

Mercor

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3Q'2024/25 EBITDA of PLN 6.7mn, cloudy view after the transaction

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The Company released its 3Q'2024/25 results with the following data:

- Revenues amounted to PLN 131.4mn (-2% y/y, +5% q/q).
- Gross profit amounted to PLN 29.6mn (-23% y/y, -1% q/q).
- EBITDA amounted PLN 6.7mn (-64% y/y, -41% q/q).
- EBIT amounted to PLN 2.1mn (-85% y/y, -70% q/q).
- Net profit amounted to PLN 2.6mn (-80% y/y, -52% q/q).
- Operating cash flow was negative and amounted to PLN -6.5mn in 3Q'2024/25.
- The Company's net debt at the end of 3Q'2024/25 amounted to PLN 74.1mn (vs. PLN 66.5mn at the end of 2Q'2024/25).

Furthermore, the Company disclosed data pertaining to the business subject to the transaction with Kingspan Group. Key P&L figures for 1-3Q'2024/25 include:

- Revenues of PLN 269.0mn (-8% y/y).
- Gross profit of PLN 76.6mn (-8% y/y).
- EBIT of PLN 27.5mn (-22% y/y).
- Net profit of PLN 20.1mn (-31% y/y).

Based on the above and on the reported data, the implied figures for 1-3Q'2024/25 pertaining to the remaining business are as follows:

- Revenues of PLN 112.7mn (-5% y/y).
- Gross profit of PLN 16.5mn (-27% y/y).
- EBIT of PLN -9.4mn.

Our view: NEGATIVE

The set of data presented in the 3Q'2024/25 report is negative to us. The results for 3Q'2024/25 itself are mixed with a negative connotation. On the one hand, both revenue and gross profit were lower on a year-on-year basis, but higher than our expectations. The Company's EBITDA and operating profit plummeted by 64% y/y and 85% y/y, respectively, whilst net profit was lower by 80% y/y. We suppose that such a sharp decline was associated with additional advisory costs incurred during the recent quarter. The Company's OCF was below expectations and visibly weaker than one year ago. As a result, the Company's net debt has increased. All in all, we assess the Company's 3Q'2024/25 results negatively.

When commenting on the recently announced transaction for the sale of a significant part of its business with Kingspan Group PLC, we highlighted the importance of the picture after the transaction. It turns out that around 70% of the Company's 1-3Q'2024/25 revenue pertains to the transaction. It also seems that our concerns were reasonable and the business subject to the transaction is much more profitable than the Company's remaining business. The implied gross profit margin of the remaining business amounted to 14.7% in 1-3Q'2024/25 (vs. 24.4% as reported). Moreover, the implied EBIT for 1-3Q'2024/25 was negative. To be fair, 1-3Q'2024/25 contains a one-off associated with advisory costs, but

we suppose it may be around mid to high-single-digit PLN mn figure. So, even when not taking into account that cost, the Company's remaining business would have difficulty reaching the break-even point.

We do not change our view and still consider the current stock price overvalued. However, the Company intends to pay DPS of PLN 13-15/share and conduct a buyback. Furthermore, the Company offered PLN 26.91/share for those shareholders demanding the redemption of shares. These factors may be supportive in the short term. **For those unconvinced about the current market value of shares, the best solution now would be to demand the redemption of shares for PLN 26.91/share, but this option is now available only for shareholders absent at the EGM until March 6, 2025.**

Mercor: 3Q'2024/25 results review *

PLN mn	3Q'23/24	4Q'23/24	1Q'24/25	2Q'24/25	3Q'24/25	Y/Y	Q/Q	Pekao	vs. Pekao	2022/23	2023/24	2024/25e
Revenues	133.8	177.7	125.0	125.3	131.4	-2%	5%	116.9	12%	628.4	587.4	477.4
COGS	-95.4	-130.5	-91.5	-95.4	-101.7	7%	7%	-90.0	13%	-472.2	-434.3	-361.8
Gross profit	38.4	47.2	33.5	30.0	29.6	-23%	-1%	26.9	10%	156.2	153.1	115.7
SG&A	-24.4	-29.7	-23.7	-22.7	-27.6	13%	21%	-22.0	26%	-88.6	-94.8	-88.7
EBITDA	18.6	21.0	13.9	11.4	6.7	-64%	-41%	9.3	-28%	87.6	76.3	43.8
EBIT	13.7	15.8	9.1	6.9	2.1	-85%	-70%	4.9	-58%	68.8	57.1	25.9
EBT	16.4	11.7	8.3	6.7	3.1	-81%	-53%	4.3	-26%	60.4	59.4	23.5
Net profit	13.1	6.2	6.1	5.4	2.6	-80%	-52%	3.1	-17%	41.7	49.3	17.8
Gross profit margin	28.7%	26.6%	26.8%	23.9%	22.6%			23.0%		24.9%	26.1%	24.2%
EBITDA margin	13.9%	11.8%	11.2%	9.1%	5.1%			7.9%		13.9%	13.0%	9.2%
EBIT margin	10.3%	8.9%	7.3%	5.5%	1.6%			4.2%		10.9%	9.7%	5.4%
Net profit margin	9.8%	3.5%	4.9%	4.3%	2.0%			2.7%		6.6%	8.4%	3.7%
Operating CF	9.6	8.9	22.3	10.9	-6.5	n/a	n/a	9.3	n/a	64.0	49.0	50.7
Investing CF	-1.1	-12.9	-4.0	-3.1	-3.4	212%	10%	-2.8	23%	-12.0	-19.1	-12.6
Financing CF	-12.5	-10.4	-15.2	-7.7	8.7	n/a	n/a	-13.3	n/a	-42.8	-43.5	-37.5
Net debt	76.0	73.8	58.6	66.5	74.1	-2%	12%	73.3	1%	67.1	73.8	69.0
ND/EBITDA (LTM)	1.02	0.97	0.81	1.02	1.40			1.38		0.77	0.97	1.58
Order intake	140.7	116.4	148.6	150.2	135.4	-4%	-10%	130.5	4%	605.3	570.9	557.0
Book-to-bill ratio (x)	1.05	0.65	1.19	1.20	1.03	-2%	-14%	1.12	-8%	0.96	0.97	1.17

Notes: Due to the limited scope of restated data, the above presented data are as follows:

P&L: 1Q'2024/25, 2Q'2024/25, 3Q'2024/25, and 3Q'2023/24 P&L results are restated, 4Q'2023/24 has not been restated.

Cash flows: the presented data base on 1H'2023/24 and 1H'2024/25 as well as on 1-3Q'2023/24 and 1-3Q'2024/25 restated data and other historical data which has not been restated (published in previously issued reports).

Net debt at 2Q'2024/25, 3Q'2024/25 and 4Q'2023/24 is restated (other periods are not).

Order intake and book-to-bill ratios are not restated.

Source: the Company, Pekao Equity Research

Mercor: 1-3Q'2024/25 results after separation of the business subject to the transaction with Kingspan Group

Description	Business subject to the transaction			Results as reported			Implied remaining business		
	1-3Q'2024/25	1-3Q'2023/24	y/y	1-3Q'2024/25	1-3Q'2023/24	y/y	1-3Q'2024/25	1-3Q'2023/24	y/y
Revenues	269.0	291.1	-7.6%	381.7	409.7	-6.8%	112.7	118.5	-5.0%
COGS	-192.4	-207.8	-7.4%	-288.6	-303.8	-5.0%	-96.149	-96.004	0.2%
Gross profit	76.6	83.3	-8.1%	93.1	105.9	-12.1%	16.505	22.541	-26.8%
SG&A	-48.9	-46.9	4.2%	-74.0	65.1	-213.7%	-25.161	112.003	-122.5%
EBIT	27.5	35.3	-22.2%	18.1	41.3	-56.1%	-9.357	5.919	-258.1%
EBT	25.1	36.1	-30.4%	18.1	47.7	-62.0%			
Net profit	20.1	28.9	-30.5%	14.5	43.7	-66.8%			
Gross profit margin	28.5%	28.6%		24.4%	25.8%		14.7%	19.0%	
EBIT margin	10.2%	12.1%		4.7%	10.1%		-8.3%	5.0%	

Source: the Company, Pekao Equity Research

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