CATÓLICA LISBON
SCHOOL OF BUSINESS & ECONOMICS

UNIVERSIDADE CATÓLICA PORTUGUESA

Equity Valuation – Eurocash Group

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Dissertation submitted in partial fulfillment of requirements for the degree of MSc in Finance, at the Universidade Católica Portuguesa, June 2015.

Abstract

Title: Equity Valuation – Eurocash Group
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Equity valuation is an extremely complex and subjective process, it depends not only on the theoretical models but also on the analysis and assumptions used by the analyst. This thesis focuses on the valuation of Eurocash Group, a leading wholesale distributor of fast moving consumer goods (FMCG) in Poland.

In order to present stronger conclusions we decided to use two different models: the discounted cash-flow (DCF) model and the multiples method as a complement. The combination of both lead us to a price target of roundly PLN 35,42 while shares were trading at PLN 32,96 (02/03/2015), so our recommendation was to buy.

Our valuation was compared with the equity research from Wood & Company, "a leading independent investment bank in central and Eastern Europe". The research team used also the DCF model and the multiples method to perform the valuation and reach out a price target of PLN 39 while shares were trading at PLN 32,2 (04/11/2014), so their recommendation was also to buy.

Acknowledgments

Católica-Lisbon School has been my second, and sometimes first, home for the last years. This dissertation is a closure of this cycle and this last months were very important to consolidate some knowledge.

Professor José Tudela Martins was crucial on this process and helped me with his advices. I also have to thank Inês Cassiano and Jordi Martins for the support and especially to my boyfriend, Gonçalo Carreteiro, who was always with me during this journey.

Finally I have to thank to the most important person; my father. Throughout my life he never let me give up on anything even when all around us was falling apart. For all the support and wisdom advices I want to give you the most honest and sincere “thank you”.

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1. Introduction

The main goal of this thesis is to value a listed company with reliable and appropriate models. For this purpose I chose to evaluate Eurocash Group which is listed on Warsaw Stock Exchange since 2005. The company is a leading wholesale distributor of FMCG in Poland with Cash & Carry and franchise store chains spread throughout the country.

We divided this thesis in three central parts: literature review, company and industry overview and the valuation itself.

Firstly, in literature review it will be presented different valuation models and their respective advantages and disadvantages. Even though it is pointed in Young et al. (1999) that "…virtually every popular valuation approach is simply a different way of expressing the same underlying asset"[1] this valuation relies on two different models, DCF model and the multiples method as a complement, that give us different points of view and valuation ranges to not narrow our analysis.

Secondly we will analyze the company and the industry overview. We are going to present Eurocash Group business activities along with the retail and wholesale market environment. We thought that was also important to take a look at the macroeconomic situation that surrounds this business, particularly in Poland.

Lastly, we will perform the valuation itself. We made projections between 2015 and 2020 and reached out a price target of PLN 35,42. During this process we had to make some assumptions based on historical financial data but also on company's development strategy.

Our conclusions will be compared with a published equity research from Wood & Company and their price target of PLN 39.

[1] Young, M., Sullivan, P., Nokhasteh, A. and Holt, W. (1999), "All Roads Lead to Rome: An Integrated Approach to

2. Literature Review

Behind the valuation of a company may be several reasons as it was defended by Fernandéz (2004) and in our case it is to value a listed company. The author suggests that in this case there are three possible scenarios: to compare the price achieved with the share's price and decide whether to sell, buy or hold stocks; to decide the securities that the portfolio should focus on; and, to make comparisons among the companies.

Before starting this valuation it is also important to keep in mind some crucial aspects. This process is not straightforward, the use of subjective inputs can lead us to different valuations and a good valuation will not last forever, the market is constantly changing.

In addition to the complexity of the valuation in itself finding the right model is also a true challenge. The different methodologies present some advantages and disadvantages and it is important to find the best one that suits our goals. Young et al. (1999) defends that the existence of so many approaches hamper the work of valuation and it is fundamental do "cut through this complexity"[2].

So in this section we are going to present four major methods of valuation and their subsequent branches: relative valuation or multiples, profitability models, option pricing theory and cash-flows based valuation methods.

2.1 Multiples Valuation

The valuation by multiples or relative valuation is a simple and popular method. It can be used by itself or, more usually, as a complement to other models according to Baker and Ruback (1999) and Lie and Lie (2002). This idea is also corroborated by Fernandéz (2001) that claims "multiples are useful in a second stage of the valuation… a comparison with the multiples of comparable firms enables us to gauge the valuation performed and identify differences between the firm valued and the firms it is compared with."[3].

[2] Young, M., Sullivan, P., Nokhasteh, A. and Holt, W. (1999), "All Roads Lead to Rome: An Integrated Approach to Valuation Models", Goldman Sachs Investment Research, p. 1.

[3] Fernandez, P. (2001), "Valuation Using Multiples. How do Analysts Reach Their Conclusions?", IESE Business School, p. 1.

Baker and Ruback (1999) also praise the advantages of multiples when comparing to the DCF method. One of the most notorious is that multiples method uses current market measures avoiding the problems that arise from the use of theoretical models and historical data.

In addition Cooper et al. (2001) establishes a difference between two types of multiples: enterprise value (EV) and equity multiples. In the first case, it is taken into consideration the value of the whole company and in the second only the correspondent value of the assets and cash-flow of the business attributable to shareholders. EV multiples uses information like sales while equity multiples uses earnings, for instance.

There are several EV and equity multiples but the most used within these two categories are EV/EBITDA and price-to-earnings (PER), respectively. EV/EBITDA performs an asset valuation therefore to find equity values we must deduct net debt. PER, on the other hand, is widely popular since it links companies' value to profit and it is, in generally, easy to calculate. According to Liu et al. (2002) EV multiples yield more precise pricing than the PER since the first one minimizes the problem related to the different capital structures.

Moreover, sometimes may be important to make some adjustments. Multiples can be misleading as is it stated by Goedhart et al. (2005). They can be easy to manipulate, because of depreciations and provisions and may vary whether it is because of differences in the quality of the business (differences in value drives), accounting differences, fluctuations in cash-flow or profit and mispricing, Cooper et al. (2001).

To conclude, there are two main steps of this process: the choice of the multiples and the peer group selection.

2.1.1 Peer Group

The choice of the peer group is until today one of the greatest challenges when performing a valuation by multiples. It is difficult to find a group of companies with similar characteristics as it is defended by Henschke and Homburg (2009).

We can apply a simplistic technique by using the companies that are consider the most direct competitors of our target company even though they cannot be exactly alike. Koller et al. (2005) said that the definition of the peers should lies on statistics like return on invested

capital (ROIC) and long-term growth but sometimes this kind of information is not widely available.

It is not proven that the selection of the peer group will lead to positively skewed distributions, according to Lie and Lie (2002), so it is important to understand the limitations of this method.

2.2 Profitability Models

The profitability models are based on the difference between the companies' performance and the cost of financing. The importance of these models arises from one of the main drawbacks of the DCF models: the lack of detailed information about performance that it is fundamental for the market to understand the strengths and weaknesses of the company. In this section, we are going to look at two of the most important profitability models.

2.2.1 Economic Value Added (EVA)

EVA is one of the most recognized profitability models and changed the way many people perceive value. It is a derived model from DCF and, in accordance with Tully (1993), is a measure of corporate performance that enables investors to recognize investments opportunities and stimulates managers to make value added business decisions.

The economic value added of a company is the difference between the return of invested capital (ROIC) and the cost of capital, multiplied by the invested capital as we can see by the formula bellow. Notwithstanding, to generate economic profit, the ROIC should be higher than the weighted average cost of capital (WACC).

$$EVA = (ROIC - Cost\ of\ Capital) * Invested\ Capital$$

2.2.2 Residual Income (RI) Model or Dynamic ROE

RI is another profitability model similar to the EVA the only difference is the interpretation of the results; while EVA looks at the company as a whole the RI is only seen by an equity perspective.

In spite of the advantages of these models, mentioned above, they also have some weaknesses. The profitability models are based on accounting data that could lead to a deceptive valuation, if all income and expenses are not reported accurately. Moreover, their optimal time structure is short term forecasting and it is the main reason why we are not going to use none of them.

This model also has an equivalent DCF model, the dividend discount model (DDM).

$$Veq = E_0 * \sum_{t=1}^{\infty} \frac{E_{t-1} * (ROE_t - K_e)}{(1 + K_e)^t}$$

2.3 Option Pricing Theory

Option valuation is one of the most complex methods since it is not straightforward and the parameters, like volatility that is not observable, are difficult to estimate as it is stated by Fernandéz (2001). It is not easy to arrive to a proper valuation and therefore this method is mostly used when the others do not succeed. This is one of the main reasons why we are not going to use it along with the lack of applicability in the case of Eurocash Group.

Nevertheless real options allow for flexibility and this can, significantly, change the value of a business and the decision made. This kind of valuation is able to catch the value of a choice while most models ignore.

There are two methods of valuation, Binomial and the Black-Scholes models, and both account for options flexibility. Even though these two models are based on the same theoretical foundations and some equal assumptions they present some advantages and disadvantages when comparing to each other. The Black-Scholes model, for example, requires some strong assumptions about the volatility of the assets' price. On the other hand, the Binomial model implies more calculations, such as the tree of stock prices, but can be applied to more situations. In the case of American options it is possible to exercise before the maturity date.

2.4 Cash-flows Based Valuation Methods

The models based on cash-flow are the most used and, apparently, trustworthy. We are going to present in detail three of these models: DCF or WACC, DDM and adjusted present value (APV). All of these models incur in the same process to obtain the present value: they use the future projections of the companies' cash-flows and discount them at the cost of capital.

One of the challenges of this process is exactly to estimate the discount factor. The capital asset pricing model (CAPM) introduced in Sharpe (1964) is the most used method for this purpose; this model relates the returns of the company and the market.

In spite of the wide use of CAPM, it is present in Schmidle (2006) a hard critic to this model as well as to Fama and French (1993), a three factor model, and to Koller at al. (2005), an implied-cost-of-capital method.

Schmidle (2006) is not the only author who is against the use of CAPM, Roll (1977) and Berk (1997) share the same opinion. The first one suggests that CAPM cannot be tested empirically and consequently has no predictive power. The second one says that the model assumptions are unrealistic.

> "The equity beta is not stable for many companies and is a purely historically oriented, statistical concept, whereas the true cost of levered equity (the expected stock return) is future-oriented."[4].

Even though CAPM has been hardly criticized it is still the most used method. The return of a company is equal to the risk-free rate of the market, adding the company's beta, multiplied by the market risk premium. The formula is given below and requires some parameters: a risk-free rate, a beta and market risk premium.

$$K_e = r_f + \beta_e * MRP$$

The use of the historical average risk-free rate, instead of the long term risk-free government bond, is one of the most common mistakes of the estimation of the risk-free rate according to Fernandéz (2004). It is important to bear in mind that a risk-free investment requires that there is neither default nor reinvestment risks.

[4] Berk, J. B. (1997), "Necessary Conditions for the CAPM", Journal of Economic Theory 73 (1), pp. 245-257.

The beta of a company or the systematic risk measures the correlation between the company itself and the market volatility. Although there are some studies, like Bendeck et al. (2004), that states that beta could assume a negative value we are going to assume always a positive one.

The market risk premium results from the difference between returns on the market and returns on the risk-free government bond. According to Fernandéz (2004) there are three different concepts about market risk premium: the required, the historical and the expected. The CAPM assumes that the required market risk premium is equal to the expected market risk premium.

2.4.1 Dividend Discount Model

The DDM model, as a cash-flow based valuation, follows the process previously explained and uses the future dividends. The main idea behind DDM is the following: if the price target is higher than what the shares are currently trading at, then the stock is undervalued and vice-versa.

This model is not applicable to all the companies; companies that do not have stable dividends or do not distribute them are not suitable. Moreover DDM does not account for investments that generate value for the company.

The most used formula is called the Gordon growth model, Gordon et al. (1956). There are two inputs to this model: expected dividends and the cost on equity. To obtain the first one we need to make assumptions about expected future growth rates in earnings and payout ratios. The stock price resulting from this model is also very influence by the growth rate chosen; small variations in this rate will have a huge impact in the price target.

In conclusion this model is not the most widely used but establishes a based for others models. For this reason we are not going to use it in our valuation.

2.4.2 Discounted Cash-Flow

DCF remains the most used valuation method since it relies only on the cash-flow that goes in and out of the company. While DDM focuses on equity value DCF sees the company as a whole (enterprise value). Following the same reasoning of the cash-flows based models we

need to discount future cash-flows at the cost of capital. Given that we are looking at the enterprise value, this discount factor should account for the cost of debt and equity of the company at the same time, such as WACC. WACC based models perform better when a company maintains a relatively stable capital structure. The DCF formula is the following:

$$Vi = \sum_{t=1}^{N} \frac{FCFFt}{(1+WACC)^t} + \frac{TV_N}{(1+WACC)^N}$$

The DCF model estimates the cash-flows over the period, calculating the terminal value at the end of that period, and discounting them at the discount factor.

When using DCF there are also other two details that should be account for. First of all, there is no correct period to forecast cash-flows however periods between 5 and 10 years or 7 and 12 years are the most used; we only have to make sure that the company is already in steady state. Secondly, it is important to distinguish free cash-flows to the firm (FCFF) and free cash-flows to equity (FCFE). While the first one looks at the cash-flows that will go to the firm and it is discounted at the WACC the second one is centered on the cash-flows that will be available to the equity holders and it is discounted at the cost of equity. Nonetheless the results should be equal. We can see the relation between these two measures in the formula below.

$$FCFE = FCFF - Interest * (1-t) + \Delta Net\ debt$$

Even though DCF is the preferred valuation methodology this approach has some disadvantages. One of them is that the model only focuses on long-term valuation. Additionally, this method is not suitable for all companies; companies with a lot of change in their capital structure, as we mention above, should use the APV method instead.

2.4.2.1 Terminal Value

The terminal value represents the value that the company will be worth at the time we assume a stable growth forever. There are four different methods to calculate the terminal value, identified by Koller et al. (2005): the cash-flow, the multiples, the liquidation value and the replacement cost approaches.

The cash-flow approach assumes that the company will be growing at a stable rate. This constant rate should be smaller than the growth rate of the economy in which the company is inserted on.

The second one, the multiples approaches, consider that the value of the company will be a multiple of its future earnings or book value and that is, usually, based on current company' multiples. The current multiples should take into consideration the expected growth of the company for the explicit period and for the future growth.

The liquidation value estimates that the terminal value is equal to the estimated value of the sale of the assets minus the liabilities of the company. The author recommends that this method should only be use if the liquidation is likely to happen at the end of the forecast period.

Finally, the replacement cost approach reports that the terminal value equal to the expected cost to replace the company's assets. Albeit this method has at least two problems since not all tangible assets are replaceable and not all the company's assets will ever be replaced.

2.4.2.2 Discount Rate (WACC)

WACC formula takes into consideration the capital structure of the company, giving weight to debt, mixed instruments and capital, respectively as it is presented in the formula below.

$$WACC = \frac{D}{D+E+P} * r_d * (1-t) + (\frac{P}{D+E+P} * r_p) + \frac{E}{D+E+P} * r_e$$

According to Koller et al. (2005) to estimate the WACC we need three parameters: the cost of equity, the after-tax cost of debt, and the company's target capital structure. However none of the variables are directly observable so we need to apply different models, assumptions and approximations.

The preference for the WACC collects a great consensus among analysts since it is based on the actual in and out flow of cash instead of accounting flows, Goedhart et al. (2005). This method also became popular because it is easy to compute and includes the advantage of debt (higher debt leads to higher tax shield).

2.4.3 Adjusted Present Value

APV computes the cash-flows of the company and uses the cost of equity as a discount factor. In this method we are calculating the value of the company as if it was entirely financed by equity. This method specifically forecasts and values any cash-flows related to capital structure separately, rather than enclosing their value in the cost of capital, Koller et al. (2005).

The limitations of the DCF model lead to an increase of the use of APV.

> "APV always works when WACC does and sometimes when WACC doesn't, because it requires fewer restrictive assumptions. Besides this APV is less susceptible to yield serious errors than WACC is. But, most important, general managers will find that APV's power lies in the managerially relevant information it provides."[5].

As reported by Damodaran (2002) the process of valuation is based on three steps: the estimation of the value of the company with no leverage; the present value of the interest tax savings generated by borrowing a given amount of money; and then the evaluation of the effect of borrowing the amount considering the probability that the company will go bankrupt, and the expected cost of bankruptcy.

The price value of tax shields (PVTS) are the savings that arise from debt financing since debt interest are not subjected to taxes. The formula is given below:

$$PVTS_t = \frac{D * r_d * T}{(1 + r_d)^t}$$

However as the debt increases, along with the tax savings, some costs arise like the costs of financial distress. Calculating the expected bankruptcy costs (BC) is one of the most important and difficult steps in the valuation and some of the inputs are hard to calculate. According to Damodaran (2002), for example, one of the solutions to calculate the probability of default (PD) is to use the bond rating of a company, if exists, as an estimate. The formula is also given below:

[5] Luehrman, T. A. (1997), "What's it worth", Harvard Business Review 75 (4), pp. 132-142.

$$E[BC] = PD * Bankruptcy\ Costs$$

Many authors believe that the APV is a more flexible method for valuation when comparing to the discounted cash-flow methods. This seems true in most cases but APV model has some significant drawbacks according to Damodaran (2002).

> "The first and most important is that most practitioners who use the adjusted present value model ignore expected bankruptcy costs. Adding the tax benefits to unlevered firm value to get to the levered firm value makes debt seem like an unmixed blessing. Firm value will be overstated, especially at very high debt ratios, where the cost of bankruptcy is clearly not zero and, in some instances, the cost of bankruptcy is higher than the tax benefit of debt."[6].

[6] Damodaran, A. (2002), "Investment Valuation", John Wiley and Sons, pp. 32-33.

2.4.4 Conclusion

There is no consensus among the different authors about equity valuation. However the several approaches are important to realize which one better suits our company's characteristics and its respective industry.

For the valuation of Eurocash Group and based on the reasons previously explained we chose to use two different methods: DCF model and multiples method as a complement. The use of DCF instead of APV model relies mainly in the relatively stable capital structure of Eurocash Group throughout the years.

3. Eurocash Group - Business Overview

Eurocash Group has its business activities established in Poland so it is fundamental to analyze the market environment of the country, primarily in the year of 2014. The Polish economy has a huge influence in the company's results and consequently in its valuation.

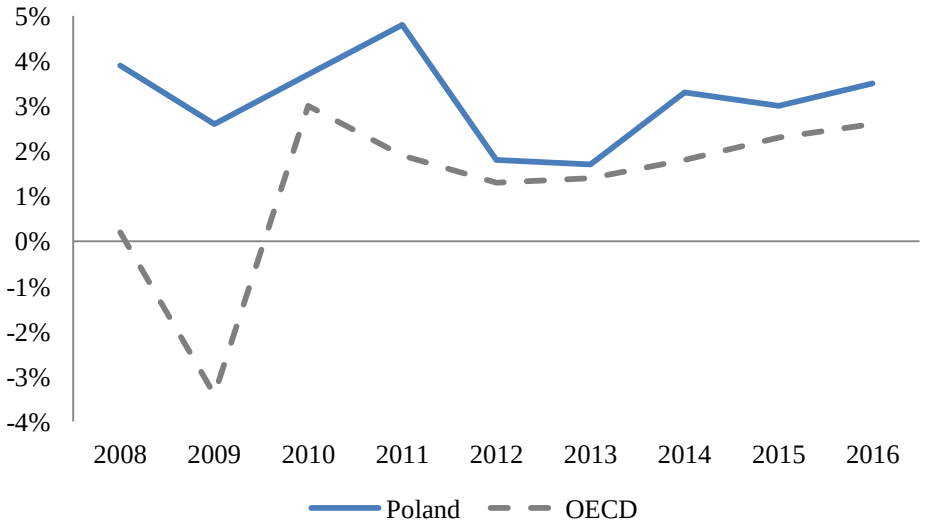
3.1 Macroeconomic Analysis: Poland

Poland is the largest member of the European Union (EU) among all countries of Central and Eastern Europe. Poland's economy performance has been remarkable over the last years and it is one of the fastest growing within the EU.

The market environment can be reflected through some economic measures that have a direct and indirect impact on the domestic demand and therefore in the revenues of the company.

Graph 1 - Gross domestic product (GDP) between Poland and Organisation for Economic Co-operation and Development (OECD)

The forecasts are based on data of November 2014



Source: OECD website - http://www.oecd.org/

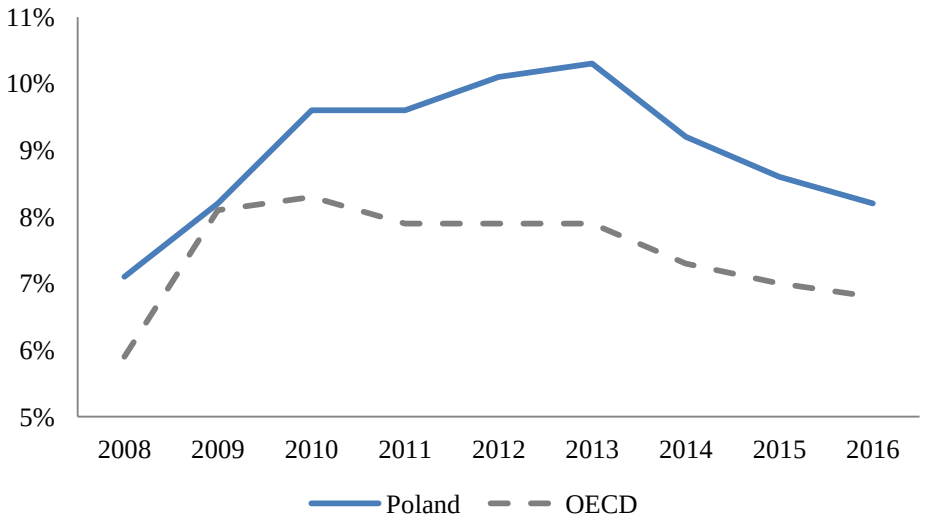
In Graph 1 it is visible that Poland's GDP has been, over the last years, above the values of the OECD. This explains, in part, why polish economy has detached itself among other European countries. Eurocash Group stresses that, in 2014, the most contributors for this growth were the construction (4,7%), the industry (3,7%) and the trade (3,4%) sectors.

Graph 1 also shows the forecasts for the next two years, where it is expected that Poland's GDP will remain above OECD.

To corroborate the thriving situation for polish economy we present the two graphs bellow.

Graph 2 - Unemployment rate between Poland and OECD

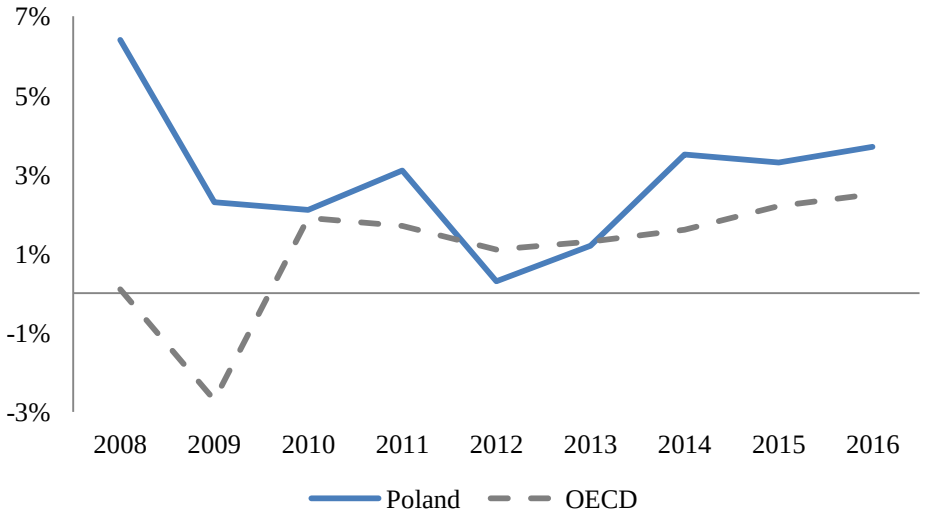
The forecasts are based on data of November 2014



Source: OECD website - http://www.oecd.org/

Graph 3 - Consumption between Poland and OECD

The forecasts are based on data of November 2014



Source: OECD website - http://www.oecd.org/

In Graph 2 we can see that the unemployment rate is decreasing in the last years and the forecasts are following this trend. The population have a higher disposable income and consequently are more available to spend which leads us to Graph 3. Even though the irregularity of the values the tendency, in Poland, for the next years is to increase consumption.

Notwithstanding, 2014 was a difficult year for the food distribution market. There was a retail market deceleration and the like-for-like (LFL) sales (same number of stores) decrease among most of the market formats. Beyond this there was a continuing pricing pressure and deflation.

Table 1 - Consumer Price Index (CPI) change in Poland

	2012	2013	2014
Consumer Price Index change (%)	3,7	0,9	0

Source: Central Statistical Office

In Table 1 we can see that the annual percentage change of CPI, a measure of inflation, in 2014 was flat when compared with 2013. In our projections we take into consideration the effect of unexpected changes in prices.

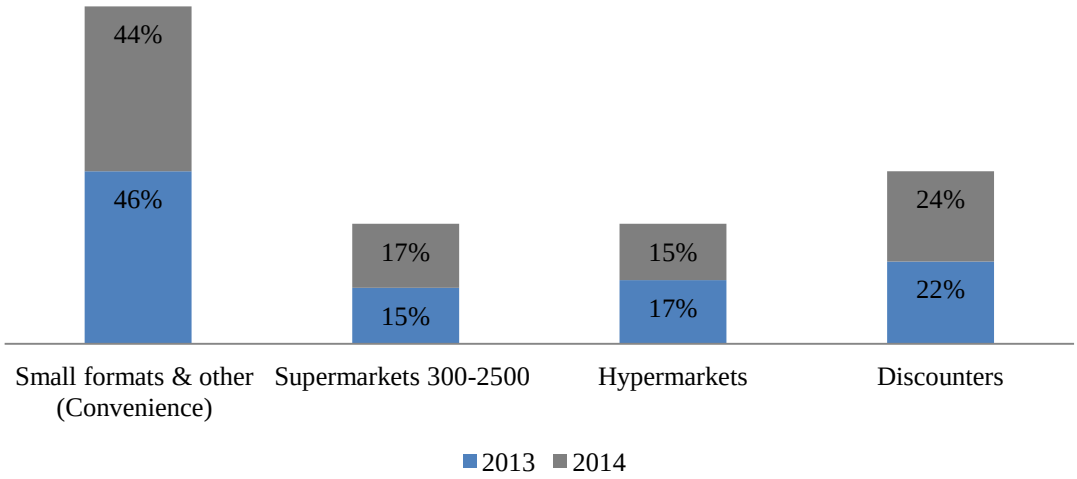
Table 1 also reflects the evolution of CPI change. In the last three years there was an evident decrease of this measure (deflation) mainly between 2012 and 2013 what in part can explain the decrease in revenues in those years. According to projections of PricewaterhouseCooper (PwC) in 2015 the inflation rate will be negative (-0,1) but then will recover to 1,7 in 2016 and 2,5 on average between 2017 and 2021.

3.2 Polish FMCG Market

The market of FMCG includes food and non-food products such as soft drinks, alcoholic beverages, tobacco products, household chemicals and cosmetics. This industry works mostly towards small grocery stores, kiosks, petrol stations and small catering outlets.

FMCG market is continuing growing in Poland and in 2014 registered a value of PLN 224.9 billion (an increase of 1,3% from previous year), as stated by GfK Polonia. Roundly 87% of the market value belongs to retail stores, large and small formats, while the remaining is generated by the HoReCa sector (hotels, restaurants and catering outlets).

Chart 1 - Structure of FMCG Market in Poland



Source: GfK Polonia

Discount stores and supermarkets were the main drivers of this growth. While the market share of large format stores continues to increase (apart from hypermarkets) the small format stores are losing ground, Chart 1. Gfk Polonia also states that large format stores dominate the retail channels, traditional and modern, with 56% of market share.

3.3 Wholesale Distribution of FMCG Market

In 2014, the wholesale chain of Eurocash Group achieved 23% of market share in the wholesale market of FMCG. This represents an increase of 2 percentage points (pp) from previous year, without the effects of mergers and acquisitions.

The wholesale distribution of FMCG market compete mainly in the provision of independent small supermarkets, traditional grocery stores, specialized grocery stores and in the alternative distribution channels like kiosks, retail outlets attached to petrol stations and HoReCa.

3.4 Eurocash Group – The Company and its Business Formats

Eurocash Group is one of the biggest groups in Poland "in terms of sales and number of outlets involved in the distribution of FMCG products". The core business of the company is the wholesale distribution of products to customers across all significant traditional wholesale market segments, in particular, to traditional retail stores throughout Poland and to the market segment of petrol stations, restaurants and hotels.

The company has developed a range of distribution formats focused on supplying independent stores in the country, which are the following:

- Cash & Carry

  "A nation-wide network of discount Cash & Carry type warehouses which operate under the "Eurocash Cash & Carry" brand, with the loyalty program for the "abc" network of grocery stores."

- Franchise Systems

  Delikatesy Centrum - "A franchise system for retail stores which operate under the Delikatesy Centrum brand. Over 4362 retail franchise and partner stores under the brands: Lewiatan, Groszek, Euro Sklep, Gama supplied by Eurocash Dystrybucja."

- Distribution

  Eurocash Dystrybucja – "The biggest polish nationwide distributor of FMCG providing trade of products with service to the client with the broad range of assortment."

  Eurocash Gastronomia – "Supply network for restaurant chains, hotels, and petrol stations."

  Eurocash Alkohole – "Specialized wholesale and retail distribution of alcoholic beverages throughout Poland."

  Eurocash Serwis – "Active distribution of tobacco products and fast moving consumer goods through KDWT and Service FMCG since 1st December 2014."

- Other

  Beside the main business activity, the company also provides electronic financial services through PayUp, which offers, for example, bill payments and charge card payments. Eurocash Group distributes also tobacco and impulse products to press stores throughout Inmedio in which the Group controls 51% of shares.

3.5 Eurocash Group - History

Eurocash's traditional activity as a Cash & Carry wholesaler dates back to 1995 but only on 2003 Eurocash Group established itself as an independent company. Luis Amaral, the current CEO, acquired Eurocash Cash & Carry to Jerónimo Martins under a management buy-out (MBO) and changed the strategy pursued until then. It took only two years to turn the company profitable again and in 2005 Eurocash Group, Eurocash S.A., launch its initial public offering (IPO) at the Warsaw Stock Exchange.

In the coming years Eurocash Group was focus on strengthening their position in the market with the acquisition of several brands and stores. The company is a well recognized brand for its dynamic growth. Since 2006 the Group was joined by:

- 2006 - Delikatesy Centrum and KDWT
- 2007 - Pay Up
- 2008 - Mclane Polska
- 2009 - Batna
- 2010 - Premium Distributors
- 2011 - Pol Cater and Tradis
- 2012 - Noban and Dziembor
- 2013 - Kolporter, Inmedio and Frisco.pl

3.6 Eurocash Group - Year of 2014

The year of 2014 was an important year to introduce some changes across Eurocash Group.

- Finalization of the integration of Tradis (currently Eurocash Dystrybucja) and the merger with Service FMCG, an entity that acquired Kolporter's FMCG business. Due to this last combination the company has created the largest entity in the tobacco product distribution market (approximately 25% of market share).
- Opening of the first three KONTIGO stores. This brand was developed to achieve exclusively the women target and to enter into the cosmetics´ market.
- The company also tried to provide to clients a wide selection of wines with "Factoria Win" which comprehends almost 2500 wine shelves in traditional-format stores.

- Partnership with HDS in the Inmedio concept which aims to develop media-and-convenience locations and to transfer Inmedio's experiences over the traditional retail. This FMCG market includes products like newspapers, magazines, books, tobacco products, beverages, confectionery and impulse products, and also offers payment and courier services.
- Eurocash Group became also a significant shareholder in Frisco.pl, the largest grocery operator in this segment in Warsaw. This project combines the advantages offered by online and traditional retail.

3.7 Eurocash Group - Development Strategy

The most important goal of Eurocash Group is to strengthen the competitiveness of independent retail stores in Poland and to offer value to its customers and shareholders. The strategy of the Group is focused on the customer and passes through specific distribution channel formats:

- Cash & Carry warehouses and the loyalty program of stores ("abc" network) provide FMCG products to small and medium retail stores
- Eurocash Dystrybucja and partner stores provide FMCG products and give support to manage retail operations to small and medium retail stores
- Delikatesy Centrum franchise network provide comprehensive delivery of products to retail stores
- Eurocash Serwis (KDWT) provides specialized deliveries of specific product categories such as tobacco products and FMCG
- Eurocash Alkohole provides specialized deliveries like alcoholic beverages
- Eurocash Gastronomia and Eurocash Dystrybucja provide comprehensive delivery for specific products and high service quality to restaurant chains, hotel chains and petrol station

This development of the Eurocash Group is directly related with the ambition to reach a new group of customers and to consolidate the already existing. The strategic goals of the company are:

- to provide to customers a wide range of distribution formats and forms of cooperation to assure that their needs are satisfied with quality,

- to achieve economies of scale in wholesale business operations to create competitive advantage, and
- to incorporate operating systems and optimize costs.

The strategy of Eurocash Group also aims to grow across every distribution format as well as the continuation of acquisitions of other wholesalers and franchise networks.

3.8 Eurocash Group - Factors Impacting the Development

Eurocash Group stressed, in their last consolidated annual report, some external and internal factors, that can impact their development and influence their valuation. It is difficult to take these factors into consideration but being aware of them made us being more cautious.

Growth in the FMCG market and changes in market structure

The Group aims to fortify its position in modern distribution channels. The negative effects will be compensated by the growth of the FMCG market and the consolidation in the wholesale market through traditional channels.

Inflation

The results may be affected with unforeseen changes in the prices of the product.

Payroll costs

An unexpected problem on the payroll costs may harm the performance of the company. However with the increase of the remuneration level in Poland (higher sales for the company) this problem can be solved.

New business formats

Creation and development of formats for wholesale distribution in order to enlarge the range offered to customers and to achieve economies of scale.

Organic growth

Eurocash Group has good prospects for 2015 with the open of new stores. Nonetheless this growth is, somehow, dependent on the integration of Tradis. Tradis was a major investment for the company and until now it seems to be successful.

3.9 Eurocash Group - Risks and Threats

Eurocash Group is exposed to certain risks that may be harmful. Some of them are enumerated bellow and were, once more, referred by the company in their last consolidated annual report.

Macroeconomic situation: purchasing power of the population

An economic deceleration will lead to a decrease in the purchasing power and consequently to a decrease in the sales revenues.

Structure of FMCG retail distribution market in Poland

In 2014, the traditional distribution channel had an important share on the FMCG retail distribution, approximately 44% (one of the highest in the European countries). The growth in the share of modern distribution will minimize the opportunities in the traditional market for the company.

Structure of the traditional FMCG distribution channel: competition

The entrance of new and strong players as well as the setting of the older ones could have a negative impact on margin levels.

IT systems

Possible problems in the IT systems could affect the Group's business.

New investments

This process can lead to several material risks related to integration, achievement of synergies or an inadequate evaluation of the market potential.

4. Forecasting

Forecasting the business fundamentals is one of the most important and complexes parts of equity valuation.

During this valuation we will not consider Poland as an emerging market so the CAPM should work and no further adjustments will be required. According to the World Bank Atlas method Poland is considered a high-income economy with a gross national income (GNI) per capital of $12,746 or above like Germany. Furthermore Poland is not only a member of the EU as well as the sixth-largest economy.

4.1 WACC

As it was explained in the literature review, the WACC is the company's cost of capital in which each type of capital, debt and equity, has its weight, assuming that the mixed instruments are equal to zero.

For this calculation we need to estimate: the risk-free rate, the market risk premium and the equity beta to achieve the cost of equity and then the corporate tax rate, the cost of debt and the capital structure to reach WACC. We used two different methodologies for the calculation of these parameters: historical data and current data at the date of 02-03-2015.

For the risk-free rate we used the 10 year Poland Government Bond which was roundly 2,14% in 02-03-2015. This rate should be expressed in the currency of the company's country and the market should be highly liquid.

The average market risk premium was achieved based on historical data; we used monthly data between March 2014 and March of 2015 and as benchmark the 10 year Poland Government Bond. We could have used more data however due to the instability of the last years we considered that this period should be the most representative of the upcoming years.

The equity beta of 1,053 was taken from Bloomberg using the relative index (WIG 20 Index, from Poland) at the date of 02-03-2015.

For the effective tax rate we applied the 16% used by the company in 2014. We are going to use this rate in the whole explicit period since there is no indication for a future change in this sense.

For the cost of debt we did not find the information associated with the issue of bonds (PLN 140 million) of Eurocash Group in 2013. These bonds will mature in June 2018 and their effective annual interest rate is WIBOR 6M plus a margin of 1.6%. Instead we used a study done by Damodaran that relates ratings, interest coverage ratios (EBIT divided by interest expenses) and default spread to all of the rated companies in America at January of 2015. Eurocash Group is in the category of smaller non-financial service companies with market capitalization bellow $ 5 billion. So according to this measures the attributed rating based on values of 2014 is BB+ and the consequent cost of debt is 4,89%, 2,75% plus 2,14 % (spread plus risk-free rate).

Table 2 - Ratting Attributable to Companies based on Coverage Ratio

If interest coverage ratio is			
greater than	≤ to	Rating is	Spread is
12,5	100000	AAA	0.40%
9,5	12,499999	AA	0.70%
7,5	9,499999	A+	0.90%
6	7,499999	A	1.00%
4,5	5,999999	A-	1.20%
4	4,499999	BBB	1.75%
3,5	3,9999999	BB+	2.75%
3	3,499999	BB	3.25%
2,5	2,999999	B+	4.00%
2	2,499999	B	5.00%
1,5	1,999999	B-	6.00%
1,25	1,499999	CCC	7.00%
0,8	1,249999	CC	8.00%
0,5	0,799999	C	10.00%
-100000	0,499999	D	12.00%

Since 2006 the ratios of capital structure, E/V and D/V, have been roundly 70%/30% and 60%/40%. Only in 2011, principally, and in 2012 the ratio of D/V was higher than the ratio of E/V because of the major investments in the business units and the need to contract debt. The company does not report any target to these ratios so we are going to assume for E/V and D/V, 60% and 40% respectively, based on historical data and on future plans since there are

no projections of significant acquisitions in a near future that could change this. The last historical year corroborates these values.

Chart 2 - Capital Structure of Eurocash Group

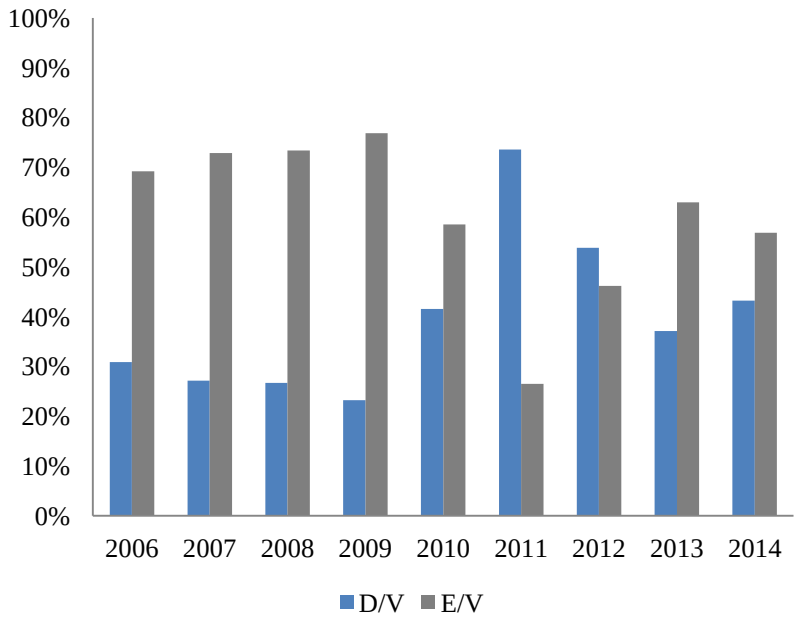


Table 3- Summary Table

Ke	8,13%	Kd	4,89%
Rf	2,14%	E	60%
Be	1,053	D	40%
MRP	5,69%	Tc	16%
WACC = 6,5%			

4.2 Revenues

Eurocash Group revenues come from Cash & Carry (including Batna stores), franchise systems, distribution and others such as Inmedio Sp. z o.o, PayUp Polska S.A., Eurocash Convenience Sp. z o.o., Kontigo Sp. z o.o., Eurocash Franczyza Sp. z o.o., Eurocash Detal Sp. z o.o. and Eurocash Trade 1 Sp. z o.o.. This is the main item of any valuation and requires a more careful and deeper analysis.

The forecast of revenues is a huge challenge; in this case the central issue was to evaluate the different business units. Throughout the years the company has been acquiring and merging with other companies so, occasionally, we were faced with incomplete data.

The first step was trying to find a relation between the growth of Poland GDP and Eurocash Group revenues. Since 2007 until 2012 the values were very different; the company was living a boost and growing more than the economy of the country as we can see in Table 4. Only in the last two years the values were similar and comparable, in fact the revenues growth was surpassing by the GDP growth, and for this reason we will not try to relate both.

Table 4 - Historical Growth: Poland's GDP and Total Revenues

	2007	2008	2009	2010	2011	2012	2013	2014
Growth of Poland's GDP	6,80%	5,10%	1,70%	3,90%	4,30%	2%	1,60%	3,30%
Growth of Total Revenues	46,12%	29,60%	9,28%	16,32%	28,09%	66,42%	-0,43%	2,58%

Table 5 - Average Growth: Poland's GDP and Total Revenues

	Average 2007-2012	Average 2013-2014
Growth of Poland's GDP	3,97%	2,45%
Growth of Total Revenues	32,64%	1,07%

Instead we are going to use two different methods to define a trend for revenues growth: compound annual growth rate (CAGR) based on the number of stores and CAGR based on historical revenues. By using CAGR we are assuming that the growth is going to be constant between the years so some additional adjustments were required.

The revenues for the Cash & Carry and Delikatesy Centrum were estimated based on the CAGR of the stores and the average revenues per warehouse. This CAGR suffered some modifications throughout the explicit period since the values between 2007 and 2014 were extremely high.

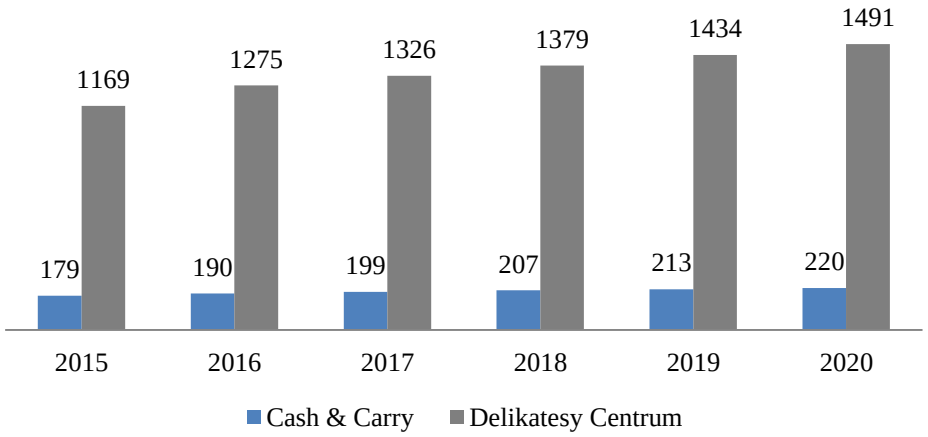
Table 6 - Stores of Cash & Carry and Delikatesy Centrum between 2007 and 2014

	2007	2008	2009	2010	2011	2012	2013	2014	CAGR	CAGR 2012-2014	Adjustment
Cash & Carry	102	111	120	129	137	148	158	168	6,44%	4,32%	3%
Delikatesy Centrum	295	376	466	561	650	773	875	1003	16,53%	9,07%	4%

Table 7 - Growth of Stores of Cash & Carry and Delikatesy Centrum between 2015 and 2020

	2015	2016	2017	2018	2019	2020
Cash & Carry	6,44%	6,44%	4,32%	4,32%	3%	3%
Delikatesy Centrum	16,53%	9,07%	4%	4%	4%	4%

Chart 3 - Projections of Stores for Cash & Carry and Delikatesy Centrum



In the case of Eurocash Dystrybucja (Tradis) the revenues of 2014 were affected by the business restructuring and the termination of contract with Stokrotka chain in the middle of 2013. Nonetheless the key stage of the integration of Tradis was already concluded and the good results were visible in the last quarter of 2014. This business unit accounted for 25% of total sales of Eurocash Group last year. Our projections, Table 9, were based on the potential of Eurocash Dystrybucja but at the same time we were cautious and expecting a slow recovering since last year there was a decrease of more than 10%, Table 8.

The business units of Eurocash Alkohole and Eurocash Serwis are the biggest contributors along with Cash & Carry and Delikatesy Centrum for the growth of the revenues in the last years. In 2014, the two together accounted for 31% of total sales of Eurocash Group surpassing Cash & Carry. One of the reasons for the growth of Eurocash Serwis was the merger with Service FMCG that led to the largest entity in the tobacco product distribution market. In our projections we took this into consideration and attribute to this business unit the biggest rates of growth, Table 9. However, according to the company the increase in sales

of Eurocash Alkohole was due to an increase of the level of prices followed by an excise tax increase in 2014 and market share gains so our projections were more conservative than the CAGR of last year, Tables 8 and 9.

The Eurocash Gastronomia accounted for 3% of total sales of Eurocash Group. In the last three years the revenues of this business unit have been consequently decreasing. The last year was a very difficult year for the food distribution market and these values were a reflection of that. The termination of the contract with Amrest, one of the main clients, jeopardized also the results. Although within three years we believe that the company can, reverse this situation and grow positively again, Table 9.

Table 8 - Historical Growth of Different Business Units of Eurocash Group

	CAGR 2012-2014	CAGR 2013-2014	CAGR whole period
Eurocash Dystrybucja (Tradis)	-	-11,10%	-11,10%
Eurocash Alkohole	2,26%	10,34%	16,88%
Eurocash Serwis	7,65%	11,67%	10,28%
Eurocash Gastronomia	-8,60%	-12,75%	-8,53%
Other	-	103,23%	103,23%

Table 9 - Projections of Growth for Different Business Units of Eurocash Group

	2015	2016	2017	2018	2019	2020
Eurocash Dystrybucja (Tradis)	2,5%	2,5%	2%	2%	2%	2%
Eurocash Alkohole	6%	5%	5%	4%	4%	3%
Eurocash Serwis	10%	10%	8%	8%	5%	5%
Eurocash Gastronomia	-5%	-1%	1%	1%	2%	2%
Other	75%	55%	35%	20%	15%	5%

4.3 Cost of Sales

Cost of sales represents the costs involved in the process of creating a product or a service. Eurocash Group includes in their cost of sales three different items: cost of goods, sales and materials sold. The cost of goods sold is the main item in this division and accounted for roundly 99% of the cost of sales in the last years. Due to this the cost of goods sold and the cost of sales will be treated as equals.

Table 10 – Relation between Cost of Goods Sold and Cost of Sales

In Millions of PLN	2010	2011	2012	2013	2014
Cost of Sales	6990,49	8992,87	14818,50	14863,80	15151,60
Cost of Goods Sold (COGS)	6987,97	8988,87	14650,57	14734,88	15027,14
% of COGS in Cost of Sales	99,96	99,96	98,87	99,13	99,18

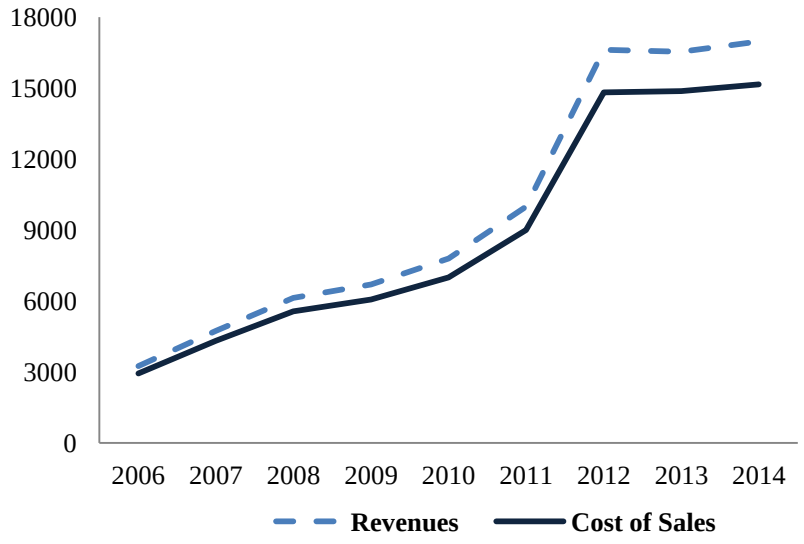
Table 11 - Relation between Revenues and Cost of Sales

In Millions of PLN	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues	3236,98	4729,87	6129,74	6698,34	7791,76	9980,60	16609,29	16537,53	16963,85
Cost of Sales	2930,78	4306,16	5562,64	6054,91	6990,49	8992,87	14818,50	14863,80	15151,60
% of Cost of Sales in Revenues	90,54	91,04	90,75	90,39	89,72	90,10	89,22	89,88	89,32

Since 2006 cost of sales has, consequently, a weight of about 90% of the value of revenues, as it can be seen in the table above. The company has been able to manage this ratio and to maintain a stable relation between both items. This relation allows us to establish a simple pattern to forecast cost of sales growth; since this seems to be a recurrent policy in the company we are going to assume that the cost of sales will always be 90% of the revenues. It is important to keep in mind that this margin will have a huge impact on valuation of the company.

Graph 4 - Relation between Revenues and Cost of Sales

The values are in Millions of PLN

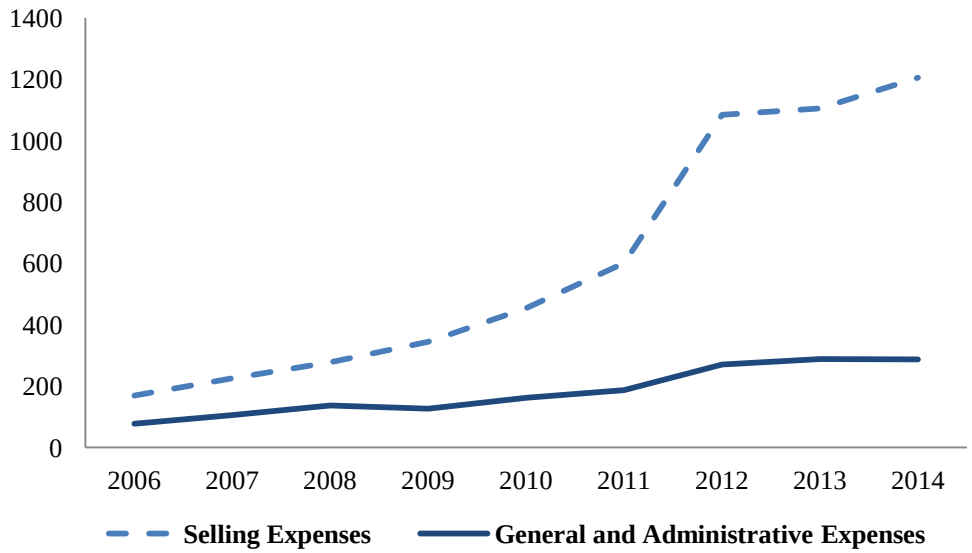


4.4 Operating Expenses

The difference between gross profit (revenues minus cost of sales) and profit on sales are the operating expenses that include selling expenses, such as sales, marketing and advertising, and general and administrative expenses. Even though the rate of growth has not been constant between these two items it moves in the same direction since 2006 (except in 2009 and in 2014).

Graph 5 - Relation between Selling Expenses and General and Administrative Expenses

The values are in Millions of PLN



Due to the nature of this item we can establish a close relation between selling expenses and revenues. Throughout the years the company has increasingly raising these costs in order to generate more revenues. This growth was based on CAGR of the last three years, which we believe that are the most representative years, with some adjustments. Since in our projections some business units are going to grow at relatively high rates, mainly Cash & Carry, Delikatesy Centrum and Eurocash Serwis, we decide to forecast this item at a higher rate than its CAGR (4,5% vs roundly 3,6%).

Table 12 - Growth of Selling Expenses

In Millions of PLN	2006	2007	2008	2009	2010	2011	2012	2013	2014	CAGR 2012-2014
Selling Expenses	169,31	225,44	278,06	344,62	454,27	601,10	1083,15	1104,39	1205,00	0,036

In the case of Eurocash Group, general and administrative expenses include depreciation and amortization (D&A), materials and energy and taxes and charges. The first two are the main drivers of general and administrative growth and we will connect their growth. In the case of D&A we can relate this item with capital expenditures (CAPEX) and fixed assets while materials and energy are related, in part, with revenues.

Table 13 - General and Administrative Expenses, Fixed Assets, D&A and CAPEX

In Millions of PLN	2006	2007	2008	2009	2010	2011	2012	2013	2014	CAGR 2012-2014
General and Administrative Expenses	77,02	105,74	137,05	126,83	161,77	186,62	270,40	287,61	287,13	2,02%
Property, Plant and Euipment	109,00	121,04	171,74	187,59	233,87	405,79	377,12	417,75	550,43	13,43%
D&A	32,05	35,69	42,96	49,32	60,27	72,80	113,36	116,46	125,29	3,39%
CAPEX	29,72	49,01	59,13	83,41	56,65	49,33	101,46	172,98	228,39	31,06%

In the last three years the growth between fixed assets, D&A and CAPEX has been significantly different. In Table 13 we also can see that the growth of general and administrative expenses is more similar with D&A.

Table 14 – Revenues Growth between 2006 and 2014

In Millions of PLN	2006	2007	2008	2009	2010	2011	2012	2013	2014	CAGR 2012-2014
Revenues	3236,98	4729,87	6129,74	6698,34	7791,76	9980,60	16609,29	16537,53	16963,85	0,71%
Growth	-	46,12%	29,60%	9,28%	16,32%	28,09%	66,42%	-0,43%	2,58%	-

Table 15 - Materials and Energy Growth between 2012 and 2014

In Millions of PLN	2011	2012	2013	2014	CAGR 2012-2014
Materials and Energy	66,72	131,37	124,58	118,89	-3,27%
Growth	-	96,90%	-5,16%	-4,57%	

In the other hand, in Tables 14 and 15 we can see that the growth of revenues and mainly of materials and energy has been lower than the previous items.

By combining all of this growth we achieve a rate of roundly 7,34% to forecast general and administrative expenses. We will adjust this rate to 5% since the higher value correspond to CAPEX and this item will suffer a deep cut due to the future plans of Eurocash Group.

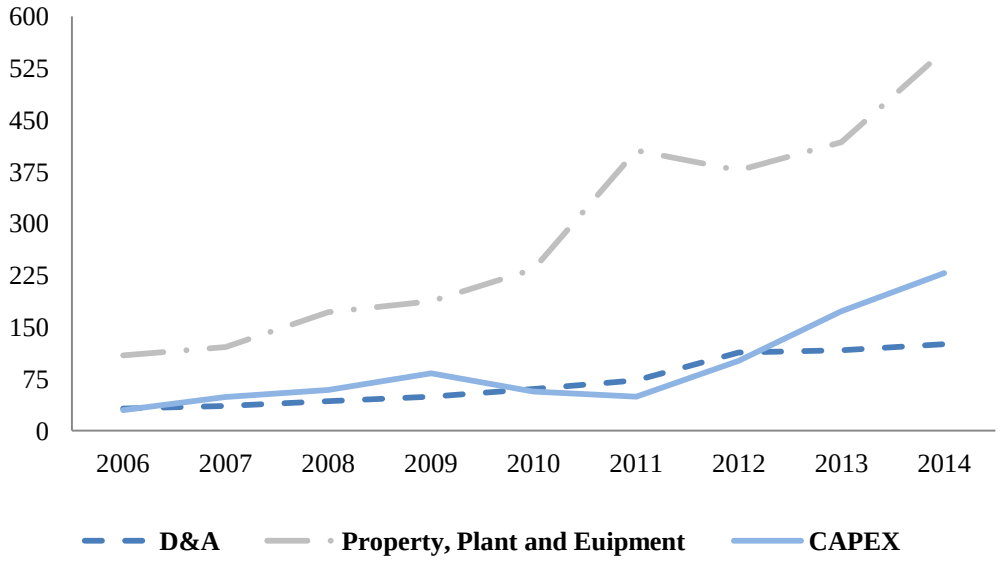
For the forecast of D&A alone we should relate its growth with tangible and intangible assets and consequently with CAPEX.

Table 16 - Projections of Growth for D&A and CAPEX

Growth	2015	2016	2017	2018	2019	2020
D&A	20%	20%	15%	15%	10%	7,5%
CAPEX	15%	10%	10%	7,5%	7,5%	5%

Graph 6 - Relation between Depreciation, Property Plant and Equipment and CAPEX

The values are in Millions of PLN



CAPEX is an investment made by the company to acquire or improve the current assets. In the last years the main driver of CAPEX has been the acquisitions of several business units. In 2014, the highest expense for capital expenditures was related with merger transactions: acquisition of shares in PayUp and Inmedio. Besides this there were also investments in distribution centers of the Eurocash Group, investments in Cash & Carry stores, the development of Delikatesy Centrum franchise network and also the investment in hardware and software solutions.

However based on the last consolidated annual report there are no future specific plans of this dimension and as a result the growth of CAPEX in our projections would be more moderate in the following years, Table 16. The investments for 2015 are related to: organic growth within the current structure of business units, and in particular with the launch of 8 or 10 new Eurocash Discount Cash & Carry stores, the development of Delikatesy Centrum franchise chain and the replacement investment. In order to finance these investments Eurocash Group aims to use the resources generated by the company. It is also praised that if other important investments should be undertaken, the Eurocash Group has adequate credit repayment capacity to secure the financing.

For these reasons the growth of CAPEX would not follow the CAGR of roundly 30% of the last three years, Table 16. The growth of tangible assets will be directly related with the

growth of CAPEX. We do not think that it is important to stress the role of intangible assets since their major role is related with acquisitions that we are putting aside for the next years.. On the other hand the growth of D&A, in the next years, is expected to be significantly higher than the previous years, mainly because of amortizations. We have been assisting to a constant increase in D&A; for example, between 2011 and 2012, there was a boost of more than 55% due to the acquisition of Tradis. The values in our projections, Table 16, are above the growth of CAPEX due to the latest investments.

The growth of other operating income and expenses, penalties for suppliers and inventory shortages for example and respectively were not object of a deep analysis due to its small significance. We used the approach of the CAGR of the last three years and within three years we adjusted the values for 7% and 4% respectively. The value of other operating expenses has, since 2006, always been higher than the other operating income, except in 2013. In our projections this situation remains but the difference is increasingly smaller.

4.5 Net Working Capital (NWC)

NWC is the operating liquidity of a company; it measures the short-term financial health by evaluating the difference between the current assets and liabilities, except the financial items such as cash and equivalents. In this category we can find current assets and liabilities like: trade receivables, inventories, current tax assets (receivables), short and long term prepayments and long term receivables, even though they are non-current, trade payables and current tax liabilities.

Due to the lack of information and discrimination it is hard to exalt the weight of each item through the years and consequently to forecast a variation in the NWC. So to achieve a reliable forecast we used three different measures: days sales of inventory (DSI), days sales outstanding (DSO) and days payable outstanding (DPO). The formula below, cash conversion cycle (CCC), establishes a relation between them.

$$CCC = DSI + DSO - DPO$$

CCC represents the number of days in which a company is able to transform its inputs into cash-flows, in other words, the time needed to sell the inventory, to collect the receivables and to make all of its payments timely. We used historical data for this purpose by analyzing the average of the last 9 years and the corresponding CAGR. We also incurred in the use of three

auxiliary formulas to get the projections of our three major items that we will use to forecast the variation of NWC: inventories, trade receivables and payables, appendices 16, 17 and 18.

$$Days\ Sales\ of\ Inventory = \left(\frac{Average\ Inventory}{Cost\ of\ Sales}\right) * 365$$

$$Days\ Sales\ Oustanding = \left(\frac{Trade\ Receivables}{Sales}\right) * 365$$

$$Days\ Payable\ Outstanding = \left(\frac{Trade\ Payables}{Cost\ of\ Sales}\right) * 365$$

Chart 4 - Historical Values of DSI, DSO and DPO

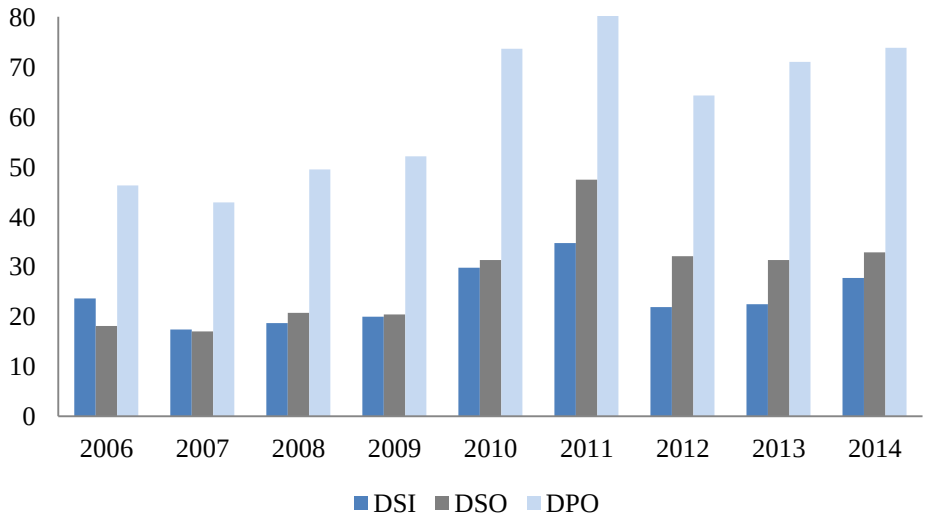


Chart 5 - Historical Values of Inventories, Accounts Receivable and Accounts Payable

The values are in Millions of PLN

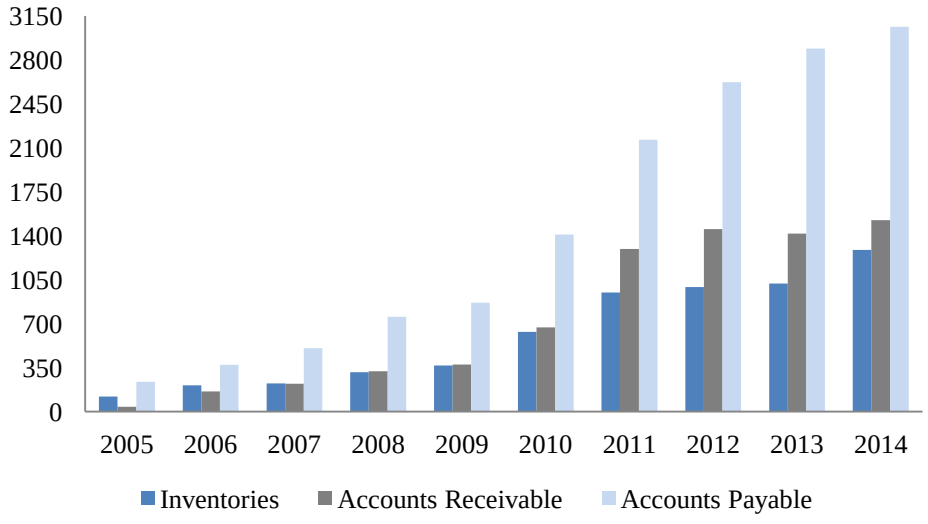


Table 17 - Projections for NWC and ΔNWC

In Millions of PLN	2015	2016	2017	2018	2019	2020
NWC	-356,86	-422,24	-490,03	-564,80	-640,86	-719,92
ΔNWC	-59,10	-64,81	-65,58	-70,44	-71,16	-73,12

4.6 Conclusion

Table 18 - Summary Table

	2015	2016	2017	2018	2019	2020
EBIT	213,88	285,63	319,93	347,77	354,61	347,84
EBIT(1-T)	179,66	239,93	268,74	292,12	297,87	292,18
D&A	150,35	180,42	207,48	238,60	262,46	282,15
Δ NWC	-59,10	-64,81	-65,58	-70,44	-71,16	-73,12
CAPEX	262,65	288,91	317,80	341,64	367,26	385,63
FCFF	126,46	196,24	223,99	259,53	264,23	261,82
Discount Rate	6,52%	6,52%	6,52%	6,52%	6,52%	6,52%
Discounted CF	126,46	184,23	197,41	214,72	205,22	4305,97

$$FCFF = EBIT(1-T) + Depreciation - \Delta NWC - CAPEX$$

$$Vi = \sum_{t=1}^{N} \frac{FCFFt}{(1+WACC)^t} + \frac{TV_N}{(1+WACC)^N}$$

$$TV = \frac{FCFF_N * (1+g)}{(WACC - g)}$$

In Table 18 it is visible that we are expecting positive FCFF already in the first year of forecasts and unlike 2014. We established an explicit period between 2015 (year 0) and 2020 (year 5) years which is the time we believe it is needed for the company to finish the restructuring of its businesses and to fully grow. The number of shares used was roundly 138,69 million as it was reported in the last consolidated annual report and the final growth rate was 2%. Through this valuation we reached a price target of roundly PLN 37,74.

Chart 6 - Projections of EBIT, Depreciation, ΔNWC and CAPEX

The values are in Millions of PLN

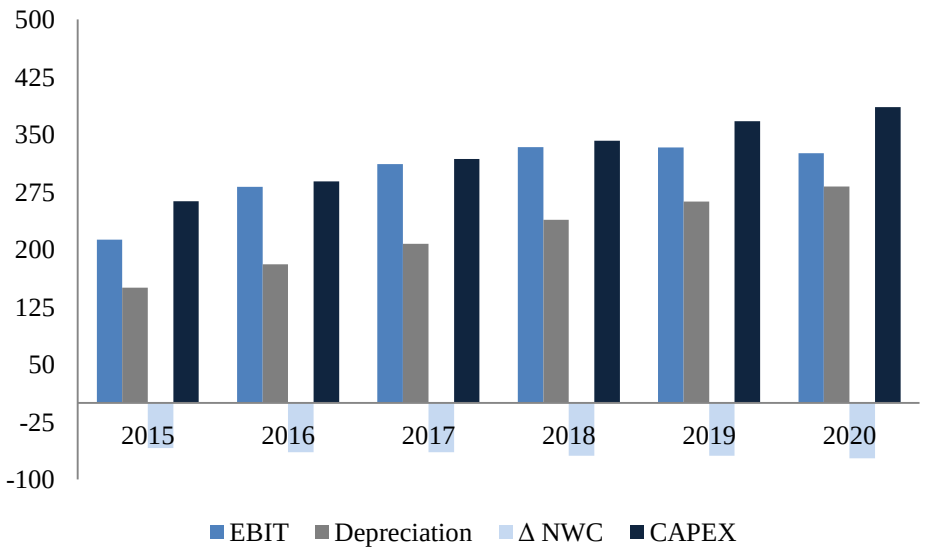
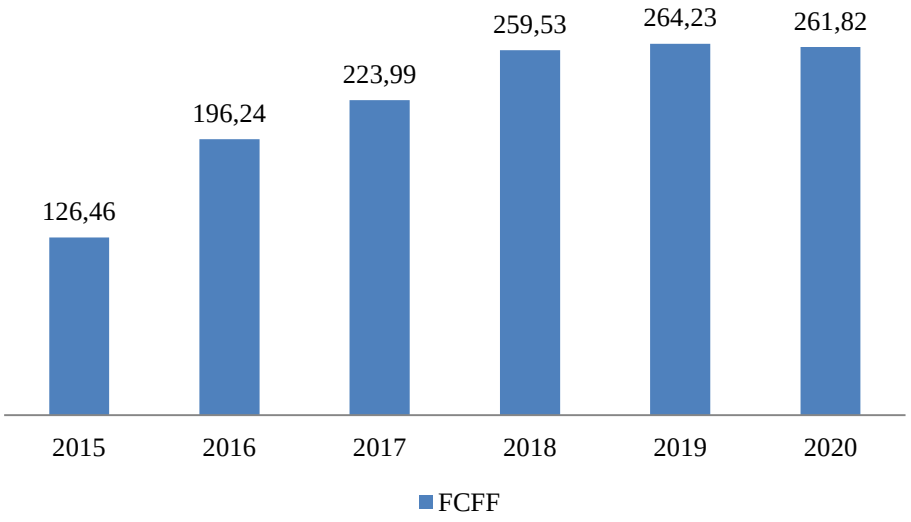


Chart 7 - Evolution of FCFF between 2015 and 2020 (Projections)

The values are in Millions of PLN



5. Sensitivity Analysis

Sensitivity analysis is a procedure that tests the final outcome by using different scenarios. We will test our valuation by changing some variables like the cost of sales margins, the final growth rate, the cost of debt and the capital structure. The last two variables will have a direct impact in WACC.

The cost of sales margins is a very important item in this valuation: for each zloty sold roundly 90 cents are soaked by the merchandise costs. It is important to notice that, everything else costs, if this margin decrease the target price will increase. If we decrease this margin by 10% the target price will be more than 8 times superior.

Table 19 - Sensitivity Analysis (Variation of Cost of Sales Margins)

	Scenario 1	Scenario 2	Scenario 3
Cost of Sales Margins	90%	80%	70%
Final Growth Rate	2%	2%	2%
Cost of Debt	4,89%	4,89%	4,89%
Capital Structure - D/V	40%	40%	40%
Price Target	37,74	316,01	594,28

On the other side the final growth rate and the target price move in the same direction. A higher final growth rate, with everything else costs, means a higher target price. We are assuming a final growth rate of 2% but variations of 1 pp will have a strong impact on the target price.

Table 20 - Sensitivity Analysis (Variation of Final Growth Rate)

	Scenario 1	Scenario 2	Scenario 3
Cost of Sales Margins	90%	90%	90%
Final Growth Rate	2%	3%	4%
Cost of Debt	4,89%	4,89%	4,89%
Capital Structure - D/V	40%	40%	40%
Price Target	37,74	46,94	63,45

The cost of debt and the capital structure, as we mentioned above, have a direct impact on the WACC. If the cost of debt increases the WACC will increase and consequently the target price will decrease. The capital structure has also a strong impact in the valuation; as the company is more financed by debt the lower is the WACC, so the conclusion is the opposite of the cost of debt.

Table 21 - Sensitivity Analysis (Variation of Cost of Debt)

	Scenario 1	Scenario 2	Scenario 3
Cost of Sales Margins	90%	90%	90%
Final Growth Rate	2%	2%	2%
Cost of Debt	4,89%	5,89%	6,89%
Capital Structure - D/V	40%	40%	40%
Price Target	37,74	35,09	32,79

Table 22 - Sensitivity Analysis (Variation of Capital Structure)

	Scenario 1	Scenario 2	Scenario 3
Cost of Sales Margins	90%	90%	90%
Final Growth Rate	2%	2%	2%
Cost of Debt	4,89%	4,89%	4,89%
Capital Structure - D/V	40%	50%	60%
Price Target	37,74	41,48	46,03

6. Multiples

The multiples valuation will serve as a complement to the DCF model. The most important task in this process is to find the most suitable peer group and this choice was made based on some characteristics like: market capitalization, revenue growth (year over year), earnings per share growth (year over year), ROE, return on invested capital (ROIC) of last year, the ratio of debt/equity also of last year, the annualized daily volatility of prices of the last semester, and lastly, the EBITDA margin of last year. We also associate to this analysis the "inherent risk" of the country, through the risk-free rate. Not all of these characteristics have the same importance but due to the lack of information, in some cases, we decide to add more.

In a first stage of the process we took from Bloomberg several data for companies that belong to the food and staples retailing industry (consumer staples sector). Then we divided these companies into three groups: global, Eastern and Western Europe. It was not necessary a deeply analysis to notice that Eurocash Group presented more similarities with the third group. The same exercise was made for Poland but the number of companies presented was already a small group and furthermore none of them showed similarities with Eurocash Group. There was also a huge lack of information for important characteristics.

The second stage was to look at the characteristics and to choose our peer group in each of the three groups. We chose the companies with two or more similar characteristics with Eurocash Group.

In the first group the differences increase mainly due to the localization and consequently to distinct markets. The peer group created in this category includes 4 companies from Italy, Canada and China. The risk-free rates of these 3 countries are similar with the one we are using for valuing Eurocash Group, appendix 13.

Table 23 - Multiples for Global Companies

Companies	PER	P/FCF	EV/EBITDA	EV/Sales	EV/EBITDA T12M	EV/Sales T12M
Beijing Hualian Hypermarket	47,4	N.A.	1,44	0,04	N.A.	N.A.
The North West Company	19,5	21,01	9,04	0,8	N.A.	0,9
Zhongbai Holdings Group	37,12	N.A.	12,82	0,37	N.A.	0,34
Marr SpA	20,67	15,3	11,5	0,83	11	0,71
Eurocash Group	25,06	86,36	10,69	0,26	12,5	0,35
Average of the Peer	*29,95*	*40,89*	*9,098*	*0,46*	*11,75*	*0,575*

The table above presents us four different multiples: two of them are equity multiples and the other two are EV multiples and were calculated from two different ways. We decided to present all of these multiples due to the lack of information of some and to present more strong conclusions. The EV multiples use the current enterprise value and an estimation for EBITDA and sales as well as their trailing values for the last 12 months. Even though the disuse of P/FCF we still decide to incorporate it in this analysis. In appendix 12 it is possible to see the similarities between the companies.

Through the comparison of the values of the multiples and the respective average of the peer we can see a dispersion of the values. For the PER and EV/Sales multiples the values of Eurocash Group are below the average. While, for instance, the PER of Beijing Hualian Hypermarket share price is 47,4x current earnings, the higher one, Eurocash's is only 25,06x. It means that, in this case, the company is being undervalued through this measure.

On the other side, for the rest of the multiples the situation is the opposite and Eurocash Group is trading above the average of the peer.

In the second group we got 29 companies from: Poland, Russia, Turkey and Romania mainly. By analyzing the average of the characteristics we found out that Eurocash Group does not follow the trend. Through a careful scrutiny it is easy to understand the reason behind; this group of companies has several outliers that have a great impact in the overall average. In addition the more comparable companies are not as similar as we would expect so we decided not to use Eastern companies, although the localization of Poland.

Table 24 - Multiples for Western Europe Companies

Name	PER	P/FCF	EV/EBITDA	EV/Sales	EV/EBITDA T12M	EV/Sales T12M
Majestic Wine PLC	12,15	35,39	7,27	0,73	8,75	0,9
Hawesko	25,52	13,74	11,07	0,79	14,94	0,85
Fyffes PLC	10,25	59,58	7,95	0,41	6,82	0,37
Booker Group PLC	26,13	26,14	16,65	0,56	12,67	0,41
Distribuidora Internacional de Alimentación	21,82	58,79	8,8	0,56	7,98	0,54
J. Sainsbury PLC	151,61	169,95	5,24	0,28	4,41	0,27
Eurocash Group	25,04	86,36	10,68	0,26	12,5	0,35
Average of the Peer	*38,93*	*64,28*	*9,67*	*0,51*	*9,72*	*0,53*

In the last group, Table 24, we found the most similar peer with Eurocash Group, nevertheless the situation is similar with global companies: through the multiples PER and EV/Sales we can see that the Eurocash Group values are below the average of the peer while in the others the situation is contrary.

We were not able to reach a consensus in this valuation method. Even though these companies present some similar characteristics they are trading at very different values. Consequently we tried to focus our analysis in the two most used multiples: PER and EV/EBITDA. In this case, and using the data from companies present in Western Europe we took a wide analysis.

By analyzing the PER multiple it is important to look deeply at some characteristics like ROIC and sales growth. In appendix 11 we can see some resemblances in these characteristics for Eurocash Group and mainly for Majestic Wine PLC and Fyffes PLC. In both cases Eurocash Group is trading, prominently, at a premium. It is also important to notice that besides these two companies and J. Sainsbury PLC the other companies present similar PER; this multiple is apparently the one with lower value dispersion since estimated earnings are usually normalized.

Table 25 - Analyzing PER Multiple (Western Europe Companies)

	First Group	Second Group	Third Group
Average PER	38,93	20,15	15,81
Net Income (PLN m)	183	183	183
Number of Shares (PLN m)	138	138	138
Price Target (PLN)	51,63	26,72	20,97

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In Table 25 we divided again the Western Europe companies into two new groups. The first group corresponds to the initial division and we reach a price target of PLN 51,63. In the second division we only excluded J. Sainsbury PLC since his PER is very different from the other companies; in this case the price target drops to, approximately, half. The third group includes only three companies: Eurocash Group, Majestic Wine PLC and Fyffes PLC due to the similarities of ROIC and sales growth. Here we find the smaller price target, PLN 20,97.

The average of the three different price targets lead us to a value of, roundly, PLN 33,11. This value is slightly smaller than the one founded in the DCF model so we will make some adjustments to our final price target.

Through the EV/EBITDA we can relate the likeness with the EBITDA margin. Booker Group PLC presents a similar EBITDA margin as it is visible in appendix 20 as well. By looking at the EV/EBITDA T12M we can see the effects of this similarity, while Eurocash Group is trading at 12,5 Booker is trading at 12,67. In this case Eurocash Group is trading at a discount but the values are very similar however we will stick to the valuation of PER since it is the most widely used among equity researchers.

7. Comparison with Research Note

We chose to compare our results with the research note published by Wood & Company, on November 5th of 2014. This comparison cannot be direct since in this thesis we had already the access to the consolidated annual report of 2014 and the explicit period is not the same.

Wood & Company research note set a price target of PLN 39,0 for Eurocash Group, while shares were traded at PLN 32,2, therefore the company recommendation was to buy. This price target was based on a DCF valuation of PLN 38,2 and a multiples approach of PLN 39,8.

Besides this the research team used the same methods as us to perform the valuation: the DCF model and the multiples method.

7.1 Business Fundamentals Differences

Table 26 - Business Fundamentals Differences between Wood & Company and Thesis

In Millions of PLN	2015	2016	2017	2018	2019	2020
Revenues						
Thesis	17969,30	19282,65	20357,21	21399,34	22265,15	23029,80
Wood & Company	20643	21971	23194	-	-	-
EBITDA						
Thesis	236,22	295,82	328,23	353,95	358,41	348,98
Wood & Company	504	556	602	-	-	-
EBITDA margin						
Thesis	0,01	0,02	0,02	0,02	0,02	0,02
Wood & Company	0,02	0,03	0,03	-	-	-
D&A						
Thesis	150,35	180,42	207,48	238,60	262,46	282,15
Wood & Company	164	188	199	193	-	-
EBIT						
Thesis	213,88	285,63	319,93	347,77	354,61	347,84
Wood & Company	340	369	403	-	-	-
CAPEX						
Thesis	262,65	288,91	317,80	341,64	367,26	385,63
Wood & Company	240,00	212,00	223,00	234,00	-	-
Increase in NWC						
Thesis	-59,10	-64,81	-65,58	-70,44	-71,16	-73,12
Wood & Company	-100,00	-36,00	-32,00	-29,00	-	-
FCFF						
Thesis	126,46	196,24	223,99	259,53	264,23	261,82
Wood & Company	256	272	301	321	-	-

Revenues: The projections of Wood & Company are more auspicious than ours at least until 2017. They expect that in 2017 Eurocash Group would achieve a level of revenues that we are not projecting not even in 2020. The biggest difference is the growth between 2014 and 2015, even though at the time the investment bank did not had the exactly value for the revenues for 2014 their projection is quite accurate (16963 against 16937 millions of PLN). The research team believes that Eurocash Group is recovering from a not so good year (2013) due to its investment in Tradis, the increase of Delikatesy Centrum store chain and its return to merger and acquisition market (Kolporter, Inmedio and Rogala).

EBITDA: EBITDA values between the thesis and the research note are very different but they are getting closer. Our projections are almost half of the projections of Wood & Company in the first years. Due to this and to higher revenues, as we mentioned previously, the research note reaches higher values for the EBITDA margin.

D&A: The values of D&A are quite similar between the thesis and the research note. However, when in our projections we expect a continuously positive growth and in 2018 Wood & Company projects a drop in the values. Nevertheless their values are relatively stable in the last years.

CAPEX: These values are very similar mainly in 2015. The research team reports that is expecting limited CAPEX perhaps because of to the future plans announced for Eurocash Group that we also took into consideration.

Investment in NWC: In both works the conclusions reached appoint to a negative variation of the NWC. In our case, not only the current liabilities are bigger than the current assets but also this difference is increasing.

Table 27 - Business Differences between Wood & Company and Thesis

	Wood & Company	Thesis
Methodology Used	Discounted Cash Flows based on WACC	Discounted Cash Flows based on WACC
Cost of Equity	0,098	0,081
Risk Free Rate	0,036	0,021
Market Risk Premium	0,045	0,057
Levered Beta	1,39	1,053
Cost of Debt	0,039	0,049
Tax Rate	0,12-0,13	0,16
Discount Rate	WACC - 7,3%	WACC - 6,5%
Terminal Growth Rate	1,60%	2,00%

We could also find other differences between the thesis and the research note in Table 27. First of all the WACC is different. While we used a value of 6,5% to discount our cash-flows Wood & Company applied a WACC of 7,3%. This difference of roundly 0,8 pp is mainly because of the different risk-free rates, the levered beta, the cost of equity and the MRP.

The cost of equity used by the research team is 1,7 pp higher than ours (9,8% against 8,1%). This means that Wood & Company are assuming that equity holders require a higher return. At the same time their risk-free rate is higher than ours by 1,5 pp but there is no explanation about this value. Their levered beta is also higher than ours; their unlevered beta was based on Damodaran's data so we are assuming that the levered beta came also from there. By analyzing deeper Damodaran's data we found out that the levered beta for United States (US) food wholesalers sector is 1,4 by January 2015. Maybe this was the beta used but we prefer to use a sample from Western Europe which we believe is more representative. The MRP used by the research team is quite low when comparing to other markets.

It also important to stress some aspects related with the effective tax and the final growth rate. The lower effective tax rate used is related with the effective tax rate used in 2013 by Eurocash Group, 2% due to the recognition of deferred tax asset. The final growth rate of 1,6% is in line with their "expectations for the FMCG distribution market over the cycle".

About the multiples valuation they suggest a value of PLN 39,8 against ours of PLN 33,11. They use both EV/EBITDA and PER to come up with this value.

Table 28 - Multiples on the Current Market Price and Wood and Company' Price Target

	Price	EV/EBITDA (x)				P/E (x)			
	PLN	2013	2014E	2016E	2015E	2013	2014E	2016E	2015E
Market Price	33,0	12,6x	12,5x	9,8x	8,6x	20,2x	24,2x	18,7x	16,8x
Price Target	38,2	14,6x	14,6x	11,5x	10,1x	24,0x	28,7x	22,2x	20,0x

Source: Wood Research

Even though these differences the conclusions reached are not so different. In our DCF valuation we reached a price target of roundly PLN 37,74 while Wood & Company reached a value of PLN 38,2. With the complement of valuation multiples our valuation drops to PLN 35,42 and theirs increase to PLN 39. In both cases the recommendations is to buy.

7.2 Conclusion

After a deep analysis of Eurocash Group company and industry, as well as a look at the macroeconomic environment, we came up with a price target of PLN 35,42. This value was a combination of a DCF and a multiples valuation since they were the most appropriate models.

In both cases we took into consideration the strategy followed until now and the plans for the future announced by the company. In 2015 Eurocash Group is focuses on the organic growth of every business units. However for the upcoming years the company also aims to pursuit the strategy of taking over other wholesalers and franchise networks in order to consolidate its position, even though there are no specific plans.

In the last years, the company has been acquiring and merging into several brands in order to grow and to become more competitive. Eurocash Group has not only focused on its core business but also on other challenges, like Pay Up.

Our explicit period between 2015 and 2020 is, in our point of view, the time needed to finish the last steps of the business restructuring and to boost the revenues with these major investments. Eurocash Group has growing at an impressive level in the last years and has becoming a leader and a reference in various areas. The business unit of Eurocash Serwis, for example, is a reflection of that since the company has become the largest entity in the tobacco product distribution market with the merger with Service FMCG.

In this sense we are very confident and optimistic with our projections and the similar results with Wood and Company gives us more credibility.

8. Appendices

Appendix 1 – Calculation of the MRP

Date	Price (Eurocash Group)	Rm(e)	Price (10 Year Poland Government Bond)	Rf	Rm(e)-Rf
31-03-2014	39,20	0,00	4,44	-0,01	0,02
30-04-2014	39,16	0,00	4,12	-0,07	0,07
30-05-2014	43,50	0,11	3,772	-0,08	0,20
30-06-2014	38,10	-0,12	3,442	-0,09	-0,04
31-07-2014	38,55	0,01	3,399	-0,01	0,02
29-08-2014	34,50	-0,11	3,104	-0,09	-0,02
30-09-2014	35,10	0,02	3,044	-0,02	0,04
31-10-2014	36,20	0,03	2,533	-0,17	0,20
28-11-2014	37,20	0,03	2,375	-0,06	0,09
30-12-2014	39,20	0,05	2,12	-0,11	0,16
30-01-2015	36,82	-0,06	1,972	-0,07	0,01
27-02-2015	37,77	0,03	2,151	0,09	-0,06
Average Rm(e)-Rf =5,69%					

Appendix 2 – Evolution of Debt and Equity

In Millions of PLN	2006	2007	2008	2009	2010	2011	2012	2013	2014
12 Months Ending	2006-12-31	2007-12-31	2008-12-31	2009-12-31	2010-12-31	2011-12-31	2012-12-31	2013-12-31	31-12-2014
Total debt	88,8	86,9	99,4	59,8	406,2	1.524,8	906,6	497,7	785,5
Short-Term Debt	76,0	75,7	76,0	37,3	126,4	838,3	502,9	411,7	694,6
Long Term Debt	12,7	11,2	23,4	22,5	279,8	686,5	403,7	86,0	90,9
Total Equity	199,0	233,4	283,5	366,8	457,1	548,5	777,5	884,4	1.034,1
Debt + Equity	287,805877	320,285426	382,836094	426,573579	863,308478	2073,26955	1684,082638	1.382,0	1.819,6

Appendix 3 – Historical Revenues of Cash & Carry and Delikatesy Centrum

Revenues (Millions of PLN)	2007	2008	2009	2010	2011	2012	2013	2014
Cash & Carry	2116,57	2593,20	3126,17	3440,84	3558,6	4075,93	4591,21	4737,33
Delikatesy Centrum	492,92	687,39	873,62	1088,48	1304,2	1475,52	1654,22	1797,62

Appendix 4 – Projection of Revenues for Cash & Carry and Delikatesy Centrum

Revenues (Millions of PLN)	2015	2016	2017	2018	2019	2020
Cash & Carry	4640,39	4939,05	5152,20	5374,55	5535,78	5701,86
Delikatesy Centrum	2178,64	2376,25	2471,30	2570,15	2672,96	2779,88

Appendix 5 – Sales per Warehouse for Cash & Carry and Delikatesy Centrum

Revenues per Warehouse	2007	2008	2009	2010	2011	2012	2013	2014	Average
Cash & Carry	20,75	23,36	26,05	26,67	25,98	27,54	29,06	28,20	25,95
Delikatesy Centrum	1,67	1,83	1,87	1,94	2,01	1,91	1,89	1,79	1,86

Appendix 6 – Historical Revenues of Different Business Units of Eurocash Group

Revenues (Millions of PLN)	2006	2007	2008	2009	2010	2011	2012	2013	2014
Eurocash Dystrybucja (Tradis)	-	-	-	-	-	-	-	4797,78	4265,10
Eurocash Alkohole	-	-	-	-	957,09	1931,00	1951,80	1891,54	2087,21
Eurocash Serwis	1364,56	2266,70	2519,50	2420,91	2380,57	2523,00	2638,40	2946,95	3291,00
Eurocash Gastronomia	-	-	1000,79	1042,12	470,86	600,90	701,91	614,29	535,98
Other	-	-	-	-	-	-	-	122,82	249,61

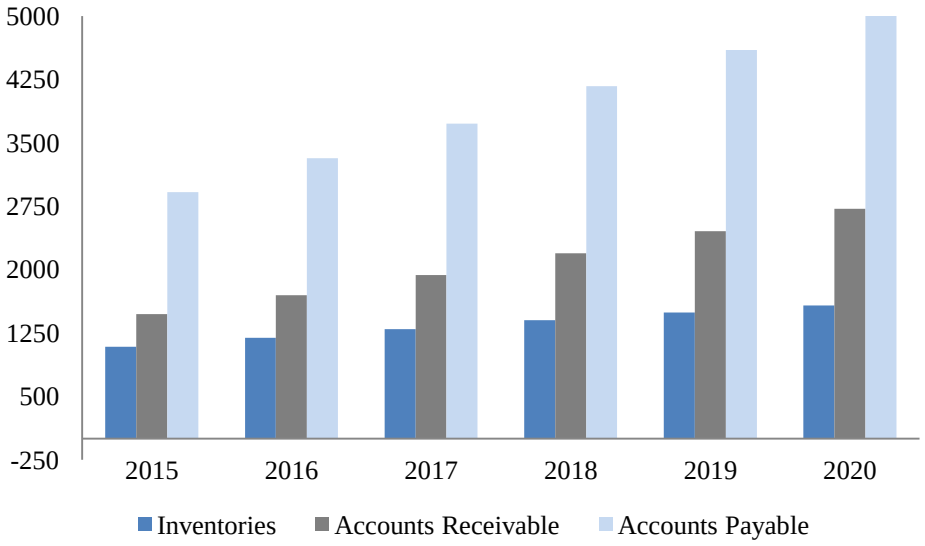
Appendix 7 – Projections of Revenues for Different Business Units of Eurocash Group

Revenues (Millions of PLN)	2015	2016	2017	2018	2019	2020
Eurocash Dystrybucja (Tradis)	4371,73	4481,02	4570,64	4662,05	4755,30	4850,40
Eurocash Alkohole	2212,44	2323,06	2439,22	2536,79	2638,26	2717,41
Eurocash Serwis	3620,10	3982,11	4300,68	4644,73	4876,97	5120,82
Eurocash Gastronomia	509,18	504,09	509,13	514,22	524,51	535,00
Other	436,82	677,07	914,04	1096,85	1261,38	1324,44

Appendix 8 – Projections of Values for D&A and CAPEX

In Millions of PLN	2015	2016	2017	2018	2019	2020
D&A	150,35	180,42	207,48	238,60	262,46	282,15
CAPEX	262,65	288,91	317,80	341,64	367,26	385,63

Appendix 9 – Projections of Values for Inventories, Accounts Receivable and Payable



Appendix 10 – Projections for DSI, DSO and DPO

Net Working Capital	2015	2016	2017	2018	2019	2020
DSI	24,43	24,86	25,30	25,76	26,22	26,68
DSO	29,79	31,83	34,00	36,32	38,80	41,45
DPO	65,65	69,16	72,85	76,74	80,84	85,16
Operating Cycle (1+2)	54,07	56,35	58,73	61,20	63,78	66,47
Cash Conversion Cycle (CCC) (4-3)	-11,77	-13,28	-14,99	-16,91	-19,07	-21,52

Appendix 11 – Peer Group Characteristics (Western Europe)

Companies	Market Capitalization (PLN)	Revenues Growth	EPS	ROE	ROIC	Debt/Equity	Volatility	EBITDA Margin (%)
Majestic Wine PLC	1141102795	1.36	0.43	18.36	19.26	3.97	40	10.59
Hawesko	1363211676	1.58	-19.44	21.69	11.04	37.88	24.2	6.32
Fyffes PLC	1412338313	2.01	32.4	20.54	16.7	18.34	36.64	5.35
Booker Group PLC	15689453170	17.27	34.37	19.47	18.24	0	28.73	2.85
Distribuidora Internacional de Alimentación	18739953031	-18.62	1.42	117.33	21.29	231.52	31.11	6.56
J. Sainsbury PLC	29199617606	2.77	17.81	0.57	9.01	46.36	34.82	6.12
Eurocash Group	4527922765	2.58	-18.75	19.14	20.06	66.94	34.91	2.43

Appendix 12 – Peer Group Characteristics (Global)

Companies	Market Capitalization (PLN)	Revenues Growth	EPS	ROE	ROIC	Debt/Equity	Volatility	EBITDA Margin (%)
Beijing Hualian Hypermarket	3228216761	3.45	-25	3.72	N.A.	66.99	37.87	2.87
The North West Company	3659383509	5.27	-2.26	19.3	13.54	61.16	21.35	8.96
Zhongbai Holdings Group	3999524328	4.95	-16.67	6.3	3.97	59.3	30.21	3.56
Marr SpA	4335212703	5.51	8.2	20.55	12.14	69.48	26.74	6.45
Eurocash Group	4532083184	2.58	-18.75	19.14	20.06	66.94	34.91	2.43

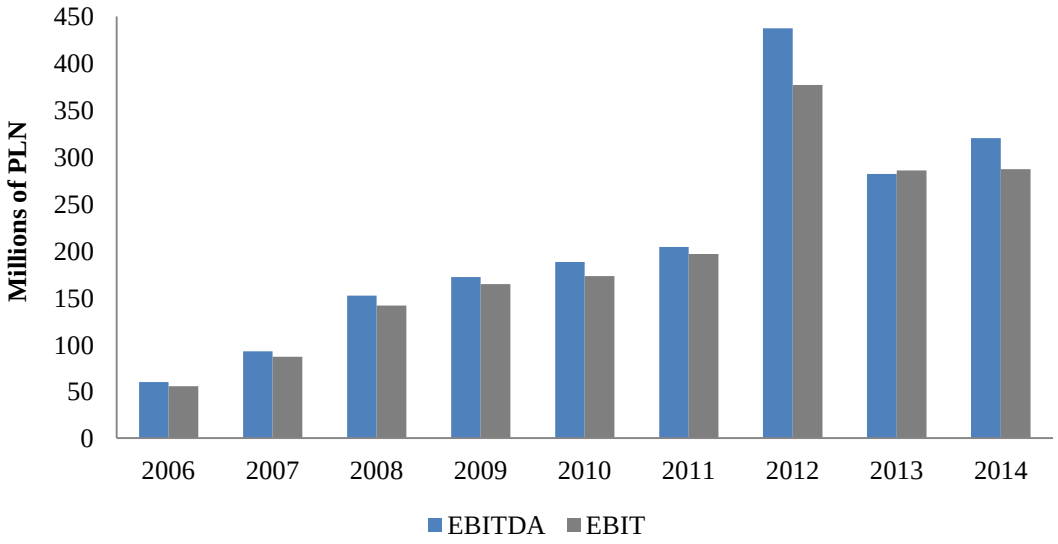
Appendix 13 – Peer Group Risk-Free Rate (Global)

Companies	Country	Risk-Free Rate
Beijing Hualian Hypermarket	China	3.5
The North West Company	Canada	1.32
Zhongbai Holdings Group	China	3.5
Marr SpA	Italy	1
Eurocash Group	Poland	2.27

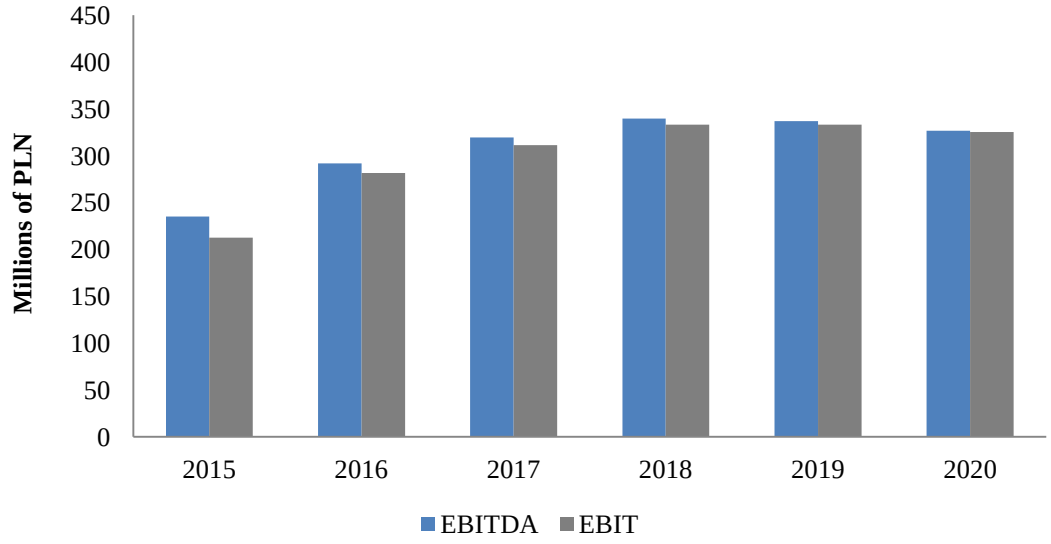
Appendix 14 – Peer Group Risk-Free Rate (Western Europe)

Companies	Country	Risk-Free Rate
Majestic Wine PLC	United Kingdom	1.51
Hawesko	Germany	0.22
Fyffes PLC	Irland	0.79
Booker Group PLC	United Kingdom	1.51
Distribuidora Internacional de Alimentación	Spain	1.28
J. Sainsbury PLC	United Kingdom	1.51
Eurocash Group	Poland	2.27

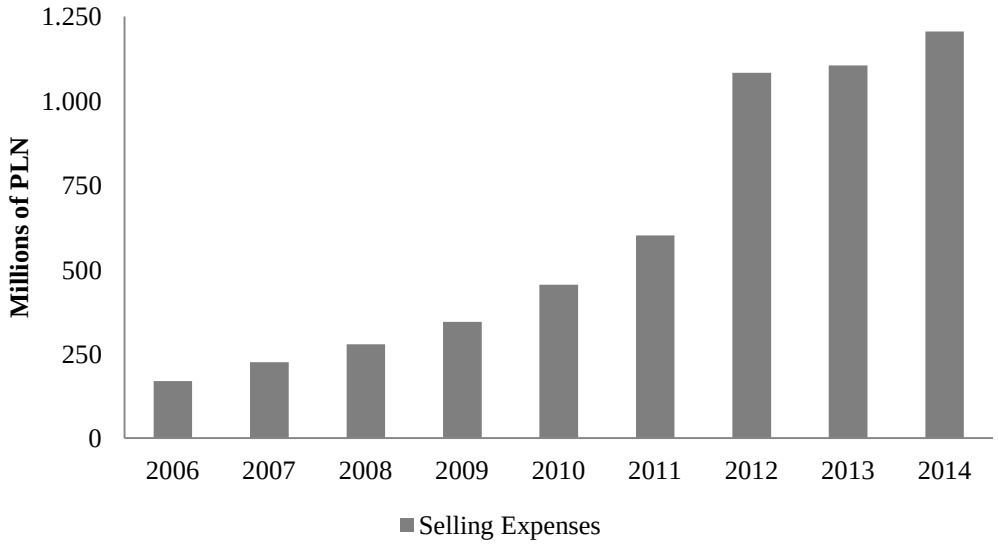
Appendix 15 – Historical Values for EBITDA and EBIT



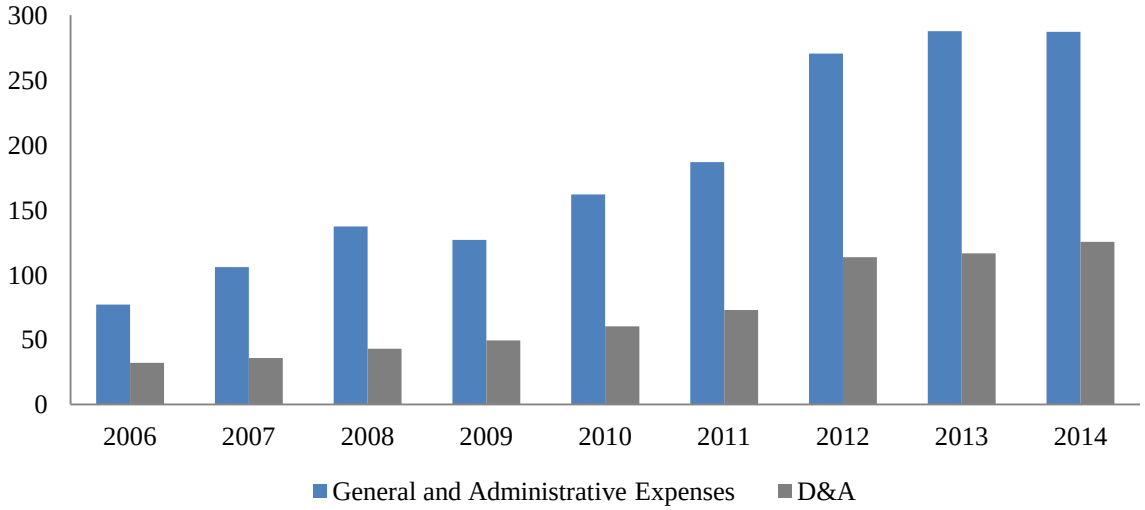
Appendix 16 – Projections for EBITDA and EBIT



Appendix 17 – Evolution of Selling Expenses



Appendix 18 – Evolution of General and Administrative Expenses and D&A



Appendix 19 – Historical Values to Achieve EBIT

In Millions of PLN	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenue	3236,98	4729,87	6129,74	6698,34	7791,76	9980,60	16609,29	16537,53	16963,85
Cost of Sales	2930,78	4306,16	5562,64	6054,91	6987,97	8988,87	14818,50	14863,80	15151,60
Gross Profit	306,19	423,70	567,09	643,43	803,79	991,72	1790,79	1673,73	1812,25
Selling Expenses	169,31	225,44	278,06	344,62	454,27	601,10	1083,15	1104,39	1205,00
General and Administrative Expenses	77,02	105,74	137,05	126,83	161,77	186,62	270,40	287,61	287,13
EBITDA	59,86	92,52	151,99	171,97	187,75	204,01	437,25	281,73	320,12
Other Operating Income	8,18	12,32	15,21	25,31	26,05	54,84	38,30	77,31	57,99
Other Operating Expenses	12,82	18,06	25,80	32,89	40,83	62,53	98,68	73,36	91,28
EBIT	55,22	86,78	141,41	164,39	172,97	196,32	376,86	285,69	286,84

Appendix 20 – Projections to Achieve EBIT

In Millions of PLN	2015	2016	2017	2018	2019	2020
Revenue	17969,30	19282,65	20357,21	21399,34	22265,15	23029,80
Cost of Sales	16172,37	17354,39	18321,49	19259,41	20038,63	20726,82
Gross Profit	1796,93	1928,27	2035,72	2139,93	2226,51	2302,98
Selling Expenses	1259,23	1315,89	1375,11	1436,98	1501,65	1569,22
General and Administrative Expenses	301,48	316,56	332,38	349,00	366,45	384,78
EBITDA	236,22	295,82	328,23	353,95	358,41	348,98
Other Operating Income	66,59	76,46	81,82	87,54	93,67	100,23
Other Operating Expenses	88,93	86,65	90,12	93,72	97,47	101,37
EBIT	213,88	285,63	319,93	347,77	354,61	347,84

Appendix 21 – All Companies Characteristics (Western Europe)

Companies	Market Capitalization (PLN)	Revenues Growth	EPS	ROE	ROIC	Debt/Equity	Volatility	EBITDA Margin (%)
AXFOOD AB	10422165824	2,56	11,06	28,09	27,62	3,37	24,99	5,51
SLIGRO FOOD GROUP NV	6914293133	2,94	1,94	12,1	9,36	21,75	17,11	5,79
KESKO OYJ-B SHS	16086581969	-2,62	-44,57	4,3	8,41	22,03	27,61	3,33
COLRUYT SA	25862942700	4,1	-0,88	20,29	18,22	1,63	19,42	7,94
SONAE	11603520259	3,17	N.A.	8,86	N.A.	99,95	31,71	8,38
CONVIVIALITY RETAIL PLC	544046220	-4,32	N.A.	11,52	15,54	0	23,56	3,31
MCCOLL'S RETAIL GROUP PLC	1015298352	6,1	47,83	11,44	18,48	41,59	35,58	5,6
TOTAL PRODUCE PLC	1514659495	1,11	-5,86	13,45	8,13	46,49	27,82	2,46
GREGGS PLC	5811415274	5,45	55,19	15,56	17,83	0	33,31	11,9
DELHAIZE GROUP	35635405628	1,2	-15,91	1,69	5,36	50,36	23,5	5,62
KONINKLIJKE AHOLD NV	67291179826	0,49	5,16	10,95	10,51	66,97	17,96	6,62
WM MORRISON SUPERMARKETS	27156410345	-4,89	-218,96	-18,37	N.A.	70,09	32,88	4,12
JERONIMO MARTINS	30214351486	7,19	-21,09	29,16	14,4	43,56	40,85	5,73
CARREFOUR SA	95325180228	-0,27	17,4	7,89	7,07	135,7	25,45	5,28
TESCO PLC	111128380495	0,24	24,54	1,1	7,37	76,16	39,33	6,17

Appendix 22 – All Companies Multiples (Western Europe)

Companies	P/E	P/FCF	EV/EBITDA	EV/Sales	EV/EBITDA T12M	EV/Sales T12M
AXFOOD AB	21,56	15,99	10,18	0,57	14,94	11,13
SLIGRO FOOD GROUP NV	24,12	19,23	10,47	0,65	16,1	9,62
KESKO OYJ-B SHS	41,11	26,96	9,08	0,45	16,6	9,81
COLRUYT SA	17,51	23,28	8,68	0,67	12,37	7,19
SONAE	19,15	11,94	10,53	0,83	17,63	8,8
CONVIVIALITY RETAIL PLC	23,85	21,43	7,27	0,25	8,46	8,55
MCCOLL'S RETAIL GROUP PLC	17,01	11,42	5,92	0,23	9,13	4,37
TOTAL PRODUCE PLC	12,63	8,33	7,41	0,16	10,29	6,18
GREGGS PLC	27,56	13,81	9,77	1,2	15,25	7,11
DELHAIZE GROUP	47,1	11,33	6,41	0,4	11,44	6,9
KONINKLIJKE AHOLD NV	20,14	13,5	7,9	0,5	13,36	6,45
WM MORRISON SUPERMARKETS	N.A.	8,51	8,05	0,43	14,58	9,35
JERONIMO MARTINS	25,81	19,28	10,51	0,59	17,22	11,02
CARREFOUR SA	37,29	N.A.	6,54	0,34	10,43	5,98
TESCO PLC	23,14	30,76	9,68	0,47	20,74	8,99

Appendix 23 – All Companies Characteristics (Global)

Companies	Market Capitalization (PLN)	Revenues Growth	EPS	ROE	ROIC	Debt/Equity	Volatility	EBITDA Margin (%)
WUMART STORES INC-H	3303372206	11,27	-13,89	10,54	-4,13	28,52	36,62	0,91
INGLES MARKETS INC-CLASS A	3772915733	2,61	57,92	14,04	6,01	244,97	40,93	5,76
PHILIPPINE SEVEN CORP	4143852168	N.A.	27,85	27,75	25,32	22,04	34,06	10,69
SPARTANNASH CO	4153705639	203,51	22,66	10,82	8,15	76,32	25,32	2,57
ANDERSONS INC/THE	4555331555	-18,99	80,47	14,52	3,99	45,78	43,25	3,09
HEIWADO CO LTD	5164145934	3,21	41,07	6,6	4,16	57,7	26,02	6,41
SUMBER ALFARIA TRIJAYA TBK P	5671386637	19,7	0,66	20,3	13,84	163,41	32,4	6
ABDULLAH AL OTHAIM MARKETS	4785991734	14,67	11,45	24,43	17,44	25,46	34,7	5,82
GREGGS PLC	5794421300	5,45	55,19	15,56	17,83	0	33,31	11,9
KUSURI NO AOKI CO LTD	4326038835	17,69	96,72	20,36	11,7	60,96	40,08	6,1
METCASH LTD	4166614212	3,21	-33,98	10,66	7,56	52,71	47,78	2,38
LIFE CORP	3622928256	2,96	27,72	8,61	3,72	122,91	30,66	3,1
MITSUBISHI SHOKUHIN CO LTD	4703262728	2,99	-15,82	7,45	7,32	8,04	25,78	0,93
WEIS MARKETS INC	5169071779	3,12	-23,22	6,52	5,66	0	24,76	5,39

Appendix 24 – All Companies Multiples (Global)

Companies	P/E	P/FCF	EV/EBITDA	EV/Sales	EV/EBITDA T12M	EV/Sales T12M
WUMART STORES INC-H	13,66	16,37	4,15	0,19	7,23	0,31
INGLES MARKETS INC-CLASS A	21,92	11,81	8,3	0,5	N.A.	0,44
PHILIPPINE SEVEN CORP	56,68	74,77	N.A.	N.A.	N.A.	2,29
SPARTANNASH CO	15,99	19,89	7,09	0,21	11,75	0,19
ANDERSONS INC/THE	13,4	N.A.	7,23	0,34	14,12	0,4
HEIWADO CO LTD	18,83	6,84	N.A.	0,5	N.A.	0,43
SUMBER ALFARIA TRIJAYA TBK P	35,78	N.A.	9,61	0,48	21,06	0,57
ABDULLAH AL OTHAIM MARKETS	22,21	34	14,54	0,81	20,63	0,91
GREGGS PLC	27,45	13,81	9,73	1,19	15,19	0,85
KUSURI NO AOKI CO LTD	66,08	6,53	N.A.	N.A.	N.A.	0,22
METCASH LTD	7,69	7,98	5,7	0,17	6,94	0,25
LIFE CORP	23,81	27,62	7,01	0,23	N.A.	0,18
MITSUBISHI SHOKUHIN CO LTD	15,52	N.A.	7,12	0,07	N.A.	N.A.
WEIS MARKETS INC	25,74	28,97	N.A.	N.A.	N.A.	0,42

Appendix 25 – All Companies Characteristics (Eastern Europe)

Companies	Market Capitalization (PLN)	Revenues Growth	EPS	ROE	ROIC	Debt/Equity	Volatility	EBITDA Margin (%)
Average	4854080600	28,25	-1,86	-9,59	8,69	139,54	75,36	2,68
EUROCASH SA	4522375540	2,58	-18,75	19,14	20,06	66,94	34,91	2,43
TESCO KIPA KITLE PAZARLAMA	3071145992	-1,04	-116,23	-97,44	N.A.	1290,02	43,73	-6,44
BIM BIRLESIK MAGAZALAR AS	20231677687	22,06	-4,29	36,79	N.A.	N.A.	30,15	4,37
MIGROS TICARET A.S	5500720389	13,97	N.A.	11,27	4,6	255,97	29,53	5,77
CARREFOURSA CARREFOUR SABA-A	4905007668	20,22	N.A.	11,72	6,86	2,5	46,02	4,01
ADESE ALISVERIS MERKEZLERI T	1321042491	3,53	18,15	4,82	0,97	36	37,69	2,46
BIZIM TOPTAN SATIS MAGAZALAR	933536694	1,45	-72,66	8,04	12,63	10,92	26,01	1,71
KILER ALISVERIS HIZMETLERI G	369509382,4	-1,72	-4,29	-14,12	3,11	210,1	58,66	3,71
UYUM GIDA IHTIYAC MADDELERI	238668343,5	4,63	50	7,46	5,72	55,47	26,12	3,57
MERCATOR POSLOVNI SISTEM	1119369968	-3,74	83,83	-1,99	N.A.	201,79	16,24	4,04
MAGNIT PJSC	66578941568	31,66	32,95	31,41	20,25	58,47	53,71	10,96
X 5 RETAIL GROUP NV-REGS GDR	14036956620	18,54	15,4	15,04	11,65	144,64	50,88	7,65
LENTA LTD-REG S	11507112457	34,47	26,49	N.A.	19,73	425,88	55,78	10,73
DIXY GROUP	3878446788	22,77	190,63	15,83	10,19	105,12	59,84	7,08
PHARMACY CHAIN 36.6 PJSC	99221582,18	-20,06	-349,93	N.A.	N.A.	N.A.	90,17	-63,61
INEX BUDUCNOST AD POZEGA	1274359,63	656,52	-42,61	4,06	7,14	8,8	20,85	16,2
ROPHARMA SA BRASOV	182075640,9	-0,04	29,67	N.A.	5,82	30,38	26,97	4,31
BUCUR OBOR SA BUCURESTI	50777352,72	-8,93	126,87	3,83	1,79	0	31,21	20,27
FARMACEUTICA REMEDIA SA DEVA	23690630,63	16,18	78,2	14,91	13,28	10,35	34,14	3,47
SEMROM MUNTENIA SA BUCURESTI	11404025,98	-11,65	-63,27	N.A.	N.A.	0	104,75	20,66
EMPERIA HOLDING SA	974612631,3	0,54	144,33	5,08	1,17	0,58	27,75	4,31
ALMA MARKET SA	88697792,05	2,14	N.A.	-4,94	3,45	75,9	41,36	3,4
ATLANTA POLAND SA	36185909,76	N.A.	N.A.	11,59	N.A.	97,98	40,41	5,49
NORTH COAST SA	15296000,48	4,44	49	-4,41	N.A.	136,41	78,58	0,4
EPIGON SA	13050000	35,1	64,97	48,98	N.A.	19,61	81,28	4,59
ORGANIC FARMA ZDROWIA SA	11967810,42	40,09	25,86	-10,03	N.A.	0	83,34	-2,54
PULJANKA DD PULA	12578868,37	-44,95	73,87	-29,1	N.A.	467,29	109,48	-11,08
TALLINNA KAUBAMAJA AS	1032103805	7,28	16,28	11,88	8,09	56,42	15,89	6,49
CBA ASSET MANAGEMENT AD-VELI	889402,77	-54,96	-400,95	-339,53	N.A.	0	829,86	3,28

Appendix 26 – All Companies Multiples (Eastern Europe)

Companies	P/E	P/FCF	EV/EBITDA	EV/Sales	EV/EBITDA T12M	EV/Sales T12M
Average	24,56	170,43	9,14	0,48	12,71	0,71
EUROCASH SA	25,01	86,36	10,67	0,26	12,5	0,35
TESCO KIPA KITLE PAZARLAMA	N.A.	N.A.	N.A.	N.A.	N.A.	0,88
BIM BIRLESIK MAGAZALAR AS	34,99	93,57	16,57	0,77	N.A.	N.A.
MIGROS TICARET A.S	37,83	35,26	9,62	0,59	12,18	0,7
CARREFOURSA CARREFOUR SABA-A	34,53	N.A.	8,97	0,36	18,71	0,75
ADESE ALISVERIS MERKEZLERI T	48,63	N.A.	N.A.	N.A.	53	1,3
BIZIM TOPTAN SATIS MAGAZALAR	58,41	32,76	7,71	0,24	19,35	0,33
KILER ALISVERIS HIZMETLERI G	N.A.	N.A.	8,24	0,45	13,2	0,49
UYUM GIDA IHTIYAC MADDELERI	48,71	N.A.	8,38	0,34	8,48	0,3
MERCATOR POSLOVNI SISTEM	N.A.	8,21	11,14	0,48	N.A.	0,48
MAGNIT PJSC	21,64	N.A.	9,71	1,08	14,3	1,57
X 5 RETAIL GROUP NV-REGS GDR	17,04	628,65	5,75	0,42	6,13	0,47
LENTA LTD-REG S	N.A.	N.A.	8,3	0,89	N.A.	N.A.
DIXY GROUP	12,22	45,66	4,09	0,28	4,92	0,37
PHARMACY CHAIN 36.6 PJSC	N.A.	N.A.	N.A.	0,23	7,64	0,85
INEX BUDUCNOST AD POZEGA	27,81	29,14	N.A.	N.A.	18,93	3,07
ROPHARMA SA BRASOV	N.A.	2,45	N.A.	0,4	N.A.	N.A.
BUCUR OBOR SA BUCURESTI	20,4	N.A.	N.A.	N.A.	N.A.	N.A.
FARMACEUTICA REMEDIA SA DEVA	4,22	N.A.	N.A.	N.A.	2,22	0,08
SEMROM MUNTENIA SA BUCURESTI	2,58	N.A.	N.A.	N.A.	N.A.	N.A.
EMPERIA HOLDING SA	28,45	1327,82	9,57	0,38	7,1	0,31
ALMA MARKET SA	N.A.	48,77	N.A.	N.A.	9,62	0,22
ATLANTA POLAND SA	4,01	9,5	N.A.	N.A.	7,56	0,41
NORTH COAST SA	N.A.	N.A.	N.A.	N.A.	N.A.	0,23
EPIGON SA	2,99	28,88	N.A.	N.A.	4,82	0,22
ORGANIC FARMA ZDROWIA SA	N.A.	N.A.	N.A.	N.A.	N.A.	0,97
PULJANKA DD PULA	N.A.	N.A.	N.A.	N.A.	N.A.	1,5
TALLINNA KAUBAMAJA AS	12,61	8,98	9,29	0,57	8,1	0,53
CBA ASSET MANAGEMENT AD-VELI	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

Appendix 27 – Eurocash Group Balance Sheet (Projections)

In Millions of PLN (12 Months Ending)	2012	2013	2014	2015	2016	2017	2018	2019	2020
Current Assets									
Accounts Receivable - Trade	1451,93	1416,52	1524,37	1465,68	1677,84	1888,22	2115,03	2344,13	2589,82
Inventories	990,77	1017,82	1286,11	1081,50	1179,58	1264,80	1349,81	1425,37	1500,39
Assets Held For Sale	27,25	27,25	27,25	27,25	27,25	27,25	27,25	27,25	27,20
Other Current Assets	9,66	17,30	7,50	7,50	7,50	7,50	7,50	7,50	7,50
Income Tax Receivable	23,45	12,05	5,50	5,50	5,50	5,50	5,50	5,50	5,50
Cash and Equivalents	157,38	102,52	86,91	90,00	90,00	90,00	90,00	90,00	90,00
Other Receivables (Short-Term)	73,07	213,55	185,26	185,26	185,26	185,26	185,26	185,26	185,26
Short-Term Loans	3,81	3,04	3,00	3,02	3,81	3,04	3,00	3,02	3,81
Accounts Receivable And Other Receivables	--	--	--	--	--	--	--	--	--
Deferred Income Tax Asset (Short-Term)	--	--	--	--	--	--	--	--	--
Total Current Assets	2737,32	2810,05	3125,90	2865,71	3176,74	3471,57	3783,35	4088,02	4409,49
Noncurrent Assets									
Goodwill	1049,29	1055,53	1055,53	1055,53	1055,53	1055,53	1055,53	1055,53	1055,53
Other Noncurrent Assets	3,20	0,38	0,10	0,10	0,10	0,10	0,10	0,10	0,10
Equity Investments In Associates/Affiliates	36,76	36,17	30,00	30,00	30,00	30,00	30,00	30,00	30,00
Other Long-Term Investments	1,13	--	--	--	--	--	--	--	--
Other Intangible Assets	422,68	393,57	150,00	172,50	198,38	208,29	218,71	229,64	241,13
Real Estate Investments	1,57	1,28	1,70	1,70	1,70	1,70	1,70	1,70	1,70
Accumulated Depreciation	329,06	395,87	333,00	333,00	333,00	333,00	333,00	333,00	333,00
Accumulated Amortization Of Intangible Assets	159,17	--	--	--	--	--	--	--	--
Property Plant & Equipment - Gross	--	427,75	550,43	632,99	696,29	765,92	823,37	885,12	929,38
Other Receivables (Long-Term)	--	--	--	--	--	--	--	--	--
Other Financial Assets (Long-Term)	--	1,58	--	--	--	--	--	--	--
Receivables	3,38	5,93	5,93	5,93	5,93	5,93	5,93	5,93	5,93
Deferred Tax Assets (Long-Term)	52,51	103,32	118,32	103,32	103,32	103,32	103,32	103,32	103,32
Total Intangible Assets - Net	--	--	--	--	--	--	--	--	--
Total Non-Current Assets	2058,75	2421,39	2245,02	2335,08	2424,26	2503,81	2571,67	2644,35	2700,09
Total Assets	**4796,07**	**5231,43**	**5370,91**	**5200,79**	**5600,99**	**5975,37**	**6355,01**	**6732,37**	**7109,58**
Current Liabilities									
Short-Term Provisions	148,37	84,09	95,00	95,00	95,00	95,00	95,00	95,00	95,00
Income Taxes Accrued/Payable	10,03	19,94	35,00	35,00	35,00	35,00	35,00	35,00	35,00
Other Current Liabilities	67,07	160,49	200,00	200,00	200,00	200,00	200,00	200,00	200,00
Accounts Payable - Trade	2621,44	2889,70	3063,03	2906,81	3281,22	3641,20	4021,75	4395,28	4788,31
Overdrafts And Bank Loans (Short Term)	502,89	411,70	545,00	545,00	545,00	545,00	545,00	545,00	545,00
Pension & Post Retirement Liab (Current)	40,35	52,44	90,00	90,00	90,00	90,00	90,00	90,00	90,00
Other Financial Liabilities (Short-Term)	32,39	27,56	60,00	60,00	60,00	60,00	60,00	60,00	60,00
Accrued Expenses And Other (Short-Term)	--	--	--	--	--	--	--	--	--
Other Payables	--	--	--	--	--	--	--	--	--
Short-Term Capital Lease Obligations	--	--	--	--	--	--	--	--	--
Total Current Liabilities	3422,53	3645,92	4088,03	3931,81	4306,22	4666,20	5046,75	5420,28	5813,31
Non Current Liabilities									
Bank Loans - Noncurrent	403,74	85,98	86,98	87,98	88,98	89,98	90,98	91,98	92,98
Other Provisions For Liabilities And Charges	--	--	--	--	--	--	--	--	--
Other Financial Liabilities (Long-Term)	16,83	154,93	154,93	154,93	154,93	154,93	154,93	154,93	154,93
Other Noncurrent Liabilities	0,40	0,25	0,25	0,25	0,25	0,25	0,25	0,25	0,25
Deferred Income Tax Liability Long -Term	54,67	51,03	51,03	51,03	51,03	51,03	51,03	51,03	51,03
Pension/Postretirement Liabilities	3,23	3,10	3,10	3,10	3,10	3,10	3,10	3,10	3,10
Long Term Capital Lease Obligations	--	--	--	--	--	--	--	--	--
Total Non Current Liabilities	478,88	295,29	296,29	297,29	298,29	299,29	300,29	301,29	302,29
Total Liabilities	**3901,41**	**3941,20**	**4384,32**	**4229,10**	**4604,50**	**4965,49**	**5347,04**	**5721,57**	**6115,60**
Shareholders Equity									
Other Equity	-4,65	-4,65	-4,65	-4,65	-4,65	-4,65	-4,65	-4,65	-4,65
Capital Reserves	341,10	440,20	457,95	476,42	495,63	515,62	536,41	558,04	580,55
Common Stock	137,98	138,43	138,60	138,60	138,60	138,60	138,60	138,60	138,60
Retained Earnings (Accumulated Deficit)	58,74	89,37	89,37	89,37	89,37	89,37	89,37	89,37	89,37
Shares Outstanding	137,98	138,43	138,60	138,60	138,60	138,60	138,60	138,60	138,60
Net Income/Loss (Stockholders Equity)	250,38	221,01	183,10	107,14	174,17	201,94	221,97	219,92	210,11
Total Shareholders Equity	783,55	884,36	1002,97	945,48	1031,72	1079,48	1120,30	1139,89	1152,58
Total Liabilities and Shareholders Equity	**4684,96**	**4825,56**	**5387,29**	**5174,58**	**5636,23**	**6044,97**	**6467,34**	**6861,45**	**7268,18**

Appendix 28 – Eurocash Group Income Statement (Projections)

In Millions of PLN (12 Months Ending)	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenues	16575,78	16537,53	16963,85	17969,30	19282,65	20357,21	21399,34	22265,15	23029,80
Sales of Goods	--	--	--	--	--	--	--	--	--
Sales of Services	--	--	--	--	--	--	--	--	--
Sales of Materials	--	--	--	--	--	--	--	--	--
Cost of Sales	14818,50	14863,80	15151,60	16172,37	17354,39	18321,49	19259,41	20038,63	20726,82
Costs of Goods Sold	--	--	--	--	--	--	--	--	--
Costs of Services Sold	--	--	--	--	--	--	--	--	--
Costs of Materials Sold	--	--	--	--	--	--	--	--	--
Gross Profit	1790,75	1673,73	1812,25	1796,93	1928,27	2035,72	2139,93	2226,51	2302,98
Selling Expenses	1083,15	1104,39	1205,00	1259,23	1315,89	1375,11	1436,98	1501,65	1569,22
General and Administrative Expenses	270,40	287,61	287,13	301,48	316,56	332,38	349,00	366,45	384,78
Operating Income	437,21	281,73	320,12	236,22	295,82	328,23	353,95	358,41	348,98
Other Operating Income	38,30	77,31	57,99	66,59	76,46	81,82	87,54	93,67	100,23
Other Operating Expenses	98,68	73,36	91,28	88,93	86,65	90,12	93,72	97,47	101,37
EBIT	376,83	285,69	286,84	213,88	285,63	319,93	347,77	354,61	347,84
Finance Income	-16,24	-12,29	-17,80	-19,14	-20,57	-22,11	-23,77	-25,55	-27,47
Finance Costs	109,40	71,30	86,00	89,23	92,57	96,04	99,64	103,38	107,26
Share of loss of equity accounted investees	1,20	0,59	0,30	0,30	0,30	0,30	0,30	0,30	0,30
Profit before Tax	282,46	226,08	218,94	144,09	213,93	246,30	272,19	277,08	268,35
Income Tax Expense	32,08	5,07	35,70	35,70	35,70	35,70	35,70	35,70	35,70
Net Profit for the Period	250,38	221,01	183,10	108,39	178,23	210,60	236,49	241,38	232,65

Appendix 29 – Eurocash Group Cash-Flow Statement (Projections)

In Millions of PLN (12 Months Ending)	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenues	16575,78	16537,53	16963,85	17969,30	19282,65	20357,21	21399,34	22265,15	23029,80
Sales of Goods	--	--	--	--	--	--	--	--	--
Sales of Services	--	--	--	--	--	--	--	--	--
Sales of Materials	--	--	--	--	--	--	--	--	--
Cost of Sales	14818,50	14863,80	15151,60	16172,37	17354,39	18321,49	19259,41	20038,63	20726,82
Costs of Goods Sold	--	--	--	--	--	--	--	--	--
Costs of Services Sold	--	--	--	--	--	--	--	--	--
Costs of Materials Sold	--	--	--	--	--	--	--	--	--
Gross Profit	1790,75	1673,73	1812,25	1796,93	1928,27	2035,72	2139,93	2226,51	2302,98
Selling Expenses	1083,15	1104,39	1205,00	1259,23	1315,89	1375,11	1436,98	1501,65	1569,22
General and Administrative Expenses	270,40	287,61	287,13	301,48	316,56	332,38	349,00	366,45	384,78
Operating Income	437,21	281,73	320,12	236,22	295,82	328,23	353,95	358,41	348,98
Other Operating Income	38,30	77,31	57,99	66,59	76,46	81,82	87,54	93,67	100,23
Other Operating Expenses	98,68	73,36	91,28	88,93	86,65	90,12	93,72	97,47	101,37
EBIT	376,83	285,69	286,84	213,88	285,63	319,93	347,77	354,61	347,84
Operating Cash Taxes	--	--	--	179,66	239,93	268,74	292,12	297,87	292,18
Investment in Net Working Capital	--	--	--	-59,10	-64,81	-65,58	-70,44	-71,16	-73,12
Capital Expenditures	113,36	116,46	125,29	262,65	288,91	317,80	341,64	367,26	385,63
Depreciations	377,12	417,75	550,43	150,35	180,42	207,48	238,60	262,46	282,15
FCFF	--	-54,86	-15,16	126,46	196,24	223,99	259,53	264,23	261,82
Debt Repayments	--	--	--	--	--	--	--	--	--
Net Other Financial Liabilities	--	--	--	--	--	--	--	--	--
Proceeds From Loans	--	--	--	--	--	--	--	--	--
Tax Adjustments	--	--	--	--	--	--	--	--	--
Dividends	-24,80	-124,47	-124,47	-124,47	-124,47	-124,47	-124,47	-124,47	-124,47
Interest Expense	-21,63	-20,74	-20,74	-20,74	-20,74	-20,74	-20,74	-20,74	-20,74
Financial Income	-16,24	-12,29	-17,80	-19,14	-20,57	-22,11	-23,77	-25,55	-27,47
FCFE	--	-170,87	-136,68	3,60	71,95	98,16	132,04	134,96	130,63

9. Investment Case

The year of 2014 was a difficult year for the food distribution market with a retail market deceleration that affected the performance of Eurocash Group. However the company was able to recover the decrease in revenues of 2013 and in last year register a positive growth.

Poland - Eurocash Group	
FMCG Wholesaler	
Price Target	PLN 35,42
Recommendation	Buy
Price at 02/03/2015	PLN 32,96

In line with this the macroeconomic trends are encouraging for Eurocash Group. Poland's GDP is expected to increase in the next two years and this reflects a better performance of the economy in general. Furthermore the forecasts point to a decrease in the unemployment rate and consequently to a higher disposable income and to an increase the levels of consumption.

According to this valuation the various business units will register different behaviors. Our projections, in most cases, are cautious. Eurocash Group reported several risks and threats that may harm their business activity.

In the last three years Cash & Carry is opening, on average, 10 warehouses per year, including Batna warehouses. Our projections reflect more or less this average. On the other hand the number of "abc" franchise stores amounted at the end of 2014 to 6997, an increase of 864 outlets

Delikatesy Centrum network, a franchise system for retail stores, comprised 1003 supermarkets and has register in the last years a surprising growth. Even though the dimension of this business unit it still has a huge potential. Only for 2015 Eurocash Group plans to open, approximately, 150 outlets and our projections are in this sense.

Eurocash Group has high hopes for Eurocash Dystrybucja (Tradis), the biggest polish nationwide distributor of FMCG. In the last year the company has completed the key stage of the integration of Tradis and the results were visible in the last quarter. Even though the negative growth of last year our projections register already in the first year an opposite situation.

Eurocash Alkohole and Serwis account for more than 30% of total sales in 2014. With the merger of Service FMCG Eurocash Serwis became the largest entity in the tobacco product distribution market reason why the attribute the highest growth rates to this business unit. We see also very potential in Eurocash Alkohole due to the business itself. However part of the growth of last year is related to an increase of the level of prices followed by an excise tax increase.

Lastly, Eurocash Gastronomia has been the only business unit with a constant decrease in sales since 2011. In fact 2014 was a difficult year for the food distribution market but the termination of the contract with Amrest jeopardized even more the results. However and mainly because of the macroeconomic trends our projections plan a positive growth within 3 years.

However in general, the strategy of Eurocash Group for the different business units is the organic growth as well as the continuation of takeovers of other wholesalers and franchise networks. Having this in mind, the company aims to achieve faster economies of scale in order to provide a better range of products to its customers and to increase competitiveness.

This strategy is part of the ultimate goal of the company to consolidate its market position in Poland for food products distribution including the marker for the wholesale distribution of FMCG products.

Table 29 - Key Estimates

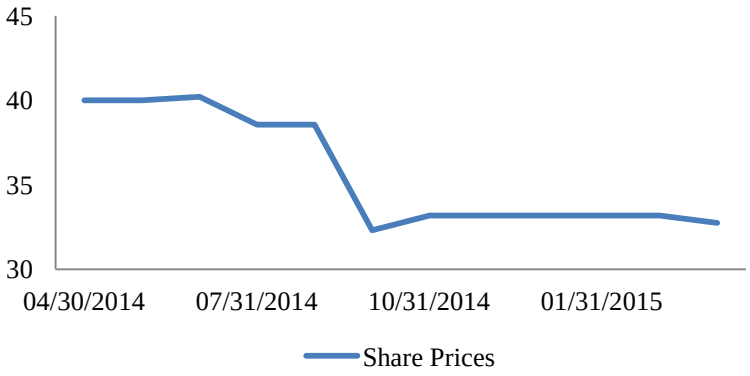
In Million of PLN	2015	2016	2017	2018	2019	2020
Revenues	17969,30	19282,65	20357,21	21399,34	22265,15	23029,80
Cost of Sales	16172,37	17354,39	18321,49	19259,41	20038,63	20726,82
EBITDA	236,22	295,82	328,23	353,95	358,41	348,98
EBIT	213,88	285,63	319,93	347,77	354,61	347,84
Margins						
Gross Margin	10%	10%	10%	10%	10%	10%
Operating Margin	1,19%	1,48%	1,57%	1,63%	1,59%	1,51%
EBITDA Margin	1,31%	1,53%	1,61%	1,65%	1,61%	1,52%

In the table above we can see a positive growth of revenues through the explicit period. Since we assumed that cost of sales will remain 90% of the value of revenues this item also register a positive growth. The difference between EBITDA and EBIT is increasingly smaller because we are predicting a higher growth rate for other operating income than for other operating

expenses. Since 2006 the value of other operating expenses has been higher, expect in 2013 due to a reversal of provision for anticipated costs related to Tradis group companies, but in 2020 we were almost able to change this situation with our projections.

In relation to the gross margin it will remain constant as we mentioned above while the operating and EBITDA margin will present a positive growth until 2019. The former is related with company's pricing strategy and operating efficiency while EBITDA margin is the profitability that a company can get from the business itself.

Graph 7– Price Performance, Last 12 Months



In Graph 7 we can see the irregularity of Eurocash Group prices. While, more or less, a year ago the current price was roundly PLN 40 in 02/03/2015 the price was trading quite below.

Chart 8 - Operating Expenses After 2015

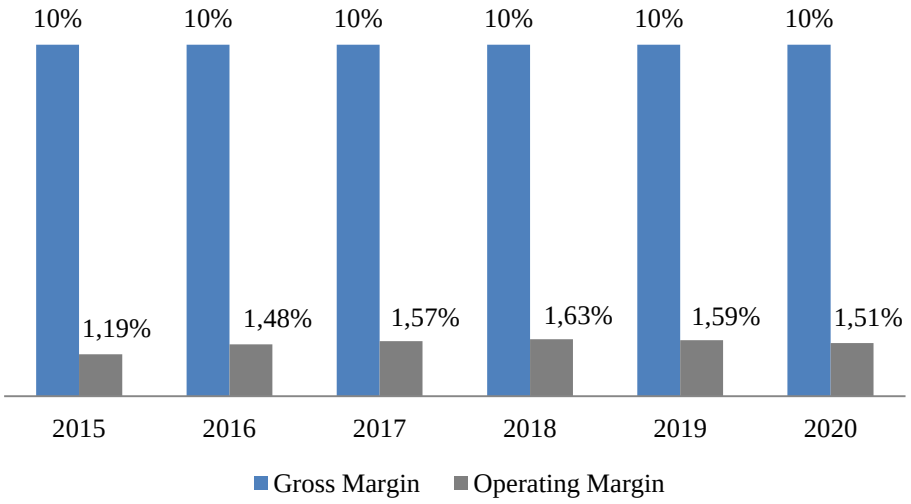


Table 30 - Stock Value

In Millions of PLN except Per Share (12 Months Ending)	2011	2012	2013	2014	Current
Last Price	28,54	43,70	47,69	38,00	32,96
Period-over-Period % Change	*9,73*	*53,12*	*9,13*	*20,32*	-
Open Price	26,05	29,00	44,38	47,69	33,40
High Price	35,00	49,00	67,50	50,00	33,74
Low Price	18,53	27,71	41,82	30,80	32,91
Market Capitalization	3.909,5	6.029,6	6.601,6	5.269,9	4.570,9
Current Shares Outstanding	136,96	137,97	138,40	138,68	138,68
Equity Float	65,95	75,90	76,34	76,41	76,59

The DCF valuation led us to a price of PLN 37,74. This price is quite above the current price at 02/03/2015 but if we look the historical values in Table 30 we can see that the company had previously reached higher values than this.

The multiples valuation led us to a smaller price than DCF, PLN 33,11, more in line with the current price. We used the PER multiple since it is the most used multiple.

With the combination of these two methods we reached a price target of roundly PLN 35,42. Our recommendation since we are comparing our price target with the current price at the date of 02/03/2015, PLN 32,96, is to buy. In both methods the price target is above this value so we think that this is a strong conclusion.

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