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Haitong Bank in a report from October 21 (8:30) rates Allegro at BUY and assesses FV at PLN 29.2.

Valuation Methodology

We value Allegro using two methods: DCF and peer multiples (EV/EBITDA). Our final fair value is an average of these two methods (each with a 50% weighting). Using DCF we arrive at PLN 37.6/sh while our peer valuation (EV/EBITDA) yields PLN 20.9/sh. Our final fair value is PLN 29.2/sh, implying 44% potential upside.

Risks to Fair Value

Competition – the Polish retail market and the e-commerce segment are highly competitive and Allegro's ability to compete successfully depends on a large variety of factors both within and beyond Allegro control. The Polish retail industry, including the e-commerce segment, is fragmented and characterized by intense competition. Allegro competes with a diverse group of offline and multichannel retail companies such as RTV Euro AGD, Biedronka, Empik, SMYK and LPP, e-commerce companies such as Alibaba, Amazon, Shopee and eBay that sell products from a large number of categories, and specialist ecommerce companies such as Zalando, eobuwie.pl and Oponeo.

Digitalization trend and growth dynamic of e-commerce market – Allegro depends on the continued development and growth of the Polish retail market, including online retail and the e-commerce segment in which it currently operates as well as corresponding markets and segments in other geographies it may seek to enter in the future. Current market forecasts point to ca. 12% 2021-27 CAGR for Polish e-commerce market. Slowing growth, stagnation or contraction in the market and segment, could have a material adverse effect on its business, financial condition and results of operations.

Reputation and brand – Allegro brand under which it operates has significantly contributed to the growth of its business. The strong awareness of the Allegro brand in Poland contributes to higher unpaid traffic on its websites and lower marketing costs. If Allegro is unable to maintain or enhance its brand image, if its brand image is damaged by negative publicity or if its brand is not accepted by consumers, this could have a material adverse effect on its business, financial condition and results of operations

Macroeconomic risk – Allegro as a marketplace is a retailer. Ongoing war in Ukraine which resulted in spike in inflation and energy prices and interest rates have negative impact on consumer purchasing power and propensity to spend.

User experience – commercial success of Allegro depends upon providing consumers with a wide selection of products from a variety of merchants at competitive prices. If Allegro does not attract merchants to offer the products and brands in demand by Allegro buyers and is unable to present such products on its website in an effective way and at competitive prices or if buyers and merchants regard Allegro delivery, returns and/or payment processes as inconvenient, Allegro may be unable to attract new buyers and merchants, may lose existing buyers and merchants or may be faced with reduced volumes of purchases on its websites.

IT risk – Allegro as a e-commerce company made and plans to keep substantial investments in data centers and equipment and related network infrastructure to handle the traffic on Allegro websites and implemented systems, in order to assure the quality and availability of all IT-supported processes. Failure in IT infrastructure management, customer data leakage or loss could have a material adverse effect on the Group's business, financial condition and results of operations.



Acquisition execution risk – Successful execution, implementation of recently acquired Mall Group will have visible important impact on Allegro's future growth prospects and financial results.

Headcount risk – Allegro's future success depends on both senior and middle management team but also on number of regular employees qualified in IT and e-commerce related skills for which currently there is strong demand from both domestic and international employers. Inability to keep relevant size of the team need for Allegro maintenance and growth projects can negatively affect Allegro's future prospects.

IMPORTANT DISCLOSURES

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