

The report was prepared by Dom Maklerski BDM at the request of the WSE as part of the Exchange's Analytical Coverage Support Programme

			2019	2020	2021	
Price [PLN]	21,6	P/E	12,5	12,6	3,0	Analyst: Anna Madziar anna.madziar@bdm.pl tel.: (+48) 666 073 972
MC [mln PLN]	48,2	EV/EBITDA	4,5	4,1	1,6	
		EV/EBIT	4,5	4,1	1,6	
		P/BV	0,9	0,9	0,8	

Last recommendation BDM: HOLD with target price 37,0 PLN/share (2021/08/31) [LINK](#)

Q2'22 results well below our expectations - increased sales costs impact profit (negatively)

Q2'22, in line with our expectations, brought an increase in sales revenues to PLN 55.5 million (+12.9% y/y). The company posted a record gross margin on sales of 67.7%. Significant growth is also seen in cost of sales (+34% y/y), which outweighed the lower-than-forecast operating profit. The increase in these costs can be explained in part by the increase in sales - a significant portion is commission to franchisees. Other cost increases can be explained by the larger scale of salary increases, the high EUR exchange rate (rents are denominated in this currency) and the increase in the price of energy. We expect that the increased other operating income is mainly due to a higher-than-expected level of advances from NCBiR related to the RFID labels under development.

The company continued to see a trend of female customers returning to stationary stores, which contributed to a decline in sales in the online channel (-18% y/y). Sales campaigns in Q2 and Q3'22 were intensified to reduce inventory, as shipments of the new collection were already starting to arrive. Because of this, gross profit margin on sales declined in July and August'22, but sales increased very strongly (about PLN 55 million in two months vs. PLN 55.5 million in the entire 2Q'22). At the end of Q2'22, inventories were lower by about PLN 2.6 million k/k. Despite the ongoing armed conflict in Ukraine, the company is operating there, although on a limited basis. Esotiq has started sales on the Zalando platform in Germany and is very positive about the first sales results in this channel, so it wants to enter more German-speaking countries with its offer. Esotiq's mobile app is expected to be launched in October'22.

In Q2'22, the company generated positive cash flow from operations. A reduction in accounts payable and an increase in depreciation and amortization had a significant impact on this part of cash flow. Net debt after equity was PLN 45.2 million, or 1.3x EBITDA.

BDM's comments: 2Q'22 results disappointed us, mainly due to an increase in selling expenses, which are expected to rise further in 2H'22. The company's net profit was PLN 2.2m vs. PLN 3.8m expected. Unfavorable exchange rates not only raise rents, but also negatively affect purchase prices in future periods. For now, the company is managing to maintain margins mainly by increasing selling prices, but in the current macroeconomic environment, this may become increasingly difficult in the long term. The one-time significant margin decline in August'22 (55%) is justified by the need to reduce inventories and apply deeper sales.

Q2'22 results [PLNm]

	Q2'21	Q2'22	y/y	Q2'22 BDM	div.	H1'21	H1'22	y/y
Sales	49,1	55,5	12,9%	55,5	-0,1%	94,9	106,8	12,6%
Gross profit from operations	32,0	37,6	17,6%	37,2	0,9%	60,8	69,4	14,1%
EBITDA	9,3	8,3	-11,2%	8,8	-6,1%	16,1	12,9	-20,1%
EBIT	5,7	4,2	-26,2%	5,3	-21,5%	8,7	5,2	-40,4%
Profit before tax	5,1	2,9	-41,9%	4,7	-37,3%	7,8	5,7	-26,2%
Net profit	4,4	2,2	-48,8%	3,8	-41,2%	6,7	4,6	-31,6%
Gross margin	65,0%	67,7%		67,0%		64,1%	64,9%	
EBITDA margin	18,9%	14,9%		15,8%		17,0%	12,1%	
EBIT margin	11,5%	7,5%		9,6%		9,2%	4,9%	
Net margin	8,9%	4,0%		6,8%		7,0%	4,3%	

Source: BDM S.A., company



Dom Maklerski BDM S.A.

ANALYST COMMENT – ESOTIQ&HENDERSON

Q2'22 RESULTS

2022/09/30, 08:40 CEST

RESEARCH DEPARTMENT:

Maciej Bobrowski

Director

tel. (032) 208 14 12

e-mail: maciej.bobrowski@bdm.pl

Strategy, industry, media/entertainment, TMT

Krzysztof Pado

Deputy Director

Investment Adviser

tel. (032) 208 14 35

e-mail: krzysztof.pado@bdm.pl

oil&gas, construction, building materials, real estate

Krzysztof Tkocz

Analyst

tel. (+48) 516 086 705

e-mail: krzysztof.tkocz@bdm.pl

Gaming

Anna Madziar

Junior analyst

Investment Adviser

tel. (+48) 666 073 972

e-mail: anna.madziar@bdm.pl

Kajetan Sroczyński

Junior analyst

tel. (+48) 668 516 977

e-mail: kajetan.sroczyński@bdm.pl

Explanations of terminology:

EBIT - earnings before interest and tax

EBITDA – earnings before interest, taxes, depreciation, and amortization

Net debt – interest bearing debt minus cash and equivalents

WACC - weighted average cost of capital

CAGR - cumulative average annual growth

EPS - earnings per share

DPS - dividend per share

CEPS - net profit plus depreciation per share

EV – market capitalization plus interest bearing debt minus cash and equivalents

EV/S – market capitalization / sales

EV/EBITDA – EV / sales

P/EBIT – market capitalization / EBIT

MC/S – market capitalization / sales

P/E – market capitalization / net profit

P/BV – market capitalization / book value

P/CE - market capitalization / net profit plus depreciation

ROE – net profit / equity

ROA - net income / assets

Gross margin - gross profit on sales / sales

EBITDA margin – EBITDA / sales

EBIT margin – EBIT / sales

Net margin – net profit / sales

Explanation of ratings:

Buy – we believe that the security will reach the target price in the recommended period, which significantly exceeds the current market price (at least + 15%);

Accumulate – we believe that the security will reach the target price in the recommended period, which exceeds the current market price (in the range of +5 to + 14.99%);

Hold – we believe that a security in the recommended period will fluctuate around the target price, which is close to the current market price (in the range from -4.99% to + 4.99%);

Reduce – we believe that the security will reach the target price in the recommended period, which is lower than the market price (range of decline from 5% to 14.99%);

Sell – we believe that a security in the recommended period will reach the target price, which is significantly lower than the market price (suggested erosion of the value exceeds 15%).

Target price – the theoretical price which, in our opinion, should reach a security in the recommended period; This price is the result of the company's value (eg based on DCF, comparative and other valuations), market conditions and the industry as well as other factors subjectively considered by the analyst.

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INSTITUTIONAL SALES DEPARTMENT:

Leszek Mackiewicz

Director

tel. (022) 62-20-848

e-mail: leszek.mackiewicz@bdm.pl

Tomasz Ilczyszyn

tel. (022) 62-20-854

e-mail: tomasz.ilczyszyn@bdm.pl

Maciej Fink-Finowicki

tel. (022) 62-20-855

e-mail: maciej.fink-finowicki@bdm.pl

Piotr Komorowski

tel. (022) 62-20-851

e-mail: piotr.komorowski@bdm.pl

Ratings and price targets history:

rating	price target	previous rating	previous price target	report date	report date (hour)	price	WIG
Hold	37,0	Buy	57,1	18.05.2022	17:30 CEST	37,4	56 293
Buy**	57,1	---	---	31.08.2021*	07:00 CEST	33,7	70 527

* The report was prepared by Dom Maklerski BDM at the request of the WSE as part of the Exchange's Analytical Support Programme.

** the author of the report was Adrian Górniak

Distribution of BDM's recommendations in Q3'22*:

	number	%	number	%
Buy	3	60%	2	100%
Accumulate	2	40%	0	0%
Hold	0	0%	0	0%
Reduce	0	0%	0	0%
Sell	0	0%	0	0%

* detailed list of all analytical reports (recommendations) published by BDM during the last 12 months and information on the numbers of issuers to which BDM has supplied services of investment firms set out in Sections A and B of Annex I to Directive 2014/65/EU is included in a cyclical "Monthly Report" or at www.bdm.pl

, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months

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