

TIM

Valuation range: PLN 1120-1245mn

Strong demand, record-high profits

The strong demand arising from consumer and investment optimism, combined with TIM's customer loyalty campaigns, will allow the company to achieve record results for yet another year in a row. This year's margins have been further supported by the shortage of certain products on the market that had been secured by TIM in advance. In view of the above, we are upgrading our forecasts and assuming positive sales growth this year at 22% y/y (CAGR 2021-23F: 8%).

Strong demand and market shortages

The strong demand combined with product shortages on the market has resulted in very good margins in the Group this year. While we expect revenue growth to continue in the longer term (we expect e.g. strong demand from construction sector, related to record high number of building permits issued in previous months, but also 3LP development), the margins should normalise as, in our view, their current level will be difficult to maintain.

3LP's further growth through an IPO

TIM has launched preparations for 3LP's IPO by issuing new shares (the company is not planning to sell the shares it already holds). 100% of the proceeds from the issue will support further growth of the company - purchase of modern automation and technological solutions for the new warehouse with an area of 25,000sqm (31% of current area), an increase in the scale of collaboration with external partners, new services, etc.. The transaction is scheduled for 1H22. Selling shares at an attractive price could be an additional benefit for 3LP shareholders. We do not include the transaction in our valuation at this time.

Effective marketing activities

The marketing activities conducted by the company have already started to bear fruit. At the end of 2Q21, the number of key accounts was 16,066 (+19% y/y) and the number of loyal customers was 5,826 (+16% y/y). We expect that the continuation of this trend will support revenues in following years.

A record dividend

According to our assumptions, generated cash flow will permit the company to pay out attractive and record-breaking dividends. We estimate PLN 2.44 per share from 2021 net profit.

Based on the DCF model, we estimate the company's 12-month forward valuation in the range of 1120-1245 million PLN.

	2019	2020	2021F	2022F	2023F
Revenues	890,0	1 064,9	1 309,8	1 427,7	1 549,0
EBITDA	53,0	73,8	146,6	147,9	150,3
EBIT	32,5	51,6	123,7	124,5	126,6
Net profit	19,6	37,1	94,9	95,2	96,0
P/E	23,5	18,2	9,6	9,8	9,8
FCF			36,3	79,9	80,1
CAPEX	18,0	23,2	23,0	22,0	21,1

Source: Company, PKO Securities

Key data

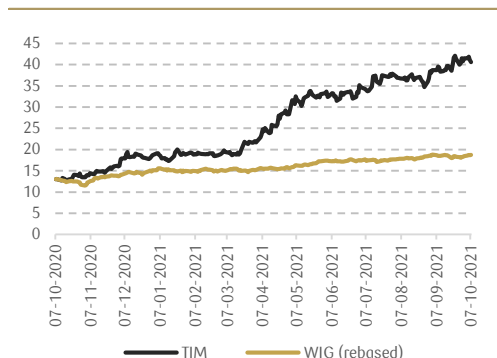
Stock price (PLN)	41,95
Number of shares	22,2
Market Cap (PLN mn)	931
Free float	56%
Free float (PLN mn)	521
EV 2020 (USD mn)	920
Net debt 2020 (USD mn)	-11,1
Bloomberg	TIM PW Equity
ISIN	PLTIM0000016

ESG Rating

ESG	7,3
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Major shareholders

Krzysztof Folta i Ewa Folta	23%
Krzysztof Wiczorkowski	14%
NN OFE	7%
-	-

Price chart**Analyst**

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3Q 2021 forecasts

mln PLN	3Q 2020	3Q 2021F	y/y	1-3Q 2020	1-3Q 2021F	y/y
Revenue	267.7	354.0	32%	761.4	956.4	26%
EBITDA	20.5	44.7	118%	50.5	111.7	121%
EBIT	15.0	39.0	161%	34.2	94.7	177%
Net profit	10.4	30.0	187%	19.9	73.0	267%
EBITDA margin	7.7%	12.6%		6.6%	11.7%	
EBIT margin	5.6%	11.0%		4.5%	9.9%	
Net margin	3.9%	8.5%		2.6%	7.6%	

- 3Q21 should be another quarter for the company to report record-high results.
- Based on the monthly sales figures, the revenue of TIM S.A. amounted to PLN 337m (+40% y/y; +8% q/q). As regards 3LP, we estimate the company's revenue at approx. PLN 18m (+73% y/y; +3% q/q).
- Supporting factors in 3Q21 included: 1) strong demand, 2) good supply, 3) strong margins (yet not as high as in 2Q); 4) customer base growth (the number of key accounts (in accordance with the company's classification, these are customers generating sales in excess of PLN 1,500 per month over the past 12 months) was at 16,066 (+19% y/y, +7% q/q) and the number of loyal customers (according to the company's classification, this group includes customers who have made purchases in at least 6 months of a given year) was at 5,826 (+16% y/y, +4% q/q).

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DCF model

Our valuation is based on the DCF model, which consists of two phases. In the first phase (2021F-2024F), we have forecast in detail all the key parameters required for the company valuation, including in particular the value of revenue, capital expenditure, cost level, leasing, and balance sheet items.

The second phase will start in 2024F. In it, we have assumed a free cash flow growth rate at a level of 1% to 2% per year. We have applied a WACC-based discount rate in the range from 8.5% to 9.3%. The risk-free rate for PLN has been adopted at 2.0%. Beta has been assumed at 1.3x. We have adopted the equity risk premium at 5.5%. We have discounted all free cash flows for the company as at 31 December 2021 and deducted the forecast net debt. Our valuation has been adjusted by the expected dilution from current and future incentive programs (dilution is estimated at 7.2%). The valuation range has been set as at 11 October 2022.

DCF model						
mln PLN	2021F	2022F	2023F	2024F	2024<	
EBIT	123,7	124,5	126,6	135,6	137,6	
Tax rate	19%	19%	19%	19%	19%	
NOPLAT	100,2	100,9	102,5	109,8	111,5	
CAPEX	4,0	8,0	7,1	7,6	7,6	
D&A	22,9	23,3	23,8	24,2	24,2	
Leasing	-20,0	-23,0	-25,8	-27,6	-28,6	
Changes in WC	-62,8	-13,3	-13,4	-15,8	-9,0	
FCF	36,27	79,86	80,09	83,00	90,49	
WACC	8,9%	8,9%	8,9%	8,9%		
Discount ratio	0,00	0,92	0,84	0,77		
DFCF	0,00	73,35	67,57	64,30		
Growth in phase II		1,00%	1,25%	1,50%	1,75%	2,00%
	9,3%	1 068	1 096	1 127	1 159	1 194
	9,1%	1 090	1 120	1 152	1 186	1 223
WACC	8,9%	1 114	1 145	1 179	1 215	1 253
	8,7%	1 138	1 171	1 207	1 245	1 286
	8,5%	1 164	1 199	1 237	1 277	1 320
Valuation range (PLN mn)	1,120-1,245 mln PLN					

Source: PKO Securities

Our DCF valuation indicates 12-month forward valuation range between PLN 1120-1245mn.

TIM

Peer comparison

Additionally, we have presented a comparative valuation, taking into consideration companies from the e-commerce sector. The comparative valuation indicates that, upon assuming the forecasts of PKO BP Securities, TIM is traded at a discount on P/E and EV/EBITDA.

Peers: multiples

Company	P/E			EV/EBITDA			Dividend yield (%)
	2021	2022F	2023F	2021	2022F	2023F	
AB	7,6	6,8	6,2	6,3	5,8	5,6	1,6
Electrocomponents	35,3	25,1	22,3	22,2	15,9	14,4	1,5
Grainger	21,8	18,5	16,6	14,1	12,4	11,3	1,6
Intercars	12,2	11,9	11,3	-	-	-	0,3
Neuca	-	-	-	14,6	13,1	11,5	-
Oponeo	20,5	18,7	17,0	12,4	11,4	10,3	1,6
MEDIAN	20,5	18,5	16,6	14,1	12,4	11,3	1,6
TIM (PKO BP Securities)	9,8	9,8	9,7	6,1	5,9	5,7	6,3
Premium/discount to PKO BP Securities forecast	-52%	-47%	-41%	-57%	-52%	-50%	304%

Source: based on Bloomberg consensus, PKO BP Securities

	2021F	2022F	2023F	Average 2021-2023F
TIM net profit forecast (PLNm)	94,9	95,2	96,0	
TIM EBITDA forecast (PLNm)	146,6	147,9	150,3	
Peer companies: P/E median	20,5	18,5	16,6	
TIM Valuation (PLNm)	1 947,3	1 759,6	1 591,2	1 766,0
Peer companies: EV/EBITDA median	14,1	12,4	11,3	
TIM Valuation (PLNm)	2 102,8	1 858,5	1 730,7	1 897,3

Source: Bloomberg, PKO Securities

TIM

Profit and loss account	2017	2018	2019	2020	2021F	2022F	2023F	2024F
Revenues	719,2	830,3	890,0	1 064,9	1 309,8	1 427,7	1 549,0	1 680,7
Costs:	-721,8	-812,6	-857,3	-1 012,6	-1 188,4	-1 302,6	-1 422,0	-1 544,6
D&A	-10,4	-11,2	-20,5	-22,1	-22,9	-23,3	-23,8	-24,2
Materials and energy	-9,2	-10,3	-14,6	-20,8	-25,8	-28,9	-32,3	-35,2
External services	-50,8	-60,5	-55,0	-67,3	-83,3	-92,3	-101,3	-110,5
Taxes and fees	-1,0	-1,0	-1,1	-0,9	-1,1	-1,2	-1,3	-1,4
Employment cost	-43,1	-49,5	-53,9	-63,8	-73,9	-80,7	-87,7	-95,3
Other	-11,7	-11,0	-10,7	-12,7	-11,5	-12,6	-13,4	-14,3
Cost of goods sold	-595,6	-669,1	-701,6	-825,1	-970,0	-1 063,7	-1 162,1	-1 263,7
Gross profit on sales	-2,7	17,7	32,7	52,2	121,4	125,0	127,1	136,1
EBITDA	7,3	31,1	53,0	73,8	146,6	147,9	150,3	159,8
Other operating result	-0,5	2,2	-0,2	-0,6	2,3	-0,5	-0,5	-0,5
EBIT	-3,2	19,9	32,5	51,6	123,7	124,5	126,6	135,6
Financial result	-1,1	-1,1	-7,3	-7,1	-5,4	-7,0	-8,0	-8,0
Pre-tax profit	-4,3	18,7	25,2	44,6	118,3	117,5	118,6	127,6
Income tax	0,4	-3,6	-5,7	-7,4	-23,3	-22,3	-22,5	-24,2
Net Profit (loss)	-3,8	15,1	19,6	37,1	94,9	95,2	96,0	103,3

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Balance Sheet	2017	2018	2019	2020	2021F	2022F	2023F	2024F
Fixed assets	110,9	116,2	185,1	171,2	166,3	165,0	162,3	159,7
Intangible assets	21,8	16,0	15,0	5,6	4,5	6,9	7,8	8,7
Tangible assets	48,2	70,5	141,8	141,9	138,1	134,4	130,8	127,3
Investments	19,5	12,5	12,1	11,7	11,7	11,7	11,7	11,7
Other long-term assets	21,4	17,2	16,2	12,0	12,0	12,0	12,0	12,0
Current assets	255,5	247,5	283,4	295,8	430,1	491,6	553,4	621,1
Inventories	98,2	102,0	96,8	103,3	153,2	167,0	181,2	196,6
Receivables	135,8	138,1	166,3	180,0	244,7	266,7	289,4	314,0
Other long-term assets	8,0	5,2	2,9	1,4	1,4	1,4	1,4	1,4
Cash and cash equivalents	13,5	2,2	17,4	11,1	30,7	56,3	81,3	108,9
Total Assets	366,4	370,0	468,5	467,1	596,4	656,6	715,7	780,8
Equity capital	169,3	155,4	152,7	163,1	235,9	272,5	309,8	354,1
Liabilities	197,1	214,6	315,8	303,9	360,5	384,1	405,9	426,7
Long-term liabilities	23,3	36,1	102,7	87,9	89,9	88,9	85,1	79,6
Loans and borrowings	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Leasing	12,7	25,3	91,6	77,8	79,8	78,8	75,1	69,5
Other	10,6	10,8	11,2	10,1	10,1	10,1	10,1	10,1
Short-term liabilities	173,8	178,5	213,1	216,0	270,7	295,2	320,7	347,1
Loans and borrowings	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Trade liabilities and other	157,6	157,2	181,8	182,2	234,1	256,6	280,1	304,3
Leasing	3,8	7,3	16,0	14,3	14,3	14,3	14,3	14,3
Other	12,3	14,0	15,2	19,5	22,3	24,3	26,3	28,6
Total Equity & Liabilities	366,4	370,0	468,5	467,1	596,4	656,6	715,7	780,8
Cash flow	2017	2018	2019	2020	2021F	2022F	2023F	2024F
Operating cash flow	13,8	27,2	54,1	38,8	65,8	114,2	116,5	121,9
Investment cash flow	-9,1	-7,1	0,9	22,9	-4,0	-8,0	-7,1	-7,6
Financial cash flow	0,4	-31,4	-39,8	-68,0	-42,2	-81,6	-84,5	-86,7
Other	2017	2018	2019	2020	2021F	2022F	2023F	2024F
DPS	-	-	0,80	1,20	1,00	2,64	2,64	2,66
Net debt	-13,5	-2,2	-17,4	-11,1	-30,7	-56,3	-81,3	-108,9

This report was drafted against remuneration at the individual request of TIM SA.

TIM

Attachment:

TIM is an e-commerce group operating on the market for wholesale and retail distribution of electrical goods and tools, as well as logistics services. The group is also present in traditional sales channels.

Business description

It is composed of TIM SA (parent company) and its subsidiary 3LP.



TIM SA is the largest distributor of electrical engineering products in Poland. The company has been operating since 1987, and it has been operating the TIM.pl purchase platform for wholesale and retail customers since 2013. A mobile application mTIM has also been launched.

TIM SA's offer includes:

- Cables and wires
- Electrotechnical equipment
- Lighting
- Electrical system equipment
- Ancillary equipment
- Meters, tools, and power tools
- Power accessories
- Lightning protection accessories
- Cable duct systems
- Accessories for photovoltaic installations



3LP was spun off from the TIM SA Logistics Department. It has been operating as a separate company within the group structure since 2016. This was also when 3LP began operating one of the largest logistics centres in Poland. The total area of 3LP's warehouses is approx. 80,000 m².

The dynamic growth of e-commerce and the acquisition of new customers have led 3LP to decide to expand its warehousing space by adding a new automated warehouse of with an area of 25,000m² (the planned efficiency will be approx. 10x higher than in a traditional warehouse using conveyor belt systems). The facility is expected to be ready in 2Q22. It will be built by a developer on a land lot previously purchased from 3LP. 3LP will then lease the structure erected by the developer.

The Logistics Centre warehouse buildings are not owned by the company but leased from a third party ("asset light" model).

3LP provides logistic services for TIM S.A. and for external customers. The company specialises in automated logistics outsourcing for e-commerce organisations and provides express deliveries across Europe.

Customers using 3LP services include IKEA and Oponeo.pl. The company also performs audits and provides logistics consulting services.

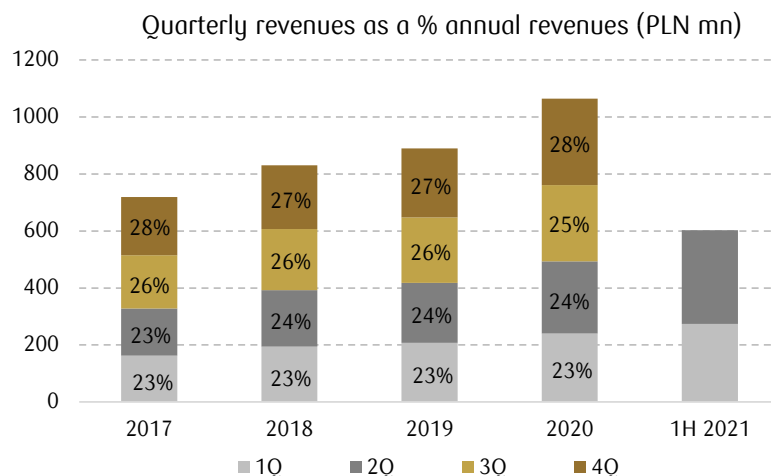
TIM SA holds 100% of the shares in the company but is preparing for 3LP's IPO.

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Attachment:

Business description

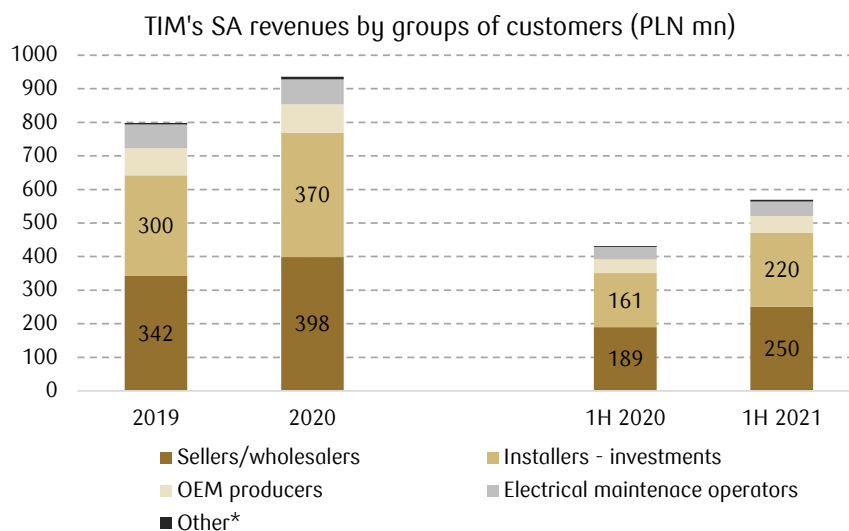
The seasonality of the group's operations is low. TIM usually generates a higher revenue in the second half of the year. This is related to investment activity and the intensity of construction works in respective periods of the year.



Source: Company

Customers

TIM SA's primary customers are, on the one hand, resellers, i.e. sellers and wholesalers (43% of TIM SA's sales in 2020; 44% in 1H21), and, on the other hand, installers executing electrical installations in newly built structures (40% in 2020; 39% in 1H21). These two groups of customers generated 82% of TIM SA's revenue in 2020 (83% in 1H21).



Source: Company; *'Other' includes: switchgears' prefabricator, consumer and non-industry B2B

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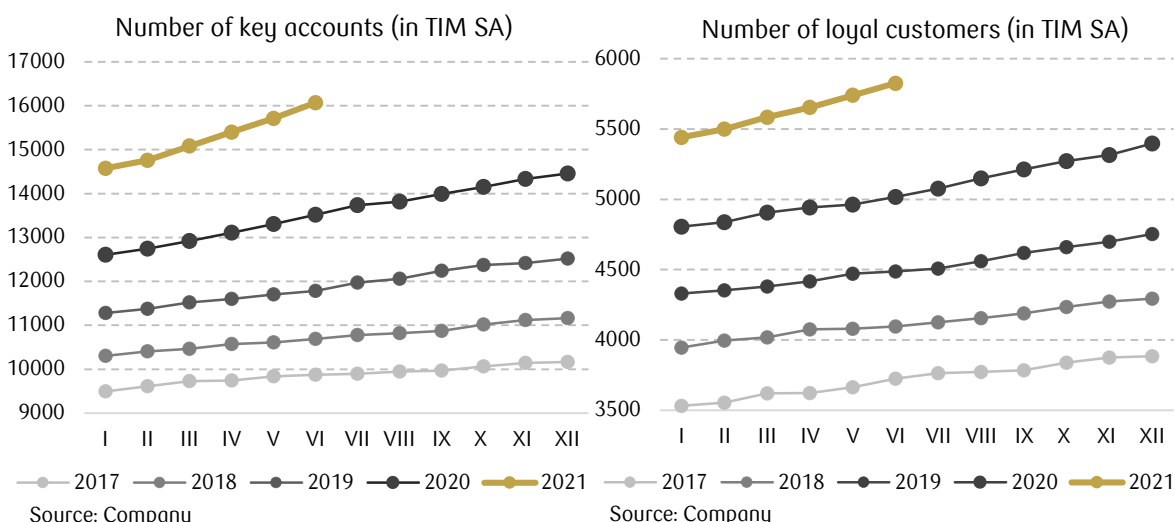
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Business
description

As regards business clients registering on the TIM.pl platform in 1H21, customers from the group of installers (including large and medium-sized organisations, as well as one-person contractors or small contracting teams) constituted the largest group, similarly to the previous year.

For a long time, "small" installers were very hesitant to buy online. However, this has changed on the back of last year's restrictions. The increase in the share of orders placed by small installers is positive, as they are given shorter payment terms (2-3 weeks vs. 60 days and upwards for large buyers) and are fragmented. An ongoing increase in sales for this group, despite the restrictions being lifted, is a positive development.

At the end of June 2021, the number of key accounts (in accordance with the company's classification, these are customers generating sales in excess of PLN 1,500 per month over the past 12 months) amounted to 16,066 (+19% y/y).

The number of loyal customers is also growing (according to the company's classification, this group includes customers who have made purchases in at least 6 months of a given year). At the end of June 2021, there were 5,826 of those (+16% y/y).



In 1H21, the average monthly number of new business customer registrations was 1,153, which translates into a hike of over 24% y/y.

The number of customers and the extent of the product offer are the key growth drivers of TIM's revenue. The majority of TIM's activities in 1H21 were aimed at acquiring new customers and activating existing ones.

Recorded growth in this respect is the effect of extensive marketing activities conducted by TIM, including optimisation activities with the aim of improving customer experience at each point of contact with TIM S.A., work on improving the positioning in search results, implemented sales support campaigns, and activities aimed at raising brand awareness (YouTube, social media).

Even though the impact of the pandemic on the retail industry (in particular, the positive impact of closing down brick-and-mortar stores on the e-commerce industry) is waning, ever more potential customers are choosing to satisfy their shopping needs in the online sales channel.

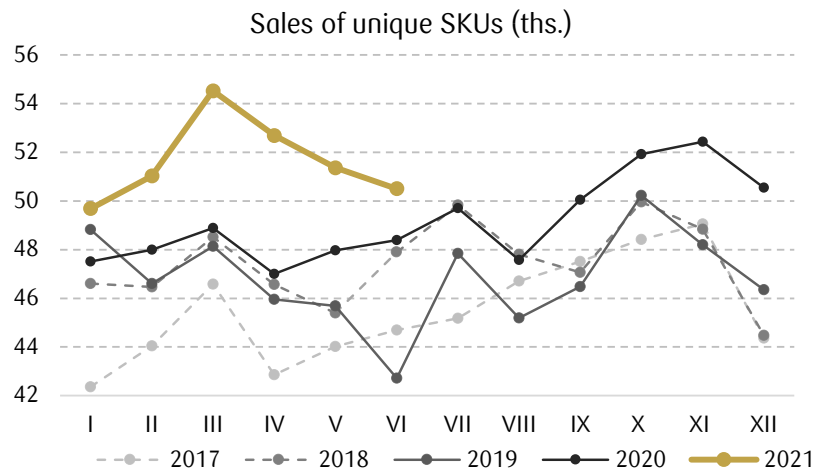
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Product portfolio

Business description

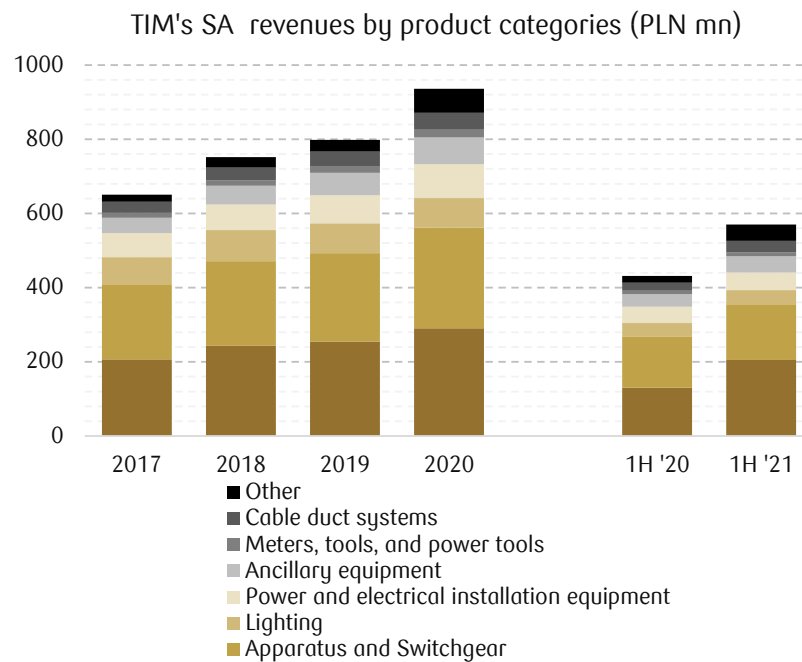
At the end of June 2021, the tim.pl online platform had 276,558 (+18% y/y) unique SKUs on offer. At the end of September, there were over 125,000 products available at tim.pl, with specific lead times and stock levels.



Source: Company

In 1H21, the company sold nearly 51,600 unique SKUs per month on average (vs. 48,000 in 1H20).

The chart below illustrates TIM SA's sales by product groups.



Source: Company

TIM

Attachment:

Business description

The "cables and wires" group has the largest share in sales revenue (36% in 1H21, i.e. +6pp y/y). The second largest product group in terms of generated sales is the "electrotechnical equipment and switchgears" group (26% in 1H21; despite a nominal increase, this category's share decreased by 6pp y/y).

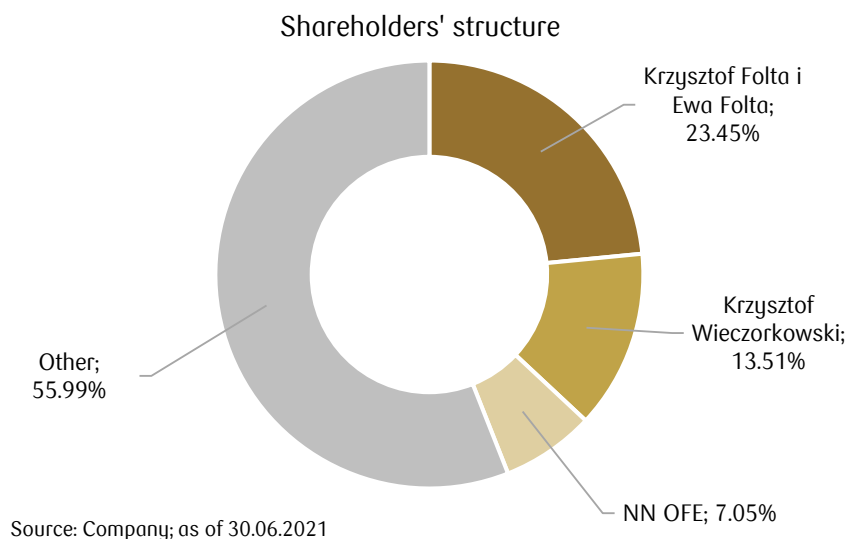
The dynamic growth in the sales of cables and wires (+57% y/y) was driven by an increase in the prices of raw materials necessary for their production (copper, aluminium, plastics). An additional factor influencing the increase in sales of this product group is the shortage of PVC plastics (used for the production of casings and insulation), which limits supply. Despite this limited supply, however, TIM was able to provide its customers with access to a wide range of cable and wire products thanks to stock secured in advance, adjusting the selling price to the market situation.

TIM operates primarily in the electrical engineering distribution market. While this market is quite fragmented in Poland, TIM's advantage over most of its competitors is its presence in the online channel (approx. 70% of the group's sales). The pandemic-related temporary shutdown of traditional retail outlets, as well as the need to limit contact with other people, resulted in shifting some sales to this channel.

Shareholding structure

The company's largest shareholders are Krzysztof Folta, the company's CEO and one of the founders, and his spouse Ewa Folta. They hold a total of 23.45% of the company's shares.

13.51% of the shares are held by Krzysztof Wieczorkowski, also a co-founder of TIM, who has been the chair of the supervisory board of TIM SA for over 18 years.



TIM

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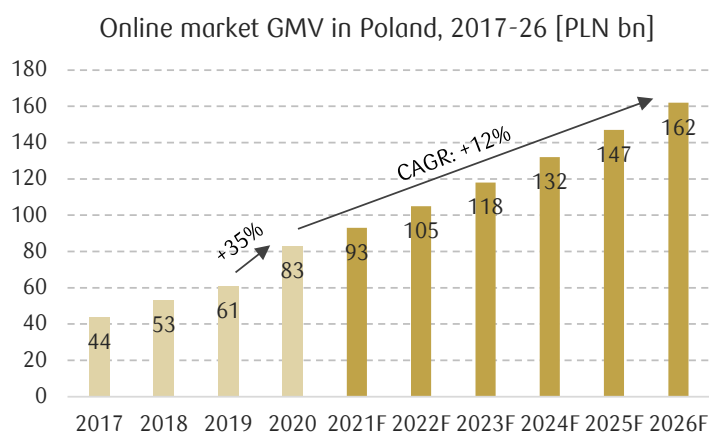
Market

TIM operates mainly on the wholesale distribution of electrical goods and tools market. This market in Poland is quite fragmented, but the advantage of TIM over most competitors is its presence in the on-line channel (approx. 70% of the group's sales). The pandemic-related temporary closures of traditional retail outlets accelerated the development of e-commerce.

An additional competitive advantage resulting from the presence in the online segment is that customers are not limited by wholesalers' working hours, and orders can also be placed outside of their working hours.

E-commerce

According to PwC estimates, the value of online sales in Poland increased by around 35% y/y in the last "pandemic" year (from PLN 61bn in 2019 to PLN 83bn in 2020). PwC assumes that online sales will grow at an average annual rate of 12% between 2021 and 2026.



Source: PwC

The growing interest in online sales is also confirmed by data from Dun & Bradstreet, a global data and analytics provider. The data shows that the number of online shops opened in Poland has been growing by over 20% in the last two years.



Source: Dun & Bradstreet

TIM

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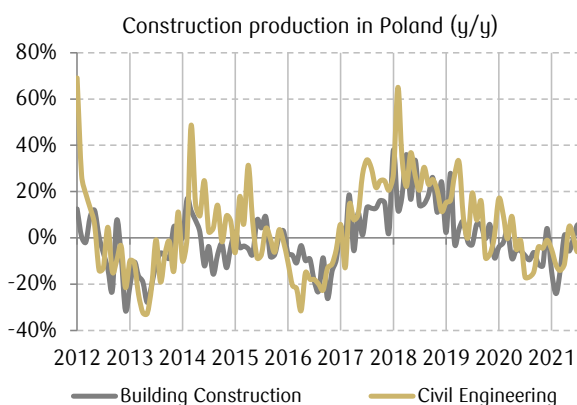
Market

In our opinion, there is still a lot of room for growth in the e-commerce sector and this growth, albeit less dynamic, will continue in the coming years. We believe that the projected increase in spending in the e-commerce sector will also translate into a hike in TIM's revenues.

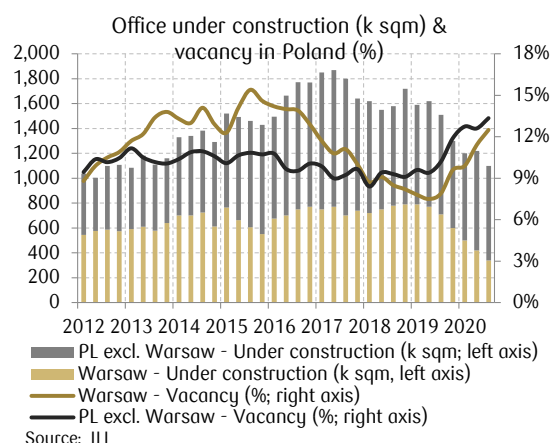
Construction sector

In terms of sales value, the majority of TIM's offer recipients are - directly or indirectly - in the construction sector.

The negative dynamics of construction output in the area of residential, commercial, and industrial construction, as well as infrastructure construction in Poland, have been particularly strong since mid-2020 and early 2021, but have slowed down in recent months. Meanwhile, we find that the pandemic strongly contributed to the rising vacancy rate (a lower demand for office space combined with an increase in total office space). In our view, this is a temporary situation and we expect vacancy rates to fall from 2023.

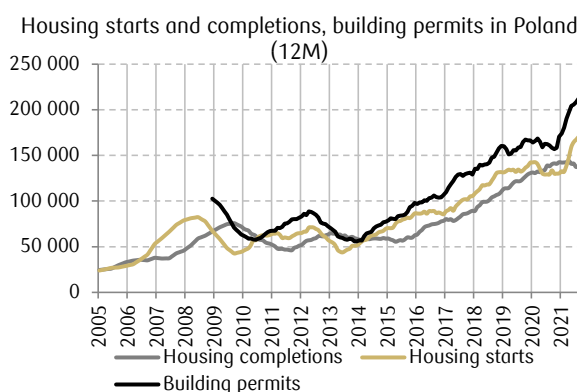


Source: Central Statistical Office

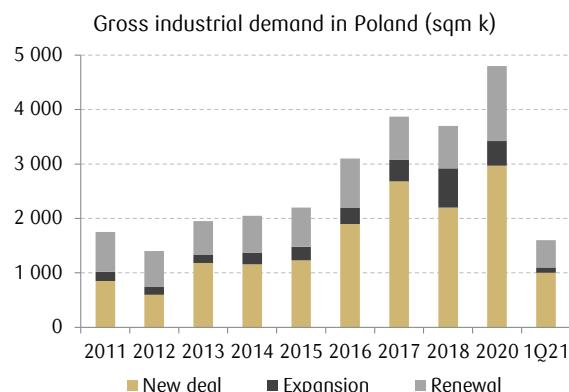


Source: JLL

As far as residential construction is concerned, after last year's slowdown in the number of issued building permits and commenced construction projects (obstructions in the operation of authorities issuing permits, uncertain economic situation), this year has seen a definite rebound. The number of building permits issued in the last 12 months (as of August) amounted to nearly 212k. The number of commenced construction works also increased.



Source: Central Statistical Office; *2021: from Jan to Aug



Source: JLL

TIM

Attachment:

The demand for warehouse space in Poland is growing. According to JLL, the demand for warehouse space is still very high and at the end of 1Q21, had reached 34% of the value recorded in 2020.

Market

In our opinion, the demand from the construction sector will be growing in the coming quarters due to the number of construction projects already underway.

TIM

Attachment:

Financial goals

Strategy

TIM adopted its 2019-2021 strategy in April 2019. The main objective of its strategy is to achieve an annual revenue of at least PLN 1bn and EBITDA margin not lower than 3.6%.

TIM intends to achieve these objectives by further expanding its hybrid sales model of electrical engineering products while also developing alternative models of trading in technical materials (dropshipping, marketplace, and B2B2C). The company hopes that alternative sales models will account for 10% of its revenue by 2021.

Our forecasts assume that in 2021, the company will generate PLN 1.3bn in revenue (which means 30% above the PLN 1bn target despite selling Rotopino in late 2020), and EBITDA margin at 10.4% (far above the target).

TIM's incentive program

TIM's shareholders approved a 2021-2023 incentive programme in late October 2020. The programme provides for the assumption of 1.1m shares (approx. 5% of existing shares) by the company's management board members and the board members of its subsidiaries, provided that the performance criterion is met.

According to the programme, the company should achieve PLN 63m in EBITDA in 2021, PLN 66m in EBITDA in 2022, and PLN 70m in EBITDA in 2023. The share subscription price for three consecutive years is 10.34. The dilution resulting from the programme amounts to approx. 3%. We assume that this manner of rewarding executives will also be continued in the following years. The resulting full dilution (reducing the company's valuation) is estimated at 7.2%.

Dividends

At the end of March, TIM adopted a dividend policy that assumes submitting an annual proposal to the General Shareholders Meeting to pay out dividends is determined on the basis of generated net profit, taking into account capital requirements resulting from the group's further growth, liquidity, and the market situation.

The dividend policy states that:

1. If the unit net profit in a given financial year is at least PLN 15m, the total dividend payout will amount to PLN 22,199,200 (PLN 1 per share), increased by 50% of the potential excess of the unit net profit in a given financial year over PLN 22,199,200
2. If the unit net profit in a given financial year is below PLN 15 million, the Management Board will propose the amount of dividend on the basis of assessing TIM's financial position, the market situation, and investment needs.

Based on the company's dividend policy presented above, we have assumed that TIM will pay PLN 2.44 dividend per share out of 2021 profits.

In our forecasts, we assume that dividends will be paid once per year (i.e. dividends in a given calendar year will be paid out from the profit generated in the previous year).

TIM Pro

The "TIM Pro" strategy concerns the growth of the entire organisation in the area of sustainable development. It involves three directions for professional, proactive and pro-social activities (employee volunteering campaigns, promoting an active lifestyle, and supporting local communities).

TIM declares its intention to allocate up to 1% of its gross profit assumed for a given year to the latter goal.

TIM

Attachment:

Below we identify risks specific to TIM's business model:

Risk factors

Margin risk: TIM's distribution business model operates on a fairly low margin (projected 2020 FCF margin from core operations at 2.7%). Any negative factors affecting sales or profitability will have a multiplied impact on the generated cash flow (due to a strong operating leverage mechanism).

Competition risk: The company is a pioneer and online business leader in its industry. There is a significant risk that more competitors will see the advantages of this business model and that competition will intensify. This could result in pressure on sales and margins.

Economic cycle risk: The market segment in which the company operates is correlated with the economic situation in Poland, including in particular with the situation of the construction sector as such. The construction sector is highly cyclical. An economic downturn may have a negative impact on TIM.

Risk of changes in the prices of raw material and inventory: cables and wires form an important product group for TIM. In their case, the cost of copper can even amount to 90% of the price. A significant decline in the price of copper might result in a potential impairment of the company's inventory.

Pandemic risk: The pandemic has undoubtedly supported online sales in all segments, accelerating already existing trends. This support is also evident in TIM's high sales growth. The post-pandemic dynamics of online sales in the segment for wholesaling electrotechnical appliances remains an open question. The disruption of global supply chains is another important issue (problems with the availability of raw materials, products, components, transportation problems, etc.).

F/X risk: This risk applies to 3LP and relates to payments for the long-term lease of warehouses (lease rent paid in EUR). They represent approximately 9% of total operating expenses incurred by the company. The currency risk borne by TIM SA is insignificant.

Credit risk: Delayed settlement of receivables by key accounts may adversely affect the group's financial performance.

Risk of IT systems failure or hacker attack: TIM Group is highly computerised and its operating activity is based on an efficient IT system. Any adverse event in this area may result in temporary inability to conduct business or in losing the trust of its customers.

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Explanation of the specialist terminology used

min (max) 52 weeks: minimum (maximum) of the market share price during the previous 52 weeks

Capitalisation: product of the share market price and the number of shares

EV: sum of the company's capitalisation and net debt

free float (%): share of the total number of shares decreased by 5% stakes held by one shareholder and own shares held by the company in the total number of shares

Average trading/month: average trading per month calculated as total trading value over previous 12 months divided by 12

ROE: rate of return on equity

ROA: rate of return on assets

EBIT: operating profit

EBITDA: operating profit + depreciation and amortization

EPS: earnings per share

ESG: a non-financial measure used for evaluating companies on how advanced they are with sustainability. It consists of environmental, social, and governance factors. The more sustainable business, the higher the PKO Securities ranking (score scale: 1-10).

DPS: dividend per 1 share

CEPS: sum of net profit and depreciation and amortization per 1 share

P/E: quotient of share market price and EPS

P/BV: quotient of share market price and book value of one share

EV/EBITDA: quotient of capitalisation increased by the company's net debt and EBITDA

Gross sales margin: relation of gross sales profit to net sales proceeds

EBITDA margin: relation of the sum of operating profit and depreciation to net sales proceeds

EBIT margin: relation of operating profit to net sales proceeds

Net profitability: relation of net profit to net sales proceeds

Valuation methods applied

A PKO BP Securities valuation is based on at least two out of four valuation methods: DCF (discounted cash flow model), ratio analysis method (comparing the values of basic market ratios with similar ratios of other companies representing a given sector), sum of the parts of assets method (SOTP) and discounted dividends model. A disadvantage of the DCF and the discounted dividends model is their high sensitivity to adopted assumptions, including, in particular, those pertaining to determining the residual value. Furthermore, the discounted dividends model cannot be applied to the valuation of companies without a determined dividend policy. The advantages of both these methods include their independence from current market valuations of peer companies. On the other hand, the advantage of the ratio analysis is the fact that it is based on a measurable market valuation of a given sector. Its disadvantage lies in the risk that at any given time, the market might not value peer companies correctly. The sum of the parts method (SOTP) consists in summing up the values of various assets of the company, calculated using one of the above methods.

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TIM	5

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Whenever this Analysis quotes a price for the financial instrument, it will be understood as the closing price from the last trading day.