



Company Valuation

15 May 2020; 10:00 CET

Summary

Primoco UAV SE is a Czech manufacturer of medium-size unmanned aerial vehicles for civil purposes. Primoco currently offers its clients the One 150 model, which so far has been able to fly up to 2,000 km in test flights and stay airborne for over 15 hours. The main purpose of unmanned aerial vehicles is to monitor oil and gas pipelines or to patrol state borders and water corridors. Another use is monitoring environmental areas. Primoco's clients have so far included companies and government agencies, mainly from the Middle East and Asia. Non-European countries offer potential mainly because they do not have strict restrictions on the operation of commercial unmanned aerial vehicles and, at the same time, they use them for a number of purposes (long land and sea borders, thousands of km of product pipelines, security situations). However, the Covid-19 pandemic and the closure of borders in the spring of 2020 have indicated that the circle of interested parties may be extended to include security forces in Europe.

The main **competitive advantage of Primoco is the aircraft's price**: The One 150 model is able to perform tasks previously undertaken mainly by helicopters and is able to do that at a lower price and with lower ongoing costs. At the same time, the model is more affordable than competing models from manufacturers in Israel or the USA. Aircraft production at Primoco **does not require large fixed costs**: the company purchases the necessary components from other suppliers and uses them to assemble their unmanned aircraft. In our opinion, this, together with the currently favourable competitive environment, means that it is able to achieve profitability at an early stage. This has already been confirmed in some quarters when the company realized orders and reported a profit.

Primoco's key goal is to fulfil larger orders (i.e. dozens of aircraft) and gain a positive reputation among major clients as a reliable and long-term manufacturer of unmanned aerial vehicles. We perceive that the relative disadvantage of the company is its short history and small size, which can raise uncertainty among potential clients. Another factor is political instability in some of the countries where Primoco wants to deliver. The last two years since the company's entry on the Prague Stock Exchange have shown that the progress of orders will be a longer and more difficult process than expected.

For these reasons, we use conservative assumptions in our valuations. The company plans to increase production to 250 aircraft per year in the long term and increase sales to over CZK 1 billion. In our model, we expect deliveries of only tens of pieces of aircraft and sales below CZK 0.5 billion until 2024. Based on valuation using a discounted cash flow method, we arrive at a **12-month target price of CZK 255/share**. Given the market price of CZK 240/share, we consider the company to be **more or less adequately priced**. We also point out that the target price is sensitive to the discount rate used and to the expected rate of long-term growth, which is uncertain in the case of a young company.

In the case of Primoco, we see risks posed by the early stages of production, the lack of brand awareness among potential clients, and the political instability of the countries where it exports or plans to export aircraft. We regard as opportunities a low base of fixed costs (i.e. rapid profitability with sales growth), low capital expenditures in the short and medium term, operations in a growing global segment, price advantage over competition, zero liabilities to banks or other external creditors and the company's intention to return money to shareholders.

Primoco UAV SE



Basic information

Primoco UAV SE is a Czech manufacturer of medium-size unmanned aerial vehicles. Primoco has developed two models of civilian unmanned vehicles, the One 100 and One 150, the latter of which it now offers to clients. The most common use of this aircraft is for either monitoring of product pipelines (oil pipelines, gas pipelines) or monitoring of state or sea borders. The company sees the main sales potential in Asia and the Middle East, but recently the range of potential clients has significantly expanded geographically. The company manufactures aircraft in Prague-Radotin and performs test flights at the airport in Krasovice near Pisek, acquired in 2019. The company has been considering a new production hall in the event of significant increase in sales.

The company's shares are traded on the Start market of the Prague Stock Exchange, where the company carried out an initial public offering (IPO) in 2018. Ladislav Semetkovsky is the CEO of the company and he is also one of the two founders and the largest shareholder.

Basic Information

Price of last trading on the stock exchange	CZK 240
Number of shares	4,344,710
Market capitalization	CZK 1.04 billion
Key shareholder:	L. Semetkovsky (64.9%)
Free float	5.8%

Pavel Ryska

+420 221 710 658

ryska@jtbank.cz

Primoco: Market, production and company ownership

Unmanned aircraft market

Unmanned Aerial Vehicles (UAVs) are currently a fast-growing industry with applications for military and civilian purposes. So far, the major development has been recorded by military unmanned aerial vehicles, which are already manufactured by most large armaments companies in the USA (Lockheed Martin, Northrop Grunman, Boeing, etc.). By contrast, civilian unmanned aerial vehicles have been developing for a shorter time and they tend to be produced by medium-sized and small companies. In civil aircraft, we can distinguish between consumer UAVs (small drones or helicopters mainly for video production), which are available to the general public, and commercial UAVs, which are mainly purchased by companies or the public sector. Primoco operates in the latter segment.

It is not known how many companies currently conduct business in each segment. In total, it is estimated that a total of 450-1,000 companies worldwide operate in the production of UAVs for military and civilian purposes. In the field of civil commercial UAVs for companies and the public sector, we believe there are dozens of companies. Primoco identifies about 10 companies worldwide as its main competitors.

According to an estimate by Macrosource Media of March 2018, worldwide spending on commercial unmanned aerial vehicles should increase from USD 0.51 billion in 2017 to USD 6.5 billion in 2026. This means an average annual market growth rate of about 33%. Due to Primoco's low initial production and supply base, its potential growth could be above the market dynamics.

Primoco: sources of sales

Primoco implements or plans to generate revenues from 4 sources:

- (1) **Sale of One 150 Model.** The standard delivery is 3 pieces for a total price of approx. EUR 1.5 mil.
- (2) **Sale of spare parts** to clients who have already purchased aircraft.
- (3) **Pilot training.** The aircraft is operated from the ground by 2 pilots, who are paid by the client and their training is necessary in order to start flying.
- (4) **Aerial services.** A client who does not want or cannot buy an aircraft pays for the flight directly to Primoco, which will carry it out using its own pilots.

We consider the sale of aircraft and, in the short term, the sale of spare parts to be the main source of sales. The company obtained permission to operate aerial services in the Russian Federation but the Covid-19 pandemic and the ban on the free movement delayed the start of this work. At present, the start of aerial services in Russia is uncertain, from our point of view.

The company's current outlook and EBITDA margin

In its investor presentation on 28 April 2020 and in the press release on the results for 2019, Primoco outlined several assumptions for production and management:

- **Long-term production of 250 aircraft per year.** The current production hall in Prague-Radotin has a capacity of 50-100 aircraft per year, and so increasing production would require the construction of a new production hall. So far, Primoco has delivered only about 12 aircraft and, in addition, we estimate that it has several dozen aircraft in stock, and therefore, we do not expect the construction of a new hall and the associated capital expenditures in our economic projection until 2024.
- **The company is in advanced negotiations to supply 150 UAVs to 37 customers** in Asia, the Middle East, Africa, Central America and Europe for a total value of EUR 86 million. The company expects an average EBITDA margin of 30 - 40%.
- **In 2020, it expects the sale of a total of up to 18 aircraft to various clients and it has concluded a service contract for EUR 1 mil.** The company also stated that the volume of orders varied over a wide range and might change significantly. This outlook would indicate sales over CZK 200 mil. this year, but our outlook is more conservative (see Table 1).

Aircraft and production: selected specifics

We consider the following information about Primoco production and sales to be important:

- **Product:** Primoco has developed One 100 and One 150 medium-size commercial unmanned aerial vehicles, where the number means weight in kg. Currently, it offers the One 150 model. The aircraft has a range of up to about 2,000 km and it flies at a speed of 100 - 150 km/h. Take-off and landing require a 300m long runway.
- **Use:** The two main purposes are: (1) monitoring of product pipelines (oil pipelines, gas pipelines) and early identification of failures, risks, etc. and (2) monitoring and surveillance of borders and water corridors. The company's clients are therefore both private companies

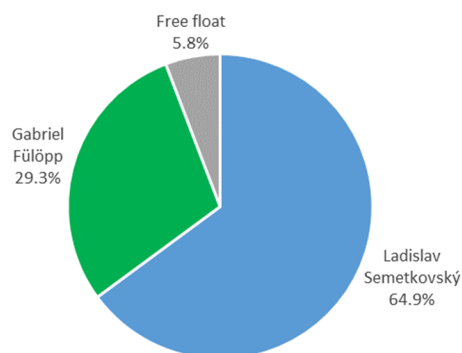
and the public sector (police, border guards, armies). To a lesser extent, the aircraft is used to map areas, mines, construction projects, natural systems, etc.

- **Geographical distribution of demand:** The company expects the largest sales in the Middle East and Asia, and it sees potential in the future in South America and Africa. In May 2020, test flights took place on the Czech-Austrian border, which in our opinion could help with a contract for the Police of the Czech Republic. Primoco plans to operate aerial services for the purpose of monitoring the environment and product pipelines in Russia but the current start date is uncertain.
- **Competitive advantage:** The work performed by the UAV is able to be performed by a manned helicopter or in some cases by a satellite. The disadvantage of the satellite is a significant inaccuracy, while the helicopter has significantly higher operating costs (fuel consumption, repairs).
- **Production capacity:** Primoco is able to produce 50-100 aircraft per year in the current production hall in Prague-Radotin. For the contracts negotiated at present and for the growth we expect in the coming years, this capacity should suffice with some reserve.

Shareholder structure

With the entry of Primoco on the market of the Prague Stock Exchange in 2018, the new shareholders subscribed for 252 thousand shares with a total number of outstanding shares of 4.34 mil. The free float has not changed since then and it amounts to 5.8% while the largest shares in the company are still held by the company's founders, Ladislav Semetkovský (64.9%) and Gabriel Fülöpp (29.3%). We do not expect changes in this structure in the foreseeable future. In the long run, in our opinion, the company would consider it advantageous if a major company from the aviation or armaments industry bought a partial stake in it, which would open the way for larger contracts. However, at present, we do not know of any such specific interested party.

Figure 1: Shareholder structure



Source: Primoco UAV, J&T Banka

Financial results: Gradual sales growth with a relatively stable margin

Low fixed costs and mild competition allow for high profitability

From the investor's point of view, Primoco has a relatively simple production model. The company manufactures its own components such as the airframe structure, engine or control station. Primoco takes autopilots and datalink (communication between the aircraft and the ground station) from foreign suppliers and assembles the aircraft. About 70% of the aircraft production costs are costs of electronics, which the company purchases based on the size of agreed contracts. This means that the company is not burdened with large fixed costs. At the same time, currently only a few companies in the world operate in the segment of aircraft weighing 100 - 250 kg, which means that there is not much pressure on prices yet and the company can work with a significant margin. In our opinion, Primoco offers one of the cheapest products in this category.

We expect growing sales and profits, but we do not rule out high volatility

After the company's variable results of recent years, we expect that this year Primoco will achieve its highest revenues of approximately CZK 146 million and EBITDA of approximately CZK 53 million, with an EBITDA margin of 36% through the implementation of several contracts for aircraft and spare parts. In the coming years, we expect revenue growth enabled by orders currently under negotiation with a

relatively stable EBITDA margin. Due to the low level of sales so far, we point out that one larger order may cause high fluctuations in sales between quarters and years in the coming years. The EBITDA margin will also depend on the revenue mix: new aircraft with all equipment should generate an EBITDA margin towards 40%, spare parts from Primoco, in our opinion, a margin of around 50%, while the margin from aerial services is still uncertain. This may cause larger margin fluctuations in the coming years.

Low capital expenditures allow high conversion of profit into cash

In our opinion, the current production hall in Prague-Radotin is sufficient to cover the pace of production in the coming years (in our opinion, running into dozens of new aircraft vs. the capacity of Radotin at 50-100 aircraft per year). At the same time, the company does not need to make any significant investments in equipment or production. The test airport in Krasovice near Pisek has been already acquired. Therefore, we expect low capital expenditures in the coming years (CZK 1-5 million per year until 2024). As a result, the company will be able to convert a large part of EBITDA into free cash flow (see Table 1).

The company is not burdened with debt, except for a shareholder loan

In addition, our financial projections do not envisage long-term interest payments, given that the company does not have or does not plan to have debt to banks or other external creditors. We believe that the company will use the current shareholder loan (CZK 20.5 million at the end of 2019) until next year, if our growth projections are fulfilled. At the same time, we are not aware of any other significant liabilities of the company.

Due to the current financial results, we do not project a dividend payment

Primoco's management stated at the IPO in 2018 that it counted on the payment of dividends as an important policy of the company as soon as the financial results allowed it. However, we do not expect a dividend in our projection yet. We expect that if earnings increase in the coming years, the company will primarily repay the shareholder loan, which amounted to CZK 20.5 mil. at the end of 2019. (We expect repayment in 2021.) Only then and according to the development of the economy, will it be possible to consider a dividend.

Table 1: Management projections and market multiples

CAS, CZK m	2016	2017	2018	2019	exp. 2020	exp. 2021	exp. 2022	exp. 2023	exp. 2024
Revenues	0.0	1.1	27.5	1.5	145.8	211.3	279.0	343.1	411.8
EBITDA	-8.5	-5.5	4.1	-20.9	52.5	78.6	104.6	129.7	155.6
EBITDA margin	NA	NA	NA	NA	36.0%	37.2%	37.5%	37.8%	37.8%
Operating result	-9.1	-7.0	2.0	-23.4	48.5	74.4	100.4	125.6	151.6
Financial result	-0.6	-0.6	-1.7	-0.5	-1.2	-0.6	0.0	0.0	0.0
Net profit/loss	-9.7	-7.6	0.4	-24.0	43.9	58.3	79.3	99.2	119.7
Net profit margin	NA	NA	1%	NA	30.1%	27.6%	28.4%	28.9%	29.1%
Earnings per share (CZK)	-2.4	-1.9	0.1	-5.5	10.1	13.4	18.3	22.8	27.6
Free cash flow	-11.6	-10.4	-14.6	6.7	49.7	60.5	80.0	99.3	118.8
P/E (at the price of 240 CZK/share)					23.7	17.9	13.1	10.5	8.7
EV/EBITDA (at the price of 240 CZK/share)					19.3	12.1	8.3	5.9	4.2

Source: J&T Banka, Primoco; Free cash flow is operating cash flow minus capital expenditures

Valuation: Discounted cash flow and relative comparison

Valuation method

We valued Primoco with a discounted free cash flow for shareholders model (Free Cash Flow to Equity), the parameters of which are shown in Tables 2 and 3. The model determines the value of the company as the sum of all future free cash flows discounted to the present. Free cash flows are determined by our model (Table 1 and Appendix) and the discount rate is determined as:

$$\text{cost of equity} = \text{risk-free rate} + \text{equity risk premium}$$

Due to the fact that Primoco generates sales in several countries around the world, the risk-free rate and equity-risk premium are the weighted average of local rates over 6 geographical areas (within them, the averages of selected countries) and the weights are our expected shares of these geographies in the company's sales (Table 3). As the risk-free rate, we use the yield on a 10-year government bond in a foreign currency (USD, EUR) and the equity risk premium is derived from the CDS (credit-default spread) according to Damodaran Online. Please note that we do not use the WACC (weighted-average cost of capital) model to determine the discount rate, but we only use the cost of equity, as the company has no debt to any external creditors, does not plan to incur debt and the current shareholder loan is understood as short-term.

In Stage 1 until 2024, we have a complete economic projection (see Table 1 or in more detail the Appendix) and in Stage 2 after 2024, we expect a long-term cash flow growth rate of 5% per year. For Primoco, we calculated the required rate of return (discount rate) of 14.46%. This is a relatively high discount rate, which, however, reflects the company's operations in relatively risky emerging markets in the Middle East, Asia, Africa and Russia.

Table 2: Company Valuation

CZK m	Stage 1					Stage 2
	exp. 2020	exp. 2021	exp. 2022	exp. 2023	exp. 2024	exp. 2024+
Free cash flow to equity	49.7	40.0	80.0	99.3	118.8	1318.9
Discounted cash flow (present value)	45.8	32.2	56.2	61.0	63.7	707.3
Stage 1 value			258.9			
Stage 2 value						707.3
Company value (current value)			966			
Fair value of the share (CZK)			222			
Annual target price (CZK)			255			
Risk - free rate of return			4.11%			
Share premium			10.34%			
Cost of capital (required rate of return)			14.46%			
Long-term cash flow growth rate			5.00%			

Source: J&T Bank, Bloomberg, Damodaran online

Table 3: Calculation of cost of equity (required rates of return)

	Risk - free rate of return	Weight	Equity risk premium
CR	0.84%	10%	6.01%
Russia	2.78%	25%	10.04%
Middle East	4.60%	15%	11.05%
Asia	3.41%	30%	10.92%
South America	4.33%	10%	8.94%
Africa	11.90%	10%	14.07%
Weighted average	4.11%	100%	10.34%
Cost of equity	14.46%		

Source: J&T Banka, Bloomberg, Damodaran online

The fundamental valuation indicates the value of the company of approximately CZK 1 billion and the annual target price of CZK 255/share

Our valuation model indicates the current value of the company of CZK 966 mil., i.e. the fair (current) value of the share of CZK 222 and the 12-month target price of CZK 255. Considering the price of the last trade on the stock exchange of CZK 240, in our opinion Primoco is relatively adequately priced by the market.

Table 4 shows how the value of the company and the target price change if the required rate of return (discount rate) or the long-term rate of cash flow growth changes. We consider this to be significant, as the riskiness of emerging economies can lead to significant discount rate fluctuations and the investor may also have different assumptions about the long-term cash flow growth rate of the Primoco business. For example, in the spring of 2020, due to events in the world economy, there were also short-term significant changes in discount rate components: the so-called risk-free rate of return given by government bond yields fell sharply, while the so-called equity risk premium rose sharply, especially in emerging markets. Other such fluctuations can significantly change the overall discount rate and thus the valuation of the company.

Table 4: Sensitivity of valuation to the long-term rate of cash flow growth and the required rate of return

Sensitivity analysis	Long-term growth rate	Required rate of return				
		10.46%	12.46%	14.46%	16.46%	18.46%
Sensitivity of the company's value (CZK million)	1%	1,089	882	737	631	549
	3%	1,324	1,025	832	697	597
	5%	1,731	1,245	966	785	659
	7%	2,610	1,627	1,173	912	743
	9%	5,896	2,450	1,531	1,106	862
Sensitivity of the current fair value (CZK)	1%	251	203	170	145	126
	3%	305	236	191	160	137
	5%	398	287	222	181	152
	7%	601	375	270	210	171
	9%	1,357	564	352	255	198
Sensitivity of the annual target price (CZK)	1%	277	228	194	169	150
	3%	337	265	219	187	163
	5%	440	322	255	211	180
	7%	663	421	309	244	202
	9%	1,499	634	403	296	235

Source: J&T Banka

Relative valuation against traded companies

As an additional method, we use comparison with similar companies, based on so-called market multiples. We compared the P/E and EV/EBITDA multiples of Primoco with those of unmanned aerial vehicles manufacturers that are already traded on stock exchanges (Table 5). Estimates of net profit and EBITDA for Primoco are based on our model, while for other companies we use the market consensus according to Bloomberg. Please note that the list of companies is small and some of them do not have a large number of financial results estimates. It is therefore necessary to understand the table rather as a guide.

We consider AeroVironment (USA) and Elbit Systems (Israel) to be the closest comparable companies. We also excluded from the comparison large American armaments companies, which produce unmanned aerial vehicles but for them they mean a very small part of sales at the moment. Multiples for them would be meaningless for Primoco.

The table shows that Primoco is valued above the median and average of the selected set of companies according to P/E and EV/EBITDA. However, we note that the average is pulled down by the large companies such as Airbus, Textron Systems and Leonardo, which generate most of the sales from other products and in which no significant growth is expected, and this reduces their ratios. Closer peers such as AeroVironment and Elbit Systems, on the other hand, are more expensive in terms of multiples while they are at similar levels as Primoco in other areas.

Table 5: Relative valuation (companies in descending order) as of 14 May 2020

Company	avg. exp. P/E 2020-22	Company	avg. exp. EV/EBITDA 2020-22
AeroVironment	27.9	AeroVironment	16.6
Elbit Systems	16.8	Elbit Systems	9.8
Airbus	13.2	Textron Systems	6.4
Textron Systems	9.9	Leonardo	4.8
Leonardo	5.3	Airbus	4.7
Average	14.6	Average	8.5
Median	13.2	Median	6.4
Primoco	18.3	Primoco	13.2

Source: Bloomberg, J&T Banka

Conclusion

The profitable business model is awaiting the start of orders

In our opinion, Primoco UAV is well placed to increase sales and profitability: it offers a competitive product, operates in a growing segment and its operations are not burdened by high fixed costs or the need for recurring capital expenditures. On the other hand, since the company's entry into the stock exchange, it has become clear that obtaining major orders is a long process and that the visibility (predictability) of sales for the next quarters and years is difficult. Therefore, we consider the ability of management to conclude the first major orders and quickly build a reputation for the company a key factor in the coming years.

Our financial projections are based on several orders indicated by management for this year, followed by gradual growth in the coming years. Based on this projection, we value the company using the discounted cash flow method, which gives us the current valuation of the company at CZK 966 million, i.e. the fair value of the share of CZK 222 and the 12-month target price of CZK 255/share. Considering the price of the last trade on the stock exchange of CZK 240, in our opinion Primoco is relatively adequately priced by the market.

Please note that there might be possible significant fluctuations both in the earnings projection and in the determination of the discount rate and the long-term growth rate. This is due to the difficult predictability of the company's sales and a significant movement of interest rates and risk premiums in the market. Therefore, in the analysis, we also present sensitivity tables, which are an integral part of it.

Opportunities

- A fast growing industry with a number of applications.
- Sales of 150 aircraft for 37 customers in negotiation (April 2020), plus possible additional revenues from the sale of spare parts and aerial work.
- The advantage of the product over helicopters in terms of operating costs and over competing unmanned aerial vehicles in terms of purchase price.
- Relatively high profitability from a small production volume, given the low fixed costs and currently limited competition on the world market (i.e. the absence of significant pressure on the price of the product).
- Zero liabilities to banks or other external creditors (shareholder loan only) and a zero-debt business plan.
- Long-term planned return of funds to shareholders in the form of a dividend.
- The current shareholders have committed that their combined share will not fall below 75% within 5 years of the IPO in 2018 – limited risk of secondary sales on the stock exchange.
- The CEO is also the largest shareholder, which creates the motivation for maximizing profits and, in the long run, dividends.
- Personnel reinforcement in 2019 after the arrival of a manager from Aero Vodochody.

Risks

- The short-term existence of the company and its small volume of deliveries can cause uncertainty for potential major clients (i.e. natural preference for large and established companies as a guarantee of reliability).

- Political instability of the client's countries and the resulting uncertainty of the size and timing of orders.
- Early phase of business - low visibility of sales, continuous product modification, changes in target customers.
- Product replicability, i.e. potential competition may build and offer similar unmanned aerial vehicles in the future.
- Regulations on flying with UAVs in Europe and the USA (ban on civilian UAVs outside the pilot's eye contact) and possible spread of regulation to other countries.
- UAVs in the Czech Republic are a so-called dual-use product that requires the consent of the Ministry of Industry and Trade for export (geopolitical export risk).
- In developing countries, the lack of qualified people to manage UAVs.
- Personnel risk - dependence of the company's success on the key person of the founder and CEO.
- Limited liquidity on the Start market of the Prague Stock Exchange.

Appendix

Income statement

CAS, CZK m	2016	2017	2018	2019	exp. 2020	exp. 2021	exp. 2022	exp. 2023	exp. 2024
Revenues	0.0	1.1	27.5	1.5	145.8	211.3	279.0	343.1	411.8
EBITDA	-8.5	-5.5	4.1	-20.9	52.5	78.6	104.6	129.7	155.6
<i>EBITDA margin</i>	NA	NA	14.8%	NA	36.0%	37.2%	37.5%	37.8%	37.8%
Operating result	-9.1	-7.0	2.0	-23.4	48.5	74.4	100.4	125.6	151.6
Financial result	-0.6	-0.6	-1.7	-0.5	-1.2	-0.6	0.0	0.0	0.0
Net profit/loss	-9.7	-7.6	0.4	-24.0	43.9	58.3	79.3	99.2	119.7
<i>Net profit margin</i>	NA	NA	1.4%	NA	30.1%	27.6%	28.4%	28.9%	29.1%
Earnings per share (CZK)	-2.4	-1.9	0.1	-5.5	10.1	13.4	18.3	22.8	27.6

Balance sheet

CAS, CZK m	2016	2017	2018	2019	exp. 2020	exp. 2021	exp. 2022	exp. 2023	exp. 2024
Total assets	11.2	26.6	56.1	52.5	118.1	165.7	255.1	364.0	494.0
Fixed assets	3.6	8.9	8.1	33.3	30.3	28.1	27.4	27.3	28.2
Current assets	7.6	17.7	47.9	19.1	87.7	137.6	227.7	336.7	465.8
of which cash	3.8	5.1	23.5	2.4	52.1	92.1	172.2	271.5	390.3
Total liabilities	11.2	26.6	56.1	52.5	118.1	165.7	255.1	364.0	494.0
Equity	-0.1	-7.7	55.8	31.7	75.7	133.9	213.3	312.5	432.2
Reserves	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	11.2	34.3	0.2	20.7	42.4	31.7	41.8	51.5	61.8
Long-term liabilities	10.5	28.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current liabilities	0.7	5.3	0.2	20.7	42.4	31.7	41.8	51.5	61.8

Cash flow

CAS, CZK m	2016	2017	2018	2019	exp. 2020	exp. 2021	exp. 2022	exp. 2023	exp. 2024
Operating cash flow	-11.6	-10.4	-14.6	6.7	50.7	62.5	83.5	103.3	123.8
Investment cash flow	-1.8	-6.9	-1.1	-27.8	-1.0	-2.0	-3.5	-4.0	-5.0
Financial cash flow	15.5	18.5	34.2	0.0	0.0	-20.5	0.0	0.0	0.0
of which dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow	-0.7	2.1	18.5	-21.2	49.7	40.0	80.0	99.3	118.8
Free cash flow for shareholders	NA	NA	18.5	-21.2	49.7	40.0	80.0	99.3	118.8

Source: J&T Banka, Primoco

Contacts

Trading Equity

Jan Pavlik	Head of Equity Trading	+420 221 710 628	jpavlik@jtbank.cz
Tereza Jaluvkova	Trading - Czech and Foreign Equities	+420 221 710 606	jaluvkova@jtbank.cz
Michal Znojil	Trading - Czech and Foreign Equities	+420 221 710 131	znojil@jtbank.cz
Barbora Stieberova	Trading - Czech and Foreign Equities	+420 221 710 613	stieberova@jtbank.cz
Milan Svoboda	Trading - Czech and Foreign Equities	+420 221 710 554	msvoboda@jtbank.cz
Miroslav Nejezchleba	Trading - Foreign Equities	+420 221 710 633	nejezchleba@jtbank.cz
Marek Truchly	Trading - Foreign Equities	+420 221 710 661	truchly@jtbank.cz

TRADING – Atlantik, eAtlantik

Vratislav Vacha	Trading – Czech and Foreign Equities	+420 221 710 677	vratislav.vacha@atlantik.cz
Michal Vacek	Trading – Czech and Foreign Equities	+420 221 710 676	michal.vacek@atlantik.cz

Sales and Client Service

Martin Ludik	Client Service	+420 221 710 402	j&t@jtbank.cz
Michaela Brozova	Client Service	+420 221 710 645	j&t@jtbank.cz

Portfolio Management – Client Service

Roman Hajda	Chief Investment Officer	+420 221 710 224	hajda@jtbank.cz
Katarina Scecinova	Portfolio manager	+420 221 710 498	scecinova@jtf.com

Portfolio Management

Martin Kujal	Chief Investment Officer; bonds	+420 221 710 698	kujal@jtf.com
Marek Janecka	Portfolio manager - equity	+420 221 710 699	janecka@jtf.com
Michal Semotan	Portfolio manager - equity	+420 221 710 642	semotan@jtbank.cz
Marek Sevcik	Portfolio manager - bonds, equity	+420 221 710 429	msevcik@jtbank.cz

Research

Milan Vanicek	Chief Analyst; strategy, pharma, telecom	+420 221 710 607	vanicek@jtbank.cz
Milan Lavicka	Banking, financials, utilities	+420 221 710 614	lavicka@jtbank.cz
Pavel Ryska	Media, real estate	+420 221 710 658	ryska@jtbank.cz
Petr Sklenar	Macroeconomics, fixed income	+420 221 710 619	sklenar@jtbank.cz

J&T Banka, a.s.

J&T Banka, a. s.
Pobrezni 14, 186 00 Prague 8
T.: +420.221.710.111
Czech Republic
www.jtbank.cz

J&T Banka, a. s., pobočka zahraničnej banky
Dvorakovo nabrezie 8
811 02 Bratislava
T.: +421.259.418.111
Slovakia
www.jt-bank.sk

ATLANTIK finanční trhy, a.s.

Pobrezni 14, 186 00 Prague 8
T.: +420.221.710.676
Czech Republic
atlantik@atlantik.cz
www.atlantik.cz

Overview of recommendations and relationships with issuers

	Avast	CME	ČEZ	Erste	Kofola	KB	Moneta Money Bank	O2 CR	PFNonwovens	Philip Morris ČR	Stock Spirit	VIG
Recommendation	Buy	Hold	Pending	Buy	Pending	Buy	Buy	Buy	Hold	Hold	Not rated	Hold
Target price	GBP 430	Not rated	Pending	EUR 40.9	Pending	CZK 940	CZK 106	CZK 289	CZK 899	Pending	Not rated	EUR 24.5
Date	5-IX-2019	28-X-2019	11-III-2020	17-IV-2019	20-III-2020	11-III-2020	18-II-2019	29-XI-2018	24-I-2018	26-VIII-2015	23-X-2013	12-V-2017
Analyst	Pavel Ryska	Pavel Ryska	Milan Lávička	Milan Lavicka	Pavel Ryska	Milan Lávička	Milan Lávička	Milan Vaníček	Milan Vaníček	Milan Vaníček	Milan Lávička	Milan Lávička
Overview of recommendations for selected stocks in the previous 12 months (quarterly basis).												
Recommendation	Buy	Buy	Buy	Buy	Buy	Hold	Buy	Hold	Sell	Hold	.	.
Target price	USD 330	USD 5,3	CZK 701	EUR 40,	CZK 435	CZK 972	CZK 100	CZK 260	CZK 860	CZK 12705	.	.
Date	27-VI-2018	1-IV-2019	19-II-2019	31-VIII-2018	17/07/2019	5-IV-2018	21-V-2018	21-7-2017	26-IX-2017	24-VIII-2016	.	.
Recommendation	.	Buy	Buy	Hold	Hold	Hold	Buy	Buy	.	.	.	.
Target price	.	USD 4,6	CZK 568	EUR 34	CZK 426	CZK 996	CZK 98	CZK 260	.	.	.	.
Date	.	13-IV-2018	23-11-2017	21-VIII-2017	9-I-2016	16-XI-2017	1-III-2018	31-10-2016	.	.	.	.
Recommendation	.	Hold	Buy	.	.	.	Buy	.	.	.	.	.
Target price	.	USD 3,6	CZK 534	.	.	.	CZK 104	.	.	.	.	.
Date	.	19-V-2017	10-XII-2016	.	.	.	13-XI-2017	.	.	.	.	.
Recommendation	.	.	.	.	.	.	Buy	.	.	.	.	.
Target price	.	.	.	.	.	.	CZK 104	.	.	.	.	.
Date	.	.	.	.	.	.	13-XI-2017	.	.	.	.	.
Valuation method	DFCF	DFCF	DFCF	DDM	DFCF	DDM	DDM	DFCF	DFCF	DDM	.	DDM
Frequency of recommendations	.	.	.	.	.	.	.	.	.	.	.	.
The issuer has a direct or indirect share of over 5% in J&T Banka's share capital.	No	No	No	No	No	No	No	No	No	No	No	No
J&T Banka has a direct or indirect share of over 0.5% in the issuer's share capital.	No	No	No	No	No	No	No	No	No	No	No	No
Other material financial interests of J&T Banka and/or its related parties in relation to the issuer.	No	No	No	No	No	No	No	No	No	No	No	No
The author of the document has a direct or indirect share of over 0.5% in the share capital of the issuer.	No	No	No	No	No	No	No	No	No	No	No	No
Other material financial interests of the author in relation to the issuer.	No	No	No	No	No	No	No	No	No	No	No	No
Relationships of J&T Banka with issuers												
Management or co-management of the issue of the security in the past 12 months.	no	no	no	no	no	no	no	no	no	no	no	no
Contractual relationship between J&T Banka and the respective issuer concerning the provision of investment servicers.	J&T Banka may have agreements with issuers on the providing of selected banking and investment services; such information is subject to bank secrecy and may not be disclosed.											
An agreement between J&T Banka and the respective issuer on the dissemination of investment recommendations.	no	no	no	no	no	no	no	no	no	no	no	no
J&T Banka's market making in the stock of the respective issuer.	Yes	Yes	no	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	yes

Note: DFCF – Discounted free cash flow model, DDM – Dividend discount model, ERM – Excess return model

Source: J&T Banka

Disclaimer

J & T BANKA, a. s. (hereinafter only “the Bank”) is a licensed bank and a member of the Prague Stock Exchange authorized to provide investment services as outlined in Act No. 256/2004 Sb. on Business Activities on the Capital Market, as amended. ATLANTIK finanční trhy, a.s. (hereinafter only “ATLANTIK FT”) is a licensed securities brokerage authorized to provide investment services as outlined in Act No. 256/2004 Sb. on Business Activities on the Capital Market, as amended. The Bank prepares, creates and disseminates investment recommendations in accordance with legal regulations of the Czech Republic, directly applicable EU regulations and its internal regulations. ATLANTIK FT disseminates the recommendations. The activities of ATLANTIK FT and the Bank are subject to the oversight of the Czech National Bank, Na Příkopě 28, Prague 1, Postcode: 115 03 – <http://www.cnb.cz/>.

This document contains some important information and notice related to the creation and dissemination of investment recommendations.

The Bank and ATLANTIK FT issue investment recommendations created by the employees of the Bank (hereinafter also “Analysts”). Analysts who create investment recommendations bear full responsibility for the objectivity of such recommendations.

Levels of investment recommendations used

The Bank uses the following levels of investment recommendations:

- **BUY** – It is anticipated that the percentage difference between the one-year target price of the share (determined by one of the valuation methods stated below) and the current market price exceeds the minimum theoretical required return for the respective share. This required return is calculated as the sum of earnings from a risk-free asset (Czech government bonds with the longest term to maturity) and the product of beta coefficient and a risk premium (determined individually for each company and derived from the risk premium for the Czech market).
- **HOLD** – It is anticipated that the percentage difference between the one-year target price of the share (determined by one of the valuation methods stated below) and the current market price is less than the minimum theoretical required return for the respective share but, at the same time, exceeds the return from a risk-free asset.
- **SELL** – It is anticipated that the percentage difference between the one-year target price of the share (determined by one of the valuation methods stated below) and the current market price is less than the return from a risk-free asset.

Valuation methods

To value companies and investment projects the Bank uses first of all a method of discounted cash flow (FCFE or DDM). A method of relative comparison is an integral part of every valuation, but it serves more as a corroborative test for the discounting method due to the following reasons: (i) differences in accounting standards, (ii) differences in the sizes of companies, (iii) information availability, (iv) impacts of acquisitions and subsidiaries on balance sheet structures, (v) differences in dividend strategies, and (vi) differences in expectations of future profit margins. If the fundamental valuation is in principle consistent with the range of values determined on the basis of the relative comparison, this implies that the projections of cash flows and other key assumptions of the discount model are correct (especially the discount factor, growth rate for the so-called “infinite period,” capital structure, etc). In the reverse case, it is necessary to identify factors which cause principal differences between the findings of the two valuation methods.

Measures preventing conflicts of interest in association with investment instruments:

The remuneration to persons who participate in producing investment recommendations depends in particular on the quality of the work performed, the results achieved and the company's overall profit. Those who participate in producing the investment recommendations have neither financial nor other motivations to issue investment recommendations of a particular level or direction. The remuneration of persons who participate in producing investment recommendation is not derived from transactions of the Bank and ATLANTIK FT or of a controlling or controlled legal entity or a legal entity forming a holding (hereinafter only “a related party”).

In complying with the rules for prudently providing investment services and for organizing internal operations, the Bank and ATLANTIK FT apply procedures and rules set forth by legal regulations and their internal regulations which prevent conflicts of interest in association with investment instruments contained in the investment recommendations disseminated by the Bank and ATLANTIK FT, and they do so in

particular by implementing a relevant internal structure including information barriers among specific divisions and regular internal control.

Simultaneously, the Bank and ATLANTIK FT draws attention to the fact that this document may contain information related to investment instruments or issuers of investment instruments that the investment recommendation directly or indirectly concerns (hereinafter only “the Issuer” with respect to which some of the entities belonging to the regulated consolidation unit of the Bank may have own interest. This interest may consist in a direct or an indirect share in these entities, the performance of operations in investment instruments related to these entities or the performance of operations in investment instruments stated in this document.

Additional notice

ATLANTIK FT, the Bank and their related parties, and persons that have a legal or actual relationship with them, including members of authorised representative bodies, senior employees or other employees, may trade in investment instruments or make other investments or transactions related to them, and may during a decisive period buy or sell, or offer to buy or sell on regulated markets or elsewhere, whether as a broker, an intermediary, or in another legal role.

Brokers and other employees of ATLANTIK FT and the Bank and/or related parties may offer clients and its own trading division oral or written market commentaries or trading strategies reflecting opinions which are at variance with the opinions expressed in investment recommendations.

In making investment decision, investors, including potential customers of the Bank or ATLANTIK FT (hereinafter also the “Customer/Customers”), should regard investment recommendations only as one of several factors to be considered. Investment analyses and recommendations issued by the Bank and disseminated by the Bank, ATLANTIK FT and/or related parties have been prepared in accordance with the rules of conduct and internal regulations for managing conflicts of interest associated with investment recommendations.

An overview of changes in the level for an investment instrument in regard to which the Bank has issued an investment recommendation and its price targets during the past 12 months are published and accessible at https://www.jtbank.cz/informacni-povinnost/#povinne_uverejnovane_informace

The issuer was not acquainted with the recommendation prior to its issuance and therefore the recommendation has not been modified or adjusted in any way at the issuer's request.

It is always the Client's responsibility to make the final investment decisions and the Client bears full responsibility for them.

Although investment recommendations of the Bank are prepared by Analysts in good faith, in a professional and a fair manner and with due care, the Bank cannot accept responsibility and cannot guarantee that the information contained therein is complete or accurate, except for the information concerning the Bank and/or ATLANTIK FT.

The investment recommendations express the opinions of Analysts as at the date of their publication and may be changed without prior notice. Past performance of investment instruments does not guarantee future performance. This document is not a public offering for the purchase or subscription of investment instruments within Act No. 256/2004 Sb. on Business Activities on the Capital Market, as amended, and nor does it constitute an offer to purchase or sell any investment instruments. The individual investment instruments or strategies stated in the investment recommendations do not have to be suitable for every Customer. The opinions and recommendations stated therein do not take into account the situation of individual Customers, their financial positions, objectives or needs. The investment recommendations should serve those Customers who are anticipated to make their own investment decisions without depending unreasonably on the information stated in the investment recommendations. These Customers are obliged to make their own decisions as to the expediency of investments made in any investment instruments by appropriately considering the price, possible threats and risks, along with their own investment strategies and financial situation. The value or price of any investment may change in time and the return of the originally invested sum or the amount of potential profit is not guaranteed.

2020 © J & T BANKA, a.s., ATLANTIK finanční trhy, a.s.