear, mBank

Loans and Borrowings

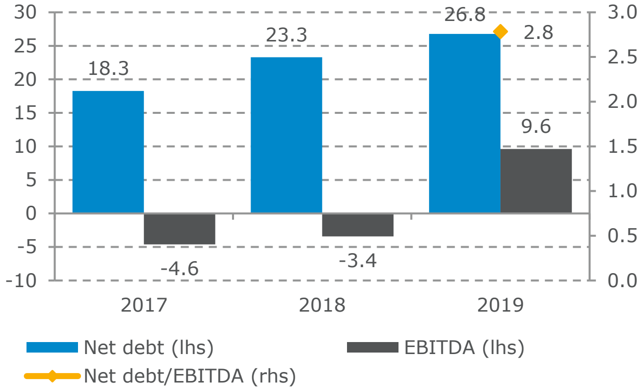
In 2017-19, the total of loans and borrowings incurred was short-term. The Company increased its debt as the scale of its operations increased, and it was necessary to capitalize the working capital. DN/EBITDA was at 2.8x at the end of 2019 (EBITDA was negative in previous years). In 2020, the ratio should improve due to an increase in EBITDA on a year-to-year basis. At the end of 2019, the available credit limits together with limits for granting bank guarantees amounted to PLN 23 million (PKO BP), and PLN 41 million (mBank). The total utilization of credit lines amounted to PLN 39 million. In July 2020, the Company signed a reverse lease agreement under which the automated rack with extra accessories was sold. Thanks to the transaction, the Company acquired PLN 10 million. In October 2020, the Company signed an agreement increasing the credit limits in PKO BP by PLN 10 million.

Debt age structure (PLN million)



Source: Answear, mBank

Net debt and EBITDA (PLN million), and Net Debt/EBITDA ratio of Answear

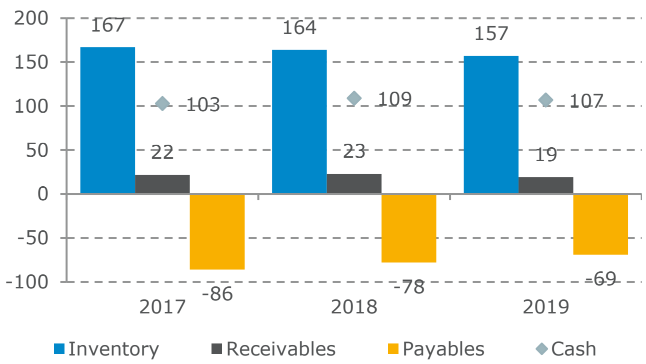


Source: Answear, mBank

Cash Conversion Cycle

Information about the cash conversion cycle has been provided by Answear. Answear aggravated its cash conversion cycle from 103 days in 2017 to 107 days in 2019. In 2017-19, the inventory conversion cycles improved (10 days), and so did the receivable cycles (3 days). The improved inventory turnover results from an increasing company's experience in respect of purchasing, its growing scale of activity, its ability to order more fast-moving goods, and improved logistic efficiency. The improved receivables turnover results from the analysis and elimination of ineffective liquidity distribution channels with regard to parcel collection distribution. At the same time, the liabilities conversion cycle deteriorated (17 days), which resulted from the willingness to fully use the discount proposed by the suppliers (positive impact on the gross margin on sales).

Cash conversion cycle and its components in 2017-19 (days)



Source: Answear, mBank

Cash Flow and CAPEX

Operating Cash Flow

Cash flow from operating activities (OCF) in Answear improved to PLN -2.4 million in 2019 from PLN -14.9 million in 2018. Supporting factors included an increase in profits and higher adjustment for depreciation (partially positive impact of IFRS 16). We would like to draw your attention to the relatively high demand of the business for working capital in connection with the dynamic growth in sales (part of the proceeds from the issue is to be allocated to working capital).

Cash flows from operating activities in 2017-2019

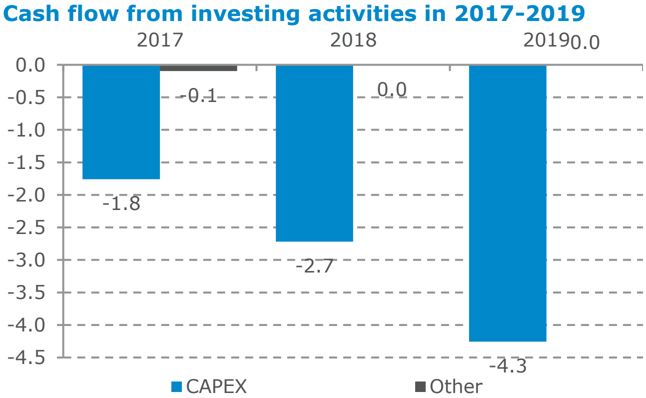
(PLN million)	2017	2018	2019
Gross profit	-8.9	-8.3	1.5
Depreciation and amortization	3.2	3.6	5.2
Working capital:	-16.3	-12.7	-12.8
Inventory	-21.5	-14.6	-19.0
Amounts receivable	-0.9	-2.1	1.6
Liabilities	6.2	4.0	4.6
Prepayments and accruals	0.4	1.6	2.3
Other	0.5	0.9	1.4
Operating cash flow	-21.1	-14.9	-2.4

Source: Answear, mBank

Cash Flow From Investing Activities and CAPEX

The Company recorded the highest investment outlays in 2019, which was related to the investment in the warehouse and extension of the mezzanine in the new distribution center (the new investment was subject to a sell and leaseback operation). CAPEX cleared of investment in the warehouse and mezzanine would have amounted to PLN -2.9 million in 2019 vs. PLN -2.7 million in 2018. The other significant items included in the investment outlays include the costs of expanding the platform and expenses for other IT systems.

Cash flow from investing activities in 2017-2019



Source: Answear, mBank

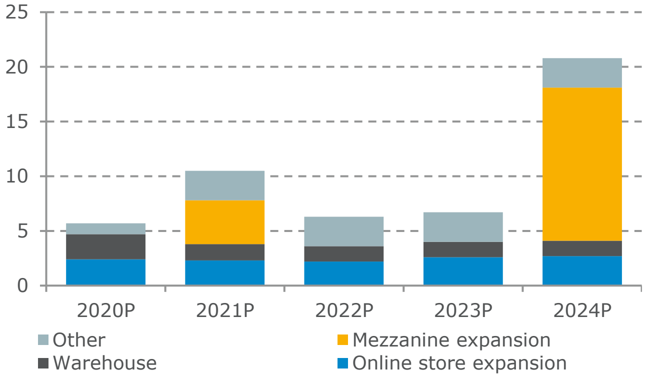
Detailed breakdown of investment outlays

(PLN million)	2017	2018	2019
Platform expansion	0.7	1.2	1.8
Warehouse	0.7	0.1	1.4
Mezzanine expansion	0.0	0.0	14.9*
Equipment, IT Equipment and Photo	0.0	0.3	0.4
Other IT systems	0.3	1.2	0.7
Total	1.8	2.7	19.1

Source: Answear, mBank; *investment in the mezzanine expansion was subject to sale and leaseback operation.

In accordance with the investment plan, further expansion of the mezzanine is planned in 2021 (PLN 4 million), and in 2024 (cost: PLN 14 million). After carrying out the above investments and putting the entire warehouse space (39 thousand sqm) into use, the Company's logistics should allow to service the sales in the amount of approx. PLN 2 billion. The other investment outlay categories should gradually grow in the period 2020-24.

Planned investment outlays in the years 2020-24P (PLN million)



Source: Answear, mBank

Cash Flows from Financing Activities

In the years 2017-19, the Company raised cash through issues and loans and borrowings in order to finance the dynamic growth of its business (high demand for working capital). In 2019, the cashflows from financing activities were supported by loans (PLN 8.3 million) from shareholders, converted to the Company's capital. The Company wants to finance further growth with cash generated from its current activities and bank loans.

Cashflows from the Company's financing activities in 2017-2019

(PLN million)	2017	2018	2019
Issues	12.0	16.0	8.3
Loans and borrowings incurred	17.0	7.5	8.2
Leasing liabilities	-2.4	-2.6	-3.5
Interest paid	-0.6	-0.9	-1.7
Cashflows from financing activities	26.0	20.1	11.3

Source: Answear, mBank

Answear Strategy

The company's strategy is based on four pillars:

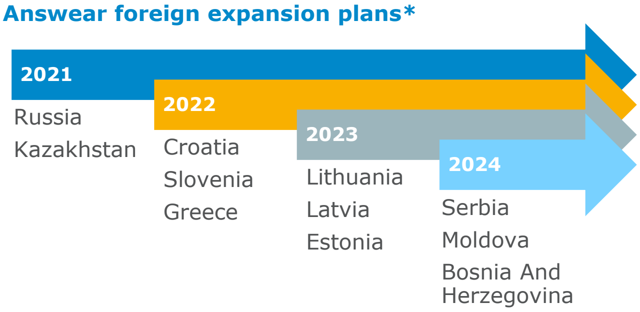
- Bigger offer
- Boosted sales in the existing markets
- International expansion
- Own/proprietary brand development

The development of the Company's own offer is aimed at acquiring new customers (active traffic acquisition). The platform wants to focus on developing sales of goods in the medium-high price range. New brands are to be included in the offer. The Company expects that the number of goods available on its online platform should increase by nearly 100% by 2024. The above factors should allow the Company to improve its conversion ratio and increase the average order value.

The boost of sales in the existing markets should be achieved by intensifying marketing activities, expanding the offer, and increasing recognition of the platform. At the end of 1H'20, Answear had 1033 thousand active users, representing approx. 0.9% of the total population of the 7 countries in which the platform operates.

In accordance with the assumptions of the Answear Management Board, as part of the **foreign expansion**, the platform should extend the scope of its operations to at least 2-3 countries per year in 2021-24. The platform will keep developing primarily in the CEE region, including the Baltic states and the countries of the former USSR. The company's Management Board expects that the geographical expansion will also allow the Company to benefit from the trend of moving commerce to the e-Commerce channels. All the markets included in the expansion plan will be serviced by the logistics center near Krakow.

Answear foreign expansion plans*



Source: Answear, mBank *plans are subject to change

The further **development of the proprietary brand offer** should allow the Company to increase its share in the sale of Answear from 7% in 2019 to 15% in the future. The Answear.LAB brand focuses on offering low-priced products. The gross margin on sales generated from the proprietary brand is expected to be higher than in the case of third-party brands. Increasing the Company's proprietary brand share in sales should positively influence the gross margin achieved on future sales.

Use of IPO Funds

Answear raised PLN 46 million through its Initial Public Offering against a goal of PLN 65 million. The main areas to which the funds will be allocated are as follows:

- **Increased product offer (PLN 25m original allocation)** - increase in the sales offer based both on the existing and new brands. All the existing product groups included in the platform offer should be made bigger, with a particular focus on premium brands and mid-price brands. Increasing the offer to 500 brands and 150 thousand SKU's.
- **Expansion of the private label range (PLN 5m original allocation)**. The development of the proprietary brand should contribute positively to the boosted traffic on the Answear platform.
- **Intensification of marketing in current markets (PLN 20m original allocation)** - marketing campaigns in mass media (TV, VOD, YouTube, radio) in order to boost platform recognition. Focus of marketing expenses in countries with the highest sales potential.
- **Geographical expansion (PLN 10m original allocation)** - development of the platform in new markets in the CEE region, including the Baltic States and the former USSR countries. According to its assumptions, Answear plans to reinvest in marketing about 40% of its revenue generated in the first year in each of the new markets.
- **Infrastructure development (PLN 5m original allocation)** - development of the sales platform and investments in other IT systems (new search engine, product data management [PDM]). In addition, there should be further development of mobile applications, extension of the photo-video studio, and purchase of additional warehouse equipment.

Organizational Structure

The only subsidiary of Answear is Wearco.cz s.r.o. with its registered office in Prague, in which the Company holds 100% of the share capital and 100% of the voting rights. The object of the subsidiary's business is to carry out selected marketing activities in the Czech Republic and Slovakia. The company is also responsible for running the location responsible for picking up shipments and returns in Prague. For the above services, the Company receives commission-based remuneration from Answear, representing a certain percentage of the value of sales executed in the Czech Republic and Slovakia.

Incentive Plan

In accordance with the terms and conditions of the Incentive Scheme, in order for the participant to gain any benefit, Answear must reach a certain level of gross profit or EBITDA in each year of the scheme. The target objective, which may be gross profit or EBITDA, for each Year of the Scheme Execution shall be determined by the Management Board with the consent of the Supervisory Board no later than by the end of the third month of the relevant Scheme Execution Year, provided that in the first year of the Scheme Execution, it takes place by the end of the eighth month of the first Scheme Execution Year. The Incentive Scheme will be carried out within a maximum of 3 financial years of Answear, or with respect to one year of that period, starting from the financial year beginning on 1 January 2020 and ending on 31 December 2020.

The Incentive Scheme will be implemented through the subscription by the Scheme Participants of up to 471,000 shares of the Issuer. 157,000 Issuer's shares will be subscribed for each year of the Scheme Execution. Within the maximum pool of the Issuer's shares designated to be subscribed under the Incentive Scheme, taking into account the objectives set, the Supervisory Board may allocate a greater number of Issuer's shares to be subscribed by the Scheme Participants in a given Execution Year. A resolution of the Supervisory Board may be adopted at any time in the Scheme Execution Year.

Participants will purchase shares for a nominal price of PLN 0.05 apiece. According to our estimates, the total cost of the Incentive Scheme to shareholders will amount to PLN 19.6 million (we deduct this amount from our valuation of Answear).

Transactions with Affiliates

Answear cooperates with BrandBQ Sp. z o.o. (owner of the Medicine brand) which is an affiliate through main shareholder - Forum Fund X. Additionally, both entities are personally linked through Krzysztof Bajołek, the President of the Management Board in both companies.
Under the cooperation agreement, Answear has purchased from BrandBQ:

- Goods under a consignment agreement (fee on the basis of a commission).
- IT services.
- Accounting services (until 2020-07-31).
- Customs warehouse services.
- Services related to managing e-store orders in the Medicine stationary shops.
- Space sublease services.
- Short-term car rental services.

Answear has provided the following services to BrandBQ Sp. z o.o.:

- maintenance, operation, promotion and marketing related to the Wearmedicine.com store;
- short-term car rental services.

The sales to BrandBQ increased in each period in 2017-9M'20, which results from the increasing scale of both businesses. As agreed, each change in the terms and conditions of cooperation between Answear and BrandBQ will have be approved by an independent member of the Supervisory Board.

Transactions with affiliates

(PLN million)	2017	2018	2019	9M'20
Sales to:				
Wearco CZ s.r.o.	0.0	0.0	0.0	0.0
BrandBQ Sp. z o.o.	5.4	7.5	10.2	9.3
Purchase from:				
Wearco CZ s.r.o.	0.6	1.8	2.2	1.5
BrandBQ Sp. z o.o.	3.1	4.0	4.2	1.3

Source: Answear, mBank

The settlements with BrandBQ include a fee for running wearmedicine.co, and commissions on the consignment sales of the Medicine brand products on the Answear platform. The EBIT profitability on the sales of goods in the wearmedicine.com store amounts to approx. 6%, while the commission recognized in the sales of services is approximately 28%. Answear pays the costs associated with product development, software and running an e-Commerce platform, and logistic support for sales. The consignment sale commission is paid for the sales of Medicine goods, and its impact on sales amounts to 26.5% of goods sold in 2018-19, and approximately 2% of the EBIT margin.

Transactions with affiliates

(PLN million)	2018	2019
Settlement with BrandBQ		
Running the store	4.1	6.2
Consignment commission	3.5	4.0
Value of goods sold		
Running the store	14.1	22.5
Consignment commission	12.8	15.5
Gross profit on sales		
Consignment sales	3.5	3.9
EBIT		
Running the store	0.8	1.4
Consignment commission	0.3	0.3

Source: Answear, mBank

The Company reported that the agreements had been revised in 2020. Currently, the sales commission on the wearmedicine.com site amounts to 18% of sales, while the consignment commission for sales of the Medicine brand on answear.com was increased to the value between 2% and 6%, depending on the market and product price category.

- Sales to the affiliate amounted to PLN 10.2 million in 2019, which consisted of the commission on consignment sales of PLN 4 million (counted from the value of PLN 15.5 million of the value of goods sold), and a fee for running the store in the amount of PLN 6.2 million (calculated on the sales of goods at the level of PLN 22.5 million).

- **According to data presented by the Company, the positive impact on EBIT resulting from cooperation with the affiliate amounted to PLN 1.7 million in 2019. We estimate that the positive impact of this activity on EBIT will amount to approx. PLN 2.5-3 million in 2020 (taking into account the increase in commission)**.
- Any amendments concerning the agreement between Answear and BrandBQ must be approved by an independent member of the supervisory board.

The business scale of BrandBQ is similar to that of Answear in terms of generated sales. The value of sales dynamics of services for BrandBQ yoy was higher in 2018-19 than the increase in revenue of this entity. This could have been due to a higher pace of improvement in online sales than offline sales under the Medicine brand. We would like to point out that despite the increase in the scale of BrandBQ business in 2019, the Company's EBIT result decreased by 15% yoy. Due to the high share of the stationary business in sales, the COVID-19 pandemic should result in a decrease of results yoy in 2020.

Comparison of BrandBQ and Answear financial data

(PLN million)	2015	2016	2017	2018	2019
BrandBQ					
Sales	122.3	150.8	186.5	232.7	281.2
change yoy		23%	24%	25%	21%
EBIT	4.0	2.7	5.6	12.5	10.5
Answear					
Sales			145.0	220.8	311.2
change yoy				52%	41%
EBIT			-7.8	-7.0	4.4
Sales to BrandBQ			5.4	7.5	10.2
change yoy				40%	35%

Source: Answear, KRS, Bisnode, InfoCredit, mBank

In the management variant, the sales of the Medicine brand (full sale of goods) and remuneration for running wearmedicine.com accounted for 7.9%/7.2%/6.6% of Answear's sales in 2017/18/19, respectively. On a reporting basis, the consignment commission of Medicine and the fee for running wearmedicine.com accounted for 3.7%/3.4%/3.2% of Answear's sales in 2017/18/19, respectively.

Financial Results for 9 Months Ended 30 September 2020

The results reported by the Company for 9M'20 were significantly higher yoy. The positive impact on the results was made by the improved yoy sales supported by the market environment. Additionally, the Company managed to dilute its SG&A costs. The one-off impact of the state subsidy on the costs, in connection with the COVID-19 pandemic, estimated by the Company, amounted to approx. PLN 1.5 million. The positive impact of the increase in sales coupled with the optimization of costs at EBIT was much higher than the effect of the decrease of gross margin on sales yoy. As a result, EBIT increased by 11.8x yoy, to PLN 12.1 million in 9M'20. The financing activity was probably encumbered by the negative impact of foreign exchange differences under IFRS 16.

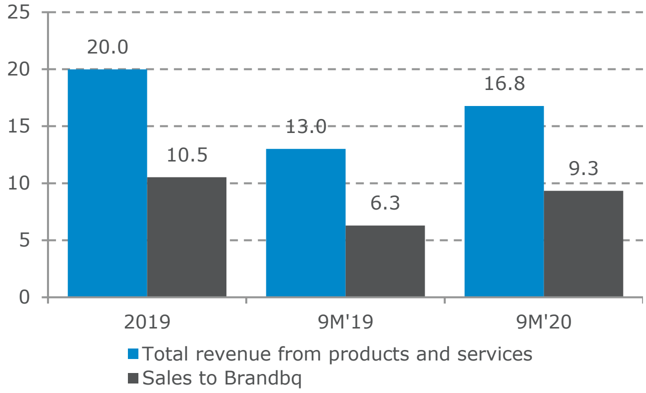
Results for 9M'20

(PLN million)	9M'19	9M'20	YoY
Sales	205.7	263.4	28.1%
Gross profit on sales	85.8	108.6	26.6%
margin	41.7%	41.2%	-0.5p.p.
SG&A	84.9	95.4	12.4%
PPO-PKO	0.1	-1.1	
EBIT	0.9	12.1	11.8x
margin	0.5%	4.6%	4.1p.p.
Financing activities	-2.6	-7.3	
Gross profit	-1.7	4.8	
Tax	-9.9	0.4	
Profit after tax	8.3	4.4	-47.4%

Source: Answear, mBank;

Sales to BrandBQ, an affiliate, increased by 49% yoy to PLN 9.3 million in 9M'20, which is not much different from the sales generated in the whole 2019. We would like to point out that according to the information provided by the management board, as a result of amendments to the terms and conditions of the cooperation agreement, its profitability is higher in 2020 (yoy). According to the estimates of the Management Board, the cooperation with BrandBQ translated into PLN 1.7 million of positive impact on EBIT result in 2019.

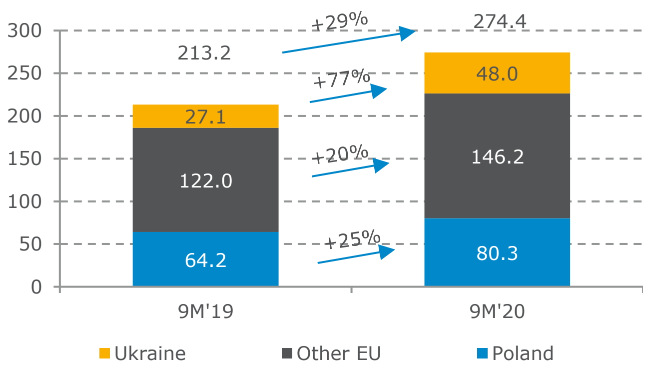
Sales of products and services, including sales to BrandBQ (PLN m)



Source: Answear, mBank

In 9M'20, the fastest growing market was Ukraine. We would like to point out that despite the favorable market environment for e-Commerce, Poland recorded a slightly higher growth rate of sales yoy in 9M'20 vs. 2019, while the Other EU recorded a slower pace of yoy improvement in 9M'20 vs. 2019.

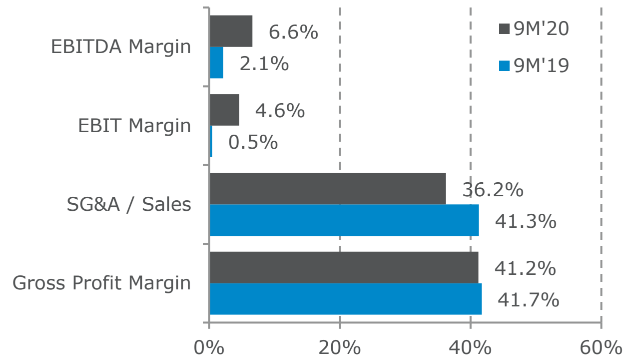
Sales of goods and services, and sales to BrandBQ



Source: Answear, mBank

Taking into account the breakdown of components affecting EBIT profitability, many improved outcomes resulted from the reduction in SG&A mark-up on sales. We estimate that marketing costs and logistics costs were reduced on a year-to-year basis.

Sales of goods and services, and sales to BrandBQ



Source: Answear, mBank

In 9M'20, the Company improved its cash flows from operating activities (CFO) due to an increase in results yoy, and the release of cash from receivables. We estimate that in 9M'20, the Company recognized a negative impact of FX revaluations on financial costs in the amount of PLN 3.1 million. Investment outlays dropped yoy. In addition, the investment activity was supported by the sale of fixed assets in the amount of PLN 10 million. The highest item in the cash flows from financing activities is the repayment of loans and borrowings in 9M'20. FCF in 9M'20 was positive, probably for the first time since the platform was launched.

Cash flow comparison

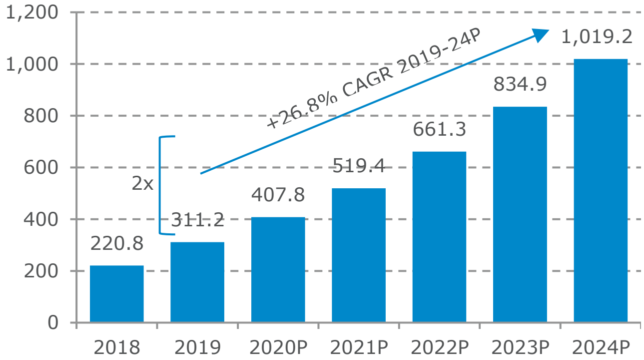
(PLN million)	9M'19	9M'20
Gross profit on sales	-1.7	4.8
D&A	3.5	5.4
Working capital	-22.0	-8.9
Other	1.3	3.1
CFO	-18.9	4.3
CAPEX	-3.4	-2.9
Sale of fixed assets	0.0	10.0
Other	0.0	0.3
CFI	-3.4	7.4
Loans and borrowings	23.8	-12.8
Interest	-1.3	-1.1
Other	-0.3	-3.3
CFF	22.2	-17.2

Source: Answear, mBank

Earnings Outlook Through FY2024

We predict that Answear will grow sales at an average rate of 26.8% a year in the 2019-2024 period, which means by 2022 its revenue will double in size relative to 2019. The main drivers behind such fast-paced growth will include improving penetration rates in existing markets and continued expansion into new markets.

2020-2024 sales projection for Answear (PLN m)

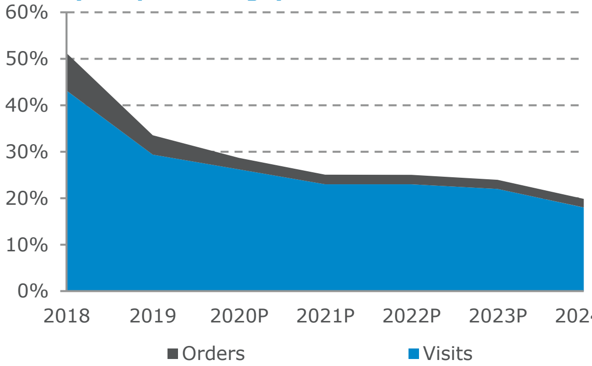


Source: Answear, P – mBank projection

Other factors fueling future sales growth will include successful customer acquisition and growing Website traffic, achieved through intensified marketing campaigns aimed at raising brand awareness. Answear is also sure to keep increasing its site conversion rates in the years ahead, although the momentum here will probably be slower than the competition's.

When it comes to average order values, we expect them to increase by an average of 2% a year in 2019-2024.

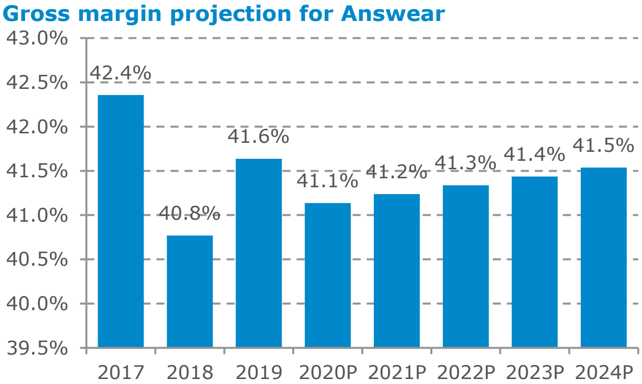
Expected growth in answear.com orders and site visits (YoY pct. change)



Source: Answear, P – mBank projection

As its business grows, Answear will be able to leverage economies of scale with greater buying power, as well as taking advantage of early payment discount. Combined with an increasing share of private label merchandise in total sales, we believe the Company is set to improve sales margins in the coming years.

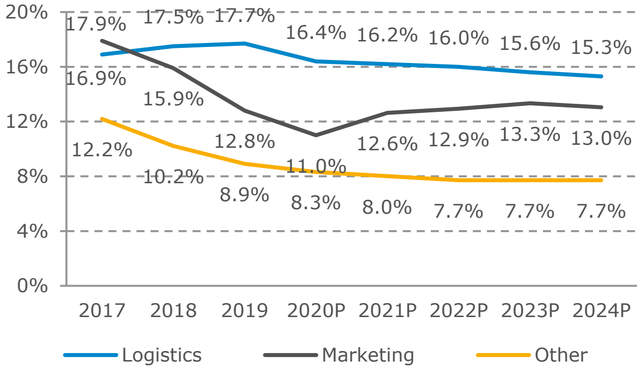
Gross margin projection for Answear



Source: Answear, P – mBank projection

In the years 2021-2023, Answear is set to incur higher marketing costs as a proportion of sales as it works towards raising brand awareness. At the same time, the ratio of logistics costs to online revenues will probably decrease with an increasing utilization rate of the new fulfillment facility. Other expenses are expected to go down as well as Answear grows in scale.

Expected change in annual logistics, marketing, and other costs as a proportion of online revenues (YoY pct. change)

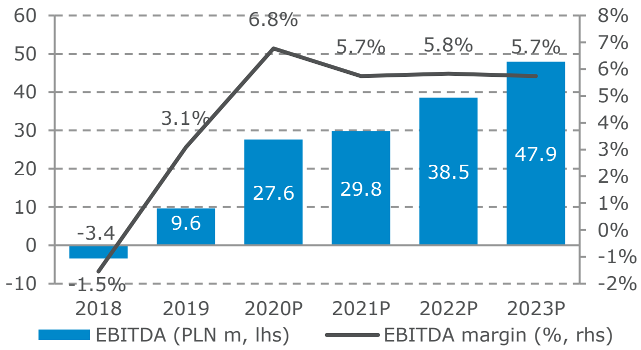


Source: Answear, P – mBank projection

Assuming the larger marketing spend is mitigated by SG&A scale benefits in other areas, Answear should be able to keep EBITDA margins in the 5.5%-6% range in 2021-2023, followed by gradual expansion in subsequent years.

Annual EBITDA in the 2020-2023 period is expected to grow 73% after increasing at an average annual rate of 20.2%.

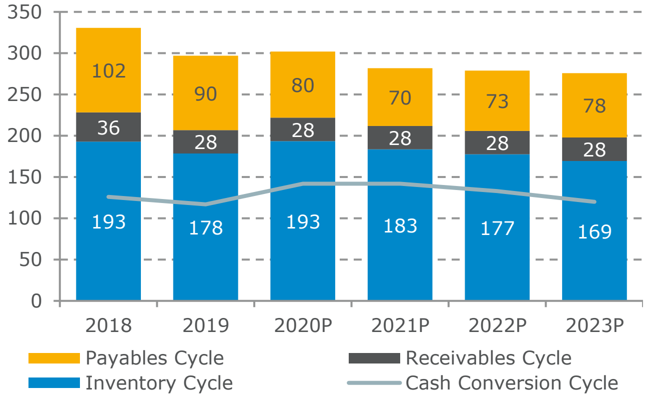
EBITDA and EBITDA margin forecast for Answear



Source: Answear, P – mBank projection

Answear will most likely allocate a portion of its IPO proceeds towards advance payments against inventory that will support future sales, and as a result its inventory cycle might temporarily become elevated for a period of several years. On the other hand, the payables cycle is expected to be reduced with greater utilization of early payment discounts from suppliers. The receivables cycle will most likely stay as it is in the years to come, and all in all we are anticipating a momentary rise in Answear's cash conversion cycle in the next few years.

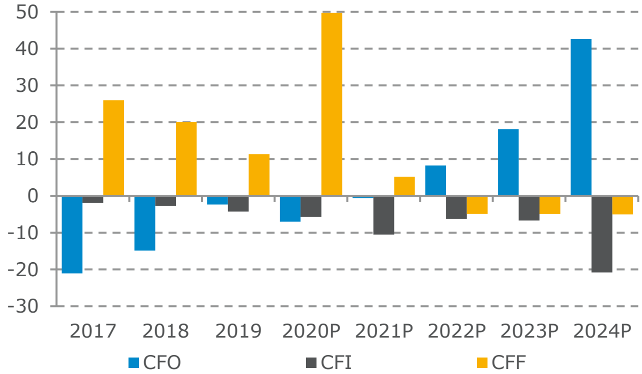
Projection of Answear's Cash Conversion Cycle (days)



Source: Answear, P – mBank projection

Answear will require substantial amounts of working capital in the 2020-2021 period, and as a result it is not likely to generate positive cash flow from operations until after 2022. When it comes to capital expenditures, our assumptions as to annual investment through 2024 are consistent with the forecasts provided by the Company.

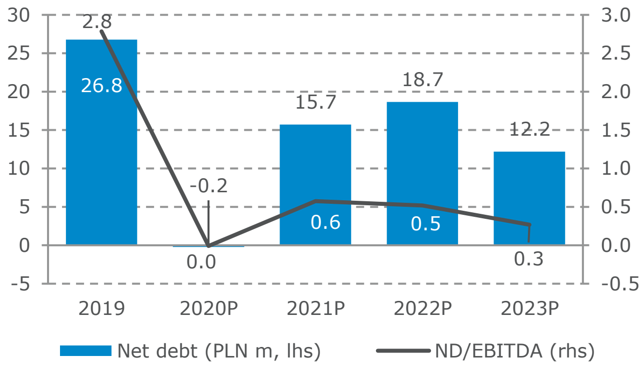
Cash flow projection for Answear (PLN m)



Source: Answear, P – mBank projection

Answear's financial position will strengthen significantly with the capital raised via the IPO, and as a result the Company will be able to invest more in working capital to support future sales while maintaining a net cash position.

Net debt projection for Answear in PLN m and as a ratio of EBITDA



Source: Answear, P – mBank projection

Key Risks

Risks related to the macroeconomic situation in the main markets

The platform operates in the CEE region, in 7 markets, while any sales executed depend, among other things, on the consumers' situation in these markets. The macroeconomic indicators for these markets, in particular the GDP dynamics, unemployment rate, the dynamics of the average wage in the economy may affect the economic situation of households in these countries. Deterioration of the economic situation in any one of the above markets may affect the consumption dynamics, leading to the decline of the platform sales.

Risks associated with market competition

The Company operates in the e-Commerce market, which is characterized by fierce competition. The company's competitors include Allegro, Zalando, Bon Prix, About You, e-obuwie, Modivo, La moda, Kasta, Zoot, and Fashion Days. Most of the competitors have a larger scale of operations translating into better purchasing terms and conditions, and larger marketing budgets. Intensified price competition may have a negative impact on the sales generated by and profitability of the Answear's business.

Risks related to unexecuted strategies

The Company's objectives are to expand its product range, develop mobile applications, develop its own brand, increase sales in countries where the platform is present, start operations in new countries, and strive to acquire entities from the sector. At the same time, the entity would like to maintain the position of one of the leaders of online sales of clothing, footwear and accessories in the CEE region. The implementation of the strategy depends on internal and external factors, among which macroeconomic factors, regulatory environment, financial conditions and competition activities can be distinguished.

Risks related to recognition and image

Over the years, Answear has built relatively strong brand recognition and brand image, which affects the sales results achieved. Any events beyond the control or under limited influence of the Company, weakening the image and strength of the brand, may negatively affect the Company's financial performance.

Risks associated with customer base maintenance

The platform makes every effort to retain its existing customers and acquire new ones. Improving the quality of customer service and introducing additional functionalities should help to retain platform users. Marketing actions undertaken may prove insufficient, which will result in some customers moving away to the competitors. Such an event may adversely affect the financial performance of the Company.

IT system risks

Answear's business is based on the proper functioning of IT systems, in particular the internet and mobile infrastructure. Potential risks may include operational failures, system failures, firewall failures, denial-of-service attacks, ransomware, or other attacks. A potential system failure may have a negative impact on the platform image.

Proprietary IT system risks

There is a risk that the Company's own online store system, on which 5 markets currently operate, will prove to be insufficient and not adapted to the needs of the Company and its customers. If the volume of traffic on websites increases significantly faster than the Company's assumptions, Answear will be forced to incur additional expenditures to improve and develop basic network infrastructure. In addition, there is a risk of implementation of its own online store system to support new markets, such as Poland and Ukraine. According to the schedule, the platform is to be implemented in 1H'21 on both markets. The potential problems may translate into a decrease in sales in this period.

Risks related to transactions with affiliates

Answear has concluded a cooperation agreement with BrandBQ with regard to managing the wearmedicine.com online store. In 2019, the Company obtained PLN 10.2 million, under the services provided, which supported the achieved financial result. Additionally, Answear purchased goods from BrandBQ on a consignment basis, IT services, etc. Any potential change in the terms of cooperation may affect the financial standing of the Company.

Currency risk

In 2019, Answear's revenues in foreign currencies amounted to 70% of the Company's sales. Expenses in PLN accounted for 46%, in EUR 43%, and 11% in other foreign currencies. The Company's operations are significantly affected by the UAH rate, which fluctuates significantly. Answear exchanges UAH into EUR or USD at the current exchange rates applicable in Ukraine immediately after the sale transaction. However, exchange rate fluctuations may affect the Company's financial performance.

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Valuation

We used discounted cash flow analysis and relative valuation to calculate the value of Answear after its Initial Public Offering. The price implied by the DCF model is PLN 40.20 per share, and the per-share value yielded by the relative valuation model amounted to PLN 43.26.

(PLN)	weight	price
Relative Valuation	50%	43.26
DCF Analysis	50%	40.20
	price	41.73
	9M target price	**44.50**

DCF Valuation

Assumptions:

- Cash flow is discounted as of the end of 2020. Equity value calculations factor in net debt as of 31 December 2019 less estimated costs of management incentives.
- EBITDA and D&A expenses are adjusted for IFRS 16 effects.
- We assume that Answear's EBITDA margin increased by 3.1pp to 6.2% in 2020, followed by temporary contraction in the few years after due to higher marketing costs. In the 2024-2029 period we forecast that the average annual EBITDA margin will be 6.4%.
- CAPEX forecasts are indicated by Answear, with average spend in the 2020-2029 period assumed at PLN 9.8m. In 2021, 2024, and 2027 Answear is expected to invest higher amounts in the expansion of its fulfillment center.
- The expected annual effective tax rate in the forecast period is 19%.
- Risk-free rate is 3.5% (equivalent to yields on Polish 10Y Treasuries).
- We assume that FCF after FY2029 will grow at an annual rate of 4.0%.
- Beta=1.0x in the forecast period.

DCF Model

(PLN m)	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2029+
Revenue	407.8	519.4	661.3	834.9	1,019.2	1,222.9	1,443.7	1,674.1	1,906.3	2,170.2	
change	31.0%	27.4%	27.3%	26.3%	22.1%	20.0%	18.1%	16.0%	13.9%	13.8%	
EBITDA	25.2	27.4	36.0	45.3	61.5	76.8	93.1	110.1	124.2	143.2	
EBITDA margin	6.2%	5.3%	5.4%	5.4%	6.0%	6.3%	6.4%	6.6%	6.5%	6.6%	
D&A expenses	6.0	6.6	6.9	7.2	7.6	7.8	8.1	8.3	8.6	7.5	
EBIT	19.3	20.8	29.1	38.1	53.9	69.0	85.0	101.8	115.6	135.6	
EBIT margin	4.7%	4.0%	4.4%	4.6%	5.3%	5.6%	5.9%	6.1%	6.1%	6.2%	
Tax on EBIT	3.7	3.9	5.5	7.2	10.2	13.1	16.1	19.3	22.0	25.8	
NOPLAT	15.6	16.8	23.6	30.8	43.7	55.9	68.8	82.4	93.7	109.9	
CAPEX	5.7	10.5	6.3	6.7	20.8	6.9	7.1	19.2	7.4	7.5	
Working capital	-33.7	-28.9	-27.2	-25.0	-11.8	-39.6	-43.1	-45.0	-45.4	-51.6	
FCF	-17.8	-16.0	-3.0	6.4	18.7	17.2	26.7	26.5	49.5	58.3	61
WACC	8.5%	7.9%	7.9%	8.2%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	
discount factor	100.0%	92.7%	85.9%	79.4%	73.2%	67.5%	62.2%	57.3%	52.8%	48.7%	
PV FCF	-17.8	-14.9	-2.6	5.1	13.7	11.6	16.6	15.2	26.1	28.4	

WACC	8.5%	7.9%	7.9%	8.2%	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%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Credit risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	0.0%	12.3%	12.5%	6.8%	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%
Risk premium	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

FCF growth after the forecast period	4.0%
Terminal value	1,347
Present value of terminal value	656
Present value of FCF in the forecast period	81
Enterprise value	737
Net debt	27
Minority interest	20
Equity value	690.7
Million shares outstanding	17.2
Equity value per share (PLN)	40.2
9M cost of equity	6.6%
Target Price (PLN)	**42.8**
EV/EBITDA ('21) at target price	26.7
P/E ('21) at target price	55.6
TV/EV	89%

Sensitivity Analysis

	FCF growth in perpetuity				
	3.0%	3.5%	4.0%	4.5%	5.0%
WACC +1.0 p.p.	40.2	44.1	48.9	54.8	62.4
WACC +0.5 p.p.	36.8	40.4	44.7	50.2	57.2
WACC	35.2	38.6	42.8	48.0	54.8
WACC -0.5 p.p.	33.7	36.9	41.0	46.0	52.4
WACC -1.0 p.p.	30.8	33.8	37.5	42.1	48.1

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Relative Valuation

We compared Answear with similar companies based on three earnings multiples: Enterprise Value to Sales (EV/S), Price to Earnings (P/E), and Enterprise Value to EBITDA (EV/EBITDA), as projected for FY2020 through 2022. The multiples have weights of 10% EV/S, 45% P/E, and 45% EV/EBITDA, in the valuation output. The low weight of EV/S reflects differences in size and profit margins between Answear and its competitors. We did not assign weights to the forecast years.

The peer group consists of global e-Commerce companies.

The EBITDA and net profit figures used in the comparison are calculated in accordance with the IFRS 16 reporting standard.

The estimated equity value of Answear yielded by the valuation model is adjusted for the estimated costs of management incentives.

Multiples Comparison

	EV/S			P/E			EV/EBITDA		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
ALIBABA GROUP HOLDING-SP ADR	8.0	5.7	4.4	33.2	24.6	20.8	26.4	19.6	15.7
AMAZON.COM INC	4.3	3.6	3.1	70.0	56.0	41.8	30.2	23.5	19.0
EBAY INC	4.3	3.9	3.6	16.9	15.6	13.8	11.4	10.9	10.0
ZOZO INC	8.4	7.4	6.8	53.9	37.0	33.6	33.4	24.1	22.0
BOOHOO GROUP PLC	3.3	2.4	1.9	61.2	40.6	32.3	33.0	24.3	19.8
ASOS PLC	1.5	1.3	1.1	43.9	36.7	33.3	19.4	15.9	14.2
ZALANDO SE	3.0	2.5	2.2	105.6	103.8	76.4	37.7	36.8	28.7
GLOBAL FASHION GROUP SA	1.8	1.6	1.4	-	-	-	596.5	56.7	32.2
OVERSTOCK.COM INC	1.1	1.1	0.9	67.7	74.0	35.1	33.8	31.8	19.1
LOJAS AMERICANAS SA-PREF	2.2	1.8	1.7	80.7	41.3	34.5	14.9	12.8	10.8
VIA VAREJO SA	1.4	1.1	1.0	56.2	34.5	22.3	20.6	13.2	10.7
Minimum	1.1	1.1	0.9	16.9	15.6	13.8	11.4	10.9	10.0
Maximum	8.4	7.4	6.8	105.6	103.8	76.4	596.5	56.7	32.2
Median	3.0	2.4	1.9	58.7	38.8	33.5	30.2	23.5	19.0
Implied Valuation									
Median	3.0	2.4	1.9	58.7	38.8	33.5	30.2	23.5	19.0
Multiple weight		10%			45%			45%	
Year weight	33%	33%	33%	33%	33%	33%	33%	33%	33%
EVPS (PLN)	**43.26**								

Earnings History and Future Projections

(PLN m)	2017	2018	2019	2020P	2021P	2022P	2023P	2024P
Revenue	145.0	220.8	311.2	407.8	519.4	661.3	834.9	1,019.2
change		52.2%	40.9%	31.0%	27.4%	27.3%	26.3%	22.1%
COGS	83.6	130.8	181.6	240.1	305.2	387.9	488.9	595.9
Gross profit	61.4	90.0	129.6	167.8	214.2	273.3	345.9	423.3
Gross margin	42.4%	40.8%	41.6%	41.1%	41.2%	41.3%	41.4%	41.5%
Logistics costs	24.5	38.6	55.1	66.9	84.1	105.8	130.2	155.9
Marketing costs	26.0	35.1	39.8	44.9	65.7	85.6	111.4	132.9
Other costs	17.7	22.6	27.7	33.9	41.6	51.0	64.4	78.6
Other operating activity (net)	-1.1	-0.7	-2.5	-2.9	-2.0	-1.9	-1.8	-2.0
EBIT	-7.8	-7.0	4.4	19.3	20.8	29.1	38.1	53.9
change				340.3%	7.9%	40.0%	30.8%	41.6%
EBIT margin	-5.4%	-3.2%	1.4%	4.7%	4.0%	4.4%	4.6%	5.3%
Net financing gains/losses	-1.0	-1.3	-2.9	-3.9	-2.4	-2.4	-2.4	-2.4
Pre-tax profit	-8.9	-8.3	1.5	15.3	18.4	26.7	35.7	51.6
Tax	0.0	0.0	-9.4	2.9	3.5	5.1	6.8	9.8
Effective tax rate	-0.1%	0.0%	-	19.0%	19.0%	19.0%	19.0%	19.0%
Net profit	-8.9	-8.3	10.9	12.4	14.9	21.7	28.9	41.8
change				14.2%	20.1%	45.2%	33.6%	44.3%
margin	-6.1%	-3.8%	3.5%	3.0%	2.9%	3.3%	3.5%	4.1%
D&A expenses	3.2	3.6	5.2	8.4	9.0	9.4	9.8	10.3
EBITDA (IFRS 16)	-4.6	-3.4	9.6	27.6	29.8	38.5	47.9	64.2
change		-26%	-	187%	8%	29%	24%	34%
EBITDA margin	-3.2%	-1.5%	3.1%	6.8%	5.7%	5.8%	5.7%	6.3%
IAS 17 EBITDA	-4.6	-3.4	9.6	25.2	27.4	36.0	45.3	61.5
margin	-3.2%	-1.5%	3.1%	6.2%	5.3%	5.4%	5.4%	6.0%
Shares outstanding at eop (millions)	13.3	14.7	14.7	17.2	17.2	17.2	17.2	17.2
EPS	-0.7	-0.6	0.7	0.7	0.9	1.3	1.7	2.4
ROA	-10.4%	-7.5%	5.2%	4.4%	4.8%	6.2%	7.1%	8.6%
ROE	-32.5%	-23.6%	20.0%	11.0%	11.7%	14.5%	16.2%	19.0%

Balance Sheet

(PLN m)	2017	2018	2019	2020P	2021P	2022P	2023P	2024P
ASSETS	85.0	111.1	207.3	285.6	314.0	352.2	405.4	483.6
Fixed assets	11.4	11.7	80.7	76.0	75.5	70.4	65.2	75.7
Intangible assets	2.9	4.5	6.0	6.0	6.0	6.0	6.0	6.0
Property, plant and equipment	1.5	1.5	17.6	17.3	21.2	20.6	20.1	33.3
Right-of-use assets	4.0	2.7	38.3	35.9	33.5	30.9	28.3	25.7
Investments in subsidiaries	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Other	0.1	0.0	15.8	13.8	11.8	9.8	7.8	7.8
Current assets	73.5	99.4	126.6	209.6	238.5	281.8	340.2	407.9
Inventory	53.7	69.1	88.8	127.2	153.4	188.6	227.0	263.6
Trade debtors	13.5	21.5	24.2	31.8	40.5	51.5	65.0	79.4
Cash and cash equivalents	5.0	7.5	12.2	49.2	43.3	40.3	46.8	63.6
Other	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3

(PLN m)	2017	2018	2019	2020P	2021P	2022P	2023P	2024P
EQUITY & LIABILITIES	85.0	111.1	207.3	285.6	314.0	352.2	405.4	483.6
Equity	27.3	35.1	54.2	112.7	127.6	149.3	178.2	220.0
Share premium reserve	83.6	99.5	107.8	153.8	153.8	153.8	153.8	153.8
Other	-56.2	-64.4	-53.5	-41.1	-26.2	-4.5	24.4	66.2
Non-current liabilities	1.4	1.0	55.3	52.9	50.5	48.0	45.4	42.7
Lease obligations	1.4	0.9	54.0	51.6	49.2	46.7	44.1	41.4
Other	0.0	0.0	1.3	1.3	1.3	1.3	1.3	1.3
Current liabilities	56.2	75.0	97.7	119.9	135.9	154.9	181.8	221.0
Loans and borrowings	23.3	30.8	39.0	49.0	59.0	59.0	59.0	59.0
Trade payables	24.3	32.4	40.4	52.6	58.5	77.6	104.5	143.6
Lease obligations	2.3	1.4	5.4	5.4	5.4	5.4	5.4	5.4
Employee benefits	2.3	3.3	3.7	3.7	3.7	3.7	3.7	3.7
Other	4.1	7.1	9.2	9.2	9.2	9.2	9.2	9.2
Debt	23.3	30.8	39.0	49.0	59.0	59.0	59.0	59.0
Net debt	18.3	23.3	26.8	-0.2	15.7	18.7	12.2	-4.6
Net debt / Equity	66.8%	66.4%	49.4%	-0.2%	12.3%	12.5%	6.8%	-2.1%
Net debt/ EBITDA	-4.0	-6.8	2.8	0.0	0.5	0.5	0.3	-0.1
BVPS	2.0	2.4	3.7	6.6	7.4	8.7	10.4	12.8

Cash Flow

(PLN m)	2017	2018	2019	2020P	2021P	2022P	2023P	2024P
Cash flow from operating activities	-21.1	-14.9	-2.4	-7.0	-0.6	8.2	18.1	42.6
Pre-tax income	-8.9	-8.3	1.5	15.3	18.4	26.7	35.7	51.6
D&A expenses	3.2	3.6	5.2	6.0	6.6	6.9	7.2	7.6
Working capital	-16.3	-12.7	-12.8	-33.7	-28.9	-27.2	-25.0	-11.8
Other	0.9	2.6	3.7	5.4	3.3	1.8	0.2	-4.8
Cash flow from investing activities	-1.9	-2.7	-4.3	-5.7	-10.5	-6.3	-6.7	-20.8
CAPEX	-1.8	-2.7	-4.3	-5.7	-10.5	-6.3	-6.7	-20.8
Other	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	26.0	20.1	11.3	49.7	5.2	-4.9	-5.0	-5.0
Securities issued	12.0	16.0	8.3	46.0	0.0	0.0	0.0	0.0
Loans and borrowings	17.0	7.5	8.2	10.0	10.0	0.0	0.0	0.0
Finance leases	-2.4	-2.6	-3.5	0.0	0.0	0.0	0.0	0.0
Other	-0.6	-0.9	-1.7	-6.3	-4.8	-4.9	-5.0	-5.0
Change in cash (eop)	3.0	2.5	4.7	37.0	-5.9	-2.9	6.5	16.8
Cash (eop)	5.0	7.5	12.2	49.2	43.3	40.3	46.8	63.6
FCF	-22.7	-18.9	-8.3	-17.8	-16.0	-3.0	6.4	18.7
CAPEX/Sales	1.2%	1.2%	1.4%	1.4%	2.0%	1.0%	0.8%	2.0%

Trading Multiples

	2017	2018	2019	2020P	2021P	2022P	2023P	2024P
P/E	-	-	38.5	39.4	32.8	22.6	16.9	11.7
P/CE	-	-	26.0	26.6	22.8	17.2	13.5	9.9
P/BV	13.9	11.9	7.7	4.3	3.8	3.3	2.7	2.2
P/S	2.6	1.9	1.3	1.2	0.9	0.7	0.6	0.5
FCF/EV	-	-	-1.9%	-3.6%	-3.2%	-0.6%	1.3%	3.9%
EV/EBITDA	-	-	46.3	17.7	17.0	13.2	10.5	7.6
EV/EBIT	-	-	101.8	25.4	24.3	17.5	13.2	9.0
EV/S	2.7	2.0	1.4	1.2	1.0	0.8	0.6	0.5
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price (PLN)	28.51	28.51	28.51	28.51	28.51	28.51	28.51	28.51
Million shares outstanding (eop)	13.3	14.7	14.7	17.2	17.2	17.2	17.2	17.2
MC (PLN m)	381	418	418	490	490	490	490	490
Minority interest (PLN m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	399	442	445	490	506	509	502	485

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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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%
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mBank did not issue investment recommendations for Answear S.A. in the 12 months prior to this publication

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