

INC S.A.



Fair Value: PLN 5.70

Initiating Coverage

Rating: n.a

INC S.A. is a consulting, brokerage and investment firm with brokerage licenses in Poland and Romania, which has been on the market for 26 years. It targets SMEs and as the only one offers a comprehensive service portfolio including fund raising, IPO preparation and IR support. As the only one in Poland, the company operates a crowdfunding platform, which is monitored by the Financial Supervisor KNF, and offers its clients IR support through its cooperation with the leading IR firm InnerValue. While the consulting business generates stable fees, INC's investment activities with own capital, which are bundled in subsidiaries INC Private Equity and Carpathia Capital, offer significant upside during boom periods on stock markets. Although its business is volatile and cyclical, we regard INC as an attractive opportunity to gain exposure to the burgeoning Polish (and to a small extent also the Romanian) SME sector. Our valuation model derives a 12-months DCF-based Fair Value for the stock of PLN 5.70, 32.9% above current level.

INC is No 1 in Poland, when it comes to IPO consulting and services as Authorized Advisor for companies that want to list their equity or bonds in the alternative NewConnect and Catalyst segments of the WSE. In addition, it operates the No 1 crowdfunding platform in Poland, CrowdConnect. Its close co-operation partner is the Top 3 Polish IR agency InnerValue and both firms complement each other very well, when it comes to deal flow from the Polish SME sector. So far, INC has taken part in IPOs of c. 100 companies and in 2020 alone participated in transactions of c. PLN 80m.

While the Polish capital market is overbroke, no other company than INC offers such a broad portfolio of services for SMEs. Due to their risky character and a still undeveloped VC sector the alternative NewConnect and Catalyst segments are popular sources of equity or debt capital for small Polish companies. The availability of EU funds has helped to develop many such companies especially in the high-growth sectors Gaming, Technology, Renewables, Biotech and MedTech. As the market leader with a good reputation and track record, INC is well-positioned to benefit from this.

in PLNm	2017	2018	2019	2020	2021E	2022E
Net sales	1.42	1.32	1.75	5.10	5.50	7.95
EBITDA	-3.42	-3.88	0.41	18.78	21.68	9.05
EBIT	-3.58	-4.04	-0.41	18.30	21.16	8.48
Net income	-3.41	-4.76	-0.74	11.90	11.98	3.21
EPS	-0.41	-0.57	-0.09	0.99	0.99	0.27
DPS	0.00	0.00	0.00	0.12	0.20	0.05
Dividend yield	0.00%	0.00%	0.00%	2.80%	4.64%	1.24%
RoE	-17.48%	-27.38%	-4.83%	56.19%	37.16%	8.47%
Net gearing	-19.70%	-14.62%	-16.55%	-29.17%	-24.07%	-21.01%
P/Tangible BV	1.87x	2.39x	2.41x	1.96x	1.40x	1.37x
P/FCF	neg.	neg.	4305.41x	10.95x	neg.	neg.
P/E	neg.	neg.	neg.	4.33x	4.31x	16.08x

Company profile

INC S.A. is a Polish consulting, brokerage and investment house that targets SMEs from Poland and Romania.

Date of publication	16 Dec 2021 / 6:30 am
Website	www.incsa.pl
Sector	Financial Services
Country	Poland
ISIN	PLINCLT00015
Reuters	INC.WA
Bloomberg	INC PW

Share information

Last price	4.29
Number of shares (m)	12.04
Market cap. (PLNm)	51.66
Market cap. (EURm)	11.18
52-weeks range	PLN 9.61 / PLN 4.07
Average volume	21,902

Performance

4-weeks	-14.54%
13-weeks	-33.80%
26-weeks	-38.84%
52-weeks	-39.35%
YTD	-38.14%

Shareholder structure

Pawel Sliwinski*	24.40%
Sebastian Huczek*	5.32%
Free float	70.28%

* both gentlemen are members of INC's management board

Financial calendar

Annual Report 2021 (exp.)	April 22, 2022
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Investment Case

- With Polish and Romanian licenses, INC S.A. (INC) is a consulting, brokerage and investment firm targeting Polish small- and medium-sized enterprises (SMEs) and to a smaller extent Romanian ones. The company, which has been on the market since 1995, is No 1 Polish IPO consultant and Authorized Advisor for the alternative NewConnect (equities) and Catalyst (bonds) segments. In addition, it operates the largest Polish crowdfunding platform CrowdConnect.pl, which has raised c. PLN 50m so far. Through its close co-operation partner InnerValue, INC is able to offer its clients professional IR services. Since 2006, its fee and consulting income has increased >5 times.
- INC's clients can choose between a pure service model or investment model of co-operation. In the first case, customers only pay for certain services. In the second, INC is paid via shares, which aligns its interests with those of the client. Usually, INC takes over a 3-5% stake via its 100% subsidiary INC Private Equity ASI at the same valuation as other investors. Investments in private and listed companies in Poland and Romania are also conducted through the 29.02%-owned, but fully consolidated subsidiary Carpathia Capital.
- The Polish GDP has been growing at an average rate of 3.6% since 2010 and is expected to advance by 4.9%-5.3% each year by 2023E. After an average growth of 2.7% in 2010-2020, the Romanian economy is forecast to grow at 7% this year and 5.1% in 2022E. The European Union estimates the number of SMEs (all companies with less than 250 employees) in Poland at 1.6m and in Romania at 458k. While the brokerage segment is highly competitive, apart from INC there are currently only 10 providers in Poland, which in 2019-2021E conducted IPOs in the alternative NewConnect and Catalyst segments of the Warsaw Stock Exchange.
- After record results in 2020 – revenues reached PLN 5.1m (+192.2% y-o-y), EBIT PLN 18.3m (2019: PLN -407k) and net income PLN 11.9m (PLN -741k) – INC is set to deliver once again strong results this year. In 9M/21, revenues from the core brokerage and consulting business increased by 18.1% y-o-y to PLN 3.7m, while due to gains from investments EBIT and net income reached PLN 15.6m and PLN 8.3m respectively. For full-year 2021E, we expect the company to generate revenues of PLN 5.5m (+7.9% y-o-y), EBIT of PLN 21.2m (+15.6%) and net income after minorities of PLN 12m (+0.6%), implying a P/E 2021E of 4.3x at current level.
- We initiate coverage of INC with a 12-months DCF-based PT of PLN 5.70, which implies a 32.9% upside. We like that INC is the only one-stop-shop in Poland offering consulting and fund-raising services for SMEs and is investing own money in these companies. We would like to emphasize that on December 1 Seedrs, the first-ever regulated and largest crowdfunding platform in UK with GBP 1.5bn/USD 2bn investment volume since launch, was acquired by the leading US-based platform Republic for USD 100m, which implies a Deal value-to-Capital raised ratio of c. 0.05x. The main risk factors, which we see, include 1) volatile and cyclical business, and 2) the fact that revenues from the core consulting and brokerage business still do not cover administrative expenses. INC dividend policy foresees the payout of min. 20% of net profit to shareholders.

SWOT Analysis

Strengths

- INC is No 1 Authorised Advisor for NewConnect & Catalyst companies, leading broker for SMEs and the operator of the only crowdfunding platform in Poland, which is monitored by the Polish Financial Supervisory KNF
- As the only one in Poland, the company offers a comprehensive portfolio of services for SMEs incl. corporate finance, fund-raising, stock exchange listing and IR
- The INC Group is net cash and only invests own capital. The investment activities offer a high upside potential during stock market booms
- Dividend policy foresees the payout of at least 20% of the yearly net profit
- Interests of management, which has a c. 30% stake in the company, are strongly aligned with those of minority shareholders

Opportunities

- Boom on the Warsaw and Bucharest Stock Exchange due to still low interest rates and rapidly increasing private savings, which should lead to more IPOs
- Further rapid growth of the Polish and Romanian SME sector, which should result in more clients for INC
- Targeting of Western European small- and microcap investors, which should make INC's offering even more attractive for Polish and Romanian SMEs
- Potential acquisition of INC's crowdconnect.pl platform by Seedrs/Republic in the future, which plan to expand to continental Europe

Weaknesses

- The brokerage business is very cyclical. In addition, the alternative segments of the Warsaw and Bucharest Stock Exchange, in which INC operates, are very strongly dependent on the activity of retail investors
- The results of the investment subsidiaries INC Private Equity and Carpathia Capital are highly volatile and cyclical
- Revenues of the core businesses brokerage and consulting did not cover administrative expenses at least in the last 4 years

Threats

- The Polish and Romanian brokerage sector is highly competitive
- Loss of key employees
- Loss of essential licenses
- Loss of reputation due to failed transactions or bad choice of IPO clients and potential investments
- Dependence on the growth of the Polish & Romanian economy and SME segment

Valuation

We have valued INC by using a DCF model only. Comparing the stock to a peer group does not seem to be appropriate as there is no other company, which is 100% comparable to INC in terms of business model. Our approach derives a 12-months price target of PLN 5.70 compared to a current market price of PLN 4.29.

Below are the key assumptions of our WACC calculation:

- (1) *Risk-free rate*: Current yield of Polish long-term government bonds with maturity in 2047E is 2.26% (Source: www.boerse-stuttgart.de)
- (2) *Beta*: Average 4-year unlevered beta of companies from the Brokerage & Investment Banking sector of 0.52x
- (3) *Equity risk premium (Poland)*: 5.54% (Source: www.damodaran.com)
- (4) *Target equity ratio*: 100%
- (5) *WACC = Equity costs*: 5.1%
- (6) *Sales growth in the terminal period*: 2%
- (7) Free cash flows and residual values are discounted to December 15, 2021

DCF model

in PLNm	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Net sales	5.50	7.95	7.56	7.91	8.60	9.22	8.73	9.22	9.80
(y-o-y change)	7.9%	44.4%	-4.9%	4.7%	8.7%	7.2%	-5.3%	5.6%	6.3%
Operating profit	21.16	8.48	-3.75	-2.80	13.36	8.47	5.92	3.04	1.23
(operating margin)	384.4%	106.6%	-49.6%	-35.4%	155.4%	91.9%	67.8%	33.0%	12.5%
NOPLAT	17.14	6.87	-3.04	-2.27	10.82	6.86	4.80	2.47	0.99
+ Depreciation & amortisation	0.53	0.58	0.64	0.70	0.77	0.85	0.93	1.02	1.13
= Net operating cash flow	17.66	7.44	-2.40	-1.57	11.59	7.70	5.73	3.49	2.12
- Total investments (Capex and WC)	-8.85	0.94	0.00	4.41	0.26	0.20	1.17	1.29	1.20
Capital expenditures	-8.81	-0.01	0.04	4.22	0.16	0.09	1.39	1.22	1.11
Working capital	-0.04	0.95	-0.04	0.19	0.10	0.11	-0.22	0.07	0.09
= Free cash flow (FCF)	8.81	8.38	-2.40	2.85	11.85	7.91	6.89	4.78	3.32
PV of FCF's	8.80	7.95	-2.17	2.44	9.68	6.14	5.09	3.36	2.22
PV of FCFs in explicit period	43.51								
PV of FCFs in terminal period	27.83								
Enterprise value (EV)	71.34								
+ Net cash / - net debt (30 September 2021)	6.94								
+ Investments / - minorities	-12.95								
Shareholder value	65.33								
Number of shares outstanding (m)	12.04								
		Terminal EBIT margin							
		9.5%	10.5%	11.5%	12.5%	13.5%	14.5%	15.5%	
WACC	5.1%								
Cost of equity	5.1%	1.1%	-5.99	-6.74	-7.49	-8.24	-8.99	-9.74	-10.49
Pre-tax cost of debt	3.5%	2.1%	60.15	64.44	68.74	73.03	77.33	81.62	85.92
Normal tax rate	19.0%	3.1%	9.91	10.39	10.88	11.36	11.84	12.33	12.81
After-tax cost of debt	2.8%	4.1%	6.54	6.78	7.02	7.26	7.49	7.73	7.97
Share of equity	100.0%	5.1%	5.25	5.40	5.55	5.70	5.85	6.00	6.15
Share of debt	0.0%	6.1%	4.54	4.65	4.75	4.86	4.96	5.07	5.17
Fair value per share in PLN	5.42	7.1%	4.07	4.15	4.23	4.31	4.39	4.47	4.55
Fair value per share in PLN (in 12 months)	5.70	8.1%	3.73	3.79	3.85	3.91	3.97	4.04	4.10

Source: East Value Research GmbH

Peer Group Analysis

In Poland and Romania, there are 47 and 40 registered Authorized Advisors respectively, according to latest data from Warsaw and Bucharest Stock Exchange. In Poland, only 15 had mandates in 2019-2021 and thereof only three are comparable to INC to a certain degree in terms of the scope of services: Trigon Dom Maklerski (offers brokerage, equity research and corporate finance services), Navigator Dom Maklerski (offers brokerage, crowdfunding and corporate finance services) and BOS Bank (retail & corporate banking, brokerage & equity research and corporate finance services).

Below we present a list of listed brokerage & consulting firms from Poland and Western Europe and compare their multiples and ratios to those of INC.

(1) *Ipopema Securities S.A.*: Ipopema Securities, which is based in Warsaw, provides investment banking and brokerage services in Poland. The company's investment banking services include advisory relating to the preparation of public market transactions, fundraising through bond issues, raising capital on the private market, and financial restructuring transactions; services related to mergers and acquisitions (M&A); and specialist corporate finance services. Its brokerage services comprise share and bond trading in the secondary market; and equity research. In addition, the company offers services in the areas of financial modelling, raising of commercial financing, co-financing from EU funds, feasibility studies, financial restructuring, public-private partnerships, support in M&A transactions, and advisory in terms of state aid.

Further, it provides business and management consultancy, and IT consultancy services; advisory services related to corporate financial restructuring and capital raising for infrastructure projects. Additionally, the company is involved in creation and management of closed-end and open-end investment funds. In 2020, Ipopema generated revenues of PLN 256.7m. Its current market cap equals PLN 101.7m.

(2) *Bank Ochrony Srodowiska (BOS) S.A.*: BOS, which is based in Warsaw, is a state-owned bank, whose main objective is the financing of environmental protection projects. However, it is also active in the areas of retail banking and brokerage services. In 2020, BOS generated revenues of PLN 518.6m and currently has a market cap of PLN 810.1m.

(3) *mwb fairtrade Wertpapierhandelsbank AG*: mwb fairtrade, which is based in Gräfelfing/Germany, is a securities trading company with a focus on SMEs. It provides order books for German and international securities, including equities, fixed income securities, and open-ended investment funds. The company also offers capital market services including preparation and conduct of stock market listings, execution of equities and fixed income orders for institutional market participants, and designated sponsoring for selected equities. In 2020, mwb fairtrade generated revenues of EUR 50.8m and is currently worth EUR 94.5m on the stock exchange.

- (4) *Lang & Schwarz AG*: Lang & Schwarz, which is based in Düsseldorf/Germany, is a financial holding that develops and issues derivative financial instruments. These >10,000 instruments trade on the company's proprietary OTC electronic trading platform, which is the largest in Germany. In addition, L&S acts as market maker for more than 11,000 equities, bonds, mutual funds and ETPs. L&S co-operates with >20 partner banks and thus reaches >15m retail customers. In 2020, Lang & Schwarz generated revenues of EUR 691.7m. Currently, its market cap equals EUR 243.4m.
- (5) *Baader Bank AG*: Baader Bank, which is based in Unterschleißheim, is one of Germany's leading investment banks. The company trades in international equities, bonds, mutual and exchange traded funds, and securitized derivatives; and engages in over-the-counter trading activities. Other services include among others portfolio trading, trading strategy advice, designating sponsoring, CSA and prime brokerage, clearing services, equity research as well as advice in financing and capital market transactions. In 2020, Baader Bank generated revenues of EUR 265.6m. Currently, its market cap equals EUR 280.9m.
- (6) *Numis Corporation PLC*: Numis, which is headquartered in London/UK, provides investment banking and corporate advisory services in the United Kingdom and the United States. They mainly include: equity research; stockbroking services to the United Kingdom, European, the United States, and international investment funds; corporate broking/finance services focusing on quoted equity, private equity, infrastructure, property, debt, other alternative assets; and advice and transaction execution in relation to mergers and acquisitions, IPOs, secondary equity issuance, convertible securities, and bonds for corporate and private equity clients. In 2019/20, Numis Corporation generated revenues of GBP 154.7m. Currently, the company has a market capitalisation of GBP 343.8m.

Company	P/E		P/Tangible	Net	ROE	Net
	2020	2021E	BVPS	margin	Last FY	gearing
			Latest	Last FY	Last FY	Latest
Ipopema Securities S.A. (PLN)	3.43x	n.a	0.93x	11.50%	28.67%	-34.04%
BOS S.A. (PLN)	neg.	n.a	0.42x	-59.19%	-16.04%	67.51%
mwb fairtrade Wertpapierhand. (EUR)	5.29x	n.a	2.46x	34.84%	58.42%	-54.69%
Lang & Schwarz AG (EUR)	23.43x	n.a	2.83x	1.52%	27.63%	-104.07%
Baader Bank AG (EUR)	6.04x	5.13x	1.79x	17.51%	38.75%	-492.18%
Numis Corporation PLC (GBP)	11.89x	6.55x	1.84x	20.30%	19.92%	-92.29%
Median	6.04x	5.84x	1.81x	14.51%	28.15%	-73.49%
INC S.A. (PLN)	4.33x	4.31x	1.89x	233.32%	56.19%	-24.81%
Premium/discount	-28.2%	-26.2%	4.0%			

Source: CapitalIQ, marketscreener.com, banker.pl, East Value Research GmbH

While last year INC was more profitable than the median of its peers and is cheaper on P/E multiples, investors should bear in mind that its net income largely depends on gains/losses from investments.

9M/21 results

Revenues and Profitability

For 9M/21, INC reported 18.1% higher revenues of PLN 3.7m. INC (corporate finance & services related to Authorized Advisory for companies listed in the alternative NewConnect & Catalyst segments) contributed sales of PLN 1.3m (-6.3% y-o-y) and an EBIT margin of 22.7% (9M/20: 82%). DM INC, the brokerage which also operates the crowdfunding platform CrowdConnect.pl, increased its sales by 37.9% y-o-y to PLN 2.4m, but its EBIT margin declined from 89.1% in 9M/20 to 72.5%.

In 9M/21, INC was the leader when it comes to IPO consulting on the Warsaw Stock Exchange and its crowdfunding platform CrowdConnect.pl was the No 1 in Poland. Since January 2021, the company has completed the following fund-raising projects: Woodpecker (SaaS), Madmind Studios (Gaming), Render Cube (Gaming), PunchPunk Games (Gaming), Ignibit (Gaming), Zeneris Projekty (Renewables), Hydra Games (Gaming), SAMITO (SaaS) and Emplocity (AI-based software). Between January and September 2021, INC also acted as Authorized Advisor for 36% of companies that conducted an IPO in the NewConnect segment this year.

in PLNm	9M/21	9M/20	change (%)
INC (Consulting)	1.26	1.35	-6.3%
<i>(% of sales)</i>	<i>34.2%</i>	<i>43.2%</i>	
EBIT margin	22.7%	82.0%	
DM INC (Brokerage)	2.42	1.76	37.9%
<i>(% of sales)</i>	<i>65.8%</i>	<i>56.3%</i>	
EBIT margin	72.5%	89.1%	
INC Rating (Bond rating agency)*	0.00	0.02	-100.0%
<i>(% of sales)</i>	<i>0.0%</i>	<i>0.5%</i>	
EBIT margin	0.0%	12.5%	
Total sales	3.69	3.12	18.1%

* sold in 2020

Source: Company information, East Value Research GmbH

in PLNm	9M/21	9M/20	change (%)
Net sales	3.69	3.12	18.1%
EBITDA	15.97	30.57	-47.8%
<i>EBITDA margin</i>	<i>433.2%</i>	<i>979.7%</i>	
EBIT	15.56	29.73	-47.7%
<i>EBIT margin</i>	<i>422.3%</i>	<i>953.0%</i>	
Net income after min.	8.25	19.78	-58.3%
<i>Net margin</i>	<i>224.0%</i>	<i>634.0%</i>	

Source: Company information, East Value Research GmbH

Due to a much lower profit from investments (PLN 17.2m, thereof PLN 2m from sale of shares and PLN 14.7m from re-valuation of holdings; 9M/20: PLN 29.9m) that mainly stemmed from share sales and revaluation of holdings of INC's fully consolidated subsidiaries INC Private Equity ASI and Carpathia Capital ASI EBIT went down by 47.7% y-o-y to PLN 15.6m. In addition, the share of CoGS (44.6% vs. 14.3%) and other operating expenses (5.2% vs. 0.6%) went up significantly y-o-y.

While minorities were at the same level y-o-y (PLN 4m vs. PLN 4.1m in 9M/20), which were related to the 29.02%-owned, but fully consolidated listed subsidiary Carpathia Capital that generated a higher profit, net income declined more than EBIT due to a higher effective tax rate (20.9% vs. 19.3% in 9M/20).

Currently, Carpathia Capital that itself is listed in the alternative NewConnect (Poland) and AeRO (Romania) segments has a market capitalization of PLN 18.5m, which however is 37.5% lower than at the beginning of 2021. INC's stake corresponds to a value of PLN 5.4m, which is 10.4% of the Group's market cap.

Balance sheet and Cash flow

At the end of September 2021, INC had consolidated equity excl. minorities worth PLN 34.3m, which corresponds to an equity ratio of 63.9%. Minorities increased from PLN 11.3m in 9M/20 to PLN 12.9m due to much higher result of 29.02% subsidiary Carpathia Capital, which is fully consolidated as INC controls it. Interest-bearing debt was very small (PLN 509k vs. PLN 2.3m in 9M/20, when there were bonds outstanding worth PLN 1.4m) and was mostly related to leasing. Another larger balance sheet positions were financial assets in external companies (PLN 41.9m vs. PLN 38m in 9M/20), cash (PLN 7.4m vs. PLN 9m) and deferred tax liabilities (PLN 4.3m vs. PLN 3.1m). While fixed assets equalled PLN 652k (PLN 845k), intangible assets (software, licenses) were much lower y-o-y PLN 652k (PLN 5.6m) due to, in our view, the sale of the ESMA-licensed bond rating agency INC Rating z.o.o last year.

Between January and September 2021, INC generated an operating cash flow of PLN -3m compared to PLN -66k in 9M/20. It was negatively impacted by the lower net income y-o-y. Cash flow from investing equalled PLN 3.8m (9M/20: PLN 5m), mainly due to lower net de-investments in companies especially by INC Private Equity and Carpathia Capital (PLN 4m vs. PLN 5.7m in 9M/20). Cash flow from financing amounted to PLN -2.1m compared to PLN 104k last year due to a dividend payout of PLN 1.7m in Q3/21. Between January and September 2021, INC's cash position declined by PLN 1.2m to PLN 7.4m.

Financial forecasts

Revenues and Profitability

While its business is risky especially due to the dependence on the activity of Polish (and Romanian) retail investors (in the alternative NewConnect, Catalyst and AeRO segments, only very few institutional and foreign investors are active), we believe that INC is well-positioned for the likely strong growth of the Polish and Romanian SME sector in the future due to its unique one-stop-shop character. As the only one on the market, the company is a licensed broker and operator of a crowdfunding platform and apart from consulting and fund-raising services also invests in SMEs with own money.

Currently, there are 429 companies listed in the Main Market of the Warsaw Stock Exchange and 379 in the alternative NewConnect segment. In the Catalyst segment for bonds, there are 451 securities, thereof 264 corporate and 187 municipal ones. In the AeRO alternative segment of the Bucharest Stock Exchange, there are currently 284 companies.

As INC's business is very volatile and cyclical, we have decided to only show detailed estimates for 2021E and 2022E. We have split the company's revenues in two segments: INC (Consulting) and DM INC (Brokerage & CrowdConnect.pl). In Q4/21, INC completed the following fund-raising projects: Proglass S.A. (Sector: Production of Flat Glass & Mirrors; Transaction volume: max. PLN 2m), Brave Lamb Studio S.A. (Sector: Gaming; Transaction volume: max. PLN 3m), Stars.Space S.A. (Sector: Influencer Marketing; Transaction volume: max. PLN 4.55m), SIGNIUS S.A. (Sector: Digital Signing & Verification Software; Transaction volume: max. PLN 3.3m).

INC (Consulting): INC's consulting business can be split in two parts. First, there is the business related to preparation of IPOs in the alternative NewConnect, Catalyst and AeRO segments. With 8 such transactions in 2021E so far, INC is the market leader in Poland. Second, the company also acts as Authorized Advisor for alternative market companies. Every company from the alternative segment in Poland is obliged to hire an Authorized Advisor for at least three years (in Romania, it is one year), whose role is to monitor whether a company is fulfilling all obligations regarding the IR communication and reporting.

We expect that INC will prepare 12 IPOs in 2021E and 20 in 2022E, which on average should generate a consulting fee of PLN 80,000 each. In 2020, the company acted as a consultant in 6 IPOs. In Romania, INC has so far prepared the AeRO listing of two companies.

When it comes to mandates as Authorized Advisor, we believe that on average INC will have 29 such mandates this year and 50 in 2022E vs. 25 in full-year 2020. In our opinion, the company's clients pay PLN 3,000 on average per month. We believe that the SME segment will continue to show rapid growth both in Poland and Romania and the alternative segments will remain attractive options for raising capital due to undeveloped VC markets. According to Polish Central Bank NBP and the European Commission, Poland and Romania are expected to report a GDP growth of 4.9%-5.3% and 5.1%-7% respectively in 2021E-2022E.

Latest data from pfr.pl and seenews.com shows financial deposits in both countries at a level of PLN 852.6bn/EUR 185.3bn (Poland) and RON 273.1bn/EUR 54.6bn (Romania), which could potentially be invested in the respective local stock markets in the future.

In order to be conservative, we have assumed that revenues of INC (Consulting) will grow at 5.5% on average in the long run.

DM INC (Brokerage, CrowdConnect.pl and Raisemana.com): DM INC sums up INC's brokerage business and its two crowdfunding platforms CrowdConnect.pl (equity crowdfunding for companies) and Raisemana.com (blockchain-based crowdfunding for gaming/media projects; has only started operations in October 2021).

In our model, we have forecast that INC will broker transactions worth PLN 100m in 2021E and PLN 130m in 2022E, also through crowdfunding. In 2020, this value equalled c. PLN 80m. While crowdfunding deals are most profitable for the company and can generate commissions of up to 10%, we have assumed an average fee for DM INC of 3.5%. We expect that in the long run this segment will grow at 8.7% on average y-o-y.

in PLNm	2021E	2022E
INC (Consulting)	2.00	3.40
<i>(% of sales)</i>	<i>36.4%</i>	<i>42.8%</i>
Number of IPOs on NewConnect/Catalyst/AeRO	12	20
Average fee for IPO consulting (PLN)	80,000	80,000
Number of Authorized Advisor mandates	29	50
Average monthly fee AA (PLN)	3,000	3,000
DM INC (Brokerage, CrowdConnect.pl, Raisemana.com)	3.50	4.55
<i>(% of sales)</i>	<i>63.6%</i>	<i>57.2%</i>
Transaction volume (PLNk)	100,000	130,000
Average % commission	3.5%	3.5%
Total net sales	5.50	7.95
<i>(change y-o-y)</i>	<i>7.9%</i>	<i>44.4%</i>

Source: East Value Research GmbH

in PLNm	2021E	2022E
Net sales	5.50	7.95
EBITDA	21.68	9.05
<i>EBITDA margin</i>	<i>394.0%</i>	<i>113.9%</i>
EBIT	21.16	8.48
<i>EBIT margin</i>	<i>384.4%</i>	<i>106.6%</i>
Net income after min.	11.98	3.21
<i>Net margin</i>	<i>217.6%</i>	<i>40.4%</i>

Source: East Value Research GmbH

in PLNm	Q1/17	Q2/17	Q3/17	Q4/17	2017
Net sales	0.12	0.19	0.24	0.86	1.42
<i>y-o-y change</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>	<i>n.a</i>
EBITDA	0.32	-2.39	0.17	-1.52	-3.42
<i>EBITDA margin</i>	<i>263.6%</i>	<i>-1255.3%</i>	<i>70.2%</i>	<i>-176.2%</i>	<i>-241.3%</i>
EBIT	0.28	-2.42	0.13	-1.57	-3.58
<i>EBIT margin</i>	<i>231.4%</i>	<i>-1273.2%</i>	<i>53.7%</i>	<i>-182.6%</i>	<i>-253.2%</i>
Net income after min.	0.25	-1.87	0.07	-1.86	-3.41
<i>Net margin</i>	<i>205.8%</i>	<i>-983.7%</i>	<i>30.2%</i>	<i>-215.5%</i>	<i>-240.6%</i>

in PLNm	Q1/18	Q2/18	Q3/18	Q4/18	2018	Q1/19	Q2/19	Q3/19	Q4/19	2019
Net sales	0.32	0.21	0.60	0.19	1.32	0.29	0.24	0.61	0.61	1.75
<i>y-o-y change</i>	<i>166.9%</i>	<i>9.5%</i>	<i>147.9%</i>	<i>-78.5%</i>	<i>-7.0%</i>	<i>-10.5%</i>	<i>15.9%</i>	<i>1.2%</i>	<i>229.2%</i>	<i>32.7%</i>
EBITDA	-0.63	-0.46	-1.38	-1.40	-3.88	0.12	0.56	-0.40	0.13	0.41
<i>EBITDA margin</i>	<i>-195.0%</i>	<i>-222.1%</i>	<i>-230.3%</i>	<i>-757.3%</i>	<i>-294.5%</i>	<i>42.6%</i>	<i>230.7%</i>	<i>-66.4%</i>	<i>21.7%</i>	<i>23.4%</i>
EBIT	-0.68	-0.50	-1.40	-1.46	-4.04	0.05	0.28	-0.63	-0.11	-0.41
<i>EBIT margin</i>	<i>-209.3%</i>	<i>-240.9%</i>	<i>-233.8%</i>	<i>-786.5%</i>	<i>-306.6%</i>	<i>18.0%</i>	<i>115.8%</i>	<i>-103.8%</i>	<i>-17.7%</i>	<i>-23.3%</i>
Net income after min.	-0.75	-1.17	-1.41	-1.43	-4.76	-0.32	-0.32	0.09	-0.19	-0.74
<i>Net margin</i>	<i>-232.2%</i>	<i>-562.0%</i>	<i>-234.8%</i>	<i>-773.5%</i>	<i>-361.6%</i>	<i>-109.7%</i>	<i>-134.4%</i>	<i>15.5%</i>	<i>-31.9%</i>	<i>-42.4%</i>

in PLNm	Q1/20	Q2/20	Q3/20	Q4/20	2020	Q1/21	Q2/21	Q3/21	Q4/21E	2021E
Net sales	0.46	0.98	1.68	1.98	5.10	1.00	1.23	1.45	1.82	5.50
<i>y-o-y change</i>	<i>59.2%</i>	<i>305.0%</i>	<i>177.4%</i>	<i>225.5%</i>	<i>192.2%</i>	<i>117.6%</i>	<i>26.3%</i>	<i>-13.8%</i>	<i>-8.2%</i>	<i>7.9%</i>
EBITDA	6.01	8.17	16.39	-11.78	18.78	9.53	-2.91	9.35	5.72	21.68
<i>EBITDA margin</i>	<i>1306.5%</i>	<i>836.6%</i>	<i>973.3%</i>	<i>-594.5%</i>	<i>368.1%</i>	<i>951.6%</i>	<i>-235.7%</i>	<i>644.0%</i>	<i>314.4%</i>	<i>394.0%</i>
EBIT	5.78	7.88	16.08	-11.44	18.30	9.41	-3.04	9.20	5.60	21.16
<i>EBIT margin</i>	<i>1255.4%</i>	<i>807.2%</i>	<i>954.9%</i>	<i>-577.1%</i>	<i>358.6%</i>	<i>939.9%</i>	<i>-246.9%</i>	<i>634.0%</i>	<i>307.6%</i>	<i>384.4%</i>
Net income after min.	4.99	5.46	9.33	-7.88	11.90	5.42	-3.03	5.87	3.72	11.98
<i>Net margin</i>	<i>1085.4%</i>	<i>559.1%</i>	<i>554.2%</i>	<i>-397.5%</i>	<i>233.3%</i>	<i>541.0%</i>	<i>-246.1%</i>	<i>404.7%</i>	<i>204.7%</i>	<i>217.6%</i>

Source: Company information, East Value Research GmbH

CAPEX and Working capital

INC is a special company in the sense that it shows gains from investments on its P&L, which has no impact on cash, while its cash flow from investing reflects net purchases/sales of investments. Both are reflected in the balance sheet position "Financial assets in other companies". In 2021E and 2022E, we expect that total gross CAPEX will equal PLN 180k, including sales of existing assets at a purchase value of PLN 12.6m. In our view, in both years investments will generate a profit from investments of PLN 33.4m.

Regarding working capital, which in case of a financial company such as INC only comprises receivables and payables, we expect the respective cash inflow will equal PLN 910k in 2021E-2022E. In the long run, we forecast a cash conversion cycle of 30 days compared to -40 in 2020.

Business description

INC S.A. is a fast-growing Polish capital group operating in the area of investment and advisory services on the Polish capital market (its Romanian operations only account for a very small part of its total business volume). For over 20 years, the company has been supporting the development of small and medium-sized enterprises, as well as local government units. Since 2006, INC S.A. has been listed on the Warsaw Stock Exchange. The company intends to provide one-stop-shop solutions for the small- and midcap companies seeking to raise capital and moving towards the stock market listing. One of the key advantages of INC S.A. is a good track record, high base of investors, own equity crowdfunding platform and a complex offer covering the whole range of services related to corporate finance, raising financing in the form of debt or equity, listing and investor relations/communication. INC S.A. also serves as an Authorized Advisor for companies, for which it is raising capital in the alternative segment. Therefore, the cooperation with the client often lasts many years. INC currently has 40 employees, thereof 4 in its Warsaw office.

INC S.A. – a one-stop-shop operating model scheme



Source: INC S.A., East Value Research GmbH

INC S.A. Group scheme

INC S.A. is the parent company. It is fully consolidating

- INC Brokerage House (100%), which is a registered brokerage house under KNF regulation,
- INC Private Equity ASI (100%), which is one of the investments arms of the Group,
- Carpathia Capital (29% shares, 42.7% votes), which is another investment entity in the Group. Despite owning only 29% shares, INC S.A. exercises full control over the company – the majority of the members of the Management Board of INC S.A. are simultaneously on the Management Board of Carpathia Capital S.A.,
- INC East&West (100%), non-profit company focused on Corporate Social Responsibility activities,
- Raisemana (70%), operator of an equity crowdfunding platform for financing media/gaming projects, which however has only been active since October 2021.

INC S.A. holds stakes in few other companies, but because of lack of relevance or lack of control is not consolidating them:

- Akcelerator Świętokrzyski Sp. z o.o. (65%),
- Masala Squad TV Sp. z o.o. (50.98%),
- Mill Games S.A. (50%),
- Remedis S.A. (41.08%)

Company history

1995: Foundation of INC's predecessor Dom Maklerski Polinvest S.A. in Poznan.

1996: Acquisition of another brokerage house, Karkonoski Dom Maklerski S.A.

1999: 10th issue of municipal bonds.

2003: Support of the then largest public issue of municipal bonds in Poland with a volume of PLN 500m.

2005: Preparation of the first IPO in the NewConnect segment, of the company PC Guard S.A.

2006: IPO of Inwest Consulting S.A., the predecessor of INC S.A., in the NewConnect segment.

2008: Listing of the 50th NewConnect company, for which INC acts as an Authorized Advisor.

2015: As one of only 3 foreign companies, INC becomes Authorized Advisor in the alternative AeRO segment of the Bucharest Stock Exchange.

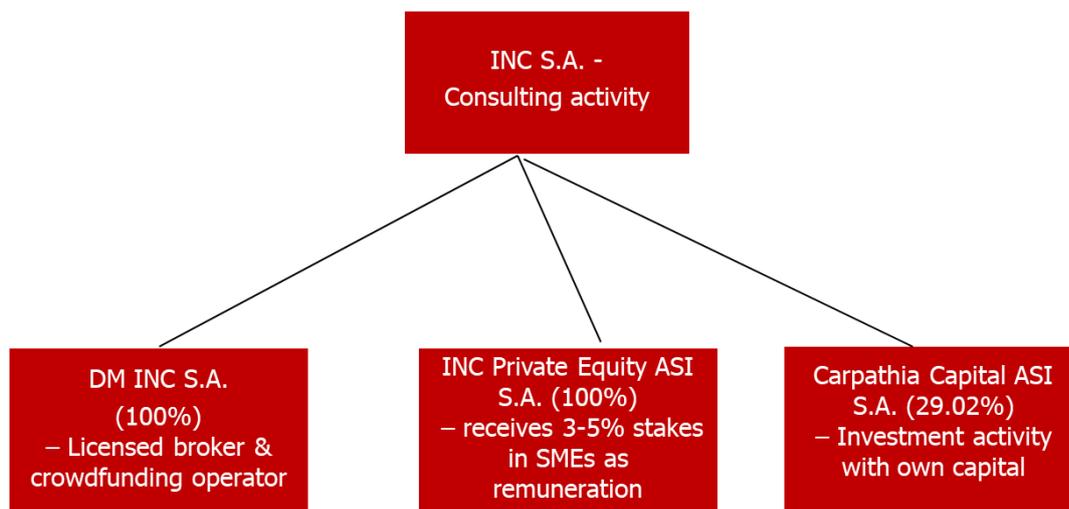
2019: Signing of a co-operation agreement with IR agency InnerValue and launch of the crowdfunding platform CrowdConnect.

2020: PlantWear, INC's client and investment of its subsidiary Carpathia Capital, debuts in the NewConnect segment.

2021: INC pays the first ever dividend to its shareholders.

The following sums up INC's business model:

INC S.A. operating scheme



Source: INC, East Value Research GmbH

Brokerage, consulting and advisory services

A new client has the first contact with INC S.A. The company is providing corporate finance consulting services and together with the customer decides on the further course of action. There are several possible options and two main paths – a service- and investment-based.

INC S.A. can act as an intermediary in raising capital through private placement, public offering or equity crowdfunding via its proprietary CrowdConnect.pl platform. In recent two years, thanks to an increase in maximum limit of capital that is allowed to be raised through equity crowdfunding, this source of equity financing has become very popular. INC S.A. has been operating in this area since 2019 and in that short period of time successfully managed to raise c. PLN 50m for its clients, which establishes its position among leaders on Polish equity crowdfunding market.

After the closing of the share issuance, INC S.A. often assists clients in listing the shares on NewConnect/AeRO and acts as an Authorized Advisor for three years (1 year in Romania), which is mandatory for new issuers. Thus, INC S.A. gains a recurring source of revenue for many years.

Brokerage house and financial instruments offering

In 2015, INC S.A. finalized the acquisition of a brokerage house. INC S.A. Brokerage House (formerly PricewaterhouseCoopers Securities S.A.) has a KNF license to conduct brokerage activities in the field of financial instruments offering. In 2019, INC Brokerage House opened the CrowdConnect.pl website and became first official partner of the Warsaw Stock Exchange. INC S.A. has a good track record of raising capital for its clients. The company acted as an intermediary in raising capital in over 100 primary and secondary issues on the NewConnect market, helping clients to raise PLN 350 million and 22 issues on the main market of the Warsaw Stock Exchange, supporting clients in raising over PLN 1 billion. The company is also active on Catalyst market, where it has conducted 60 debt offerings with total nominal amount of PLN 3bn.

Two schemes of cooperation – services or investment path

The client can choose between a service and investment path. The first option assumes that INC S.A. charges a cash fee for its services. In case of the investment path, the service fee is in the form of equity investment. INC S.A., through INC Private Equity, receives a 3-5% stake in a given company at the same valuation as other shareholders and in the value of ca. PLN 600 thousand on average.

Another investment arm – Carpathia Capital

Another part of INC's investment activities is conducted through Carpathia Capital S.A. Carpathia Capital is the first Polish company that is listed on both the NewConnect segment in Warsaw and AeRO, the alternative segment of the Bucharest Stock Exchange. The company operates as a VC/PE fund for the SME sector in Poland and Romania. It invests its own funds in pre-IPO or post-IPO companies. Results are heavily dependent on the economic climate. INC S.A. owns a 29.02% equity stake in Carpathia Capital, but is fully consolidating it due to the fact that Carpathia is under its full control.

INC S.A. among the leaders of NewConnect Authorized Advisors in Poland

The company is consistently maintaining unquestionable position among the top NewConnect Authorized Advisors in Poland. It took the first place in Forbes's ranking in 2011 and remained at the very top in consecutive years. In 2018, the company won the WSE's special award for the largest number of IPOs in the history of the NewConnect market. In 2020, INC S.A. was an Authorized Advisor for 43% companies debuting on NewConnect and in 2021 for 36% of them. At the end of October 2021, it acted as an Authorized Advisor for 28 companies listed on New Connect and was supporting them with meeting their reporting obligations.

Focus on new technologies

In recent years, INC S.A. has focused mostly on young enterprises operating in new technology sectors such as Gaming, IT/Software, E-Commerce, Renewables and Others. Companies, which have debuted on NewConnect through INC S.A. in the last months, include United Label, Incuvo, Genomtec, TenderHut, DRAGO entertainment, Punch Punk, Madmind Studio, Woodpecker. INC's clients, who have raised capital via INC's crowdconnect.pl platform, included among others Stars.Space, Render Cube, Hydra Games, Ignibit, Demolish Games, Road Studio, Iron VR, DRAGO entertainment (gaming), Emplocity (AI), Kubota (fashion), Escola (software house), Samito (e-commerce), Zeneris Projekty and Sunday Energy (renewables).

Management

Prof. Dr. Pawel Sliwinski (CEO and founder): Pawel Sliwinski is INC's founder, CEO and largest shareholder. He has a PhD in Economics and is Professor at the Department of International Finance at the Poznan Business School. He studied at the University of Poznan, in Tilburg and Antwerp. In the past, he has worked in the Central Brokerage Office of the Polish WBK Bank (now Santander Polska) and BRE Bank (Polish subsidiary of Commerzbank). He is a licensed broker and investment advisor and also Member of the Supervisory Board of Nationale-Nederlanden Insurance Company in Poland. Apart from INC, Mr Sliwinski is also CEO of the company's subsidiary Carpathia Capital S.A.

Sebastian Huczek (Vice President of the Management Board): Mr Sebastian Huczek is Vice President of INC and its brokerage house DM INC. He graduated with a Master's degree in Law at the Poznan University and is also a certified advisor in the alternative segments of the WSE. Since 2015, Mr Huczek has been member of the board of authorized NewConnect advisors. In the past, he has also been lecturer in the post-graduate course at the Higher Banking School in Poznan and the Poznan Business School, among others. In 2005-2009, Mr Huczek was also member of the commission in charge of monitoring the discipline of public finances in Poznan and of the operations team in charge of the alternative Catalyst bond market. He is author of various publications related to capital markets, the stock exchange and public finances.

Wojciech Iwaniuk (Vice President of the Management Board): Mr Wojciech Iwaniuk is Vice President of the Management Board of INC and also CEO of the IR agency InnerValue, with which INC closely cooperates. A graduate of Political Science at the University of Warsaw, he previously worked as journalist at the Polish dailies Gazeta Prawna, Rzeczpospolita and Gazeta Gieldy Parkiet. Since 2010, he has been heading the IR agency InnerValue, whose clients include such well-known Polish companies as Energa, Neuca or R22. Currently, he is also Member of the Supervisory Board of the NewConnect-listed gaming companies Play2Chill and Klabater S.A.

Market environment

VC market in Poland

Before 2019 the VC market was mainly co-financed by KFK

The last several years on the Polish VC market following the dotcom bubble at the beginning of this century were rather stable with annual financing rarely exceeding EUR 50m (PLN 200m). In the years 2007-2017, one of the main sources of VC funding was KFK (Krajowy Fundusz Kapitałowy). KFK was a key provider of capital for Polish VC funds when the market was just developing and it accelerated the VC market growth. KFK co-financed VC investments with private funds but took higher risk on VC investments. During its operations KFK financed over 200 companies injecting over PLN 500m to 18 VC funds.

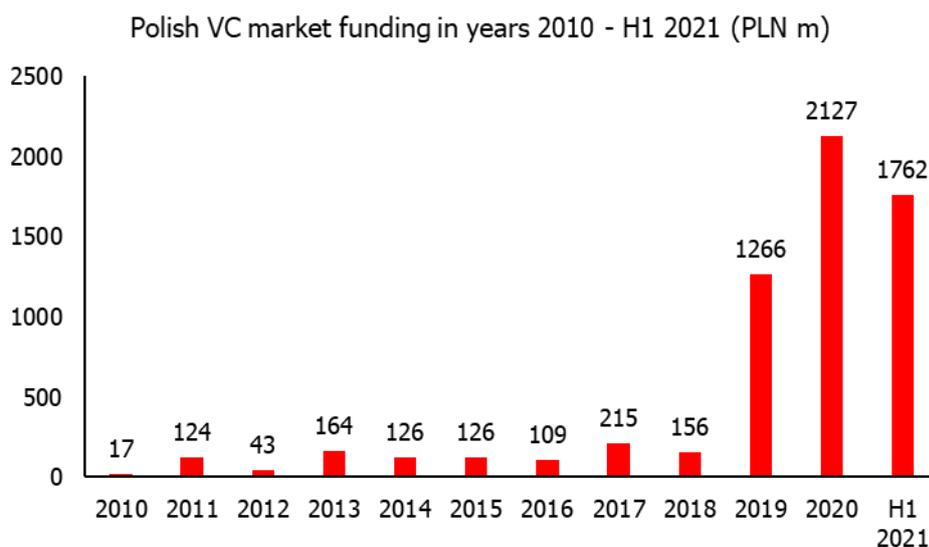
The National Center for Research and Development and BRIDGE Alfa initiative

From 2016, another source of funding has been The National Center for Research and Development (NCBiR) initiative called BRIDGE Alfa. From start of its operation until the end of 2018, BRIDGE Alfa funds invested on average PLN 1.48m in 136 companies, acquiring on average 21% in each company. BRIDGE Alfa funds were also very active in 2019, closing as many as 182 investments.

PFR Ventures and substantial VC market growth

The last two years have seen a surge in VC funding. In 2019, Polish startups received funding with a total value of PLN 1.26 billion, which is more than an 8-fold increase compared to 2018, when the total investment amounted to PLN 156m. A considerable impact on such a high total value raised in that year was the megaround of Docplanner, which raised funding from investors in the amount of PLN 344m. Other noteworthy investments were the rounds conducted by Booksy and Brainly, in both cases amounting to approximately PLN 115m. A very important market driver was also the start of operations by new VC funds financed under the PFR Ventures programs. In total, all funds funded under these programs closed 43 investments in 2019.

Polish VC market funding in years 2010 - H1 2021 (PLN m)



Source: PFR (Report „Transactions on Polish VC market in 2020, 2Q2021“)

Interesting megarounds attract international capital

In the last ten quarters, the Polish VC market has experienced financing megarounds that it had never seen before. In 2019, the startup Docplanner raised PLN 344m, moreover Booksy and Brainly raised PLN 115m each. Booksy and Brainly also reached for VC money in 2020 – Booksy collected PLN 266m and Brainly PLN 302m of new funds. Other megaround of 2020 was financing of ICEYE, which raised PLN 331m. In first half of 2021, Uncapped raised PLN 301m. Such an increase in the single investment ticket suggests that the Polish VC market has undergone significant transformation and Polish startups have a chance to become unicorns (companies with a valuation of over USD 1bn). These financing megarounds of potential unicorns have attracted the attention of international VC capital.

Polish VC financing megarounds in 2020

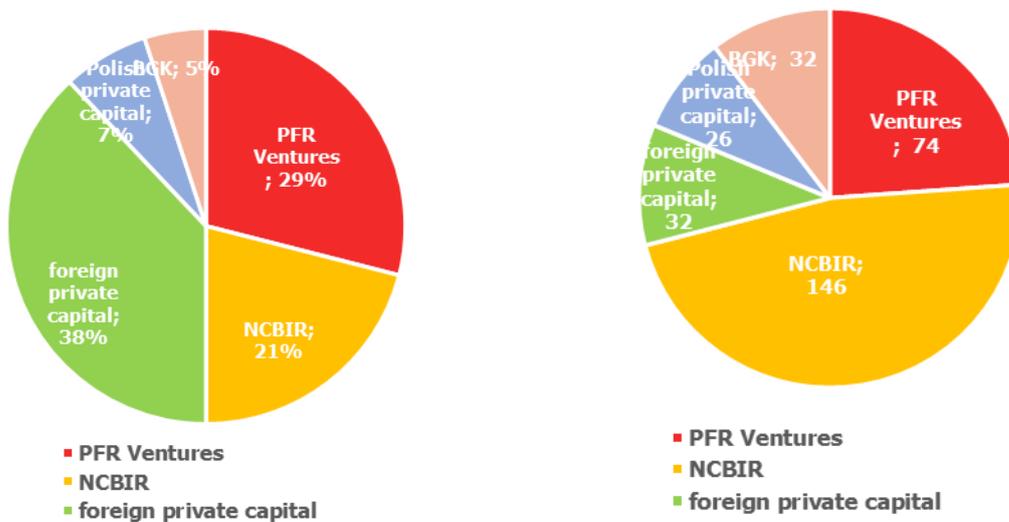
ICEYE	331 mln PLN	Q3 20
BRAINLY	302 mln PLN	Q4 20
booksy	266 mln PLN	Q4 20
uncapped	99 mln PLN	Q3 20

Source: PFR (Report Transactions on Polish VC market in 2020)

Sources of financing are becoming more balanced

In recent years, PFR Ventures has become one of main sources of public funding in the Polish VC market, just before NCBiR. On the other hand, when financing of the hottest startups is on the table, foreign VC capital comes into action. For example, in 2020 foreign private VC capital participation in funding amounted to 38% but only to 10% in terms of transactions.

Sources of Polish VC financing - transactions value (on left), deals count (on right)

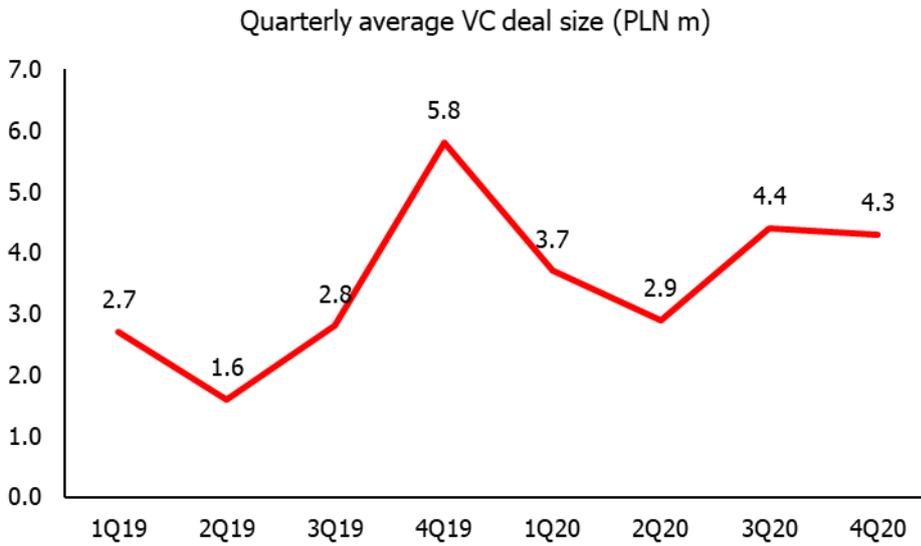


Source: PFR (Report „Transactions on Polish VC market in 2020“)

Average transaction size increases but median hovers around PLN 1m

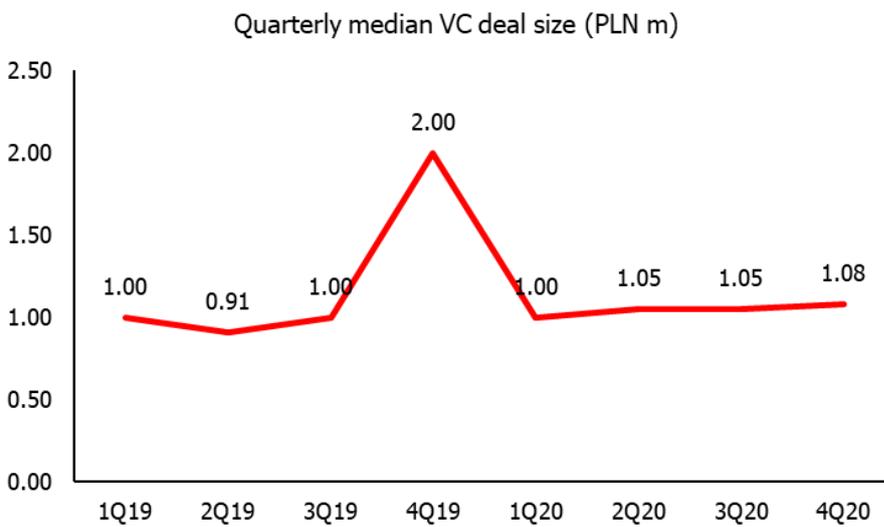
VC financing megarounds tend to increase the quarterly average deal size, but the median hovers around PLN 1m, which comes from a multitude of pre-seed/seed transactions and investments from NCBiR programs.

Average Polish quarterly VC transaction size (PLN m)



Source: PFR (Report „Transactions on Polish VC market in 2020“)

Median Polish quarterly transaction size (PLN m)

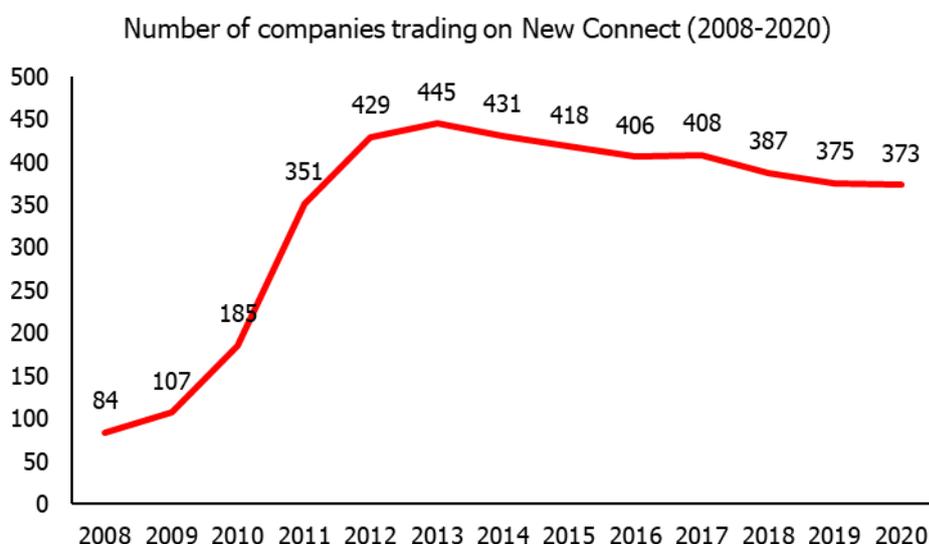


Source: PFR (Report „Transactions on Polish VC market in 2020“)

NewConnect as a place for new startups

NewConnect is an organized stock market operated by the Warsaw Stock Exchange outside the regulated market in the form of an alternative trading system. It is characterized by fewer requirements for issuers than the main market of the WSE and is intended for emerging or young companies with relatively small expected capitalization, often in the sectors of the so-called new technologies or based on intangible assets. Prior to NewConnect admission, the issuance of new shares often takes the form of a private placement. Due to the specifics of the market, investments in shares of companies listed there are associated with higher risk. The NewConnect started operations in 2007. The market had its best years between 2008 and 2014, when the number of companies there reached 445. But in recent years the number of companies trading on this market has dropped due to upgrade to main WSE floor or because of exclusions resulting from fraud or bankruptcy. Currently, there are 379 companies trading on NewConnect with a total market capitalization of PLN 19.2bn.

Number of companies trading on NewConnect (2008-2020)



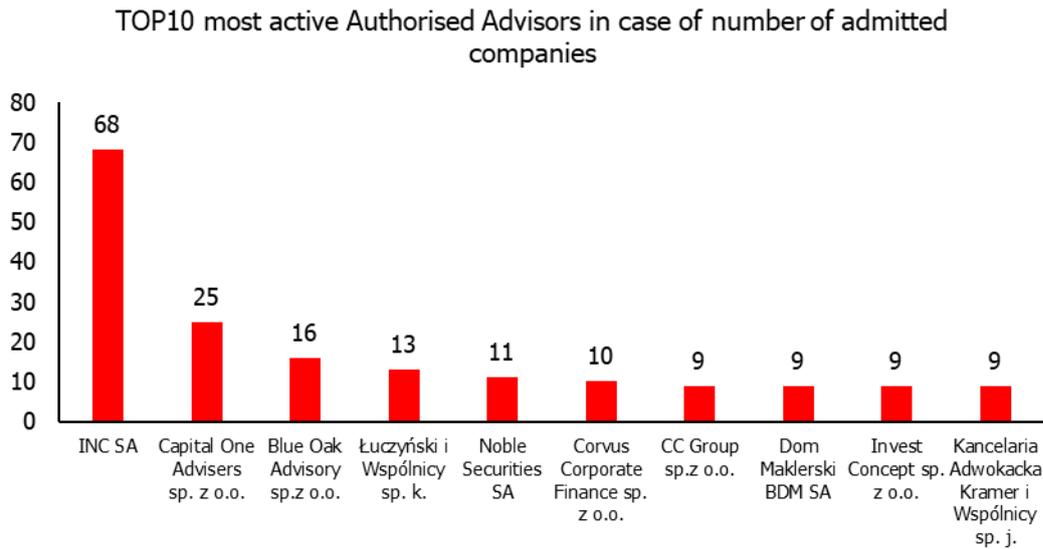
Source: Warsaw Stock Exchange

Private placements and equity crowdfunding as an alternative for raising VC capital

For many years, private placements have been the most common form of new equity issuance or dispersion of capital among investors prior to NewConnect listing. They are simpler and faster than a public offering that requires approval of a prospectus. But recently equity crowdfunding has become a popular form of raising equity. Companies can conduct the whole process through an intermediary called an Authorised Advisor. The Authorised Advisor is responsible for preparation of Information Document and supports companies in the process of proceeding with the WSE. After their listing, the companies are obliged by Polish law to hire an Authorised Advisor for three years.

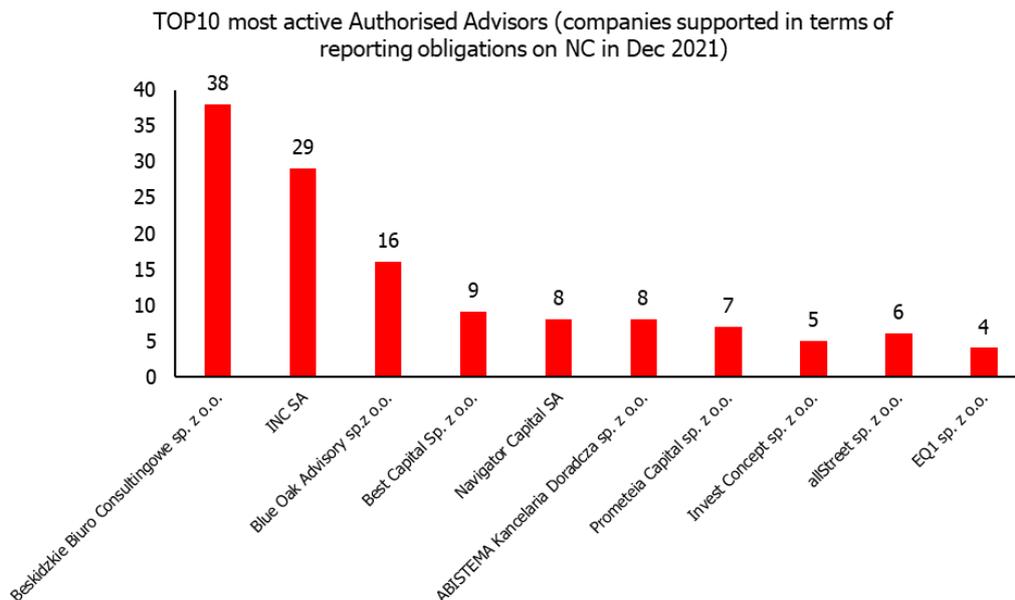
The main role of an Authorized Advisor is assistance in reporting and complying with information obligations of issuers. Authorized Advisors often have multiple roles - offeror, market maker and advisor. Several market abuses on NewConnect in recent years have resulted in a decrease in the activity of Authorized Advisors on the market. Currently, there are 47 registered Authorized Advisors, but only about 15 of them are still active on the market. Among them, the leading position is held by INC S.A.

TOP10 Authorized Advisors in case of number of admitted companies



Source: Warsaw Stock Exchange, East Value Research GmbH

TOP10 Authorised Advisors (companies supported in Dec 2021)



Source: Warsaw Stock Exchange, East Value Research GmbH

The idea of crowdfunding

After the launch of Kickstarter in 2009, the idea of crowdfunding has gained traction. The equity crowdfunding is one of the forms of crowdfunding. It is the online offering of private company securities to a group of people for investment. Therefore, it is a mechanism that enables broad groups of investors to fund startup companies and small businesses in return for equity. Investors give money to a business and receive ownership of a small piece of that business. If the business succeeds, then its value goes up, as well as the value of a share in that business. The analysis of equity crowdfunding indicates that its potential is greatest with startup businesses that are seeking smaller investments to establish their business model, while follow-on funding (required for subsequent growth) may come from other sources. Equity crowdfunding is also referred to as crowdfunding, investment crowdfunding, or crowd equity.

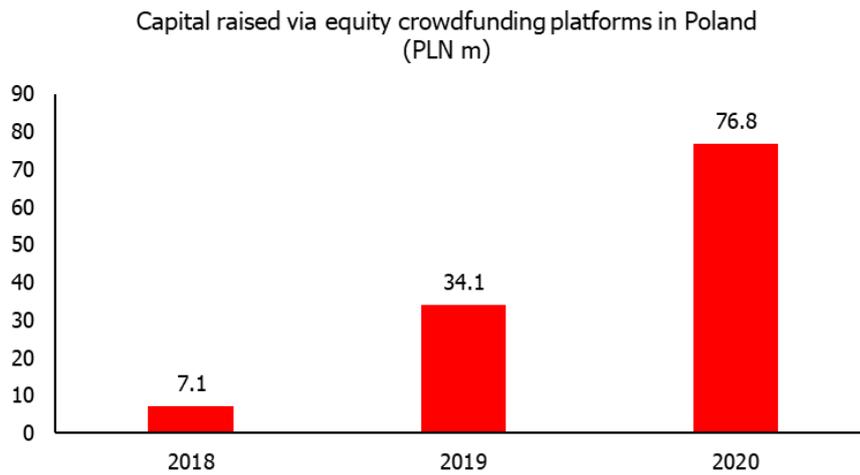
Crowdfunding regulation

Crowdfunding has recently become an object of interest of a huge number of investors and entrepreneurs. The momentousness of this issue has also been recognized by the EU legislator. Since 2018, work on the adoption of a uniform legal framework for crowdfunding in the European Union has been ongoing. On October 5, 2020, after more than two years of intensive work, the text of the Regulation of the European Parliament and of the Council on European crowdfunding service providers for business ventures (ECSP Regulation) was adopted. The passing of the ECSP Regulation means revolutionary changes from the perspective of both investors and entrepreneurs. The maximum level of capital that is allowed to be raised through the equity crowdfunding process was set at EUR 5m. According to those regulations, all entities authorized to operate as crowdfunding providers will be listed in a public register maintained by ESMA. Crowdfunding providers will provide their services under the strict supervision of the authority that licensed them. ECSP Regulation makes a distinction between investors in two categories: experienced investors and inexperienced ones. Classification into the appropriate category and consequently the standard of protection granted will depend on the outcome of an initial knowledge test and a simulation of the investor capacity to bear losses.

Equity crowdfunding in Poland

In 2012, when Beesfund, the first equity crowdfunding services provider in Poland, was starting operation, there was a maximum limit of EUR 100.000 on such offers. For many years, it had rather been a niche market. In 2018, this limit was raised to EUR 1m, which provided the market with a major growth incentive. The number of companies operating on the equity crowdfunding market has significantly increased since then. At the moment, the main players are Beesfund, CrowdConnect, CrowdWay, FindFunds and FundedByMe. CrowdConnect is operated by INC S.A. and is the only equity crowdfunding platform operated by a brokerage house and regulated by Polish Financial Supervisory KNF. Recently another brokerage house, Navigator Capital, launched its own platform: Navigator Crowd.

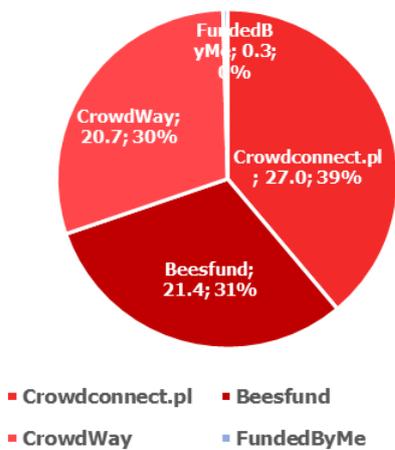
Capital raised via equity crowdfunding platforms in Poland (PLN m)



Source: KNF

CrowdConnect has only been operating on the equity crowdfunding market for two years, but has already raised c. PLN 50m for its clients (PLN 27m in 2020 and c. PLN 23m in 2021), which shows that entering this market by INC S.A. was a very good decision.

Capital raised through equity crowdfunding platforms in 2020



Source: KNF

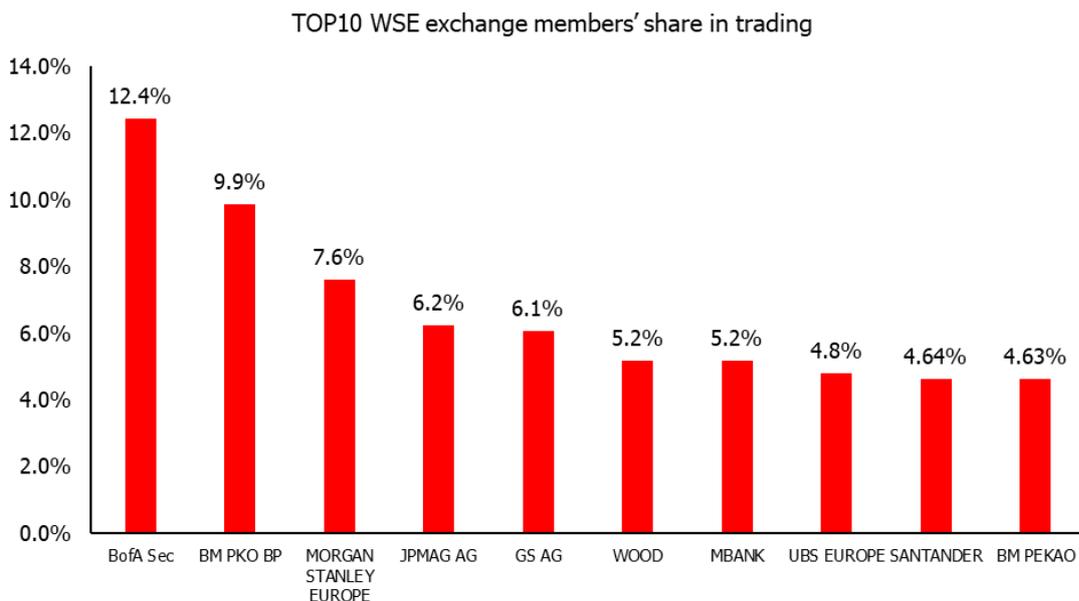
New Law will boost equity crowdfunding market in Poland

Poland's Draft Law Implementing the ECSP Regulations proposes a two-year period (in force until 9 November 2023) to reach the maximum offering threshold, i.e. EUR 5m, that a single entity will be able to conduct via a crowdfunding platform. Initially, the amount is to be EUR 2.5m. After that period the threshold of the amount of proceeds from the issue of securities, which would exempt from the obligation to draw up a prospectus, would also be raised to EUR 5 million. Public offerings with projected proceeds of between EUR 2.5m and EUR 5m would, as of November 10, 2023, be subject to the obligation to prepare an information memorandum (or a key investment information sheet - in case of offerings conducted through an investment firm). Certainly, the new ECSP Regulation will spur the growth of equity crowdfunding, because of fivefold increase in value of the maximum share offering.

Polish brokerage market

In the Polish SEC registry, there are 36 companies registered as investment companies - brokerage houses. Furthermore, part of the market is made up by brokerage offices operating inside the bank's structures. Brokerage houses differ in the scope of their activities. Some of them offer a full range of brokerage services and some are limited to only few of them. The biggest brokerage houses are active mainly in the fields of market making, securities brokerage, IPOs and SPOs, debt offerings, research and others. Smaller brokerage houses are looking for market niches and tend to focus only on a small part of market activities like securities offerings of equity and debt for small- and midcaps. In the area of secondary trading of securities, remote exchange members have dominated the market in recent years. In the TOP10 exchange members' share in trading, there are only three Polish entities.

TOP10 exchange members' share in trading (session trades, Jan'21 – Nov'21)



Source: Warsaw Stock Exchange

Unprofitable core business

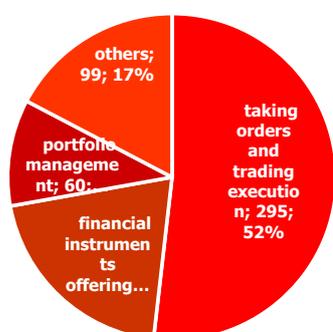
The Polish brokerage houses are unprofitable in their core business, but if accounting for profits on operations in financial instruments held for trading, they become profitable depending on market conditions. Every year, the Polish capital market regulator, KNF, publishes a report covering brokerage houses in Poland. Below we present their financial results for 2019 and 2020.

Polish brokerage houses	2019	2020
Total sales revenue (in PLNm)	868	1 810
Brokerage (core) activities	401	570
trading profits*	330	1 082
Others	136	158
Operating costs	820	1 095
Profit (loss) on ordinary activities	-269	-261
Net (loss) profit	19	584

Source: KNF, East Value Research GmbH, *profits on operations in financial instruments held for trading

Apart from taking orders and trading execution, a very important source of revenue are offerings of financial instruments, which accounted for 20% of the 2020 core revenue of Polish brokerage houses.

Polish brokerage houses 2020 core revenue breakdown (total PLN 570m)



- taking orders and trading execution
- financial instruments offerings
- portfolio management

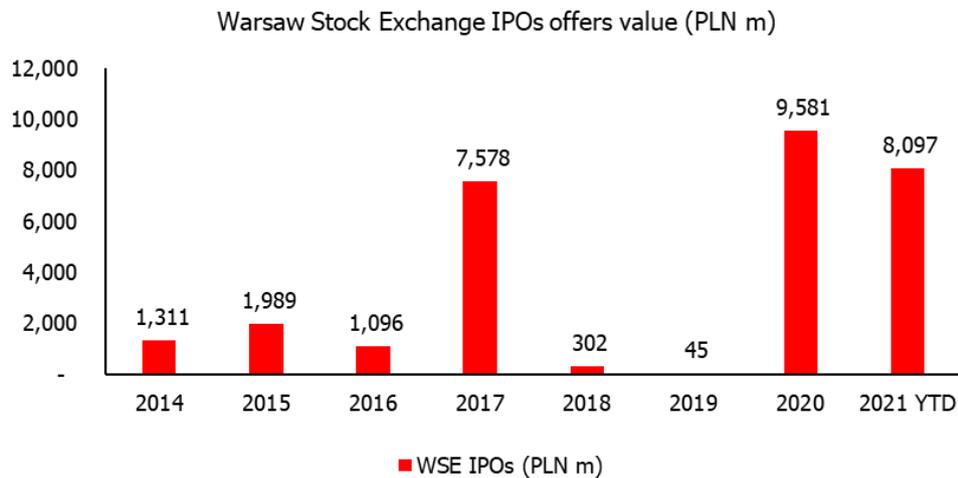
Source: KNF, East Value Research GmbH

The IPO market has recently rebounded

For many years, the IPO market was in retreat, but in 2020 and 2021 the situation improved somewhat. The 2020 result was mainly driven by the huge IPO of Allegro, whose offer amounted to PLN 9.2bn. Second in terms of size was PCF Group's IPO, whose offer was valued at PLN 203m. In 2021, the Polish IPO market is also very hot.

This year, there have so far been IPOs of Pepco Group (PLN 3.7bn), HUUUGE Inc. (PLN 1.7bn), Onde (PLN 445m), Shoper (PLN 363m), Captor Therapeutics (PLN 184m), Grupa Pracuj.pl (PLN 1.12bn) and STS Holding (PLN 1.1bn), among others.

Warsaw Stock Exchange IPOs offers value (PLN m)



Source: WSE, East Value Research GmbH

Smaller brokerage houses seek for market niches

Smaller brokerage houses like INC S.A. do not have enough resources to compete with big brokerages, but they look for market niches concentrating on small- and midcap companies seeking to raise capital. However, recent INC S.A. offers have also attracted Polish institutional (mutual and pension funds) capital. The competition in the area of SMEs is significantly less intense than for large companies. The main competitors of INC S.A. in the area of small equity issues are small brokerage houses like Navigator Capital, Prosper Capital, CC Group or NWAI and larger entities like BOS or Trigon.

Profit and loss statement

in PLNm	2017	2018	2019	2020	2021E	2022E
Revenues	1.42	1.32	1.75	5.10	5.50	7.95
Cost of goods sold	-0.46	-0.67	-0.45	-1.28	-1.98	-2.78
Gross profit	0.95	0.64	1.29	3.82	3.52	5.17
Other operating income	0.10	0.12	0.45	0.24	0.03	0.03
Gains/losses from investments	-2.08	-2.14	1.87	20.28	23.70	9.70
Administration costs	-2.29	-2.27	-3.14	-5.24	-5.29	-5.55
Other operating expenses	-0.10	-0.23	-0.05	-0.31	-0.28	-0.29
EBITDA	-3.42	-3.88	0.41	18.78	21.68	9.05
Depreciation	-0.17	-0.16	-0.82	-0.49	-0.53	-0.58
Operating income	-3.58	-4.04	-0.41	18.30	21.16	8.48
Net financial result	-0.07	-0.11	-0.21	1.19	-0.20	-0.19
EBT	-3.65	-4.15	-0.61	19.49	20.96	8.29
Income taxes	0.64	-0.36	-0.23	-3.93	-3.98	-1.57
Result on discontinued operations	0.00	0.00	0.00	-1.00	0.00	0.00
Minorities	-0.40	-0.26	0.10	-2.65	-5.00	-3.50
Net income / loss	-3.41	-4.76	-0.74	11.90	11.98	3.21
EPS	-0.41	-0.57	-0.09	0.99	0.99	0.27
DPS	0.00	0.00	0.00	0.12	0.20	0.05
Share in total sales						
Revenues	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Cost of goods sold	-32.72 %	-51.14 %	-25.95 %	-25.05 %	-36.00 %	-35.00 %
Gross profit	67.28 %	48.86 %	74.05 %	74.95 %	64.00 %	65.00 %
Other operating income	7.35 %	9.27 %	25.54 %	4.61 %	0.55 %	0.38 %
Gains/losses from investments	-146.71 %	-162.69 %	106.82 %	397.39 %	430.60 %	122.01 %
Administration costs	-161.91 %	-172.57 %	-180.07 %	-102.65 %	-96.10 %	-69.86 %
Other operating expenses	-7.35 %	-17.33 %	-2.98 %	-6.15 %	-5.09 %	-3.65 %
EBITDA	-241.34 %	-294.45 %	23.37 %	368.15 %	393.95 %	113.89 %
Depreciation	-11.87 %	-12.16 %	-46.68 %	-9.55 %	-9.54 %	-7.26 %
Operating income	-253.22 %	-306.61 %	-23.31 %	358.60 %	384.41 %	106.63 %
Net financial result	-4.59 %	-8.59 %	-11.80 %	23.30 %	-3.63 %	-2.39 %
EBT	-257.81 %	-315.20 %	-35.11 %	381.91 %	380.78 %	104.24 %
Income taxes	45.37 %	-26.98 %	-13.29 %	-76.99 %	-72.35 %	-19.80 %
Result on discontinued operations	0.00 %	0.00 %	0.00 %	-19.60 %	0.00 %	0.00 %
Minorities	-28.20 %	-19.45 %	5.96 %	-52.00 %	-90.84 %	-44.03 %
Net income / loss	-240.64 %	-361.63 %	-42.44 %	233.32 %	217.59 %	40.41 %

Balance Sheet

in PLNm	2017	2018	2019	2020	2021E	2022E
Cash and equivalents	4.65	3.58	3.99	8.63	9.39	8.44
Financial assets in other companies	16.19	13.53	13.56	28.99	43.00	49.00
Inventories	0.00	0.00	0.00	0.00	0.00	0.00
Trade accounts and notes receivables	1.29	0.37	0.91	0.74	0.75	1.11
Other current assets	0.03	0.03	0.04	0.01	0.01	0.01
Current assets, total	22.15	17.51	18.50	38.38	53.15	58.56
Property, plant and equipment	0.18	0.11	0.62	0.78	0.83	0.88
Other intangible assets	4.45	6.50	5.88	0.38	0.41	0.60
Goodwill	0.35	0.35	0.58	0.58	0.58	0.58
Long-term receivables	0.05	0.05	0.05	0.05	0.05	0.05
Long-term financial assets	0.01	0.01	0.01	0.37	0.37	0.38
Deferred tax assets	2.93	2.72	2.71	1.28	0.00	0.00
Non-current assets, total	7.94	9.73	9.85	3.44	2.25	2.49
Total assets	30.10	27.24	28.34	41.81	55.39	61.05
Trade payables	0.13	0.13	0.23	0.33	0.11	0.28
Other short-term liabilities	1.84	1.63	3.85	2.39	2.58	3.72
Short-term financial debt	0.04	0.04	0.28	0.35	0.37	0.39
Current liabilities, total	2.01	1.80	4.36	3.06	3.05	4.39
Long-term financial debt	0.76	1.30	1.16	0.42	0.00	0.00
Other provisions	0.00	0.81	0.00	0.00	0.00	0.00
Deferred tax liabilities	0.05	0.10	0.15	1.52	0.00	0.00
Long-term liabilities, total	0.81	2.22	1.31	1.94	0.00	0.00
Total liabilities	2.82	4.01	5.67	5.00	3.05	4.39
Shareholders equity, total	19.48	15.29	15.41	26.96	37.49	38.31
Minority interests	7.80	7.94	7.27	9.85	14.85	18.35
Total equity and debt	30.10	27.24	28.34	41.81	55.39	61.05

Cash Flow Statement

in PLNm	2017	2018	2019	2020	2021E	2022E
Net income / loss	-3.41	-4.76	-0.74	11.90	11.98	3.21
Depreciation	0.17	0.16	0.82	0.49	0.53	0.58
Change of working capital	-0.37	1.29	-0.62	0.18	-0.04	0.95
Others*	-2.18	3.50	-1.78	-12.27	-8.76	-6.00
Net operating cash flow	-5.78	0.19	-2.32	0.30	3.71	-1.26
Cash flow from investing	1.20	-2.15	2.33	4.42	-8.81	-0.01
Free cash flow	-4.59	-1.96	0.01	4.72	-5.11	-1.27
Cash flow from financing	2.21	0.90	0.38	0.08	5.86	0.32
Change of cash	-2.38	-1.07	0.41	4.64	0.76	-0.96
Cash at the beginning of the period	7.02	4.65	3.58	3.99	8.63	9.39
Cash at the end of the period	4.65	3.58	3.99	8.63	9.39	8.44

* "Others" mainly reflects the profit from sale of shares

Financial ratios

	2017	2018	2019	2020	2021E	2022E
Profitability and balance sheet quality						
Gross margin	67.28%	48.86%	74.05%	74.95%	64.00%	65.00%
EBITDA margin	-241.34%	-294.45%	23.37%	368.15%	393.95%	113.89%
EBIT margin	-253.22%	-306.61%	-23.31%	358.60%	384.41%	106.63%
Net margin	-240.64%	-361.63%	-42.44%	233.32%	217.59%	40.41%
Return on equity (ROE)	-17.48%	-27.38%	-4.83%	56.19%	37.16%	8.47%
Return on assets (ROA)	-11.10%	-17.06%	-1.89%	25.63%	21.98%	5.57%
Return on capital employed (ROCE)	-10.51%	-17.22%	-2.34%	37.70%	32.74%	12.12%
Economic Value Added (in PLNm)	-4.40	-5.69	-1.79	12.62	14.45	3.95
Net debt (in PLNm)	-3.84	-2.24	-2.55	-7.87	-9.02	-8.05
Net gearing	-19.70%	-14.62%	-16.55%	-29.17%	-24.07%	-21.01%
Equity ratio	64.71%	56.13%	54.36%	64.49%	67.69%	62.76%
Current ratio	11.03	9.73	4.24	12.53	17.41	13.34
Quick ratio	11.02	9.72	4.23	12.52	17.41	13.34
Net interest cover	55.12	35.71	1.98	15.39	-105.79	-44.61
Net debt/EBITDA	1.12	0.58	-6.25	-0.42	-0.42	-0.89
Tangible BVPS	2.29	1.79	1.78	2.19	3.07	3.13
Capex/Sales	n.a	-37.92%	55.50%	207.35%	160.09%	0.13%
Working capital/Sales	-45.44%	-103.27%	-179.55%	-38.55%	-35.05%	-36.20%
Cash Conversion Cycle (in days)	232	32	2	-40	-37	-29
Trading multiples						
EV/Sales	31.61	33.99	25.62	8.77	8.13	5.63
EV/EBITDA	-13.10	-11.54	109.62	2.38	2.06	4.94
EV/EBIT	-12.48	-11.08	-109.89	2.44	2.11	5.28
P/Tangible BVPS	1.87	2.39	2.41	1.96	1.40	1.37
P/E	-10.51	-7.52	-47.67	4.33	4.31	16.08
P/FCF	-11.27	-26.40	4305.41	10.95	-10.12	-40.60

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