

4MASS S.A.



Price target: PLN 13.20

Initiating Coverage

Rating: BUY

4MASS S.A. is a Polish producer and distributor of own and third-party high-quality cosmetic products and accessories based on own light-cured mass. This allows it to generate gross margins of >35%. Since 2019, the company has increased its revenues at a CAGR of 96.3% and its net income from PLN -275k to PLN 8.5m. In its production facility in Radom (central Poland), whose capacity utilization we estimate at only c. 50%, the company produces manicure, pedicure and make-up cosmetics that have been developed by 4MASS and are being sold online, through drug stores, pharmacies, retailers, wholesalers, as well as directly to beauty salons and SPAs. Soon, 4MASS will open another production facility: in Swidnik (in south-eastern Poland), which is supposed to produce proprietary dermocosmetics. In the coming years, management plans to increase the share of international sales from currently 23% and introduce new own products. We initiate coverage of 4MASS with a 12-months PT (80% DCF, 20% peer group) of PLN 13.20, which implies an upside of 136.6% at present. On our estimates, the stock is currently trading at a P/E 2023E and 2024E of 7.3x and 5.9x respectively, while for both years we forecast an EPS growth of 114.5% and 25%. Regarding risks, we would like to emphasize 1. controversial transactions by insiders in the past, and 2. strong competition by well-known global cosmetic producers.

4MASS' products combine highest quality with affordable pricing. 4MASS has 4 proprietary brands and also sells cosmetic accessories of suppliers from Germany, France, China and South Korea. The brands include Claresa – the company's oldest and most important brand – which is targeted at retailers - PALU, Stylistic Salon System and Vircept that are sold to wholesalers and directly to professional beauty salons and SPAs. The proprietary cosmetic products are based on own ingredients (4MASS is only one of very few manufacturers of light-crude mass in Europe) and from external – mainly European – suppliers.

For the future, 4MASS has many opportunities to grow as the cosmetics market is large and is forecast to grow at a CAGR of 3.2%. Currently, the European cosmetics market is worth USD 127.6bn and the fastest growing segment dermocosmetics USD >6.5bn. In the coming years, 4MASS plans to intensify its distribution efforts in other European countries.

in PLNm	2020	2021	2022	2023E	2024E	2025E
Net sales	26.88	36.89	65.33	94.72	124.32	153.39
EBITDA	2.18	3.81	13.31	25.38	31.45	36.50
EBIT	1.55	2.82	11.84	23.68	29.22	33.74
Net income	1.18	2.01	8.51	18.25	22.81	26.56
EPS	0.13	0.09	0.38	0.76	0.95	1.11
DPS	0.00	0.00	0.00	0.00	0.00	0.55
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	9.91%
RoE	9.42%	10.69%	28.96%	42.68%	36.05%	30.19%
Net gearing	6.45%	15.24%	11.06%	-5.45%	-27.19%	-41.86%
EV/Sales	5.06x	3.68x	2.08x	1.43x	1.09x	0.89x
EV/EBITDA	62.23x	35.70x	10.21x	5.35x	4.32x	3.72x
P/E	42.0x	62.0x	14.6x	7.3x	5.9x	5.0x

Company profile

4MASS S.A. is a Polish producer and distributor of make-up products, disinfectants and personal care products. The company also distributes cosmetic accessories of third-party producers. Its main product category are light-curing cosmetics for nail styling e.g. hybrid varnishes and build-in gels.

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Website	www.4mass.pl
Sector	Cosmetic Products
Country	Poland
ISIN	PL4MASS00011
Reuters	4MS.WA
Bloomberg	4MS.PW

Share information

Last price	5.58
Number of shares (m)	24.01
Market cap. (PLNm)	133.98
Market cap. (EURm)	28.94
52-weeks range	PLN 7.10 / PLN 1.60
Average volume (shares)	119,240

Performance

4-weeks	2.01%
13-weeks	48.40%
26-weeks	134.45%
52-weeks	226.32%
YTD	146.36%

Shareholder structure

Arkadiusz Laszkiewicz	13.33%
Jakub Lutek	8.78%
Joanna Kasperska (CEO)	5.79%
Lemuria Partners SICAV Plc	5.08%
Free float	67.02%

Financial calendar

9M/23 report	November 14, 2023
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Content

Investment Case	2
Valuation	4
H1/23 results	8
Our forecasts	9
Business description	11
Market environment	17
Profit and loss statement	19
Balance sheet	20
Cash Flow Statement	21
Financial ratios	21
Disclaimer	22

Investment Case

- 4MASS S.A. (4MS) is a Polish producer and distributor of light-curing manicure, pedicure, make-up cosmetics, related accessories as well as disinfects. Since 2019, the company has increased its revenues at a CAGR of 96.3% to PLN 65.3m and its net income from PLN -275k to PLN 8.5m in 2022. Currently, the company has two production facilities: in Wolomin, where it is able to produce 3m tons of light-cured mass per day that allows it to generate gross margins of >35%, and in Radom, which like Wolomin only works on 1 shift 5 days per week. In our view, the new plant for dermocosmetics in Swidnik with 1,000 sqm, which will be completed in mid-2024E, will have a capacity of PLN 20m per year.
- 4MASS currently produces cosmetics under the following brands: Claresa (retail brand for manicure and pedicure), PALU (for manicure and pedicure professionals), Stylistic Salon System (professional equipment, stainless steel utensils and accessories for nail care and styling) and Vircept (disinfectant liquid for hands and skin and face masks). They are distributed through drug stores, pharmacies, retailers, wholesalers and online shops. Online and international sales currently account for 5% and 23% of total revenues respectively. We expect that both figures will significantly increase in the coming years.
- The value of the Beauty and Personal Care Products market in Europe is estimated at USD 127.6bn and its growth potential at 3.2% per year. Worldwide, the commercial segment incl. beauty salons and SPAs, on which 4MASS focuses, accounts for c. 60% of the total. The dermocosmetics segment in Europe was worth USD 6.5bn in 2022 and is expected to grow at a CAGR of 10% to USD 11.5bn by 2028E. Medical SPAs are one of the largest end-user groups in the segment. In Poland, its value is estimated at c. PLN 2.7bn, whereby online distribution of the respective products grows 3 times faster than in the stationary segment.
- In 2022, 4MASS generated revenues of PLN 65.3m (+77.1% y-o-y), an EBITDA of PLN 13.3m (+249.7% y-o-y, 20.4% margin) and net income of PLN 8.5m (+323.1%). The main driver was the new Claresa make-up product category. ROCE equalled 21.4% and was thus far ahead of most peers. In the first 6 months of 2023, the company's revenues grew by 74.3% y-o-y to PLN 47.7m, EBITDA by 119.8% to PLN 13.9m and net income by 156.2% to PLN 10.5m. Net debt equalled PLN 1.9m and interest-bearing debt was only long-term. We have conservatively assumed that in full-year 2023E the respective figures will reach PLN 94.7m (+45% y-o-y), PLN 25.4m (+90.7%, 26.8% margin) and PLN 18.2m (+114.5%). In the long run, we believe that 4MASS's top-line will grow at a CAGR of 20.4% due to 1. New products e.g. dermocosmetics, and 2. On average 5% higher prices y-o-y due to growing export sales especially to Western Europe, but also Colombia.
- We initiate coverage of 4MASS S.A. with a 12-months PT (80% DCF, 20% peer group) of PLN 13.20, which implies an upside of 136.6%. We like the fact that the company produces the main ingredient of its cosmetics itself, generates significant margins and its management owns c. 15% of its stock. Beyond 2024E – thus after the completion of its plant in Swidnik - we believe that its high cash flow generation will allow 4MASS to pay out significant dividends to its shareholders (DYield 2025E = 9.9%). The main risks, which we see, are potential share sales by insiders like in 2020 and an increasing competition, especially from global cosmetic companies such as L'Oreal and Estee Lauder.

SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> - Leading producer of own manicure, pedicure and make-up cosmetics in Poland. Own manufacturing capacity related to light-crude mass allows 4MASS to generate gross margins of >35% - In 2019-22, sales CAGR of 96.3% to PLN 65.3m and net income advanced from PLN -275k to PLN 8.5m - International sales in Europe, South America and CIS region - Additionally, production of disinfects and face masks - Cooperation e.g. with Jeronimo Martins in Poland and Colombia and the large Polish retailer LPP - Interest-bearing debt is small (30/06/2023: PLN 5.3m) and only long-term - Members of the management and supervisory boards are major shareholders with a combined stake of c. 15% in the company 	<ul style="list-style-type: none"> - Relatively high share of the largest customer Biedronka, which has a share of c. 20% in total yearly revenues - High inventory turnover of 183 days in 2022, which indicates potential for improvements - Many share issues at nominal value in the past - Sales of >21m shares by insiders in 2020, which got a large chunk of them back at nominal value as part of an employee' motivation scheme - Acquisition of Cosmex, a producer of color cosmetics, in October 2023 from Vithea, which is owned by the Member of 4MASS' Management Board Mr Slawomir Lutek
Opportunities	Threats
<ul style="list-style-type: none"> - In Europe, there are only few producers of light-crude mass. 4MASS is one of them and its technology will allow it to enter other sectors in the future e.g. furniture, dentistry and electronics - Capacity utilisation of just c. 50% currently - New production facility for dermocosmetics in Swidnik, which will be launched in mid-2024E - Introduction of new products and expansion to foreign markets, which currently only account for 23% of total sales. Higher international sales would likely result in a higher average price - Growth of the online channel, which is the by far fastest-growing one in Poland. At 4MASS, it only accounts for 5% of total sales - The European markets for beauty products and dermocosmetics are worth USD 127.6bn and USD >6.5bn respectively and expected to grow at a CAGR of 3.2% and 10% in the coming years - Admission to trading in the main market of the WSE, which will allow more institutional investors to invest in the company - Dividend payouts and a potential takeover by a larger player in the long run 	<ul style="list-style-type: none"> - Strong competition from well-known global brands - Loss of key employees

Valuation

We have valued 4MASS S.A. by using a weighted average of our DCF model (80%) and peer group (20%). Our approach derives a 12-months price target for the stock of PLN 13.20. This implies an upside of 136.6% at present.

Below are the key assumptions of our WACC calculation:

- (1) *Risk-free rate*: Current yield of Polish long-term government bonds with maturity in 2047E is 6.1% (Source: www.boerse-stuttgart.de)
- (2) *Beta*: 4y average unlevered beta of companies from the Household Products sector of 1.06x (Source: www.damodaran.com)
- (3) *Equity risk premium (Poland)*: 7.40% (Source: www.damodaran.com)
- (4) *Effective tax rate*: 19%
- (5) *Target equity ratio*: 100%
- (6) *After-tax debt costs*: 6.5%
- (7) *WACC = Equity costs*: 13.9%

DCF model

in PLNm	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Net sales	94.72	124.32	153.39	185.21	213.92	247.08	285.38	314.63	346.88
(y-o-y change)	45.0%	31.3%	23.4%	20.8%	15.5%	15.5%	15.5%	10.3%	10.3%
EBIT	23.68	29.22	33.74	37.97	40.64	43.24	45.66	45.62	45.34
(EBIT margin)	25.0%	23.5%	22.0%	20.5%	19.0%	17.5%	16.0%	14.5%	13.1%
NOPLAT	19.18	23.67	27.33	30.75	32.92	35.02	36.98	36.95	36.72
+ Depreciation & amortisation	1.70	2.23	2.75	3.32	3.84	4.43	5.12	5.65	6.23
= Net operating cash flow	20.88	25.90	30.09	34.08	36.76	39.46	42.11	42.60	42.95
- Total investments (Capex and WC)	-9.82	-7.55	-7.22	-7.58	-6.77	-7.36	-7.99	-6.36	-8.73
Capital expenditure	-8.82	-2.55	-3.07	-3.65	-4.16	-4.76	-5.45	-5.98	-6.56
Working capital	-1.01	-5.00	-4.15	-3.93	-2.60	-2.60	-2.54	-0.38	-2.17
= Free cash flow (FCF)	11.06	18.35	22.86	26.50	29.99	32.09	34.12	36.24	34.22
PV of FCF's	10.72	15.61	17.08	17.38	17.27	16.22	15.14	14.12	11.70
PV of FCFs in explicit period	135.22								
PV of FCFs in terminal period	105.13								
Enterprise value (EV)	240.35								
+ Net cash / - net debt (30 June 2023)	-1.89								
+ Investment / - minorities	0.00								
Shareholder value	238.45								
Number of shares outstanding (m)	24.01								
WACC	13.9%								
Cost of equity	13.9%								
Pre-tax cost of debt	8.0%								
Normal tax rate	19.0%								
After-tax cost of debt	6.5%								
Share of equity	100.0%								
Share of debt	0.0%								
Fair value per share in PLN (today)	9.93								
Fair value per share in PLN (in 12 months)	11.31								

		Terminal EBIT margin						
		10.1%	11.1%	12.1%	13.1%	14.1%	15.1%	16.1%
WACC	9.9%	15.11	15.90	16.69	17.48	18.26	19.05	19.84
	10.9%	13.46	14.11	14.76	15.41	16.06	16.71	17.36
	11.9%	12.13	12.68	13.22	13.76	14.31	14.85	15.39
	12.9%	11.05	11.51	11.96	12.42	12.88	13.34	13.80
	13.9%	10.14	10.53	10.92	11.31	11.70	12.09	12.48
	14.9%	9.37	9.71	10.04	10.38	10.71	11.05	11.38
	15.9%	8.71	9.00	9.29	9.58	9.87	10.16	10.45

Source: East Value Research GmbH

Peer Group Analysis

We have found the following listed companies, which operate in the same segment as 4MASS. The only listed one from Poland with sell-side estimates is Miraculum S.A.

- (1) *Miraculum S.A.*: Miraculum, which is based in Warsaw/Poland, was founded in 1924. It develops and markets face and body care, perfume, depilation, and make-up products for men and women. The company also offers shaving products and deodorants, as well as hair care products. It provides its products primarily under the Pani Walewska, Miraculum, Gracja, Tanita, Paloma, Joko, Chopin, Lider, Wars, and Byc Moze brands. In 2022, Miraculum, which currently has market cap of PLN 51m, generated revenues of PLN 43.3m and an EBITDA margin of -1.1%.
- (2) *Coty Inc.*: Coty, which is based in New York/USA, manufactures, markets, distributes, and sells beauty products worldwide. The company provides fragrance, color cosmetics, and skin and body care products. It offers Prestige segment products primarily through prestige retailers, including perfumeries, department stores, e-retailers, direct-to-consumer websites, and duty-free shops under the Burberry, Calvin Klein, Chloe, Davidoff, Escada, Gucci, Hugo Boss, Jil Sander, Joop!, Kylie Jenner, Lancaster, Marc Jacobs, Miu Miu, Orveda, philosophy, SKKN BY KIM, and Tiffany & Co. brands. Consumer Beauty segment products are primarily distributed through hypermarkets, supermarkets, drug stores, pharmacies, mid-tier department stores, traditional food and drug retailers, and e-commerce retailers under the Adidas, Beckham, Biocolor, Bozzano, Bourjois, Bruno Banani, CoverGirl, Jovan, Max Factor, Mexx, Monange, Nautica, Paixao, Rimmel, Risque, and Sally Hansen brands. In 2022, Coty, which currently has market cap of USD 9.2bn, generated revenues of USD 5.5bn and an EBITDA margin of 17%. Last year, its ROCE equalled 4.3%.
- (3) *Ulta Beauty Inc.*: Ulta Beauty, which is based in Bolinbrook/USA, operates specialty retail stores selling cosmetics, fragrance, haircare and skincare products, and related accessories and services in the United States. It offers broad assortment of branded and private label beauty products including cosmetics, fragrance, haircare, skincare, bath and body products, professional hair products, and salon styling tools; and salon services, including hair, skin, makeup, and brow services, as well as nail services. The company's private label products comprises Ulta Beauty Collection branded cosmetics, skincare, and bath products, as well as Ulta Beauty branded products; and the Ulta Beauty branded gifts. In 2022, Ulta Beauty, which currently has market cap of USD 19.4bn, generated revenues of USD 10.2bn and an EBITDA margin of 18.4%. Last year, its ROCE equalled 35.1%.
- (3) *Shiseido Company Ltd.*: Shiseido, which is based in Tokyo/USA, offers fragrances, skincare and makeup products. It also engages in the restaurant and food, and retail businesses; and operates beauty salons. In addition, the company operates and supports SABFA, a professional hair makeup training school. Further, it offers childcare facilities. In 2022, Shiseido, which currently has market cap of JPY 2.1tr, generated revenues of JPY 1.1tr and an EBITDA margin of 9.4%. Last year, its ROCE equalled 1.9%.

- (4) *The Estee Lauder Companies Inc.*: Estee Lauder, which is based in New York/USA, manufactures, markets, and sells skin care, makeup, fragrance, and hair care products worldwide. Its brands include e.g. Estée Lauder, Clinique, Origins, M·A·C, Bobbi Brown Cosmetics, La Mer, Aveda, Jo Malone London, TOM FORD, Too Faced, Dr.Jart+, and The Ordinary. In 2022, Estee Lauder, which currently has market cap of USD 50.5bn, generated revenues of USD 15.9bn and an EBITDA margin of 15.8%. Last year, its ROCE equalled 8.2%.
- (5) *L’Oreal SA*: L’Oreal, which is based in Paris, manufactures and sells cosmetic products for women and men worldwide. It offers shampoos, hair care products, shower gels, skincare products, cleansers, hair colorants, deodorants, sun care products, make-up, perfumes, etc. The company provides its products under the L’Oréal Paris, Garnier, Maybelline New York, NYX Professional Makeup, Stylenanda, Essie, Dark & Lovely, Mixa, Magic Mask, Niley, Lancôme, Yves Saint Laurent, Armani, Kiehl’s Since 1851, Halena Rubinstein, Biotherm, Shu Uemura, IT Cosmetics, Ralph Lauren Fragrance, Urban Decay, Mugler, Valentino, Viktor&Rolf, Azzaro, Prada, Cacharel, Maison Margela Fragrance, Diesel, Yue Sai, Atelier Colonge, Carita, Takami, L’Oréal Professionnel Paris, Kérastase, Redken, Matrix, Pureology, Pulp Riot, La Roche-Posay, Vichy, CeraVe, SkinCeuticals, Decléor, and Skinbetter Science brands. In 2022, L’Oreal, which currently has market cap of EUR 209bn, generated revenues of EUR 38.3bn and an EBITDA margin of 21.7%. Last year, its ROCE equalled 16.9%.
- (6) *e.l.f Beauty Inc.*: e.l.f Beauty, which is headquartered in Oakland/USA, provides cosmetic and skin care products under the e.l.f. Cosmetics, e.l.f. Skin, Well People, and Keys Soulcare brand names worldwide. The company offers eye, lip, face, paw and skin care products. In 2022, e.l.f Beauty, which currently has market cap of USD 5.4bn, generated revenues of USD 578.8m and an EBITDA margin of 14.7%. Last year, its ROCE equalled 11%.
- (7) *The Beauty Health Company*. The Beauty Health Company, which is headquartered in Long Beach/USA, designs, develops, manufactures, markets, and sells aesthetic technologies and products worldwide. The company’s flagship product includes HydraFacial that enhance the skin to cleanse, extract, and hydrate the skin with proprietary solutions and serums. Its products also comprise Syndeo, a HydraFacial Delivery System designed to elevate every part of the treatment and connects providers to the consumer’s preferences to create a more personalized experience; HydraFacial Nation App, an app that allows consumers to learn about their skin health, discover treatment options, and track their treatments over time; and Keravive, a treatment for scalp health. In 2022, The Beauty Health Company, which currently has market cap of USD 745.6m, generated revenues of USD 365.9m and an EBITDA margin of -0.4%.

Company	EV/Sales		EV/EBITDA		P/E		P/BVPS	EBITDA margin	Net gearing
	2023E	2024E	2023E	2024E	2023E	2024E	Latest	Last FY	Latest
Miraculum S.A. (PLN)	1.5x	1.3x	50.2x	25.1x	n.a	63.8x	2.2x	-1.1%	84.5%
Coty Inc. (USD)	2.2x	2.1x	12.5x	11.5x	21.9x	18.4x	2.4x	17.4%	113.4%
Ulta Beauty Inc. (USD)	1.9x	1.8x	11.1x	10.6x	15.5x	14.6x	9.5x	18.4%	72.7%
Shiseido Company Ltd. (JPY)	2.2x	2.1x	18.3x	13.7x	62.8x	29.9x	3.4x	9.4%	28.1%
The Estee Lauder Companies Inc. (USD)	3.4x	3.1x	20.2x	15.5x	38.8x	25.6x	9.0x	15.8%	112.6%
L'Oreal SA (EUR)	5.2x	4.8x	21.7x	20.1x	32.1x	29.6x	7.5x	21.7%	17.3%
e.l.f Beauty Inc. (USD)	6.5x	5.6x	28.8x	24.3x	41.0x	36.0x	11.5x	14.7%	-13.3%
The Beauty Health Company (USD)	2.0x	1.7x	11.6x	7.7x	17.5x	9.5x	4.6x	-0.4%	124.9%
Median	2.2x	2.1x	19.2x	14.6x	32.1x	27.6x	6.0x	15.3%	78.6%
4MASS S.A. (PLN)	1.4x	1.1x	5.4x	4.3x	7.3x	5.9x	2.9x	20.4%	4.0%
Premium/Discount	-35.5%	-47.6%	-72.2%	-70.5%	-77.1%	-78.7%			
Fair value 4MASS (PLN)	18.23								

Source: CapitalIQ, marketscreener.com, banker.pl, East Value Research GmbH

Price target calculation

Valuation method	Fair value	Weight
DCF model	9.93	80%
Peer Group Analysis	18.23	20%
Weighted average (present value)	11.59	
In 12-months (PV * (1+WACC))	13.20	

Source: East Value Research GmbH

H1/23 results

Revenues and Profitability

In H1/23, 4MASS generated revenues of PLN 47.7m (+74.3% y-o-y). While 62% stemmed from wholesale, 31% were generated by sales of cosmetics, which the company produced for third-parties such as retail chains and manufacturers of cosmetics (private label). 5% of revenues stemmed from the online channel. The best-performing product category was the new make-up line of the Claresa brand. It contributed 21% to 4MASS sales in Jan-Jun.

In H1/23, 77% of 4MASS' revenues stemmed from Poland, with the rest stemming from rest-EU and Colombia.

in PLNm	H1/23	H1/22	change y-o-y
Net sales	47.66	27.34	74.3%
EBITDA	13.85	6.30	119.8%
<i>EBITDA margin</i>	<i>29.1%</i>	<i>23.0%</i>	
EBIT	13.03	5.61	132.2%
<i>EBIT margin</i>	<i>27.3%</i>	<i>20.5%</i>	
Net income	10.54	4.11	156.2%
<i>Net margin</i>	<i>22.1%</i>	<i>15.0%</i>	

Source: Company information, East Value Research GmbH

Between January and June 2023, EBIT increased by 132.2% y-o-y to PLN 13m, which resulted from a significantly higher gross margin y-o-y (42.7% vs. 38.6% in H1/22) and lower share of personnel (12.7% vs. 15.4%) and depreciation & amortization (1.7% vs. 2.5%) expenses. Net income (+156.2% y-o-y to PLN 10.5m) was additionally positively impacted by a much lower effective tax rate y-o-y (13.7% vs. 20.6%).

Balance sheet and Cash flow

At the end of June 2023, 4MASS had consolidated equity of PLN 46.9m, which corresponds to an equity ratio of 72.4%.

Other large balance sheet positions included fixed assets (PLN 26.3m), which comprise 4MASS' office, production facilities, warehouses and the respective equipment; inventories (PLN 26.3m) and long-term interest-bearing debt (PLN 5.3m).

Between January and June 2023, 4MASS generated an operating cash flow of PLN 5.1m (H1/22: PLN -1.5m). The difference stemmed from a much higher net profit y-o-y. Cash flow from investing (PLN -3.8m vs. PLN -2.8m in H1/22) reflected especially the investments related to the new production facility in Swidnik. Cash flow from financing, which in H1/23 was affected by a share issue of PLN 2.8m and in H1/22 by a debt issue of PLN 3.6m, amounted to PLN 963k (H1/22: PLN 2.6m). Between January and June 2023, 4MASS' cash position declined by PLN 2.2m to PLN 3.4m.

Our forecasts

Revenues and Profitability

Our model is based on a number of products sold per year, an average price of PLN 12 currently and an EBIT margin of 25% in full-year 2023E. We have assumed that by 2031E the yearly volume sold will increase at a CAGR of 12% and the average price by 5%. The main reasons are much stronger sales abroad at higher average prices. Regarding the EBIT margin, we have assumed that it will decline to c. 13% by 2031E due to growing competitive pressure and increasing salaries.

Below are our detailed estimates for 4MASS until 2025E:

in PLNm	2023E	2024E	2025E
EBIT margin	25.0%	23.5%	22.0%
Number of products sold	7,893,618	9,867,023	11,593,752
Avg. Price (PLN)	12.00	12.60	13.23
Net sales	94.72	124.32	153.39
(change y-o-y)	45.0%	31.3%	23.4%

Source: East Value Research GmbH

in PLNm	2023E	2024E	2025E
Net sales	94.72	124.32	153.39
EBITDA	25.38	31.45	36.50
<i>EBITDA margin</i>	<i>26.8%</i>	<i>25.3%</i>	<i>23.8%</i>
EBIT	23.68	29.22	33.74
<i>EBIT margin</i>	<i>25.0%</i>	<i>23.5%</i>	<i>22.0%</i>
Net income	18.25	22.81	26.56
<i>Net margin</i>	<i>19.3%</i>	<i>18.4%</i>	<i>17.3%</i>

Source: East Value Research GmbH

in PLNm	Q1/20	Q2/20	Q3/20	Q4/20	2020	Q1/21	Q2/21	Q3/21	Q4/21	2021
Net sales	5.46	5.75	7.44	8.23	26.88	7.71	10.02	9.22	9.94	36.89
<i>y-o-y change</i>	90.5%	92.8%	106.9%	171.3%	115.4%	41.2%	74.1%	24.0%	20.9%	37.3%
EBITDA	0.49	0.71	0.55	0.43	2.18	0.94	0.90	1.18	0.79	3.81
<i>EBITDA margin</i>	9.0%	12.4%	7.4%	5.2%	8.1%	12.2%	9.0%	12.7%	7.9%	10.3%
EBIT	0.39	0.60	0.33	0.22	1.55	0.73	0.71	1.00	0.38	2.82
<i>EBIT margin</i>	7.2%	10.4%	4.5%	2.7%	5.8%	9.5%	7.1%	10.9%	3.8%	7.7%
Net income	0.33	0.51	0.22	0.43	1.49	0.55	0.52	0.77	0.18	2.01
<i>Net margin</i>	6.0%	8.9%	2.9%	5.3%	5.5%	7.1%	5.2%	8.3%	1.8%	5.5%

in PLNm	Q1/22	Q2/22	Q3/22	Q4/22	2022	Q1/23	Q2/23
Net sales	12.48	14.87	19.57	18.42	65.33	23.00	24.66
<i>y-o-y change</i>	61.8%	48.4%	112.2%	85.2%	77.1%	84.4%	65.9%
EBITDA	3.43	2.87	4.91	2.10	13.31	5.91	7.94
<i>EBITDA margin</i>	27.5%	19.3%	25.1%	11.4%	20.4%	25.7%	32.2%
EBIT	3.10	2.52	4.56	1.67	11.84	5.49	7.55
<i>EBIT margin</i>	24.8%	16.9%	23.3%	9.1%	18.1%	23.9%	30.6%
Net income	2.25	1.86	3.61	0.78	8.51	4.39	6.15
<i>Net margin</i>	18.0%	12.5%	18.5%	4.3%	13.0%	19.1%	25.0%

Source: East Value Research GmbH

CAPEX and Working capital

For 2023E, we have assumed a gross CAPEX of PLN 8.8m, especially for the completion of the new production facility in Swidnik and acquisition of 100% in Cosmex S.A. In the long run, we believe that gross CAPEX will be around 2% of yearly sales. Regarding working capital, we have estimated a cash conversion cycle of 120 days in 2023E (2022: 153 days), but due to optimizations expect it to decline to 60 days in the long run.

Business description

4MASS S.A., which is headquartered in Wolomin/Poland, is a producer and distributor of cosmetics and re-seller of cosmetic accessories e.g. from Germany, France, Korea and Vietnam. It also develops and produces hybrid and classic varnishes under the customer's own brand for other retailers, producers of cosmetics and clients of fashion retailers. The company's main products include light-crude cosmetics for nails (hybrid varnishes, building gels). Its main clients are the large Portuguese retail chain Jeronimo Martins in Poland and Colombia (only in Poland, it has 290 drug stores) and the large Polish fashion retailer LPP (annual revenues of PLN 15.9bn). 4MASS has been listed in the NewConnect segment of the Warsaw Stock Exchange since 2019 and currently employs 150 people (31 December 2022: 81), thereof c. 85 in production and 14 in sales & marketing. While it has a subsidiary – 87.5% stake in Krakow-based TMS Sp. z.o.o – it plans to sell it in the short term.

Company history

- 2009: Foundation of the limited company 4MASS Sp. z.o.o.
- 2016: Market introduction of the brand Claresa.
- 2017: Start of sales of products under the label PALU.
Change to a joint-stock company.
Private placement of 28.52m shares at PLN 0.10 per share (PLN 2.85m)
- 2018: Public offer of 957.5k at PLN 0.33 per share (PLN 316k).
Debut in the alternative NewConnect segment of the Warsaw Stock Exchange.
- 2019: Rights offering of 32.3m shares at PLN 0.01 per share (PLN 3.2m).
Offer for management worth PLN 2.3m (23.52m shares at PLN 0.10 per share).
Private placement worth PLN 1.5m (15m shares at PLN 0.10 per share).
Private placement worth PLN 185k (1.85m shares at PLN 0.10).
- 2020: Private placement worth PLN 667.5k (6.67m shares at PLN 0.10).
Rights offering worth PLN 11.2m (111.7m shares at PLN 0.10).
4MASS' share price hit an all-time high of almost PLN 20 after the company had started to sell face masks and disinfects. However, the share of face masks in total sales in 2020 only reached >5%.
Insiders sold >21m of their shares at market price, but got a large chunk of them back at PLN 0.10 as part of an employee' motivation scheme.
- 2021: Signing of a distribution contract with the Ukrainian company Rush, the owner of 1,050 drug stores and the online shop www.eva.ua.

Start of construction of the production facility for dermocosmetics for hair and skin in Swidnik (value of the project PLN 9m, thereof PLN 5.15m from EU subsidies). The plant is supposed to have c. 1,000 sqm and employ 20-30 people.

2022: 10:1 conversion of all existing shares (increase of the nominal value from PLN 0.10 to PLN 1).

Completion of the modernisation of the plant in Wolomin, which allows 4MASS to start the production of its most important ingredient, the light-cured mass, itself. The capacity of the plant in Wolomin, which has c. 2,000 sqm, is 3m tons of mass per day.

2023: Issue of 1.67m shares at PLN 1.65 per share (value: PLN 2.75m).

Prolongation of the contract with Jeronimo Martins Drogerie i Farmacja Sp. z o.o. that was signed in 2019. The agreement foresees the introduction of cosmetic cabinets of the Claresa brand in all drug stores of Jeronimo Martins in Poland.

Signing of a contract with Jeronimo Martins Colombia for the delivery of hybrid varnishes, building gels and accessories under the client's own brand to the Colombian drug store chain Ares (>1,000 stores). So far, Jeronimo Martins Colombia has placed orders worth EUR >454k for June 2023 and c. EUR 200k for July and August.

Takeover of 100% in Cosmex S.A., which is a producer and distributor of color cosmetics from Warsaw, for PLN 2m. Cosmex is already a supplier of 4MASS.

4MASS' products

4MASS S.A. currently manufactures the following proprietary products. The Claresa brand has the by far highest share in the company's annual revenues. 4MASS is currently working on new proprietary dermocosmetics products, which will be produced in its new production facility in Swidnik.

CLARESA

Claresa, which since 2016 has been 4MASS's main brand, is a brand created for women, who want to develop their skills in manicure and pedicure. The respective products focus on hybrid polishes. Claresa products are distributed both in Poland and abroad, also through online shops and marketplaces.

Claresa offers high-quality hybrid varnishes in 300 colors, which are the brand's flagship product, as well as accessories necessary for hand and foot care. Regarding the varnishes, clients can choose among 300 different colors.



PALU is a brand for manicure and pedicure professionals. It includes a wide range of products – styling, hand and foot care products, equipment and furniture - used by professional manicure salons in Poland and abroad. PALU products are distributed by 4MASS' own sales team, which includes field salespeople and a significant number of (also international) wholesalers.



Stylistic Salon System is a brand of professional equipment, stainless steel utensils and accessories for nail care and styling e.g. high-quality modern LED lamps, devices for sterilization, clippers, scissors, milling machines, disposable products e.g. files, polishers. The products are available through the web stores www.claresa.pl and www.palucosmetics.pl.

Virsept

Virsept stands for a disinfectant liquid for hands and skin with 70% ethyl alcohol and high glycerin content. The disinfectant contains virucidal, bactericidal, fungicidal ingredients and protective additives to balance the moisture content and elasticity of the skin.

4MASS also produces three-layer type 1 medical masks made of non-woven polypropylene fabric and acts as their wholesaler. They protect the respiratory tract from harmful airborne substances, viruses and bacteria and have a proven efficiency (VFE) of 98%.

While we estimate their share in total annual sales only at a small single-digit percentage, 4MASS wants to continue to sell them as they are always demanded by beauty salons.

Production & sourcing of materials

Currently, 4MASS has two locations: In Wolomin (30 km north of Warsaw), there is its headquarter and the company produces the light-cured mass there, which it needs especially for its nail products. In Radom (30 km from Warsaw, in the eastern direction), it operates a 2,000 sqm manufacturing facility and warehouse, which is able to package >50,000 manicure, pedicure, facial and body care cosmetic products per day and prepare >800 E-Commerce shipments. The facility currently works 5 days per week in one shift, thus it is not fully used. We estimate its full capacity at c. 100,000 units per day.

In Swidnik (15 km from Lublin, 190 km from Warsaw in the south-eastern direction), 4MASS is currently establishing another production & warehousing complex with c. 1,000 sqm, where it plans to produce dermocosmetics for face and head skin. The value of the project, which is co-financed by the EU, is PLN 9m. This year, 4MASS plans to spend PLN 5m on it.

In terms of suppliers, 4MASS works with various producers from Germany, France, China and Poland. While those from Europe account for the highest share of ordered ingredients, with the start of production of light-crude mass the company has significantly reduced its dependence on third-party suppliers.

Distribution

4MASS distributes its products through various channels incl. drugstores, hypermarkets, discount stores, pharmacies, beauty salons, SPAs, proprietary & external online shops e.g. clarisa.pl, palucoemstics.pl, zone4beauty.com and marketplaces e.g. amazon.com and allegro.pl. Its products are available in stationary and online shops in Germany, the Netherlands, Belgium, UK, Italy, Spain, Germany, Norway, Kazakhstan, Ukraine, the Baltics, Georgia, Romania, Bulgaria, Czech Republic, Slovenia, Hungary and Slovakia.

According to our research, 4MASS' largest client is the largest discount chain in Poland Biedronka (owned by Portuguese Jeronimo Martins), which accounts for 15%-20% of the company's annual revenues.

Web statistics of 4MASS' online shops

Similarweb.com		
Website	Total monthly visits 8/2023	Country rank 8/2023
claresa.pl	160.5k	2,878
palucosmestics.com	8k	223,177

Source: Similarweb.com, East Value Research GmbH

Management

Joanna Kasperska (CEO): Mrs Joanna Kasperska is the CEO of 4MASS. She has been with the company since 2020, first as General Proxy, then as Managing Director. Before, she worked among others as Head of the UV Coatings Department at Silcare Sp. z.o.o sp. K and Polymer Coatings Sp. z.o.o. Mrs Kasperska graduated in Chemistry (specialization: Cosmetic Chemistry) from the University in Poznan. She also spent 4 months at the University of Lancashire as Chemist.

Slawomir Lutek (Member of the Management Board): Mr Slawomir Lutek is co-founder of 4MASS and Member of its Management Board and as such in charge of brand marketing. Previously, he was among others CEO at Bridge Media Sp. z.o.o and General Manager at Bell Sp. z.o.o. Mr Lutek graduated with an Engineer's degree in Transport and Roads from the Technical University in Radom.

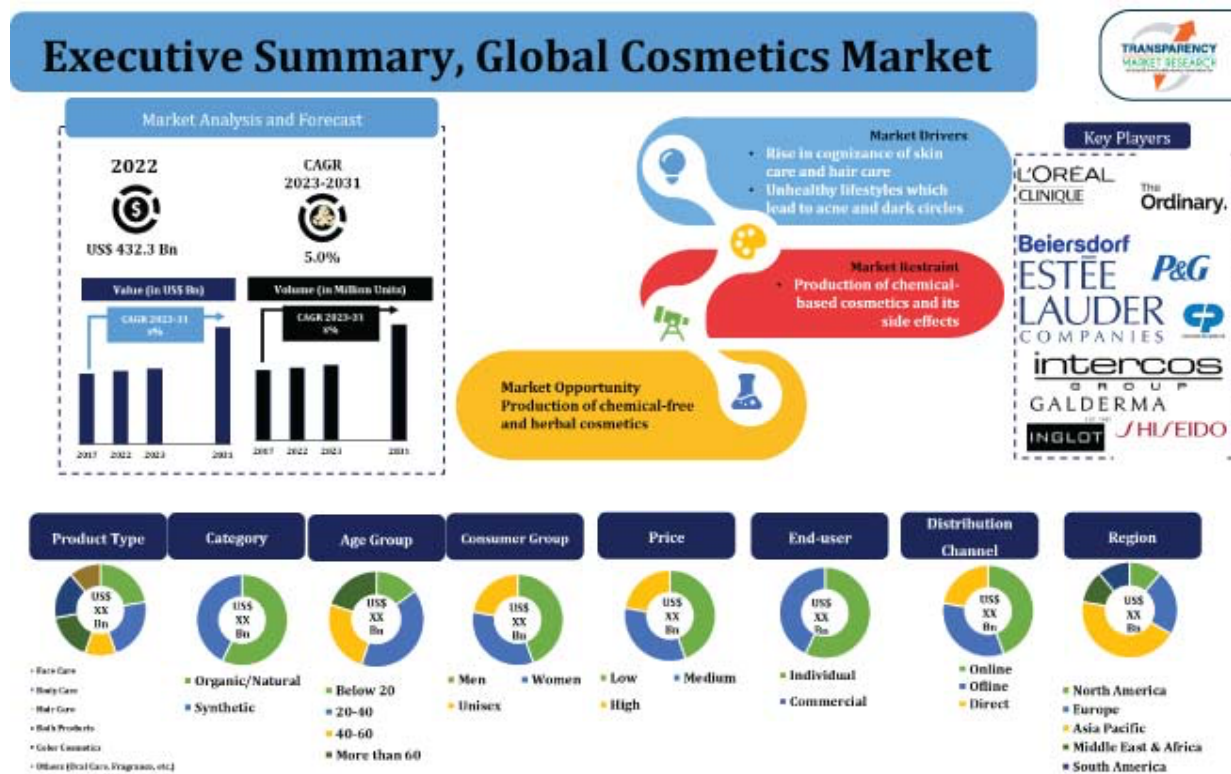
Boleslaw Porolniczak (Member of the Management Board): Mr Boleslaw Porolniczak is Member of the Management Board of 4MASS and as such in charge of finances. Previously, he worked among others as Consultant and Manager at DSA S.A., AMC Business Consulting Sp. z.o.o and DCF Consulting as well as Controlling Director at Pol-Mot Auto S.A. and COO-Proxy at Broad Gate S.A. Mr Porolniczak graduated with a Master's degree in Entrepreneurship and Marketing from the Kozminsky University in Warsaw. At Kozminsky University, he also completed a post-graduate degree in Project Management and an MBA.

Market environment

The Global & European Cosmetic Products markets

According to Transparency Market Research, after the by far largest regional market Asia/Pacific, Europe has the second largest share in the global cosmetics market, which in 2022 was estimated at USD 432.2bn and by 2031E is forecast to grow to USD 663.5bn (CAGR of 4.9%). Thereof, the commercial segment incl. beauty salons and SPAs, on which 4MASS focuses, accounts for c. 60% of the total. Mordor Intelligence estimates the value of the Beauty and Personal Care Products market in Europe at USD 127.6bn and its yearly growth potential at 3.2% on average.

The main factors, which nowadays affect the demand for cosmetics, include an increased awareness among consumers about personal appearance and the harmful effects of chemicals and synthetic products that boosts the demand especially for natural and organic cosmetics. For instance, in January 2021, the Estée Lauder Companies Inc. (Aveda), announced that all of its hair care, hair color, body care, makeup, and aroma products were 100% vegan in response to the growing demand for respective products.



Source: Transparency Market Research, East Value Research GmbH

The segment of dermocosmetics in Europe and Poland

The segment of dermocosmetics is a new one to 4MASS. The company will produce the respective products in its new production facility in Swidnik, which is scheduled for opening in mid-2024E. Dermocosmetics are one of the fastest-growing segments of the cosmetics market as shown e.g. by the Active Cosmetics/Dermatological Beauty segment of the industry giant L'Oreal, which in full-year 2022 and H1/23 was the company's by far strongest segment with a y-o-y growth of 30.6% and 29.5% respectively.

According to ResearchandMarkets, the dermocosmetics segment in Europe was worth USD 6.5bn in 2022 and is expected to grow at a CAGR of 10% to USD 11.5bn by 2028E. As the contribution of European research to the development of respective products has been significant, the majority of key players is based there.

ResearchandMarkets has identified Hair Care as the dominant product segment and anti-aging products for men as the fastest-growing product group. Regarding distribution channels, pharmacy drug stores is the most important one. Medical SPAs are one of the largest end-users in the segment.

For Poland, the latest market research report by PMR estimates the value of the market at c. PLN 2.7bn in 2023E, whereby online sales of dermocosmetics at e-shops and e-pharmacies grow three times faster than stationary sales (+12.4% y-o-y compared to +4.8%). Due to in general lower prices in the online channel the share of dermocosmetics, which are bought online, grew from 7% in 2016 to 64% this year. PMR expects this trend to continue over the next 5 years.

Profit and loss statement

in PLNm	2020	2021	2022	2023E	2024E	2025E
Total revenues	26.88	36.89	65.33	94.72	124.32	153.39
Direct costs	-20.05	-26.79	-41.81	-53.99	-70.74	-87.12
Gross profit	6.83	10.10	23.52	40.73	53.58	66.26
Other operating income	0.53	0.90	0.45	0.45	0.50	0.54
Personnel expenses	-5.00	-6.68	-9.53	-12.03	-15.54	-18.87
Other operating expenses	-0.17	-0.51	-1.13	-3.77	-7.09	-11.44
EBITDA	2.18	3.81	13.31	25.38	31.45	36.50
Depreciation & amortization	-0.64	-0.98	-1.47	-1.70	-2.23	-2.75
EBIT	1.55	2.82	11.84	23.68	29.22	33.74
Net financial results	-0.21	-0.28	-1.19	-1.15	-1.05	-0.95
EBT	1.33	2.54	10.64	22.53	28.17	32.79
Income taxes	-0.16	-0.53	-2.14	-4.28	-5.35	-6.23
Minority interests	0.00	0.00	0.00	0.00	0.00	0.00
Net income / loss	1.18	2.01	8.51	18.25	22.81	26.56
EPS	0.13	0.09	0.38	0.76	0.95	1.11
DPS	0.00	0.00	0.00	0.00	0.00	0.55
Share in total sales						
Total revenues	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Direct costs	-74.59 %	-72.63 %	-63.99 %	-57.00 %	-56.90 %	-56.80 %
Gross profit	25.41 %	27.37 %	36.01 %	43.00 %	43.10 %	43.20 %
Other operating income	1.97 %	2.43 %	0.69 %	0.48 %	0.40 %	0.35 %
Personnel expenses	-18.62 %	-18.10 %	-14.59 %	-12.70 %	-12.50 %	-12.30 %
Other operating expenses	-0.63 %	-1.38 %	-1.73 %	-3.98 %	-5.70 %	-7.46 %
EBITDA	8.12 %	10.32 %	20.37 %	26.79 %	25.29 %	23.79 %
Depreciation & amortization	-2.36 %	-2.66 %	-2.25 %	-1.79 %	-1.79 %	-1.79 %
EBIT	5.76 %	7.66 %	18.12 %	25.00 %	23.50 %	22.00 %
Net financial results	-0.80 %	-0.76 %	-1.83 %	-1.21 %	-0.84 %	-0.62 %
EBT	4.96 %	6.90 %	16.29 %	23.79 %	22.66 %	21.38 %
Income taxes	-0.58 %	-1.45 %	-3.27 %	-4.52 %	-4.30 %	-4.06 %
Minority interests	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Net income / loss	4.38 %	5.45 %	13.02 %	19.27 %	18.35 %	17.32 %

Balance sheet

in PLNm	2020	2021	2022	2023E	2024E	2025E
Cash and cash equivalents	1.33	2.59	1.18	8.33	25.31	46.89
Other financial assets	0.00	0.00	0.00	0.00	0.00	0.00
Inventories	13.10	13.36	20.99	17.75	21.71	24.82
Trade accounts and notes receivables	0.62	0.95	3.61	7.79	10.22	12.61
Other current assets	0.82	1.54	1.16	1.19	1.21	1.23
Current assets	15.88	18.43	26.94	35.05	58.45	85.56
Property, plant and equipment	5.75	17.46	24.13	31.50	31.82	32.13
Other intangible assets	0.32	0.25	0.17	0.13	0.13	0.13
Goodwill	0.00	0.00	0.00	0.00	0.00	0.00
Investments in shares	0.11	0.21	0.21	0.00	0.00	0.00
Long-term prepaid expenses	1.06	0.81	0.56	0.82	1.07	1.32
Non-current assets	7.23	18.72	25.08	32.45	33.02	33.59
Total assets	23.10	37.15	52.02	67.50	91.47	119.15
Trade payables	0.41	1.01	5.73	4.44	5.81	7.16
Short-term financial debt	0.00	1.50	0.00	0.00	0.00	0.00
Other liabilities	4.98	0.59	1.95	3.20	3.23	3.26
Provisions	0.02	0.02	0.02	0.78	1.02	1.26
Current liabilities	5.41	3.12	7.71	8.42	10.07	11.69
Long-term financial debt	2.14	4.93	4.90	5.50	5.00	4.50
Other long-term liabilities	3.05	3.98	5.78	1.70	1.70	1.70
Provisions	0.00	0.00	0.00	0.00	0.00	0.00
Deferred tax liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Long-term liabilities	5.19	8.91	10.68	7.20	6.70	6.20
Total liabilities	10.61	12.03	18.39	15.62	16.77	17.89
Shareholders equity	12.50	25.12	33.63	51.88	74.70	101.26
Minority interests	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities and equity	23.10	37.15	52.02	67.50	91.47	119.15

Cash Flow Statement

in PLNm	2020	2021	2022	2023E	2024E	2025E
Net income / loss	1.18	2.01	8.51	18.25	22.81	26.56
Depreciation & amortization	0.64	0.98	1.47	1.70	2.23	2.75
Change of working capital	23.14	-30.58	-19.73	-1.01	-5.00	-4.15
Others	-28.73	29.61	9.70	1.01	0.50	0.49
Net operating cash flow	-3.78	2.02	-0.04	19.96	20.54	25.66
Cash flow from investing	-3.02	-13.07	-4.73	-8.82	-2.55	-3.07
Free cash flow	-6.80	-11.05	-4.77	11.14	17.99	22.58
Cash flow from financing	8.11	12.31	-3.73	-3.99	-1.01	-1.00
Change of cash	1.32	1.26	-8.50	7.15	16.98	21.58
Cash at the beginning of the period	0.02	1.33	2.59	1.18	8.33	25.31
Cash at the end of the period	1.33	2.59	1.18	8.33	25.31	46.89

Financial ratios

Fiscal year	2020	2021	2022	2023E	2024E	2025E
Profitability and balance sheet quality						
Gross margin	25.41%	27.37%	36.01%	43.00%	43.10%	43.20%
EBITDA margin	8.12%	10.32%	20.37%	26.79%	25.29%	23.79%
EBIT margin	5.76%	7.66%	18.12%	25.00%	23.50%	22.00%
Net margin	4.38%	5.45%	13.02%	19.27%	18.35%	17.32%
Return on equity (ROE)	9.42%	10.69%	28.96%	42.68%	36.05%	30.19%
Return on assets (ROA)	6.03%	6.17%	18.65%	28.74%	26.09%	23.09%
Return on capital employed (ROCE)	7.73%	6.56%	21.35%	32.47%	29.07%	25.44%
Economic Value Added (in EURm)	-1.09	-2.50	3.30	10.97	12.35	12.39
Net debt (in EURm)	0.81	3.83	3.72	-2.83	-20.31	-42.39
Net gearing	6.45%	15.24%	11.06%	-5.45%	-27.19%	-41.86%
Equity ratio	54.09%	67.62%	64.65%	76.86%	81.67%	84.99%
Current ratio	2.93	5.91	3.49	4.16	5.80	7.32
Quick ratio	0.36	1.13	0.62	1.91	3.53	5.09
Net interest cover	7.22	10.09	9.92	20.59	27.83	35.52
Net debt/EBITDA	0.37	1.01	0.28	-0.11	-0.65	-1.16
Tangible BVPS	1.41	1.12	1.51	2.16	3.11	4.22
Capex/Sales	n.a	-31.78%	-10.06%	-9.31%	-2.05%	-2.00%
Working capital/Sales	34.04%	38.59%	27.67%	20.15%	19.38%	18.41%
Cash Conversion Cycle (in days)	239	178	153	120	112	104
Trading multiples						
EV/Sales	5.06	3.68	2.08	1.43	1.09	0.89
EV/EBITDA	62.23	35.70	10.21	5.35	4.32	3.72
EV/EBIT	87.76	48.11	11.48	5.74	4.65	4.03
P/Tangible BVPS	4.0x	5.0x	3.7x	2.6x	1.8x	1.3x
P/E	42.0x	62.0x	14.6x	7.3x	5.9x	5.0x
P/FCF	-19.7x	-12.1x	-28.1x	12.0x	7.4x	5.9x

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It is the sole decision of East Value Research GmbH whether and when a potential update of this research will be made.

Relevant basis and measures of the valuations, which are included in this document:

The valuations, which are the basis for East Value Research` investment recommendations, are based on generally-accepted and widely-used methods of fundamental analysis such as the Discounted-Cash-Flow method, Peer Group comparison, or Sum-of-the-Parts models.

The meaning of investment ratings:

Buy: Based on our analysis, we expect the stock to appreciate and generate a total return of more than 10% over the next twelve months

Add: Based on our analysis, we expect the stock to appreciate and generate a total return between 0% and 10% over the next twelve months

Reduce: Based on our analysis, we expect the stock to cause a negative return between 0% and -10% over the next twelve months

Sell: Based on our analysis, we expect the stock to cause a negative return exceeding -10% over the next twelve months

The respective supervisory authority is:

Bundesanstalt für Finanzdienstleistungsaufsicht
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