

## Ailleron

### High margin at Software Mind, further orders in FinTech

**2Q24 forecast.** We assume PLN 21 million in revenue for FinTech and PLN 123 million for Software Mind, with nearly PLN 30 million contributed by the newly acquired company. Regarding the operating result, thanks to booking a large part of the settlement with Pekao, FinTech may recover the loss from 1Q and achieve a break-even result by mid-year. For Software Mind, we assume a 1 percentage point quarter-over-quarter margin increase to 15% (conservatively, considering the absence of a one-off related to the acquisition that reduced the margin by 3 percentage points in 1Q, and considering that number8 achieved an EBITDA margin of 18% in 2023 and had rather small depreciation components). We estimate the operating profit increase in Software Mind to PLN 18.5 million and a total for the group to PLN 21 million. After the positive surprise in 1Q24, we do not rule out that the company may come close to the adjusted EBIT margin in Software Mind from the previous quarter (which was 17%), which, given the current strong PLN, would be, we think, positively received by the market. The results for 1Q24 showed very strong cost discipline in Software Mind, which may continue until market conditions improve.

**Adjustment of incentive program goals.** We note the announced changes in financial targets in June, already after the U.S. acquisition, on which the incentive program is based. Among the conditions are slightly more ambitious assumptions for the adjusted consolidated net profit (EPS in 2024-2025 of PLN 2.03 and PLN 2.35, respectively, which is PLN 25 million and PLN 29 million). Our assumptions for the adjusted profit of PLN 20 million and PLN 27 million look quite conservative in this context, but we remain cautious given the current USD/PLN exchange rate. Targets for unit profit (in this position, the FinTech segment) were also set, with EPS of PLN 0.13 in 2024 (PLN 2 million) and PLN 0.24 in 2025 (PLN 3 million).

**Valuation and recommendation.** The global software house market remains in a difficult situation. There are some initial signs of demand growth in the U.S., but the slowdown is still felt in Europe. The decline in stock prices of the largest companies in the sector (double-digit declines year-to-date) indicates cautious investor sentiment. Against this backdrop, Ailleron stood out in 1Q24 with high profitability, and the U.S. acquisition, which we view positively, presents an upside in the scenario of a rebound in the American market. Our forecasts take into account the positive effect of the settlement with Pekao, slightly weaker FinTech profitability compared to previous forecasts, and better margins in Software Mind at a lower revenue level. We remind that in addition to additional work for Pekao, Ailleron also announced a framework cooperation agreement with Credit Agricole, with the settlement of services in the time&materials formula, which will facilitate achieving sustainable profitability improvement in this area. We adjust the valuation slightly upwards to PLN 26 per share and maintain the BUY recommendation. The peer group valuation remains unchanged at PLN 38.

PLNm	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24E	y/y	q/q
Revenues	101.7	111.7	123.3	110.6	115.7	114.4	126.2	106.7	145.2	26%	36%
EBITDA	10.2	18.8	20.0	15.6	13.7	10.7	10.2	13.8	25.7	88%	86%
EBIT	7.0	15.5	16.2	11.9	9.8	7.9	6.0	10.2	20.7	111%	103%
Net profit	3.0	5.6	5.3	2.8	1.8	-3.9	2.8	1.6	6.4	253%	315%
P/E 12M trailing	26.2	16.5	15.5	12.3	13.2	34.1	57.6	89.4	29.7		
EV/EBITDA 12M trailing	12.2	9.9	8.9	8.2	8.3	9.3	10.8	14.2	11.4		
revenues growth y/y	120%	86%	73%	44%	14%	2%	2%	-3%	26%		
EBITDA margin	10.0%	16.8%	16.2%	14.1%	11.8%	9.3%	8.0%	13.0%	17.7%		
EBIT margin	6.9%	13.9%	13.1%	10.8%	8.5%	6.9%	4.8%	9.5%	14.3%		
Net profit margin	2.9%	5.0%	4.3%	2.6%	1.6%	-	2.3%	1.5%	4.4%		

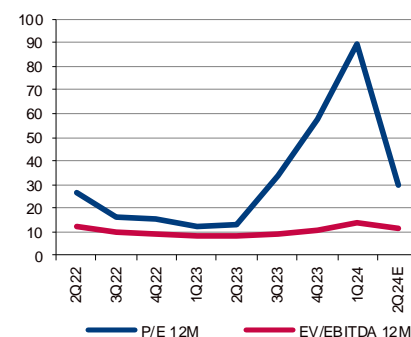
2Q24 Earnings  
25.09.2024

**Buy**  
(Previous: Buy, 25 PLN)

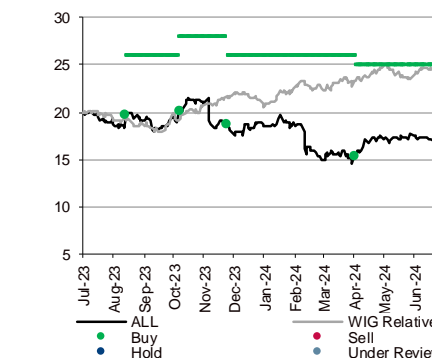
**Target Price: 26 PLN**  
**Current Price: 16.6 PLN**  
**Upside: 57%**

FACT SHEET	RECOMMENDATIONS	Date	Valuation
Ticker	ALL	Buy	19.04.2024 25
Sector	TMT	Buy	11.12.2023 26
Price (PLN)	16.6	Buy	23.10.2023 28
52W range (PLN)	14,6 / 24,2	Buy	30.08.2023 26
Shares outstanding (m)	12.4		
Market Cap (PLNm)	205		
S&P Global ESG Scores	1		
3M Avg. Vol. (PLNm)	0.24		
Price perf.	1M -9.9% 3M -3.8% 1Y 28.9%		

P/E 12M vs EV/EBITDA 12M



ALL RELATIVE SHARE PRICE vs WIG



PLNm	2021	2022	2023	2024E	2025E	2026E
Revenues	212	410	467	556	666	719
EBITDA	36	61	50	87	108	119
EBIT	27	48	36	68	86	97
Net profit	7	13	4	19	27	32
EPS (PLN)	0.60	1.1	0.3	1.5	2.2	2.6
DPS (PLN)	0.3	0.3	1.0	0.0	0.5	0.5
P/E (x)	27.7	15.5	57.6	10.9	7.6	6.5
EV/EBITDA (x)	4.3	8.9	10.7	7.2	5.6	4.8
P/BV (x)	1.5	3.1	2.4	2.0	1.7	1.4
DY (%)	1.9%	1.9%	6.0%	0.0%	3.0%	3.0%

# Quarterly update 2Q'24

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Valuation / Weight	Current		Previous		Change
DCF	26.4	100%	24.8	100%	6%
Multiples	38.2	0%	37.9	0%	1%

PLNm	2024E			2025E			2026E		
	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.
Revenues	555.7	592.4	-6%	665.9	695.3	-4%	718.9	751	-4%
EBITDA	86.7	76.6	13%	107.5	107.5	0%	118.8	117	1%
EBIT	68.0	55.3	23%	86.4	83.2	4%	96.6	93	4%
Net profit	18.8	14.6	29%	27.0	26.7	1%	31.7	31	2%
P/E (x)	10.9	14.0		7.6	7.7		6.5	6.6	
EV/EBITDA (x)	7.2	8.8		5.6	5.9		4.8	4.9	
P/BV (x)	2.0			1.7			1.4		
DY (%)	0.0%			3.0%			3.0%		

Multiples	2022	2023	2024E	2025E	2026E
P/E (x)	15.5	57.6	10.9	7.6	6.5
adj. P/E (x)	11.6	12.8	10.3	7.6	6.5
P/BV (x)	3.1	2.4	2.0	1.7	1.4
EV/EBITDA (x)	8.9	10.7	7.2	5.6	4.8
adj. EV/EBITDA (x)	8.9	10.7	7.2	5.6	4.8
EV/Sales (x)	0.5	0.4	0.5	0.4	0.3
FCFF Yield (%)	2.3%	6.4%	5.8%	7.8%	10.4%
DY (%)	1.9%	6.0%	0.0%	3.0%	3.0%

KPIs	2022	2023	2024E	2025E	2026E
EPS (PLN)	1.1	0.3	1.5	2.2	2.6
adj. EPS (PLN)	1.4	1.3	1.6	2.2	2.6
DPS (PLN)	0.3	1.0	0.0	0.5	0.5
BVPS (PLN)	5.4	6.8	8.3	10.0	12.1

Operational ratios	2022	2023	2024E	2025E	2026E
adj. EBITDA margin (%)	14.9%	10.7%	15.6%	16.1%	16.5%
EBIT margin (%)	11.7%	7.6%	12.2%	13.0%	13.4%
Net profit adj. margin (%)	3.2%	0.8%	3.4%	4.0%	4.4%
ROE (%)	17.7%	21.2%	21.4%	23.8%	23.2%
ROA (%)	3.8%	0.8%	3.8%	4.6%	4.9%
CAPEX/Sales (%)	6.6%	2.6%	2.3%	2.3%	2.3%
CAPEX/D&A (x)	2.1	0.8	0.7	0.7	0.7
Net debt/Equity (x)	0.1	0.0	0.9	0.6	0.3
Net debt/EBITDA (x)	0.1	0.1	1.1	0.6	0.3
Cash conversion cycle (days)	49	48	39	37	38
Inventory turnover (days)	1	0	0	0	0
Receivables turnover (days)	72	70	59	59	61
Payables turnover (days)	23	23	20	22	24

Income Statement (PLNm)	2021	2022	2023	2024E	2025E	2026E
<b>Revenues</b>	<b>212.4</b>	<b>410.1</b>	<b>466.8</b>	<b>555.7</b>	<b>665.9</b>	<b>718.9</b>
Revenues FinTech	56.4	64.0	73.7	87.6	98.1	105.9
Revenues Software Mind	153.4	344.4	390.5	464.6	564.3	609.4
Revenues other	7.0	5.1	2.6	3.5	3.5	3.6
EBIT FinTech	2.7	-1.5	-7.2	3.1	5.9	8.5
EBIT Software Mind	24.6	55.6	48.9	65.6	81.8	89.6
EBIT other	0.1	-2.4	0.1	0.0	0.0	0.0
<b>EBITDA</b>	<b>35.7</b>	<b>61.1</b>	<b>50.1</b>	<b>86.7</b>	<b>107.5</b>	<b>118.8</b>
adj. EBITDA	35.7	61.1	50.1	86.7	107.5	118.8
D&A	-8.3	-13.0	-14.5	-18.6	-21.1	-22.1
<b>EBIT</b>	<b>27.4</b>	<b>48.2</b>	<b>35.6</b>	<b>68.0</b>	<b>86.4</b>	<b>96.6</b>
Net financial costs	-0.2	-0.3	-3.8	-10.0	-9.4	-8.9
<b>EBT</b>	<b>25.5</b>	<b>47.9</b>	<b>31.8</b>	<b>58.0</b>	<b>77.0</b>	<b>87.8</b>
Income tax	-8.5	-9.3	-10.9	-12.7	-16.9	-19.2
Minority interest	-9.6	-25.3	-17.4	-26.5	-33.2	-36.8
<b>Net profit</b>	<b>7.4</b>	<b>13.2</b>	<b>3.6</b>	<b>18.8</b>	<b>27.0</b>	<b>31.7</b>
adj. Net profit	7.4	17.7	16.0	20.0	27.0	31.7

Balance Sheet (PLNm)	2021	2022	2023	2024E	2025E	2026E
<b>Non-current Assets</b>	<b>98.1</b>	<b>209.6</b>	<b>226.2</b>	<b>396.4</b>	<b>399.3</b>	<b>402.4</b>
<b>Current Assets</b>	<b>180.6</b>	<b>209.5</b>	<b>209.5</b>	<b>153.7</b>	<b>215.3</b>	<b>279.7</b>
Inventories	1.0	0.7	0.6	0.7	0.8	0.9
Receivables	62.9	98.6	81.6	97.2	116.5	125.7
Cash and cash equivalents	111.3	89.4	112.9	41.5	83.7	138.7
<b>Assets</b>	<b>278.7</b>	<b>419.1</b>	<b>435.7</b>	<b>550.1</b>	<b>614.6</b>	<b>682.0</b>
<b>Equity</b>	<b>133.0</b>	<b>67.1</b>	<b>84.1</b>	<b>103.0</b>	<b>123.8</b>	<b>149.3</b>
<b>Minority Interests</b>	<b>82.5</b>	<b>115.4</b>	<b>125.4</b>	<b>151.9</b>	<b>185.0</b>	<b>221.8</b>
<b>Non-current Liabilities</b>	<b>18.5</b>	<b>159.5</b>	<b>134.1</b>	<b>193.3</b>	<b>194.8</b>	<b>196.3</b>
Long-term borrowings	17.6	83.8	86.5	145.7	147.1	148.7
<b>Current Liabilities</b>	<b>44.7</b>	<b>77.2</b>	<b>92.0</b>	<b>101.9</b>	<b>111.0</b>	<b>114.6</b>
Short-term borrowings	4.7	14.8	32.9	32.9	32.9	32.9
Payables	19.3	33.2	25.9	35.8	44.9	48.5
<b>Equity and Liabilities</b>	<b>278.7</b>	<b>419.1</b>	<b>435.7</b>	<b>550.1</b>	<b>614.6</b>	<b>682.0</b>
<b>Net debt</b>	<b>-89</b>	<b>9</b>	<b>6</b>	<b>137</b>	<b>96</b>	<b>43</b>

Cash Flow Statement (PLNm)	2021	2022	2023	2024E	2025E	2026E
<b>Cash flow from operating activities</b>	<b>26.1</b>	<b>45.6</b>	<b>55.2</b>	<b>58.2</b>	<b>70.9</b>	<b>84.9</b>
Changes in working capital	1.0	-21.4	9.8	-5.7	-10.3	-5.8
D&A	8.3	13.0	14.5	18.6	21.1	22.1
<b>Cash flow from investing activities</b>	<b>-28.0</b>	<b>-126.7</b>	<b>-19.8</b>	<b>-180.0</b>	<b>-15.0</b>	<b>-16.2</b>
CAPEX	-12.3	-27.2	-12.1	-13.0	-15.0	-16.2
<b>Cash flow from financing activities</b>	<b>89.5</b>	<b>59.1</b>	<b>-11.9</b>	<b>50.3</b>	<b>-13.7</b>	<b>-13.6</b>
Dividend/Buy-back	-4.0	-4.0	-12.4	0.0	-6.2	-6.2
<b>Net change in cash</b>	<b>87.6</b>	<b>-21.9</b>	<b>23.5</b>	<b>-71.4</b>	<b>42.2</b>	<b>55.0</b>
Cash opening balance	23.7	111.3	89.4	112.9	41.5	83.7
Cash closing balance	111.3	89.4	112.9	41.5	83.7	138.7

# Quarterly update 2Q'24

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## ALL: DCF valuation

	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	TV
Sales	555.7	665.9	718.9	774.1	818.7	857.1	882.8	909.3	936.6	
EBITDA	86.7	107.5	118.8	126.5	133.0	138.6	142.8	147.1	151.5	
<b>EBIT</b>	<b>68.0</b>	<b>86.4</b>	<b>96.6</b>	<b>103.3</b>	<b>108.6</b>	<b>113.1</b>	<b>116.5</b>	<b>120.0</b>	<b>123.6</b>	
Tax rate	22%	22%	22%	22%	22%	22%	21%	21%	20%	
<b>NOPAT</b>	<b>53.1</b>	<b>67.5</b>	<b>75.4</b>	<b>80.6</b>	<b>84.8</b>	<b>88.3</b>	<b>91.8</b>	<b>95.1</b>	<b>98.4</b>	
Amortization	18.6	21.1	22.1	23.3	24.4	25.5	26.3	27.1	27.9	
Capex	-13.0	-15.0	-16.2	-17.4	-18.4	-19.5	-20.1	-20.7	-21.3	
Leased assets capex	-8.8	-8.9	-9.0	-9.2	-9.4	-9.6	-9.9	-10.2	-10.5	
Net WC investments	-5.7	-10.3	-5.8	-6.0	-4.8	-4.2	-4.3	-4.3	-4.4	
M&A, other adjustments	-167.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>FCF</b>	<b>-122.8</b>	<b>54.3</b>	<b>66.5</b>	<b>71.3</b>	<b>76.6</b>	<b>80.6</b>	<b>83.9</b>	<b>86.9</b>	<b>90.1</b>	<b>94.0</b>
Debt / (Debt + Equity)	43%	31%	16%	0%	0%	0%	0%	0%	0%	0%
RFR	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.0%
Market premium	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Unlevered beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Levered beta	1.58	1.36	1.15	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Debt cost to tax (%)	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.6%	5.2%
Equity cost (%)	15.8%	14.3%	13.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	11.5%
<b>WACC (%)</b>	<b>11.4%</b>	<b>11.5%</b>	<b>11.8%</b>	<b>12.0%</b>	<b>12.0%</b>	<b>12.0%</b>	<b>12.0%</b>	<b>12.0%</b>	<b>12.0%</b>	<b>11.5%</b>

PV FCF sum	232
FCF growth ratio in TV	2.5%
Discounted TV	396
Net debt, other adj.	336
Equity value (mln PLN)*	292
Dividend paid out	0.0
Number of shares (mln)	12.4
1 share value (PLN)	23.66
<b>12m TP</b>	<b>26.4</b>

Source: Trigon DM

	WACC				
	9.5%	10.5%	TV 11.5%	12.5%	13.5%
	28.3	26.2	24.5	23.1	22.0
	29.6	27.3	25.4	23.9	22.6
<b>g</b>	<b>31.2</b>	<b>28.5</b>	<b>26.4</b>	<b>24.7</b>	<b>23.3</b>
	33.0	29.8	27.4	25.5	24.0
	35.1	31.4	28.7	26.5	24.8

## ALL: Peer group valuation

Company	MC [m EUR]	EV/EBITDA			P/E		
		2024E	2025E	2026E	2024E	2025E	2026E
GLOBANT SA	7,075	15.6	13.8	11.4	27.7	23.4	19.6
ENDAVA PLC- SPON ADR	1,605	12.0	9.4	6.5	20.7	18.0	12.2
EPAM SYSTEMS INC	9,963	11.1	10.2	9.0	18.4	16.9	14.8
GRID DYNAMICS HOLDINGS INC	746	11.8	9.4	7.0	31.9	25.6	19.3
THOUGHTWORKS HOLDING INC	769	13.6	8.7	6.3	44.3	15.0	9.0
CAPGEMINI SE	33,158	10.2	9.3	8.6	15.6	14.5	13.3
COGNIZANT TECH SOLUTIONS-A	31,455	9.2	8.7	8.1	14.8	13.8	12.5
PERFICIENT INC	2,439	14.9	13.2	13.5	18.7	16.8	14.4
KAINOS GROUP PLC	1,605	15.8	15.3	13.5	24.1	21.4	19.1
NAGARRO SE	1,079	9.3	8.0	7.0	16.9	13.8	10.9
INNOFACTOR OYJ	46	5.3	4.8	4.7	9.1	8.2	7.3
IT LINK SA	52	7.1	6.4	6.0	12.3	11.0	10.2
<b>Median: foreign peers</b>		<b>11.4</b>	<b>9.3</b>	<b>7.5</b>	<b>18.6</b>	<b>15.9</b>	<b>12.9</b>
AILLERON		7.2	5.6	4.8	10.3	7.6	6.5
Valuation per share		46.1	47.1	38.2	30.0	34.7	33.0
<b>Average valuation for multipliers</b>		<b>43.8</b>			<b>32.6</b>		

Source: Bloomberg, Trigon DM

average valuation 38.2

## Risk factors

- 1) Risk of increased competition in the software house market,
- 2) Risk of losing customers,
- 3) Risk of losing key employees,
- 4) Risk of unsuccessful acquisitions,
- 5) Risk of customers' failure to meet payment deadlines,
- 6) Risk of claims from Pekao in connection with contract termination,
- 7) Currency risk

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**NAGRŃDY  
PSIK**  
2023

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### Glossary of professional terms:

capitalisation – market price multiplied by the number of a company's shares  
free float (%) – percentage of a company's shares held by shareholders with less than 5% of total voting rights attached to the shares, reduced by treasury shares held by the company  
min/max 52 wks – lowest/highest share price over the previous 52 weeks  
average turnover – average volume of share trading over the previous month

EBIT – operating profit  
EBITDA – operating profit before 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 a company's operating activities  
FCF – cash generated by a company after accounting for cash outflows to support its operations and maintain capital assets  
ROA – rate of return on assets  
ROE – rate of return on equity  
ROIC – rate of return on invested capital  
NWC – net working capital  
cash conversion cycle – length of time it takes for a company to convert its cash investments in production inputs into cash revenue from sale of its products or services  
gross profit margin – ratio of gross profit to net revenue  
EBITDA margin – ratio of the sum of operating profit and depreciation/amortisation to net revenue  
EBIT margin – ratio of operating profit to net revenue  
net margin – ratio of net profit to net revenue  
EPS – earnings per share  
DPS – dividend per share  
P/E – ratio of market price to earnings per share  
P/BV – ratio of market price to book value per share  
EV/EBITDA – ratio of a company's EV to EBITDA  
EV – sum of a company's current capitalisation and net debt  
DY – dividend yield, ratio of dividends paid to share price  
RFR – risk free rate  
WACC – weighted average cost of capital

### Recommendations of the Brokerage House

Issuer – AILLERON S.A.  
BUY – we expect the total return on an investment to reach at least 15%  
HOLD – we expect the price of an investment to be largely stable, with potential upside of up to 15%  
SELL – we expect negative total return on an investment of more than -0%

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### Valuation methods used

SOTP – sum-of-the-parts method, which consists in valuing a company by valuing its individual business lines separately and then summing them up.  
- Advantages: different valuation methods can be applied to diverse business lines; the approach is useful for assessing the value of a company e.g. in the case of planned acquisition or restructuring.  
- Disadvantages: the peer group for individual business lines is usually limited, the method does not adequately account for synergies between business segments.

Risk-adjusted net present value method (rNPV)  
- Advantages: accounting for probabilities assigned to future cash flows, providing a more realistic assessment of the present value of future cash flows and reflecting business-specific factors, especially in the case of innovative companies.  
- Disadvantages: subjectivity involved in the adoption of a discount rate, significant reliance on a number of assumptions, high level of complexity in the calculations and exclusion of qualitative factors from the valuation.

Discounted residual income method (DRI)  
- Advantages: valuation based on the excess of income over risk-adjusted opportunity cost to owners of capital, the method can be applied to companies that do not pay dividends or generate positive FCF.  
- Disadvantages: significant reliance on subjective judgements and assumptions, as well as sensitivity of the valuation to any changes in those variables.

Discounted dividend model (DDM)  
- Advantages: accounting for real cash flows to equity owners, the model works best for companies with a long history of dividend distribution.  
- Disadvantages: the method can be applied to dividend-paying companies only, it is not suitable for companies with a short history of dividend distribution.

Net asset value method (NAV)  
- Advantages: the approach is particularly relevant to holding companies with significant property, plant and equipment assets, the calculation of NAV is relatively straightforward.  
- Disadvantages: the method neglects future revenue or earnings potential and may not properly reflect the value of intangible assets.

Target multiple method  
- Advantages: the method can be applied to any company.  
- Disadvantages: it involves a high degree of subjectivity.

Replacement value method – it assesses the value of a company based on the costs of replacing its assets.  
- Advantages: the method is particularly relevant to companies with significant property, plant and equipment assets.  
- Disadvantages: it may be hard to capture the value of a company's intangible assets, reputation and market potential.

Liquidation value method – the sum of prices that the business would receive upon selling its individual assets on the open market.  
- Advantages: the method can capture the lowest threshold of a company's value.  
- Disadvantages: it may be hard to capture the value of a company's intangibles.

Basis of the valuation or methodology and the underlying assumptions used to evaluate the financial instrument or the issuer, or to set a price target for the financial instrument: DCF valuation

The valuation, methodology or underlying assumptions have not changed since the date when this Document was completed and first disseminated.

This Document was not disclosed to the issuer and subsequently amended. This Document has remained unchanged since the day it was completed and first disseminated.

The Research Team, which produces recommendations, relies exclusively on verified sources, publicly available as part of commercial knowledge bases and databases (periodic reports of issuers, Bloomberg, Reuters, Statistics Poland), as well as in-house analyses.

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