

## K2 Holding

### Proper market valuation after years of undervaluation

**Preliminary results for 2022.** Revenues amounted to PLN 111m (+5% y/y), EBIT to PLN 7.6m (+1% y/y) and EBITDA to PLN 10.4m (+3% y/y). The results no longer include the consolidated Oktawave, and in the presentation of the final results the company also plans to move the marketing business to assets held for sale and deconsolidate from P&L. After the change in presentation, i.e. without marketing, revenues for 2022 would be PLN 53m (+31% y/y, mainly Fabrity) and EBIT PLN 5m (no change y/y). The key message in the release of earnings estimates for the IT segment is that Fabrity's operating income for the year as a whole increased by 34.5% y/y, meaning that in Q4'22 alone, growth was practically at the same level as in Q1-3'22, at around 34%. As for the group's implied operating profit for Q4'22, it, like EBITDA, exceeded our estimates by a few percent (PLN 2.3m vs. our assumption of PLN 2.1m), but we do not know how much of the surprise was related to the restoration of profitability in marketing and how much in Fabrity.

**The net result in 2022 of K2 Precise and K2 Agency was an estimated PLN 1.3 million and PLN 0.8 million respectively.** The good performance of the marketing businesses may translate into more interest from buyers and consequently a positive surprise regarding the price K2 Holding will receive in a potential transaction.

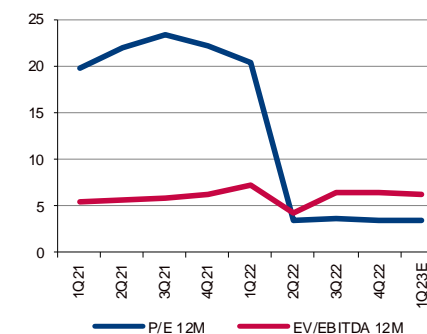
**Valuation and recommendation.** We are raising our target price to PLN 35 per share after taking into account strong preliminary Q4'22 results. Our DCF valuation returns a fair value of PLN 34 per share, a comparative valuation of PLN 30 and a sum-of-the-parts valuation of PLN 39. In our sum-of-the-parts approach based on profit multipliers for the individual businesses and a transactional valuation for PerfectBot, we allocate PLN 23 per share to the 80% stake in Fabrity, PLN 3 to the 50% stake in PerfectBot and PLN 6 to the marketing segment. The remaining PLN 7 represents net cash estimated at year-end. As a result of the share price increase, we downgrade our recommendation to HOLD. In the short term, we hope to finalise the review of strategic options for the marketing business, which could result in a sale of the entire business. In such a scenario, the only business to be consolidated would be the software house Fabrity, a type of business currently highly valued by investors based on comparable WSE entities. However, despite the presence of comparable companies on the WSE in terms of their business profile, we note the significantly smaller scale of operations and slower revenue growth of Fabrity compared to Spyrosoft or Software Mind from the Ailleron group.

mPLN	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23E	y/y	q/q
Sales	32	29	27	36	31	25	25	29	32	3%	10%
EBITDA	3	3	3	3	2	3	2	3	3	10%	-13%
EBIT	2	1	2	1	2	2	1	2	2	17%	-17%
Net profit	1	1	1	1	1	21	0	2	1	38%	-10%
P/E12M trailing	19,8	21,9	23,4	22,1	20,3	3,5	3,6	3,5	3,4		
EV/EBITDA 12M trailing	5,4	5,6	5,8	6,3	7,2	4,2	6,3	6,5	6,1		
sales growth y/y	19%	6%	-7%	-2%	-3%	-12%	-9%	-18%	3%		
EBITDA margin	10,3%	11,1%	12,5%	8,4%	7,5%	12,1%	8,1%	10,1%	8,0%		
#N/D	5,0%	5,1%	6,5%	4,0%	5,1%	9,1%	5,7%	7,7%	5,8%		
Net margin	2,1%	3,3%	4,1%	2,8%	3,2%	81,5%	2,0%	5,2%	4,2%		

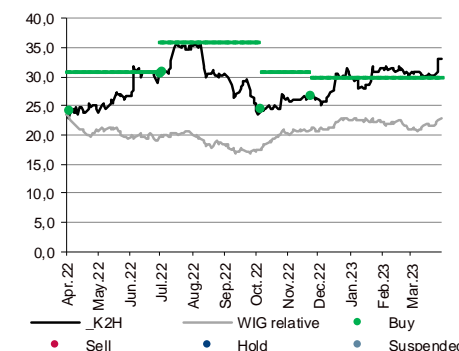
### Financial results 25.05.2023

Company data	Recommendation history	Date	Price	
Ticker	K2H	Buy	12.12.2022	30
Sector	TMT	Buy	24.10.2022	31
Price (PLN)	33,5	Buy	21.07.2022	36
52w min/max (PLN)	20 / 36	Buy	18.07.2022	36
Shares (m)	2,5	Buy	22.04.2022	31
MC (PLNm)	82,7	Buy	09.12.2021	31
S&P Global ESG Scores	-	Buy	21.10.2021	31
Avg. 3M turnover (PLNm)	0,0	Buy	03.09.2021	33
Price chng.	1M 2,9%	3M 14,3%	1Y 25,0%	

### P/E 12M vs EV/EBITDA 12M



### WIG vs. K2H chart



mPLN	2020	2021	2022	2023E	2024E	2025E
Sales	120	124	111	121	129	137
EBITDA	15	13	10	12	13	14
EBIT	8	6	8	9	10	10
Net profit	4	4	24	7	7	7
EPS (PLN)	1,74	1,6	9,6	2,7	2,8	2,9
DPS (PLN)	0,0	1,1	8,4	1,5	1,8	1,8
P/E (x)	19,3	20,7	3,3	11,9	11,3	10,8
EV/EBITDA (x)	5,2	6,3	6,5	5,8	5,1	4,5
P/BV (x)	3,0	2,7	2,5	2,3	2,2	2,0
DY (%)	0,0%	3,1%	25,1%	4,5%	5,4%	5,4%

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#### Definitions

capitalisation – market price multiplied by the number of a company's shares  
free float (%) – a percentage of a company's shares held by shareholders with less than 5% shareholding reduced by treasury shares held by the company  
min/max 52 wks – minimum/maximum share price within the last 52 weeks  
average turnover – average volume of share trading within the last month

EBIT – operating profit  
EBITDA – operating profit increased by depreciation and amortisation  
adjusted profit – net profit adjusted for one-off items  
CF – cash flow  
capex – sum of investment expenditures on fixed assets  
OCF – cash generated through the operational activities of the company  
FCF – cash generated by the company after taking into account outflows to support operations and retained capital

ROA – rate of return on assets  
ROE – rate of return on equity  
NWC – net working capital  
Cash conversion cycle – period from the moment of expenditure of cash for the purchase of production factors until the moment of receipt of cash revenues from the sale of manufactured goods or services.

Gross profit margin – a ratio of gross profit to net revenue  
EBITDA margin – a ratio of sum of operating profit and depreciation/amortisation to net revenue  
EBIT margin – a ratio of operating profit to net revenue  
net margin – a ratio of net profit to net revenue

EPS – earnings per share  
DPS – dividends per share  
P/E – a ratio of market price to earnings per share  
P/BV – a ratio of market price to book value per share  
EV/EBITDA – a company's EV to EBITDA ratio  
EV – sum of a company's current capitalisation and net debt  
DY – dividend yield, dividend paid to share price ratio

RFR - risk-free rate  
WACC - weighted average cost of capital

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BUY – we expect that the rate of return on an investment will be at least 10%  
NEUTRAL – we expect the price of an investment to be relatively stable, optionally it will increase no greater than 10%  
SELL – we expect that an investment will make a loss greater than 0%  
Recommendation prepared by: Grzegorz Kujawski, Maciej Marcinowski, David Sharma, Dominik Niszcz, Michał Kozak, Kacper Koproń, Katarzyna Kosiorek, Łukasz Rudnik, Piotr Rychlicki, Piotr Chodyra

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