Company Analysis

DR. KALLIWODA | RESEARCH GmbH

Equity Research

November 27, 2012

Europa | Poland | Postal Services

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RESEARCH GmbH

Initiating Coverage

BUY

Price target: PLN 178.90

Integer.pl S.A.

No 1 private mail company in Poland

- Integer.pl S.A. is the no 1 private provider of postal services in Poland. The company, which according to a 2012 study by research firm BSM has a brand recognition of 72%, operates the largest network of postal offices apart from state-owned Poczta Polska S.A. Integer.pl has been active on the Polish postal market since 2006 and since then has increased both sales (CAGR 06-11 of 40.9%) and EBIT (CAGR 06-11 of 73.2%) every year.

- In 2009, Integer.pl introduced a new service called “Paczkomaty”. “Paczkomaty” are fully-automated pack stations, which allow sending out and picking up parcels 24 hours a day/7 days a week without standing in line. Together with its joint-venture partner PineBridge Investments Ltd., Integer.pl wants to expand the number of pack stations from currently c. 1,200 (thereof c. 600 in Poland) to c. 16,000 by 2016. Another promising project are fully-automated mail machines called “Pocztomaty”, which the company plans to introduce on the market in 2013.

- Integer.pl reported good figures for 9M/12. Revenues came in at PLN 199.5m and were 15.1% higher y-o-y. EBIT, which was affected by a profit from the sale of the Polish unaddressed mail business in H1/12, increased by 144.3% to PLN 55.3m (27.7% margin). Due to a lower effective tax rate y-o-y net income (+222.7% to PLN 52.4m) developed even better than EBIT. With a net gearing of 22.6%, Integer.pl had a solid balance sheet at the end of September 2012.

- We initiate our coverage of Integer.pl with a 12-months PT of PLN 178.90 and a BUY rating. Although the company’s valuation is already relatively expensive, we think the current market price does not fully account for the enormous market potential of its pack and mail machines. Over the next years, these machines could possibly replace most post offices worldwide (c. 700k), of which over c. 50% are currently loss-making.

PLNm	2008	2009	2010	2011	2012E	2013E
Net sales	94.95	135.87	202.38	248.96	284.78	447.70
EBITDA	9.63	16.07	34.00	42.81	77.95	115.39
EBIT	8.51	12.33	23.49	28.44	61.51	89.54
Net income	6.58	10.41	16.34	22.97	55.37	66.97
EPS	1.09	1.73	2.78	3.85	9.33	11.28
BVPS	7.37	9.13	12.12	15.31	24.51	35.78
RoE	14.32%	20.35%	25.34%	27.21%	44.70%	36.19%
EBIT margin	8.96 %	9.08 %	11.61 %	11.42 %	21.60 %	20.00 %
P/E	148.81x	93.76x	58.35x	42.13x	17.39x	14.38x
P/BVPS	22.00x	17.76x	13.38x	10.59x	6.62x	4.53x
EV/EBITDA	104.00x	62.32x	29.45x	23.39x	12.84x	8.68x

Overview

Industry:	Postal Services
Country:	Poland
ISIN:	PLINTEG00011
Reuters:	ITGP.WA
Bloomberg:	ITG PW
Website:	www.integer.pl

	High	Low
Last price:		162.20
Price 52 weeks:	172.90	96.15
Market cap. (PLNm)		963.47
No of shares (m)		5.94

Shareholders

A&R Investments Ltd.	41.13%
Generali OFE	10.20%
L.S.S. Holdings Ltd.	8.00%
Nordea OFE	5.31%
Free float	35.36%

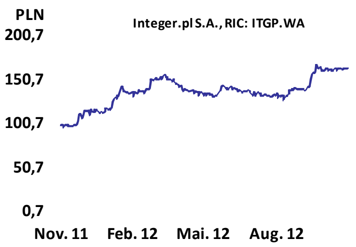
Performance

4 weeks	0.31%
13 weeks	22.66%
26 weeks	13.65%
52 weeks	64.62%
YTD	40.61%

Dividend

	in EUR	in %
2008	0.00	0.00%
2009	0.00	0.00%
2010	0.00	0.00%
2011	0.00	0.00%

52-Weeks Chart



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Content

1 Company profile

Integer.pl S.A. was founded in 1999 and is based in Krakow/Poland. The company operates a network of c. 1,100 own and franchised postal offices and thus is able to offer its services Poland-wide. With 180m deliveries in 2011, it is the largest private provider of mail and parcel delivery services in Poland. A unique service of Integer.pl are the fully-automated pack stations called "Paczkomaty", of which the company has already installed c. 600 in Poland and which have also been sold to ten foreign countries e.g. Estonia, Czech Republic, Chile, Australia, Saudi-Arabia, Ireland. Integer.pl has been listed on the Warsaw Stock Exchange since 2007 and had c. 1,200 employees (KRe) at the end of September 2012.

2 SWOT Analysis

Strengths

- Number 1 private provider of postal services in Poland; has third-highest brand recognition (72%) after Poczta Polska and DHL
- Only private postal company, which is able to offer comprehensive mail services through a Poland-wide network of currently c. 1,100 service points
- Integer.pl is innovation and technology leader in its sector; examples include a "hybrid post" service, a combination of digital and traditional mail, and the social commerce platform InFlavo.pl
- "Paczkomaty" are a very innovative service, which is already being used by clients in 10 countries worldwide; Integer.pl has full control over the production of these machines; it also offers corresponding training and maintance services
- Among Integer.pl's clients are several ten thousand firms, among others the largest Polish E-Commerce portals Allegro.pl and Merlin.pl
- Integer.pl has been able to dynamically increase sales and profits over the last eight years
- Two-times winner of prestigious "World Mail Awards"
- CEO and founder controls 41.1% of the shares

Weaknesses

- Relatively high valuation on trading multiples
- Small size compared to other providers of postal services such as Poczta Polska S.A., UPS and DHL

Opportunities

- Postal market has high entry barriers; reputation and countrywide presence/logistics network are very important
- Bad service quality by state-owned company Poczta Polska offers excellent opportunities for private competitors
- Full liberalisation of all European postal markets by 2013
- Planned international roll-out of up to 16,000 "Paczkomaty" by 2016 together with JV partner PineBridge Investments
- 500 more service points in Poland by Dec 2013 (to 1,600)
- Introduction of "Pocztomaty" mail machines, which have enormous market potential as they are much cheaper than traditional post offices
- Polish E-Commerce market has tremendous growth potential; although c. 50% of Polish consumers buy online, the segment made up only 3.1% of total retail sector in 2011 vs. 12% in the UK
- Sale of advertising leaflet business in Poland has made capital available for international expansion
- Potential takeover by a larger international competitor

Risks

- Risk that government regulations will continue to favour Poczta Polska
- Intensifying competition in the long run
- Currency risks due to growing share of foreign sales
- Loss of key employees
- Legal uncertainty as Polish postal law is unprecise
- Risk that traditional mail will be ousted by digital mail
- Risk that Integer.pl's new products do not meet market' needs
- Risk that Polish clients will continue to use the services of the state operator Poczta Polska because they trust him more
- Liquiditiy risk relating to ambitious investment plans
-

3 Valuation

In order to account for current market valuations, we have valued Integer.pl by using a weighted average of our DCF model (80%) and peer group (20%). Our 12-months price target for the stock equals PLN 178.9, which implies an upside potential of 10.3% at present.

Discounted Cash Flow method (DCF)

Discounted Cash Flow Model (Basis 11/2012)

					Phase 1				
in PLNm	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues	**284.78**	**447.70**	**580.20**	**744.54**	**904.47**	**1,006.38**	**1,087.66**	**1,146.79**	**1,207.47**
(y-o-y change)	14.4%	57.2%	29.6%	28.3%	21.5%	11.3%	8.1%	5.4%	5.3%
Operating profit	**61.51**	**89.54**	**114.88**	**146.36**	**176.51**	**194.96**	**209.15**	**218.89**	**228.75**
(operating margin)	21.6%	20.0%	19.8%	19.7%	19.5%	19.4%	19.2%	19.1%	18.9%
NOPLAT	**60.90**	**72.53**	**93.05**	**118.55**	**142.97**	**157.92**	**169.41**	**177.30**	**185.29**
+ Depreciation & Amortization	16.44	25.85	33.50	42.98	52.22	58.10	62.79	66.21	69.71
= Net operating cash flow	77.34	98.37	126.55	161.53	195.19	216.02	232.21	243.51	255.00
- Total investments (Capex and WC)	-71.43	-150.09	-135.02	-153.46	-173.47	-99.65	-98.14	-95.00	-98.80
Capital expenditures	-51.83	-106.33	-106.71	-118.60	-140.02	-79.07	-82.23	-84.00	-87.63
Working capital	-19.60	-43.77	-28.31	-34.86	-33.45	-20.58	-15.91	-11.01	-11.17
= Free cash flow (FCF)	5.91	-51.72	-8.47	8.08	21.72	116.37	134.07	148.50	156.19
PV of FCF's	**5.85**	**-45.91**	**-6.75**	**5.77**	**13.91**	**66.83**	**69.06**	**68.61**	**64.72**

PV of FCFs in explicit period	242.08
PV of FCFs in terminal period	844.61
Enterprise value (EV)	**1,086.69**
+ Net cash / - Net debt (30 September 2012)	-33.50
+ Investments / - Minorities	-39.97
Shareholder value	**1,013.21**
Number of shares outstanding (m)	**5.97**
WACC	11.50%
Cost of equity	13.3%
Debt costs before tax	9.0%
Tax rate	19.0%
Debt costs after tax	7.3%
Equity ratio	70.0%
Debt ratio	30.0%
Fair value per share in PLN	**169.82**
Fair value per share in PLN (in 12 months)	**189.34**

Sensitivity Analysis			Terminal EBIT margin					
		15.9%	**16.9%**	**17.9%**	**18.9%**	**19.9%**	**20.9%**	**21.9%**
WACC	**8.5%**	292.67	310.36	328.06	345.76	363.45	381.15	398.84
	9.5%	235.22	249.13	263.03	276.93	290.83	304.73	318.63
	10.5%	193.45	204.64	215.83	227.03	238.22	249.41	260.60
	11.5%	161.80	170.98	180.16	**189.34**	198.52	207.70	216.88
	12.5%	137.07	144.71	152.35	159.99	167.63	175.27	182.91
	13.5%	117.26	123.69	130.13	136.56	143.00	149.43	155.87

Source: Dr. Kalliwoda Research GmbH

Peer Group Analysis

Our peer group comprises seven listed mail and parcel service companies from Germany, Austria, the US, the Netherlands and Singapore.

(1) *Deutsche Post AG:* Deutsche Post AG, which is based in Bonn/Germany, is a global provider of mail and logistics services. The company has four business units: Mail; Express; Global Forwarding, Freight, and Supply Chain. Through its subsidiary DHL, it is also present in Poland. In 2011, Deutsche Post had revenues of EUR 54.9bn.

(2) *Österreichische Post AG:* Österreichische Post AG, which is based in Vienna, is an Austrian provider of mail shipping services. The company operates through the following business units: The Mail Division, which covers acceptance, sorting and delivery of letters, postcards, addressed and unaddressed direct mail items, newspapers and regional media; The Parcel and Logistics Division, which provides parcel, express and logistics services in Austria, Germany as well as in South Eastern and Eastern Europe; and The Branch Network Division, which offers postal services, financial services in cooperation with BAWAG PSK, as well as a selection of retail and philatelic products. For fiscal-year 2011, Österreichische Post reported total sales of EUR 2.4bn.

(3) *TNT Express NV:* TNT Express NV, which is headquartered in Hoofdorp/Netherlands, is an express delivery company. It picks up, transports and delivers documents, parcels and freight on a time-certain or day-definite basis. With own operations in 62 countries including Poland and a network of subcontractors and agents, the company has a worldwide presence. TNT's customers include companies of different size, among others from the high-tech electronics, automotive, industrial, healthcare and lifestyle industry. In 2011, TNT Express generated total revenues of EUR 7.2bn.

(4) *FedEx Corporation:* FedEx Corporation, which is based in Memphis/US, provides transportation, e-commerce and business services. The company has the following business units: Federal Express Corporation (FedEx Express), which offers time-certain delivery within one to three business days; FedEx Ground Package System, Inc., a provider of small-package ground delivery service; FedEx Freight Inc. (FedEx Freight), which provides less-than-truckload (LTL) freight services; and FedEx Corporate Services Inc. (FedEx Services), that provides FedEx' other business units with sales, marketing, information technology, communications and back-office support. For fiscal-year 2011, FedEx, which is also active in Poland, reported sales of USD 42.7bn.

(5) *United Parcel Service Inc.:* United Parcel Service, Inc. (UPS), which is headquartered in Atlanta/US, is a package delivery company that operates worldwide, among others in Poland. Each business day, the company delivers packages for 1.1 million shipping customers to 7.7 million consignees in over 220 countries and territories. In 2011, UPS had total revenues of USD 53.1bn.

(6) Singapore Post Ltd.: Singapore Post Limited provides postal and logistics services. Its subsidiaries mainly offer business mail solutions and distribution of mail, electronic printing and dispatching services, as well as the provision of electronic platform and recyclable lockers for merchandise distribution. The company has three business areas: Mail, Logistics and Retail. In fiscal-year 2011, Singapore Post generated sales of SGD 578m.

(7) *PostNL NV*: PostNL NV, which is based in 'S-Gravenhage/Netherlands, delivers documents, small packages and standard parcels. Apart from the Netherlands, where it operates in total 2,600 post offices, it is also active in Belgium, Germany, UK and Italy. In fiscal-year 2011, PostNL had total revenues of EUR 4.3bn.

Below are three other companies, which also count as Integer.pl's competitors:

(1) *ByBox:* ByBox, which is based in Coventry/UK, offers logistics solutions. Its installs and maintains lockers and dropboxes and has developed software platforms in order to manage them. Apart from the UK, the company operates in 20 other countries worldwide. For 2012, ByBox expects to generate revenues of c. GBP 51m.

(2) *TZ Packaged Asset Delivery Inc.:* TZ Packaged Asset Delivery, which is based in Sydney/Australia, offers a range of secure storage and enclosure systems to secure, streamline and audit the complete chain of custody of parcels and express deliveries. Its systems integrate software, networking and TZ SMArt™ locking devices to enable secure storage and tracking of parcels. TZ Packaged Asset Delivery is an operating business unit of Telezygology Inc., a subsidiary of TZ Ltd., which is listed on the Australian Stock Exchange.

(3) *PGP Polska Grupa Pocztowa S.A.:* Polska Grupa Pocztowa S.A. has been operating on the Polish postal market since 2006. The company's service portfolio includes delivery of mass mail sent by corporate clients and institutions. Together with Integer.pl, PGP is the only private provider of postal services in Poland, which operates countrywide. According to our estimates, its revenues amounted to c. PLN 19.2m in 2011.

	EV/Sales		EV/EBITDA		EV/EBIT		P/E		EBITDA margin	Net gearing	P/BVPS
Company	**2013E**	**2014E**	**2013E**	**2014E**	**2013E**	**2014E**	**2013E**	**2014E**	**Latest**	**Latest**	**Latest**
Deutsche Post (EUR)	0.35x	0.34x	4.86x	4.56x	7.20x	6.67x	11.37x	10.34x	7.17%	11.85%	1.68
Österreichische Post (EUR)	0.77x	0.77x	6.34x	6.32x	9.48x	9.42x	14.18x	14.15x	11.35%	-37.83%	3.06
TNT Express (EUR)	0.52x	0.49x	7.28x	5.98x	11.70x	9.30x	19.36x	15.21x	5.73%	-3.64%	1.40
FedEx (USD)	0.58x	0.56x	4.23x	3.70x	6.81x	5.78x	11.21x	9.48x	12.18%	-2.56%	1.82
United Parcel Service (USD)	1.30x	1.23x	7.66x	6.98x	9.57x	8.66x	14.06x	12.44x	13.92%	80.70%	9.17
Singapore Post (SGD)	3.12x	2.96x	9.60x	9.51x	11.22x	11.08x	15.27x	15.07x	35.36%	-30.49%	3.29
PostNL (EUR)	0.53x	0.52x	4.39x	4.36x	5.60x	5.58x	4.46x	4.41x	10.68%	131.57%	1.19
Median	***0.58x***	***0.56x***	***6.34x***	***5.98x***	***9.48x***	***8.66x***	***14.06x***	***12.44x***	***11.35%***	***-2.56%***	***1.82***
Integer.pl (PLN)	2.24x	1.73x	8.68x	6.75x	11.18x	8.72x	14.38x	11.15x	34.28%	22.58%	6.52
Premium/Discount	***282.4%***	***210.5%***	***36.9%***	***12.8%***	***18.0%***	***0.6%***	***2.3%***	***-10.4%***			
Fair value Integer.pl (PLN)	**123.00**										

Source: Dr. Kalliwoda Research GmbH, Thomson Reuters Knowledge

According to our peer group, Integer.pl currently trades at a significant premium to its peers. It should however be noted that the peers are established mail/parcel delivery companies, which mostly generate far lower EBITDA margins and grow at lower rates than Integer.pl. Also, only Deutsche Post AG has a similar product to Integer.pl's "Paczkomaty" called "Packstation", which it however does not produce itself and only installs in Germany (currently more than 2,500 machines). Because of the above, we have decided to weight the peer-group-based fair value only by 20%.

4 9M/12 results and outlook

Revenues

In 9M/12, Integer.pl generated total sales of PLN 199.5m, which increased by 15.1% y-o-y. While revenues from Postal Services including pack machines (“Paczkomaty”) amounted to PLN 135.2m (-12.9% y-o-y), Other revenues (leaflet materials, components and licenses for pack stations) reached PLN 64.3m (152.5% y-o-y). At the end of September, Integer.pl had 500 pack stations installed in Poland, which the company operated itself. In case of foreign markets, in which it is expected to install 1,000 machines by December (e.g. 375 in UK, 200 in Russia, 100 in both Czech Republic and Slovakia), Integer.pl has so far sold its machines or the related technology to third-party operators.

The reason, why revenues from Postal Services/Pack Machines went down y-o-y, was the sale of Kolportaz Rzetelny Sp. z.o.o in H1/12 to Austrian company “Post acht Beteiligungs GmbH”, a subsidiary of Österreichische Post AG. With a market share of c. 36% and sales of PLN 44m in 2011, “Kolportaz Rzetelny Sp. Z.o.o” is the market leader in the area of unaddressed mail delivery (advertising leaflets) in Poland.

9M/12 results compared to previous year

9M/2012 vs. previous year

in PLNm	9M/12	9M/11	change (%)
Net sales	199.54	173.44	*15.1%*
EBITDA	68.41	33.02	*107.2%*
EBITDA margin	34.3%	19.0%	
EBIT	55.29	22.63	*144.3%*
EBIT margin	27.7%	13.0%	
Net income	52.42	16.25	*222.7%*
Net margin	26.3%	9.4%	

Source: Company information, Dr. Kalliwoda Research GmbH

Sales split 9M/12 vs. 9M/11

Sales according to segments 9M/12 vs. 9M/11

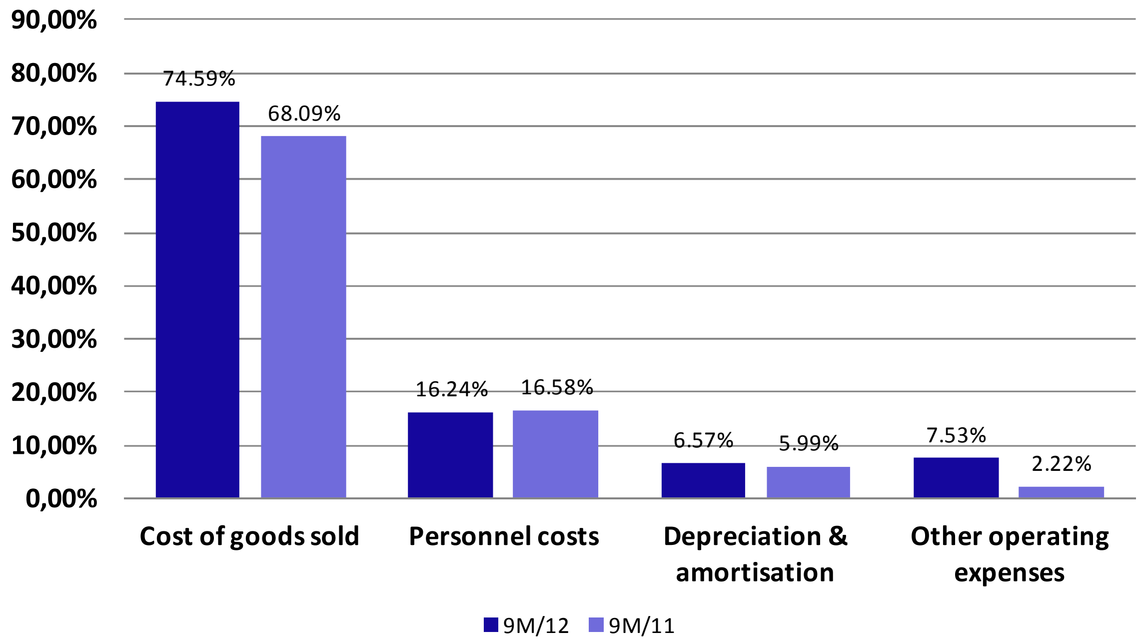
	9M/12	9M/11		9M/12	9M/11
Postal Services/Pack Machines			Group		
Net sales PLNm	135.20	155.19	Net sales PLNm	199.54	173.44
Share in total sales	67.8%	89.5%	change y-o-y	15.1%	
Other revenues*					
Net sales PLNm	64.34	18.25			
Share in total sales	32.2%	10.5%			

* comprise materials for leaflets, licenses and components for pack stations

Source: Company information, Dr. Kalliwoda Research GmbH

Profitability

Share in total sales 9M/12 vs. 9M/11



Source: Company information, Dr. Kalliwoda Research GmbH

In the first nine months of 2012, Integer.pl generated an EBIT of PLN 55.3m, which equaled a y-o-y increase of 144.3%. Despite a higher share of CoGS, Depreciation & Amortisation and Other operating expenses, which resulted from investments into new services as well as production and marketing of pack machines, the operating margin improved from 13% in 9M/11 to 27.7%. The reason was a profit associated with the sale of subsidiary Kolportaz Rzetelny Sp. z.o.o in H1/12, which affected Other operating income (PLN 65.1m vs. PLN 10.3m in 9M/11). Net income (+222.7% y-o-y to PLN 52.4m) increased even more than EBIT, which mainly resulted from a lower effective tax rate y-o-y. At the end of September deferred tax assets reached PLN 9.7m.

Balance Sheet and Cash Flow

On 30 September 2012, the largest position on Integer.pl's balance sheet was equity with PLN 148.4m. Other important positions were fixed assets (PLN 122.9m), which comprise among others the pack stations and equipment of the service points in Poland, and trade receivables (PLN 110.9m), which include receivables towards customers, who order pack stations. Since Integer.pl introduced "Paczkomaty" on the market in 2009, both balance sheet positions have more than doubled. In the same period, inventories, which comprise components for pack machines, increased from PLN 1.8m to PLN 19.3m.

At the end of September 2012, Integer.pl had interest-bearing debt of PLN 96.5m, which comprised long- and short-term loans, leasing debt and bonds worth PLN 57.2m and PLN 39.2m respectively. With cash and financial assets (receivables and loans to third parties) of PLN 63m, the company's net debt position amounted to PLN 33.5m and the net gearing to 22.6%.

Between January and September 2012, Integer.pl generated an operating cash flow of PLN -14.1m compared to PLN 7.2m the previous year. The main reason was the profit from investment activity of PLN 52.7m, which was related to the sale of Kolportaz Rzetelny Sp. z.o.o and was subtracted. The cash flow from investing amounted to PLN 45.2m (9M/11: PLN -24.9m) and was affected by the above-mentioned transaction as well as repayments of loans, which the company had granted to third parties. With a cash inflow from new loans and bonds of PLN 9.7m net, Integer.pl's cash increased from PLN 7.8m in January 2012 to PLN 48.7m.

Outlook

Although Integer.pl already trades at relatively high multiples, we believe that there is double-digit upside potential due to the company's excellent growth prospects. What we very much like about the company, is that it is an innovation leader in its sector. Examples are its own social commerce platform InFlavo.pl as well as pack stations "Paczkomaty", which since 2009 have achieved a tremendous success not just in Poland but also internationally. An important aspect of Integer.pl's strategy is the development of new services that anticipate future trends in retail e.g. increasing use of mobile devices and social networks by customers, higher importance of flexible, quick and cheap delivery.

With its cheap and reliable services as well as high brand awareness – according to BCM Integer.pl has a brand recognition of 72% - the company is set to benefit strongly from weakness of state-owned operator Poczta Polska in Poland after full market liberalization in 2013. However, the main future growth driver will be in our opinion the roll-out of its pack ("Paczkomaty") and mail machines ("Pocztomaty"). "Paczkomaty", which have already been ordered by customers from 10 countries – latest announced order was from Australian Post for c. USD 6.4m, whereby the company will install 250 machines by the end of 2013 and possibly over 1,000 in the next years – are available 24/7 and offer a tremendous cost advantage over traditional parcel service providers. Through the 56% joint venture easyPack Sp. z.o.o, which the company established together with the private equity fund PineBridge Investments Ltd., Integer.pl wants to install c. 16,000 pack machines in Europe and the CIS region (Commonwealth of Independent States) by 2016. On the other hand, "Pocztomaty", which are supposed to be introduced on the market in 2013, also bear significant market potential as they could replace whole postal offices in the future. According to Integer.pl, c. 50% of postal offices worldwide are currently loss-making.

We have divided our sales model into four segments: Postal Services, Pack Machines, Mail Machines and Other revenues. While revenue estimates for Postal Services are based on the yearly volume of mails delivered, Pack Machines comprises sales from operation and export of "Paczkomaty". Our sales estimate for Mail Machines only takes into account export sales of the machines, which we expect to start in 2013. For Integer.pl's total sales, we forecast that in the coming years they will grow at a CAGR of 32.6% and reach PLN 1.2bn in 2020.

On the profit level, results in 2012 will be positively affected by the sale of subsidiary Kolportaz Rzetelny Sp. z.o.o in H1/12 (EUR 12.5m plus potential earnout of EUR 2.5m), which has increased Other operating income. Thus, we expect that operating margin will reach 21.6% after 11.4% in 2011. Fiscal-years 2013 to 2016 will however be impacted by high investments into pack and mail machines, resulting in significant CAPEX, marketing and depreciation expenses. The investments will mostly be conducted by Integer.pl's 56% joint-venture easyPack Sp. z.o.o together with private equity fund PineBridge Investments Ltd. In our model, we have assumed that yearly CAPEX will reach PLN 100-140m and that the EBIT margin will go down to 19.5% in 2016. We also expect that Integer.pl will expand its network of postal offices in Poland and that new ones will also be opened in smaller cities and villages. Given that there are often no banks in villages and smaller towns in Poland, the company could increase the profitability of its service points by selling financial products or renting unused space, in our view.

Our sales model 2012E-2014E

Sales split 2012E-2014E

in PLNm	2012E	2013E	2014E
Postal Services	184.50	224.00	226.24
Number of mails (m)	205.00	280.00	282.80
Pack machines	28.78	112.70	211.76
Sales from operation of Pack stations	*4.78*	*42.70*	*111.76*
Year-end number of Pack stations (in units)	1600	4300	6800
Parcels per Pack station (annually)	1992.72	4824.48	6712.32
Export sales of Pack stations	*24.00*	*70.00*	*100.00*
Number of exported machines	240	700	1000
Average ARPU (EUR)	25000	25000	25000
Average EUR/PLN exchange rate	4.00	4.00	4.00
Mail machines	0.00	27.00	54.00
Export sales of Post machines (in units)	0	150	300
Average ARPU (EUR)	45000	45000	45000
Average EUR/PLN exchange rate	4.00	4.00	4.00
Other revenues	71.50	84.00	88.20
Total revenues	**284.78**	**447.70**	**580.20**
(change y-o-y)	14.4%	57.2%	29.6%

Source: Dr. Kalliwoda Research GmbH

Our forecasts 2012E-2014E

Our forecasts 2012E-2014E

in PLNm	2012E	2013E	2014E
Net sales	284.78	447.70	580.20
EBITDA	77.95	115.39	148.38
EBITDA margin	27.4%	25.8%	25.6%
EBIT	61.51	89.54	114.88
EBIT margin	21.6%	20.0%	19.8%
Net income	55.37	66.97	86.39
Net margin	19.4%	15.0%	14.9%

Source: Dr. Kalliwoda Research GmbH

5 Business model

Integer.pl S.A., which is headquartered in Krakow, is the leading private mail and parcel delivery company in Poland with a market share of c. 14% in 2011. The company delivers letters and parcels and through its network of service points also offers basic financial services e.g. loans, payments, credit cards, insurances (51% subsidiary InPost Finanse Sp. z.o.o). Additionally, it produces and installs so-called "Paczkomaty", which are fully-automated pack stations, where customers can sent off or pick up parcels. Currently, there are c. 1,200 "Paczkomaty" machines installed in Poland as well as ten foreign countries, including Czech Republic, Estonia, Latvia, Lithuania, Ireland, Chile, Saudi-Arabia, Russia and Australia. Integer.pl has been listed on the Warsaw Stock Exchange since 2007 and employs c. 1,200 people (KRe).

Until recently, Integer.pl has also been a distributor of advertising leaflets in Poland. Although it was the market leader (share of 36%, volume of 1.2bn advertising leaflets), management decided to sell the business in order to focus on postal services and make resources available for expansion especially in foreign markets. The unaddressed mail business was sold at the beginning of 2012 to Austrian company "Post acht Beteiligungs GmbH", a subsidiary of Österreichische Post AG", for c. EUR 12.5m + potential earnout of max. EUR 2.5m.

However, through its subsidiary Integer.ua, which was founded in 2009 and is owned indirectly through 100% shareholding Integer EU Ltd., Integer.pl still distributes advertising leaflets in the Ukraine. The company is present in 200 largest cities there and wants to reach a market share of 10-15% in the near future.

Below is a detailed description of Integer.pl's business segments:

Postal services

The mail business is conducted through the subsidiary InPost Sp. z.o.o., in which Integer.pl owns 99.9% of the shares. InPost, which has been on the market since Q4 2006, is the leading private provider of postal services in Poland, with a market share of 14% in 2011. While between 2009 and 2011 it increased the volume of mails delivered from 75m to 180m, this figure is expected to grow to 280-300m in 2013. Due to government regulations, which reserve the delivery of mails with <50g to state-owned operator Poczta Polska, the company has been so far only able to deliver mails and parcels with a weight of more than 50g. However, this is supposed to change with the full liberalization of the Polish mail market coming into effect on 1 January 2013.

Through its own technical and logistical infrastructure, InPost is able to cover whole of Poland with its services. Currently, it operates 1,100 own and franchised customer service points.

What differentiates InPost from its competitors is its innovativeness. Examples include a "hybrid mail" service, which is very cost-efficient as customers write and send letters in digital form and they are only being printed at their target location. Due to its own sophisticated IT system called HERMES, an application for real-time monitoring and control of mails/parcels, InPost is able to deliver mails quickly (98% within 1-day) and charge up to 40% lower prices than couriers such as UPS.

Paczkomaty and Pocztomaty (pack and mail machines)

In October 2009, Integer.pl's 75% subsidiary InPost Paczkomaty Sp. z.o.o introduced a new concept: the delivery of parcels to pack stations, called "Paczkomaty". The company manufacturers the machines itself and through an external company, which however only works for it. The production facilities are located near the company's corporate headquarter in Krakow in Southern Poland. With the machines, which according to management achieve the break-even upon reaching a capacity utilization of 25%, Integer.pl targets especially online retailers and has so far won several ten thousand customers, among others the largest Polish online shopping sites Allegro.pl and Merlin.pl.

Integer.pl covers the complete value chain associated with "Paczkomaty" machines. Apart from production, it also controls the installation and maintenance of the pack machines. The company operates the machines itself, but also sells them to foreign markets e.g. to providers of postal services or courier companies from Estonia, Saudi-Arabia, Chile, Cyprus and Spain. There are currently c. 1,200 "Paczkomaty" installed, thereof c. 600 in Poland.

In order to roll-out the machines internationally, Integer.pl has established the joint-venture easyPack Sp. z.o.o with international private equity fund PineBridge Investments Ltd., whereby Integer.pl will hold the majority of shares and invest in total EUR 58m over the next years (PineBridge EUR 50m). By 2016, Integer.pl and PineBridge plan to install in total 16,000 "Paczkomaty" in Europe and the CIS region.

This is how a "Paczkomat" works:

(1) In the shop, the client chooses "Paczkomat" as a delivery option and the location of the machine, where he wants to pick up his parcel

(2) If the parcel arrives at the machine, which happens after two business days at the latest, the customer will receive an email and a SMS with a code

(3) The customer enters his mobile phone number and the code on the display of the "Paczkomat". Then, the locker opens and he can take out his parcel. After receiving the code, the customer has two business days to pick up his delivery. If he does not, it will be sent to the next InPost Service Point, where it will stay for the next 14 days.

In 2013, Integer.pl will introduce another innovative concept, which is currently being tested in Estonia, Chile, Saudi-Arabia and Slovakia: fully-automated mail machines "Pocztomaty". The machine, which Integer.pl developed together with NCR Corporation, a global producer of ATMs, is supposed to offer all postal services (sending and picking up mails and parcels, cash withdrawals, acceptance of payments) and to replace traditional postal offices in the long run. According to Integer.pl, c. 50% of all postal offices worldwide (c. 700k) are currently loss-making. The Polish department for electronic communication (UKE) estimates that in Poland this figure even amounts to 96%.

6 Latest market data

The market for mail and parcel delivery in Europe

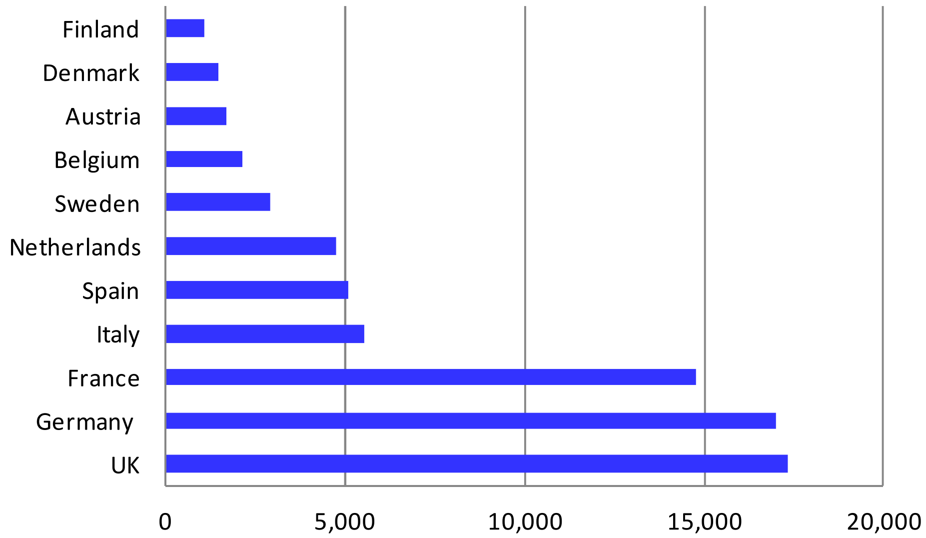
The postal market in the EU is regulated by the III Postal Directive of the European Union, which was introduced in 2008. The directive foresaw full liberalization of all European postal markets by 31 December 2010, with prolongation possible until 31 December 2012. The following table shows how far the liberalization has gone in the respective EU countries:

	Liberalised, competition with no limitations	Liberalised, competition with limitations	Liberalised, no competition	Monopoly ends in 2013
Countries	Germany, Netherlands, Sweden, Finland, Estonia	Spain, Italy, United Kingdom	France, Belgium, Portugal, Ireland, Austria, Bulgaria	Poland, Lithuania, Latvia, Romania, Hungary, Czech Republic, Slovakia, Greece, Luxemburg
Share in European market for addressed mail	32%	35%	27%	6%

Source: PostNL presentation „European Postal Markets", Dr. Kalliwoda Research GmbH

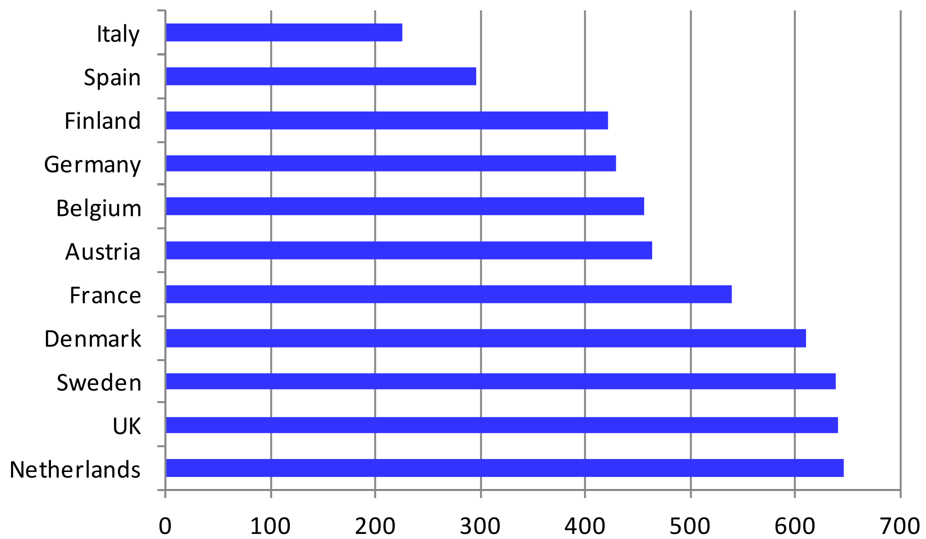
According to PostNL, most postal markets in Western Europe declined between 2007 and 2010. In our view, the reasons are the popularity of email and new laws, which allow the use of digital documents e.g. e-invoices. The highest negative CAGR of <5% was registered in Spain and UK, while with a CAGR between 0% and -2.5%, the postal markets in Germany, the Netherlands, Austria and Finland were most stable. In 2010, the largest mail markets in Europe in terms of volume were the UK, Germany and France, while in the Netherlands, UK and Sweden households received most addressed mail items per year.

Total addressed mail items (latest data, in millions)



Source: PostNL presentation „European Postal Markets", Dr. Kalliwoda Research GmbH

Addressed mail items per household (latest data)



Source: PostNL presentation „European Postal Markets", Dr. Kalliwoda Research GmbH

The market for mail and parcel delivery in Poland

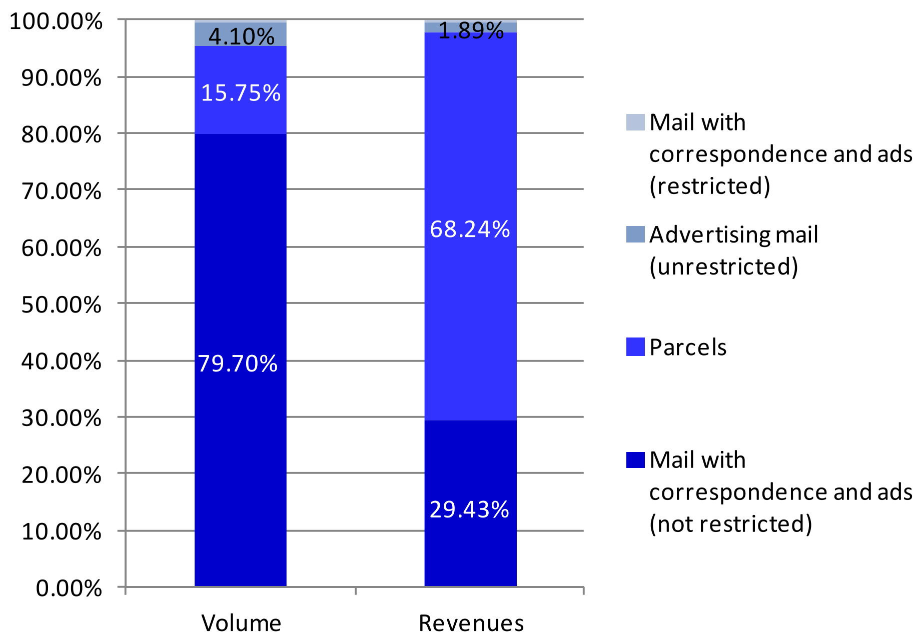
In most EU countries, the postal markets were fully liberalized at the end of December 2010. However, as one of 10 member states, Poland decided to postpone the full liberalization until 31 December 2012. The main reason was that the state-owned operator Poczta Polska S.A., which was transformed into a joint-stock company in September 2009, should have more time to adjust its business model to increasing competition from private operators. The Polish government conducted the liberalization process in three stages, which all limited the restricted area, in that Poczta Polska S.A. had a monopolistic market position:

Stage 1: Until 30 April 2004, restricted area for mails with a weight up to 500g
Stage 2: From 1 May 2004 to 31 December 2005, restricted area for mails with a weight up to 350g
Stage 3: From 1 January 2006 to 31 December 2012, restricted area for mails with a weight up to 50g
From 1 January 2013: Full liberalization, private operators can deliver all kinds of mails

In Poland, private operators of postal services have been active since 2006, the year, when InPost Sp. z.o.o and Polska Grupa Pocztowa (PGP) S.A. started their operations. According to UKE, compared to Poczta Polska, which operated 8,383 postal offices in 2011 (thereof 4,379 in villages), there were 247 private operators registered in 2011 (thereof 154 active), which had in total 4,365 postal offices that were primarily located in bigger cities. However, only three private operators had more than 100 service points.

While the total mail market had a volume of 5.7bn units, the private mail operators accounted for 3.7bn (64.9%) and were especially strong in the area of parcels (52% of total volume) and unaddressed mail (92.3%) e.g. advertising leaflets. With a share of 88.4% and 92.5% respectively, Poczta Polska S.A. controlled the areas “mail with correspondence” and “mail with advertisements”.

Structure of services provided by private postal companies in Poland



Source: UKE, Dr. Kalliwoda Research GmbH

Shares of private postal companies in total volume without unaddressed mail

	Volume (in thousand units)					
	2006	**2007**	**2008**	**2009**	**2010**	**2011**
UPS, DHL and others	98.0%	82.0%	53.5%	38.3%	26.1%	23.6%
InPost, PGP, PAF	2.0%	18.0%	46.5%	61.7%	73.9%	76.4%
Total	***61,544***	***79,622***	***77,200***	***141,897***	***208,141***	***260,909***
	Revenues (in PLNk)					
	2006	**2007**	**2008**	**2009**	**2010**	**2011**
UPS, DHL and others	99.9%	99.0%	95.8%	89.9%	87.5%	86.9%
InPost, PGP, PAF	0.1%	1.0%	4.2%	10.1%	12.5%	13.1%
Total	***1,312,656***	***1,556,362***	***926,849***	***1,042,219***	***1,180,719***	***1,370,961***

Source: UKE, Dr. Kalliwoda Research GmbH

The E-Commerce market in Europe and Poland

The Polish E-Commerce market has been growing at double-digit rates over the last years and remains highly promising. According to the Center for Retail Research, the volume of the E-Commerce sector in Poland grew by 24% y-o-y in 2011 and is expected to increase by another 24% in 2012. For Europe, it forecasts the growth rates at 18.7% in 2011 and 16.1% in 2012, while estimating total market volume at EUR 200.5bn (2010: EUR 169.6bn).

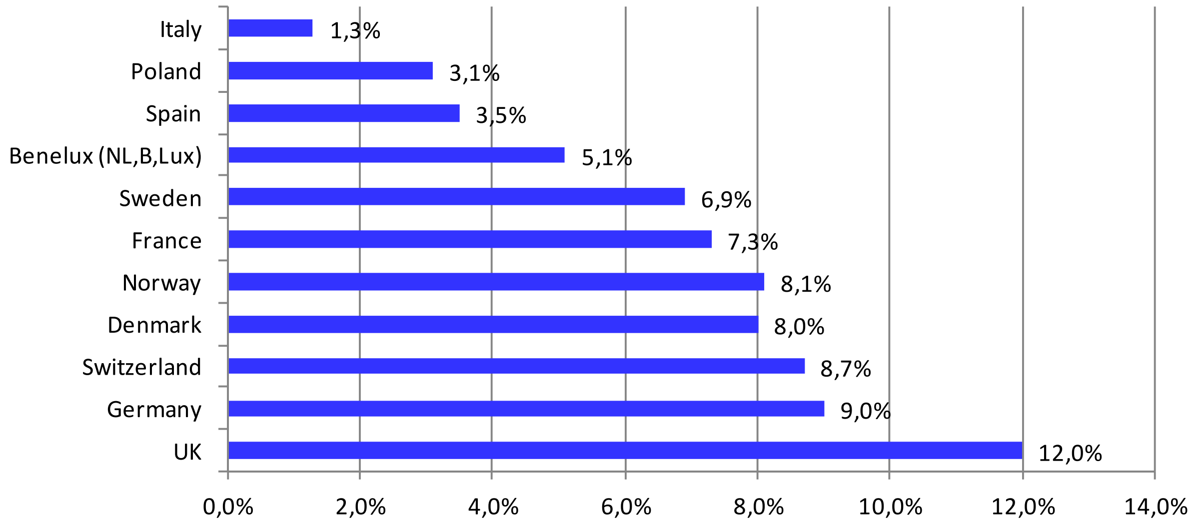
In our view, the high growth potential of the Polish E-Commerce market is exemplified by the following facts:

(1) Based on data from Eurostat, 62% of Poles used the internet within last three months in 2011 compared to an average of 71% for EU-27 and 93% for Sweden

(2) According to the Center for Retail Research, the share of E-Commerce in the total retail sector amounts to only 3.1% compared to 12% in the UK or 9% in Germany

(3) According to latest data by Gemius, only 47% of Poles did shopping online in the last six months

Share of the online channel in retail trade in 2011



Source: Center for Retail Research, Dr. Kalliwoda Research GmbH

Company Analysis

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7 Profit and loss statement

Profit and loss statement - Integer.pl						
	Fiscal year					
in PLNm	2008	2009	2010	2011	2012E	2013E
Postal Services (until H1/12 incl. Kolportaz Rzetelny)	*77.46*	*109.33*	*173.63*	*206.53*	*213.28*	*363.70*
Other revenues	*17.49*	*26.55*	*28.75*	*42.43*	*71.50*	*84.00*
Revenues	**94.95**	**135.87**	**202.38**	**248.96**	**284.78**	**447.70**
Cost of goods sold	-74.61	-92.59	-128.80	-168.97	-211.31	-268.17
Gross profit	**20.34**	**43.28**	**73.58**	**79.99**	**73.47**	**179.53**
Other operating income	4.61	3.18	8.16	8.54	66.50	9.50
Personnel costs	-13.60	-23.52	-38.27	-38.96	-45.00	-70.51
Other operating expenses	-1.72	-6.89	-9.47	-6.76	-17.02	-3.13
EBITDA	***9.63***	***16.07***	***34.00***	***42.81***	***77.95***	***115.39***
Depreciation	-1.12	-3.73	-10.51	-14.37	-16.44	-25.85
Operating income	**8.51**	**12.33**	**23.49**	**28.44**	**61.51**	**89.54**
Net financial result	-4.01	0.91	-3.21	-4.73	-7.60	-7.85
EBT	**4.50**	**13.24**	**20.28**	**23.71**	**53.91**	**81.69**
Income taxes	-0.58	-2.96	-3.76	-0.86	-0.54	-15.52
One-off gain relating to negative goodwill	2.57	0.00	0.00	0.00	0.00	0.00
Minorities	0.10	0.13	-0.18	0.12	2.00	0.80
Net income / loss	**6.58**	**10.41**	**16.34**	**22.97**	**55.37**	**66.97**
EPS	1.09	1.73	2.78	3.85	9.33	11.28
Change y-o-y						
Revenues	n.a	43.11%	48.95%	23.02%	14.39%	57.21%
Cost of goods sold	n.a	24.10%	39.10%	31.19%	25.06%	26.91%
Gross profit	n.a	112.82%	70.00%	8.71%	-8.15%	144.34%
Other operating income	n.a	-30.88%	156.42%	4.68%	678.32%	-85.71%
Personnel costs	n.a	72.90%	62.76%	1.80%	15.48%	56.71%
Other operating expenses	n.a	301.52%	37.54%	-28.62%	151.84%	-81.62%
EBITDA	n.a	66.87%	111.62%	25.92%	82.09%	48.02%
Depreciation	n.a	232.41%	181.44%	36.81%	14.39%	57.21%
Operating income	n.a	45.01%	90.49%	21.05%	116.31%	45.56%
Net financial result	n.a	-122.72%	-453.08%	47.06%	60.85%	3.29%
EBT	n.a	194.29%	53.14%	16.93%	127.36%	51.52%
Income taxes	n.a	407.53%	26.89%	-77.16%	-37.24%	2778.89%
One-off gain relating to negative goodwill	n.a	-100.00%	n.a	n.a	n.a	n.a
Minorities	n.a	33.68%	-237.80%	-166.86%	1609.40%	-60.00%
Net income / loss	n.a	58.24%	57.06%	40.55%	141.06%	20.94%
EPS	n.a	58.72%	60.69%	38.49%	142.23%	20.94%
Share in total sales						
Revenues	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Cost of goods sold	-78.58 %	-68.14 %	-63.64 %	-67.87 %	-74.20 %	-59.90 %
Gross profit	21.42 %	31.86 %	36.36 %	32.13 %	25.80 %	40.10 %
Other operating income	4.85 %	2.34 %	4.03 %	3.43 %	23.35 %	2.12 %
Personnel costs	-14.32 %	-17.31 %	-18.91 %	-15.65 %	-15.80 %	-15.75 %
Other operating expenses	-1.81 %	-5.07 %	-4.68 %	-2.72 %	-5.98 %	-0.70 %
EBITDA	10.14 %	11.82 %	16.80 %	17.20 %	27.37 %	25.77 %
Depreciation	-1.18 %	-2.75 %	-5.19 %	-5.77 %	-5.77 %	-5.77 %
Operating income	8.96 %	9.08 %	11.61 %	11.42 %	21.60 %	20.00 %
Net financial result	-4.22 %	0.67 %	-1.59 %	-1.90 %	-2.67 %	-1.75 %
EBT	4.74 %	9.75 %	10.02 %	9.52 %	18.93 %	18.25 %
Income taxes	-0.62 %	-2.18 %	-1.86 %	-0.35 %	-0.19 %	-3.47 %
One-off gain relating to negative goodwill	2.70 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Minorities	0.10 %	0.09 %	-0.09 %	0.05 %	0.70 %	0.18 %
Net income / loss	6.93 %	7.66 %	8.08 %	9.23 %	19.44 %	14.96 %

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8 Balance sheet

Balance sheet - Integer.pl						
	Fiscal year					
in PLNm	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**
Assets						
Cash and equivalents	7.08	15.60	21.47	7.83	13.37	-0.87
Other financial assets	1.03	4.69	5.10	19.57	19.57	19.57
Inventories	5.00	1.81	2.02	8.35	17.37	22.04
Trade accounts and notes receivables	35.47	36.97	42.11	71.24	101.43	157.00
Other current assets	10.72	8.50	6.65	18.47	22.21	34.92
Current assets, total	**59.29**	**67.57**	**77.36**	**125.45**	**173.95**	**232.66**
Property, plant and equipment	11.54	64.22	93.61	99.63	119.63	187.13
Other intangible assets	2.56	7.65	18.96	25.46	21.36	33.58
Goodwill	1.45	1.40	1.40	4.83	6.05	6.05
Long-term financial assets	0.00	0.00	4.61	19.73	38.00	38.76
Other assets	0.39	1.50	1.68	1.78	6.90	7.04
Deferred tax assets	1.78	1.92	2.30	5.97	9.70	0.00
Non-current assets, total	**17.71**	**76.69**	**122.55**	**157.40**	**201.64**	**272.56**
Total assets	**77.00**	**144.27**	**199.91**	**282.85**	**375.60**	**505.22**
Liabilities						
Trade payables	13.00	18.82	25.01	42.49	60.79	75.31
Other short-term liabilities	4.98	14.86	8.98	20.57	25.63	40.29
Short-term financial debt	7.07	38.90	34.65	41.05	40.00	48.00
Pension provision	0.15	0.36	0.43	0.43	0.49	0.77
Current liabilities, total	**25.19**	**72.94**	**69.07**	**104.53**	**126.91**	**164.37**
Long-term financial debt	1.46	6.33	22.70	43.67	58.00	65.00
Pension provision	0.01	0.02	0.03	0.05	0.05	0.08
Other long-term liabilities	4.35	8.61	35.22	38.32	40.98	59.95
Deferred tax liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Long-term liabilities	**5.82**	**14.96**	**57.95**	**82.03**	**99.03**	**125.03**
Total liabilities	**31.01**	**87.90**	**127.02**	**186.57**	**225.94**	**289.40**
Shareholders equity, total	**45.93**	**56.34**	**72.68**	**96.19**	**151.56**	**218.53**
Minority interests	0.06	0.03	0.21	0.09	-1.91	-2.71
Total liabilities and equity	**77.00**	**144.27**	**199.91**	**282.85**	**375.60**	**505.22**

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Company Analysis

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9 Cash flow statement

Cash flow statement - Integer.pl

in PLNm	Fiscal year 2008	2009	2010	2011	2012E	2013E
Net income / loss	6.58	10.41	16.34	22.97	55.37	66.97
Depreciation & Amortization	1.12	3.73	10.51	14.37	16.44	25.85
Change of working capital	-13.09	15.53	-0.79	-19.40	-19.60	-43.77
Others	-0.19	7.42	2.20	1.40	-3.73	9.70
Net operating cash flow	**-5.58**	**37.09**	**28.26**	**19.34**	**48.48**	**58.75**
Cash flow from investing	**6.53**	**-53.49**	**-47.33**	**-46.00**	**-51.83**	**-106.33**
Free cash flow	0.95	-16.40	-19.07	-26.66	-3.35	-47.58
Cash flow from financing	**4.35**	**24.92**	**24.94**	**13.02**	**8.89**	**33.34**
Change of cash	5.30	8.52	5.87	-13.64	5.54	-14.24
Cash at the beginning of the period	1.78	7.08	15.60	21.47	7.83	13.37
Cash at the end of the period	7.08	15.60	21.47	7.83	13.37	-0.87

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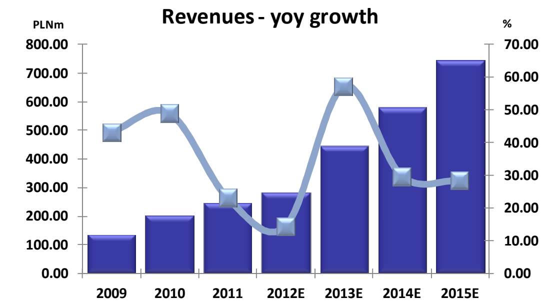
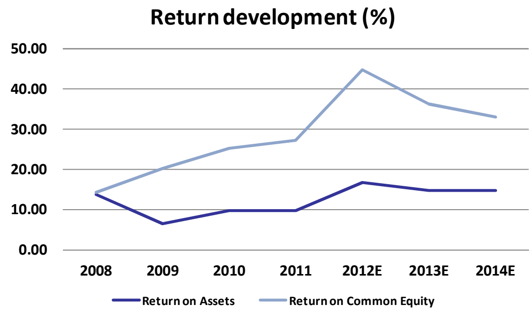
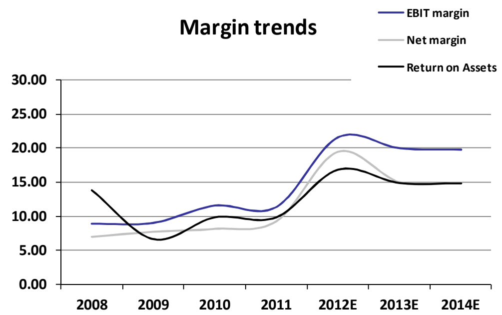
10 Financial ratios

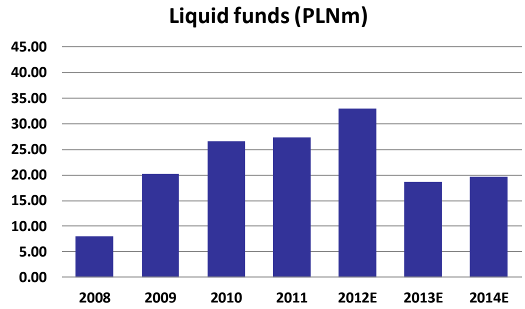
Fiscal year	2008	2009	2010	2011	2012E	2013E	2014E	2015E
Gross margin	21.42%	31.86%	36.36%	32.13%	25.80%	40.10%	40.10%	40.10%
EBITDA margin	10.14%	11.82%	16.80%	17.20%	27.37%	25.77%	25.57%	25.43%
EBIT margin	8.96%	9.08%	11.61%	11.42%	21.60%	20.00%	19.80%	19.66%
Net margin	6.93%	7.66%	8.08%	9.23%	19.44%	14.96%	14.89%	15.00%
Return on equity (ROE)	14.32%	20.35%	25.34%	27.21%	44.70%	36.19%	33.01%	30.95%
Return on assets (ROA)	13.74%	6.58%	9.78%	9.79%	16.77%	14.81%	14.77%	15.01%
Return on capital employed (ROCE)	14.29%	13.42%	14.63%	15.37%	24.49%	21.28%	21.23%	21.17%
Net debt (in PLNm)	0.58	25.32	31.24	57.79	25.11	46.38	44.39	31.02
Net gearing	1.26%	44.94%	42.98%	60.08%	16.57%	21.22%	14.56%	7.45%
Equity ratio	59.65%	39.05%	36.36%	34.01%	40.35%	43.25%	47.66%	52.11%
Current ratio	2.35	0.93	1.12	1.20	1.37	1.42	1.46	1.58
Quick ratio	1.73	0.79	0.99	0.94	1.06	1.07	1.09	1.18
Net interest cover	2.12	-13.55	7.31	6.02	8.09	11.41	14.18	17.53
Net debt/EBITDA	0.06	1.58	0.92	1.35	0.32	0.40	0.30	0.16
Tangible BVPS	7.37	9.13	12.12	15.31	24.51	35.78	50.33	69.14
CAPEX/Sales	n.a	45.23%	27.58%	18.26%	18.20%	23.75%	18.39%	15.93%
Working capital/Sales	34.97%	10.01%	8.30%	14.05%	19.17%	21.97%	21.83%	21.70%
EV/Sales	10.55	7.37	4.95	4.02	3.52	2.24	1.73	1.34
EV/EBITDA	104.00	62.32	29.45	23.39	12.84	8.68	6.75	5.29
EV/EBIT	117.73	81.19	42.62	35.21	16.28	11.18	8.72	6.84
P/Tangible BVPS	22.00	17.76	13.38	10.59	6.62	4.53	3.22	2.35
P/E	148.81	93.76	58.35	42.13	17.39	14.38	11.15	8.63
P/FCF	170.92	-9.89	-8.51	-6.08	-48.46	-3.41	-1.20	-1.06

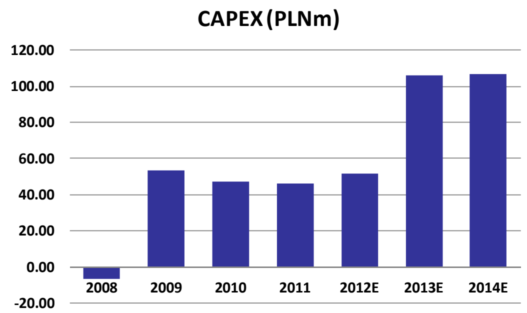
Source: Company information, Dr. Kalliwoda Research GmbH

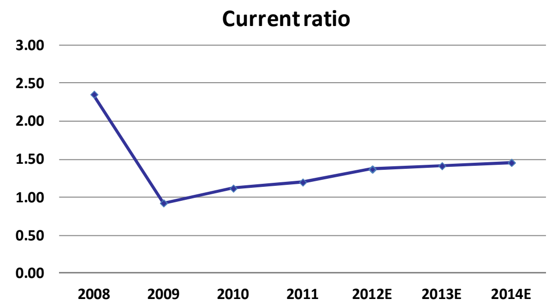












Source: Company information, Dr. Kalliwoda Research GmbH

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