Company Report | **Engineering & Construction** | **Poland** | **26 February 2025**

Mercor

Cloudy view after disposing part of business

We issue a Sell recommendation for Mercor with a 12M target price at PLN 24.30 per share. It is worth underscoring that our target price includes the right to receive a dividend in September/October 2025. In the meantime, the Company published 1-3Q'2024/25 figures pertaining to the business subject to the transaction with Kingspan Group. We consider the Company's market price overvalued and base our conclusions on:

- It seems that our earlier concerns were reasonable and the business subject to the transaction is much more profitable than the Company's remaining business. Based on 1-3Q'2024/25 figures, the business subject to the transaction had around 70% and 82% share in the Company's total revenue and gross profit, respectively. The implied gross profit margin of the remaining business amounted to 14.7% in 1-3Q'2024/25 (vs. 24.4% combined). Moreover, the implied EBIT for 1-3Q'2024/25 was negative. It is worth noting that due to an inverse effect of economies of scale, the ratio of the Company's SG&A to its revenue should rise. In our view, the Company's remaining business may have difficulty reaching the EBIT break-even point unless the situation in the industry improves significantly.
- The current economic situation in the cubature construction industry is weak, and we see no clear signs of recovery. We are witnessing the erosion of margins and increased competition should put additional pressure on profitability. By the way, a weak short-term outlook in the sector may potentially put a possible earn-out at risk, we suspect.

Mercor, Key figures

PLN mn	2022/23	2023/24	2024/25e	2025/26e	2026/27e	2027/28e
Revenues	628	587	506	154	163	173
EBITDA	88	76	42	279	24	11
Adj. EBITDA	88	76	42	7	9	11
EBIT	69	57	24	268	14	1
Adj. EBIT	69	57	24	-4	-1	1
Net income	42	49	18	243	16	6
EPS	2.68	3.17	1.14	15.98	1.08	0.39
DPS	0.63	1.51	0.77	13.00	0.32	0.27
DY	2.6%	6.0%	3.0%	50.0%	1.2%	1.0%
P/E	9.5	8.1	22.7	neg.	53.5	34.2
EV/EBITDA	5.3	6.2	11.3	9.2	5.9	4.9
Net Debt	67	74	75	-138	-148	-147
Net Debt/EBITDA	0.8	1.0	1.8	-20.6	-17.2	-13.9

Note: The table above shows 2022/23 and 2023/24 figures as published, 2024/25e figures without OOO Mercor-Proof, and continuing operations from 2025/26e. Multiples based on adjusted figures (from 2025/26e onwards also by dividend).
Source: Mercor, Pekao Equity Research.

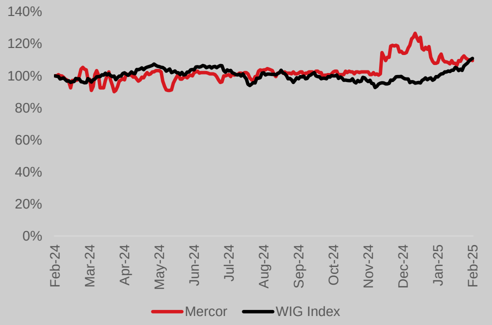
Sell (Reiterated)

Target price | **PLN 24.30**

Upside to TP | **-6.5%**
Price on 26 February 2025 | PLN 26.00

ESG rating | **C**
Final ESG score | **0.87**

Relative share price performance vs. WIG Index



UPCOMING EVENTS

4Q'2024/25 results	July 15, 2025

STOCK DATA

Reuters/Bloomberg	MCRP.WA/MCR:PW
Free float (%)	41.9
Market capitalization (PLNmn)	398
No. of shares in issue (mn)	15.3

Shareholders	PERMAG sp. z o.o. 26.35% Bangtino Limited 21.20% Nationale Nederlanden PTE 9.34%

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Recent developments

Changes in the business and recent events in the Company

The Company's rationales behind the deal with Kingspan Group

On January 17th, 2025, the Company organized a call with investors during which it discussed 1H'2024/25 results, commented on the cubature construction market, and presented the rationales behind the transaction with Kingspan Group, as well as the Company's perspectives. Key messages include:

- The decision about a possible sale of the business had been contemplated for around 3 years. The Company is convinced that the transaction is right and fair both for equity holders and employees.
- The transaction should be closed in July or August. An advanced dividend may be passed at September's AGM. According to the CEO, earn-out is possible.
- The cubature construction market in Poland is currently difficult, the situation in the industry is not expected to improve in the short term. The prospects abroad are also tough. Given the tough market environment, it was difficult to expect growth in the business. After the transaction, it should be easier for the Company to grow given that the remaining business is less mature.
- After the transaction, the Company will operate in the construction protection and fire separation businesses. The Company aims to focus on active fog extinguishing, as well as on automatics and electronics in fire protection systems.
- The profitability of the remaining business is lower by a few percentage points when compared to the business subject to the transaction due to the fact that the remaining business is less mature. On the other hand, the Company sees growth perspectives here.
- The burden from SG&A costs should be higher.
- The Company expects a small acquisition to complement its product offering.

In general, the Company's message from the conference was consistent with our assumptions, as we expected lower profitability in the remaining business compared to the business subject to the transaction.

Disclosure of full-year 2023/24 results by continued and divested operations

One week before the Extraordinary General Meeting (EGM), the Company published a presentation with key information regarding the M&A transaction with Kingspan Group and the Company's picture thereafter. Accordingly, key new information include:

- P&L figures from the continued operations in FY 2023/24 (without a full consolidation of OOO Mercor Proof:
  - Revenue of PLN 160.0mn.
  - Gross profit of PLN 33.6mn.
  - GP margin of 21.03%.
  - EBIT without G&A costs of PLN 17.9mn.
- The Company expects to receive proceeds between PLN 250-300mn after debt reduction, advisory fees, repayment of subsidies, and tax.
- The Company determined the range of DPS to be paid of PLN 13-15 without considering the earn-out.

- The Company will operate in 5 manufacturing facilities and employ around 350 employees.

EGM resolutions, buyback

On February 6, 2025, the Extraordinary General Meeting (EGM) voted in favor of selling the Company's natural smoke exhausting and fire ventilation businesses with the manufacturing facility in Cieplewo. Such an outcome was anticipated as it was one of the necessary conditions to fulfil with respect to the transaction with Kingspan Group.

Furthermore, the Company changed its business profile by ceasing its activity in (1) natural smoke exhausting, (2) fire ventilation, and (3) construction protection businesses. No one voted against. Absent shareholders have the right to demand the redemption of shares for PLN 26.91/share upon request within one month from the announcement of hereby resolution (i.e. until March 6, 2025). Now, the Group will adopt a holding structure.

The EGM adopted a share buyback plan. No more than 778,463 shares will be subject to the buyback. The Company devoted PLN 10mn to carry out the buyback. The maximum price was set at PLN 33/share. Given the current market price, the Company may buy back up to 2.5% of the total shares outstanding. However, once the dividend is cut off and paid out, the market price of the shares should be lower, which would allow more shares to be bought back. The share buyback may last until February 6, 2030.

A possible acquisition of Ela-compil

In the first half of February, the Company signed a package of cooperation agreements with Ela-compil sp. z o.o. The agreements provide for cooperation at the R&D and sales levels, among others, as well as the possibility of purchasing a controlling stake. The aim of the cooperation is to utilise the potential of Ela-compil, which is the sales leader of advanced BMS/PSIM/SIUP systems, as well as mcr Tech Lab, a company in the Mercor Group that is dynamically developing in the field of Industry 4.0.

Ela-compil is located in Poznań. The recent available financial data pertains to 2023, in which Ela-compil generated revenue of PLN 11.0mn (including PLN 7.7mn domestically), EBITDA of PLN 1.53mn, EBIT of PLN 1.39mn, and net profit of PLN 1.05mn. Furthermore, the subject company generated a positive operating cash flow of PLN 1.60mn in 2023, and its financial standing was good given its net cash of almost PLN 3.0mn at the end of 2023.

Key financial data of Ela-compil (PLNmn)

PLN thousand	2022	2023
Revenue	10,187	10,965
EBITDA	972	1,527
EBIT	839	1,394
Net profit	645	1,049
EBITDA margin	*9.5%*	*13.9%*
EBIT margin	*8.2%*	*12.7%*
Net margin	*6.3%*	*9.6%*
Operating cash flow	3	1,604
CAPEX	-43	-67

Źródło: KRS, Pekao Equity Research.

We consider this a step in the right direction and believe that a possible deal may create both top-line and cost synergies, but the importance should be limited due to the relatively small scale of operations of the target company. Nevertheless, it is too early to incorporate it in our forecasts due to a lack of actual information regarding the target's financials and any payment conditions, so our base-case scenario does not assume the acquisition. Just as we do not assume any cash outflow associated with a possible acquisition.

Financial results 3Q'2024/25

On February 17, 2025, 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).

In our opinion, 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.

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
Revenues	**133.8**	**177.7**	**125.0**	**125.3**	**131.4**	***-2%***	***5%***	**116.9**	***12%***
COGS	-95.4	-130.5	-91.5	-95.4	-101.7	*7%*	*7%*	-90.0	*13%*
Gross profit	**38.4**	**47.2**	**33.5**	**30.0**	**29.6**	***-23%***	***-1%***	**26.9**	***10%***
SG&A	-24.4	-29.7	-23.7	-22.7	-27.6	*13%*	*21%*	-22.0	*26%*
EBITDA	**18.6**	**21.0**	**13.9**	**11.4**	**6.7**	***-64%***	***-41%***	**9.3**	***-28%***
EBIT	13.7	15.8	9.1	6.9	2.1	*-85%*	*-70%*	4.9	*-58%*
EBT	16.4	11.7	8.3	6.7	3.1	*-81%*	*-53%*	4.3	*-26%*
Net profit	**13.1**	**6.2**	**6.1**	**5.4**	**2.6**	***-80%***	***-52%***	**3.1**	***-17%***
Gross profit margin	*28.7%*	*26.6%*	*26.8%*	*23.9%*	*22.6%*			*23.0%*	
EBITDA margin	*13.9%*	*11.8%*	*11.2%*	*9.1%*	*5.1%*			*7.9%*	
EBIT margin	*10.3%*	*8.9%*	*7.3%*	*5.5%*	*1.6%*			*4.2%*	
Net profit margin	*9.8%*	*3.5%*	*4.9%*	*4.3%*	*2.0%*			*2.7%*	
Operating CF	**9.6**	**8.9**	**22.3**	**10.9**	**-6.5**	***n/a***	***n/a***	**9.3**	***n/a***
Investing CF	-1.1	-12.9	-4.0	-3.1	-3.4	*212%*	*10%*	-2.8	*23%*
Financing CF	-12.5	-10.4	-15.2	-7.7	8.7	*n/a*	*n/a*	-13.3	*n/a*
Net debt	**76.0**	**73.8**	**58.6**	**66.5**	**74.1**	***-2%***	***12%***	**73.3**	***1%***
Order intake	140.7	116.4	148.6	150.2	135.4	*-4%*	*-10%*	130.5	*4%*
Book-to-bill ratio (x)	1.05	0.65	1.19	1.20	1.03	-2%	-14%	1.12	*-8%*

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).
The order intake and book-to-bill ratios are not restated.

Source: Mercor, Pekao Equity Research.

Disclosure of financial data of the business subject to the transaction with Kingspan Group for the first three quarters of 2024/25 and 2023/24

Along with the publication of the 3Q'2024/25 report, 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 loss of PLN -9.4mn (vs. positive EBIT of PLN 5.9mn one year earlier).

Based on the above, 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 of over PLN 5mn. Even if this one-off has been fully allocated to the remaining business, the Company's remaining business would have difficulty reaching the break-even point even when adjusting back by that one-off cost.

Mercor: 1-3Q'2024/25 and 1-3Q'2023/24 results after separation of the business subject to the transaction with Kingspan Group

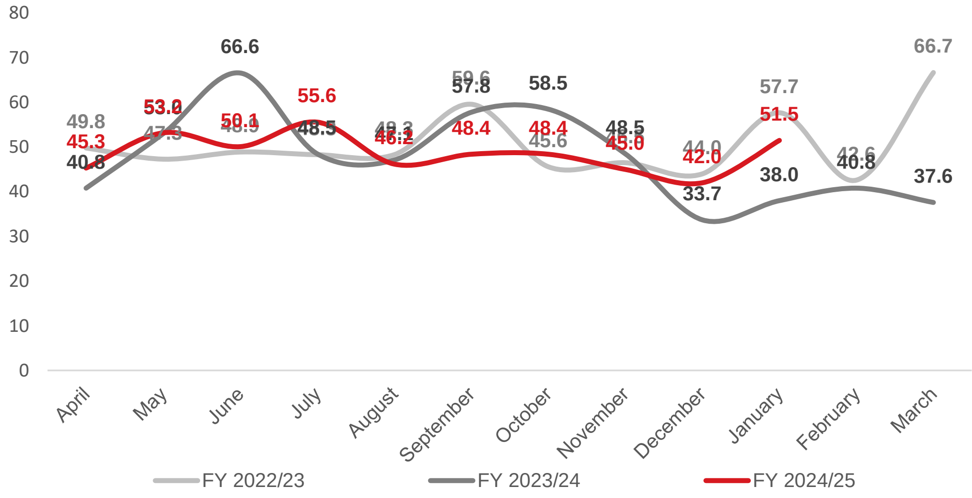
	Business subject to the transaction			Results as reported			Implied remaining business		
PLN mn	1-3Q'2024/25	1-3Q'2023/24	y/y	1-3Q'2024/25	1-3Q'2023/24	y/y	1-3Q'2024/25	1-3Q'2023/24	y/y
Revenues	**269.0**	**291.1**	**-7.6%**	**381.7**	**409.7**	**-6.8%**	**112.7**	**118.5**	**-5.0%**
COGS	-192.4	-207.8	-7.4%	-288.6	-303.8	-5.0%	-96.1	-96.0	0.2%
Gross profit	**76.6**	**83.3**	**-8.1%**	**93.1**	**105.9**	**-12.1%**	**16.5**	**22.5**	**-26.8%**
Costs of sales	-28.3	-26.2	7.9%	-42.4	-37.7	12.6%	-14.1	-11.4	23.5%
G&A costs	-20.6	-20.7	-0.5%	-31.6	-27.5	15.1%	-11.0	-6.8	62.4%
EBIT	**27.5**	**35.3**	**-22.2%**	**18.1**	**41.3**	**-56.1%**	**-9.4**	**5.9**	**-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: Mercor, Pekao Equity Research.

Order intake

Over the recent quarters, we could see a decline in the Company's order intake. However, January's order intake rebounded to PLN 52mn (+36% y/y), but such a high dynamics is partly a result of very low level of order intake one year earlier. Between April 2024 and January 2025, the Company secured PLN 486mn of new orders (-1.4% y/y).

Order intake of Mercor (PLNmn)

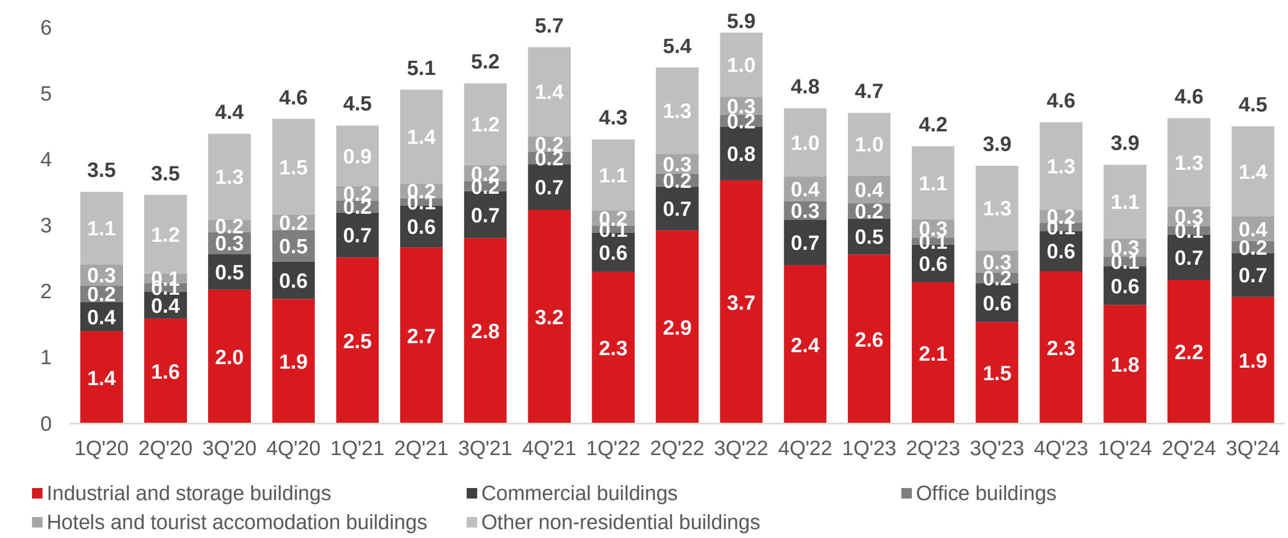


Źródło: Mercor, Pekao Equity Research.

Update of forecasts

The years 2021 and 2022 in the cubature construction sector in Poland were exceptionally good, which was visible in the issued building permits and notifications of construction with a construction project for non-residential buildings. The first signs of a slowdown were visible already at the turn of 2022 and 2023, and the worst was in 3Q'2023, in which the decline was 34% y/y. Ultimately, in 2023, permits issued for the construction of non-residential buildings in Poland covered an area of 17.4 million m^2, i.e. 14.8% less than a year earlier, of which the area for industrial and warehouse buildings was lower by 24.4% y/y. 1Q'2024 was weak with permits issued for 3.9 million m^2 (-16.7% y/y), but we witnessed a slight rebound with building permits issued for 4.6 million m^2 in 2Q'2024 (+10.2% y/y) and 4.5 million m^2 in 3Q'2024 (+15.4% y/y). The first three quarters of 2024 saw permits issued for 13.1 million m^2 of non-residential buildings in Poland (+1.9% y/y). However, industrial and warehouse buildings experienced a decline by 5.6% y/y to 5.9 million m^2 in 1-3Q'2024.

Useful floor area of non-residential buildings in issued building permits and construction notifications with a construction project in Poland since 2020 (million m^2)



Source: GUS.

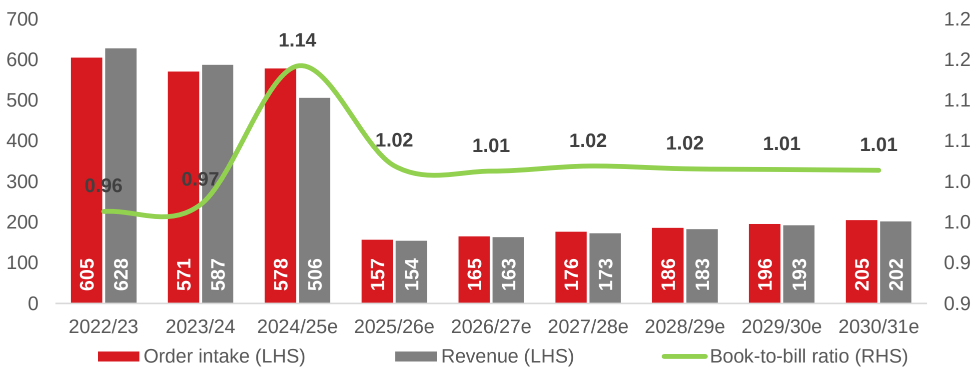
The situation in the Company's key markets varies from market to market. According to Eurostat, Hungary and Romania experienced a decrease in the area of non-residential building permits issued in 1-3Q'2024 by -41% y/y and -11% y/y, respectively. On the other hand, Slovakia doubled the area of permits issued in 1-3Q'2024, but this is a very tiny market. In turn, Spain experienced a growth of 34% y/y and the area of permits in the Czech Republic increased by 18% y/y in 1-3Q'2024, but it is worth remembering that these two markets together were smaller in 2023 than Poland alone. In the European Union, there was a 2.7% y/y increase in the useful floor area in 1-3Q'2024.

In the short term, we see no clear signs of an improvement in the industry. In Poland, we would rather expect a new-normal level of industrial and warehouse building permits for around 8 million m^2 per year in the mid-term given a higher level of vacancy rate approaching around 8%. Furthermore, the data on construction and assembly production are weak. According to GUS, the construction and assembly production in 2024 declined by 7.7% y/y, however, the construction of buildings was lower by 7.3% y/y. The weakness was especially visible in from August 2024. Data in January this year was slightly better, the construction and assembly production increased by 4.3% y/y, while the construction of buildings increased by 7.1% y/y. Data from foreign markets are mixed.

We expect the above will contribute to a decline in the number of orders in the short term and a return to normalized levels. In the case of warehouse and industrial buildings in Poland, a high number of newly constructed facilities resulting from the record number of permits issued in 2021 and 2022 and the high vacancy rate may pose a risk of a longer slowdown.

In 2024/25, we assume a slight increase in order intake to PLN 578mn (+1.3% y/y) (incl. Russian OOO Mercor-Proof). According to our estimates, the Company should generate PLN 506mn of revenue in 2024/25e (excl. Russian OOO Mercor-Proof). Beginning from 2025/26e, the chart below presents order intake and revenue from continuing operations.

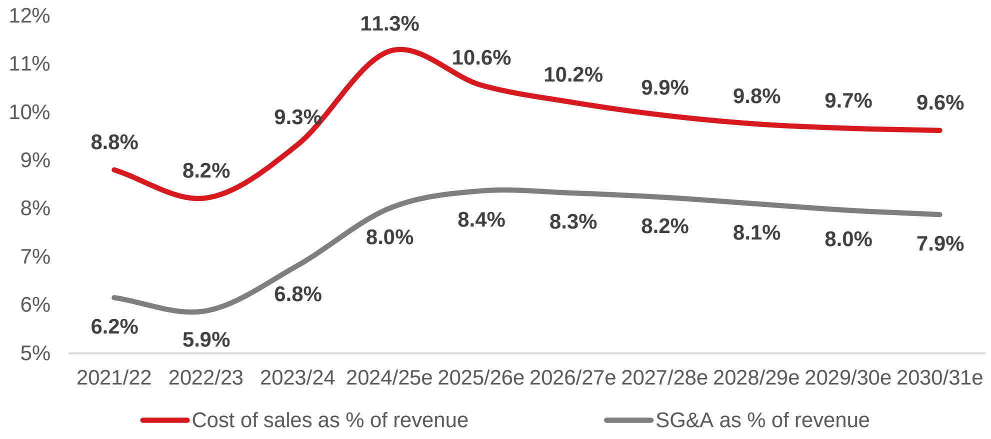
Mercor's order intake and revenue forecast (PLN mn)



Note: The chart above shows 2022/23 and 2023/24 figures as published, 2024/25e figures without OOO Mercor-Proof, and continuing operations from 2025/26e.
Source: Mercor, Pekao Equity Research.

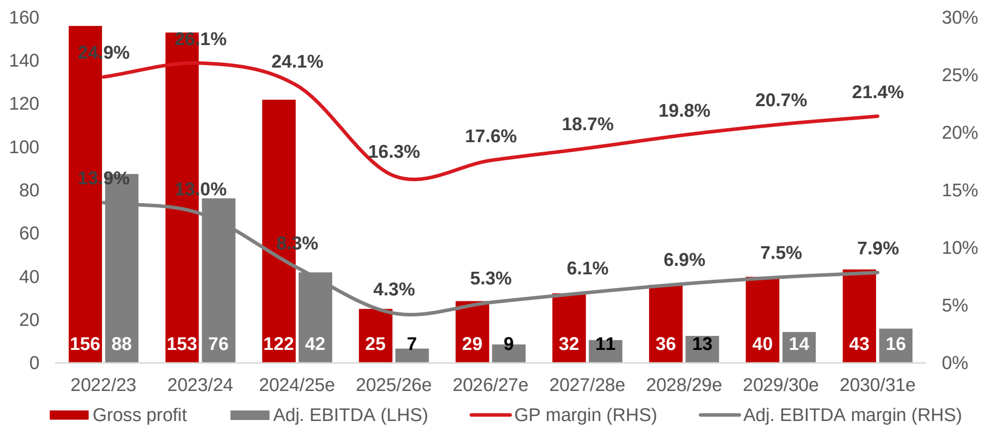
So far, Mercor looked decent in terms of gross profit margin, but we expect its deterioration due to a weaker market and higher competition, which has already been visible in the reported data. Furthermore, the business remaining in the Company is less profitable than that subject to the transaction, so we expect a visibly lower gross profit margin in 2025/26e. Moreover, the ratio of the Company's SG&A costs to its revenue should rise which should result in a higher burden from SG&A costs and lower profitability. Margins should improve once the market returns to growth. In our opinion, Mercor is able to achieve a high-single-digit EBITDA margin in the long-term.

Mercor's operating costs as % of revenue



Note: The chart above shows 2022/23 and 2023/24 figures as published, 2024/25e figures without OOO Mercor-Proof, and continuing operations from 2025/26e.
Source: Mercor, Pekao Equity Research.

Mercor's gross profit and adj. EBITDA (PLN mn)



Note: The chart above shows 2022/23 and 2023/24 figures as published, 2024/25e figures without OOO Mercor-Proof, and continuing operations from 2025/26e.
Source: Mercor, Pekao Equity Research.

The deal with Kingspan Group should be closed in in the third quarter of 2025. We would assume the payment of dividend of PLN 13/share in September/October 2025 and initiating the buyback thereafter. In the following years, we assume a modest level of dividends given the Company's lower scale of operations. In our view, earn-out is at risk given a weak short-term outlook in the sector, so we suppose that lower levels are more probable than higher levels of earn-out. For that reason, we assume that the Company will be entitled to achieve PLN 15mn of earn-out in 2026/27e. Of course, the Company will go net cash positive following the transaction.

Mercor – the assumptions of key earning's drivers

PLN mn	2022/23	2023/24	2024/25e	2025/26e	2026/27e	2027/28e
Order intake	605	571	578	157	165	176
Book-to-bill ratio	0.96	0.97	1.14	1.02	1.01	1.02
Revenue	**628**	**587**	**506**	**154**	**163**	**173**
change y/y	*26.7%*	*-6.5%*	*-13.8%*	*-69.5%*	*5.8%*	*6.1%*
COGS	-472	-434	-384	-129	-134	-141
Gross profit	**156**	**153**	**122**	**25**	**29**	**32**
Cost of sales	-52	-55	-57	-16	-17	-17
SG&A	-37	-40	-41	-13	-14	-14
EBIT	**69**	**57**	**24**	**268**	**14**	**1**
Adj. EBIT	**69**	**57**	**24**	**-4**	**-1**	**1**
D&A	-19	-19	-18	-11	-10	-10
EBITDA	**88**	**76**	**42**	**279**	**24**	**11**
Adj. EBITDA	**88**	**76**	**42**	**7**	**9**	**11**
EBT	**60**	**59**	**23**	**270**	**20**	**7**
Net profit	**42**	**49**	**18**	**243**	**16**	**6**
Operating cash flow	64	49	31	-22	19	7
CAPEX	-11	-20	-13	-5	-5	-5
Free Cash Flow to the Firm (FCFF)	**53**	**29**	**18**	**1**	**2**	**3**
FCFF per share (PLN)	3.41	1.85	1.15	0.04	0.17	0.22
Net debt	67	74	75	-138	-148	-147
Net working capital	112	120	109	31	32	34
CAPEX / Revenue (%)	1.7%	3.4%	2.6%	3.0%	3.0%	3.0%
Net working capital / Revenue (%)	17.8%	20.4%	21.6%	20.1%	19.7%	19.7%

Note: The table above shows 2022/23 and 2023/24 figures as published, 2024/25e figures without OOO Mercor-Proof, and continuing operations from 2025/26e.

Source: Mercor, Pekao Equity Research.

Risk factors

Mercor is exposed to a number of internal and external risks related to running a business, the most important of which are:

- **Economic situation in cubature and high-rise construction**. The Company's clients are mainly general contractors. The weaker economic situation in the construction industry may translate into a decrease in demand for the Company's products/services and deterioration of financial results.
- **Prices of production materials.** An increase in the prices of production materials in relation to the planned level at the time of submitting the offer may result in an increase in costs and deterioration of the Company's profitability.
- **Availability of significant raw material resources.** In its production process, the Company mainly uses steel, aluminum and polycarbonate. Lower availability of raw materials may adversely affect the Company's ability to fulfill the signed contracts and cause an increase in the prices of these raw materials.
- **War in Ukraine.** The ongoing armed conflict between Russia and Ukraine has a direct and indirect impact. The indirect impact is a possible change in investors' moods and preferences, increase in prices and problems with the availability of production and energy raw materials, potential disruptions in supply chains. In addition, Mercor holds a 55% share in the share capital of the company in Ukraine (TOB MERCOR UKRAINA sp. z o.o.) and a 55% share in the share capital of the company in Russia (OOO Mercor-PROOF LLC). Loss of control or other unfavorable events may result in a write-off, showing a loss in the financial statements and loss of markets.
- **Change in interest rates**. Mercor has debt due to credits, loans and finance leases. An increase in interest rates may result in an increased cost of servicing this debt.
- **Changes in exchange rates**. The Group has its branches and production plants abroad and concludes transactions in currencies other than the functional one. The Group uses hedging by concluding forward transactions, but it is not possible to completely eliminate the impact of changes in exchange rates.
- **Inflation rate**. Higher prices may adversely affect the Company's profitability. In addition, higher inflation may increase employees' wage expectations.
- **Counterparty credit risk**. In the event of a deterioration in the liquidity situation of customers, the Company may experience problems with recovering receivables on time.
- **Availability of workers with appropriate qualifications**. The company provides its customers with ready-made solutions in the field of fire protection in buildings, for which it is necessary to have adequately qualified employees. The shortage of employees may adversely affect the ability to implement an appropriate number of projects and decrease revenues.
- **Risk of unfavorable tax decisions**. There is a risk that the correctness of the calculated taxes will be questioned by the tax authorities and a risk of issuance of decisions unfavorable to the Company.
- **Risk of the transaction with Kingspan Group.** The risk of failure to complete the transaction to sell a significant part of the business may change the Company’s picture compared to the assumed scenario in this report. There is also a risk associated with a possible payment of earn-out.

Valuation

Our valuation implies the 12M target price at PLN 24.30 per share, which constitutes a 6.5% downside potential. It is worth mentioning that the target price includes the right to receive a dividend in September/October 2025. We base our 12M target price valuation on the DCF and multiples with 100% and 0% weighting, respectively. Our peers valuation is presented for illustrative purposes as it carries 0% weight.

Mercor: Valuation summary

Valuation method	Derived price (PLN)	Weighting (%)
12M DCF valuation	24.30	100%
12M Multiples valuation	16.20	0%
12M target price	**24.30**	
Current price	26.00	
Upside/downside (%)	-6.5%	

Source: Pekao Equity Research.

Peer valuation

		P/E			EV/EBITDA		
Compay name	Ticker	2024/25e	2025/26e	2026/27e	2024/25e	2025/26e	2026/27e
ASSA ABLOY AB-B	ASSAB SS	22.7	20.4	18.5	14.4	13.4	12.5
LEGRAND SA	LR FP	20.6	19.1	17.8	14.2	13.2	12.4
DORMAKABA HOLDING AG	DOKA SW	21.4	19.0	16.8	7.5	6.8	6.3
ALLEGION PLC	ALLE US	17.2	16.4	15.1	13.8	13.0	12.3
BIFIRE SPA	FIRE IM	9.4	8.1	6.8	4.5	3.9	3.4
CARRIER GLOBAL CORP	CARR US	26.5	22.4	19.4	16.9	15.9	14.5
SYSTEMAIR AB	SYSR SS	21.8	19.0	16.6	11.6	10.3	9.5
Median total		**21.4**	**19.0**	**16.8**	**13.8**	**13.0**	**12.3**
Mercor		**22.7**	**neg.**	**53.5**	**11.3**	**9.2**	**5.9**
Premium/discount vs. Median		*6%*	*n/a*	*218%*	*-18%*	*-30%*	*-52%*
Implied value per share (PLN)		**24.54**	**n/a**	**8.18**	**32.86**	**14.76**	**16.84**

Note: Multiples and peer valuation based on the Company's adj. EBITDA and adj. net profit (from 2025/26e onwards also by dividend).

Source: Pekao Equity Research.

ESG rating

Mercor Construction	E	S	G
Score	0.77	0.80	1.08
Sector weight	30%	40%	30%
Final ESG Score		**0.87**	
ESG Rating		**C**	

	score from:	to	Rating	WACC risk premium impact (% of RFR)
ESG Score	1.5	2	**A**	-15.0%
	1	1.5	**B**	-7.5%
	0.5	1	**C**	0.0%
	0	0.5	**D**	15.0%

Source: Pekao Equity Research.

DCF valuation

We have developed a 6-year DCF valuation model based on our detailed financial model for the Company's operating activity until 2030/31. After that, we assume a steady growth phase and apply the Gordon model to calculate the terminal value.

The resulting cash flows constitute the input to our valuation, based on which we calculate the present value of those cash flows. The key assumptions incorporated in our DCF valuation model are as follows:

- Risk-free rate of 5.8% from 2025/26e to 2030/31e and 4.0% in the terminal year.
- Equity risk premium of 6.0% from 2025/26e to 2030/31e and 5.0% in the terminal year.
- Beta coefficient of 1.0.
- No additional ESG discount/premium to the cost of equity, based on ESG rating.
- Credit margin of 2.0% based on historical data.
- Corporate income tax rate of 19%.
- Dynamic weight of equity and debt, in the calculation of weighted cost of capital (WACC).
- Target EBITDA margin of 8.0% and EBIT margin of 5.0% in the residual period, respectively.
- Terminal CAPEX at the level with a consideration of ROIC and an assumed growth rate in the residual period.
- 2.5% growth of free cash flow in the residual period.
- We adjusted the valuation by: (1) the present value of after-tax remuneration for the transaction of PLN 317mn which we assume to be paid in August 2025, (2) the present value of after-tax earn-out of PLN 10mn which we assume to be paid in August 2026, and (3) the present value of free cash flow to be generated from April 2025 to August 2025 (assumed date of closing the transaction) of PLN 9mn.
- We also added the value of non-operating assets of PLN 19mn, including PLN 14mn of the Company's stake in OOO Mercor-Proof and other entities consolidated using the equity method.

DCF valuation

WACC calculation

	2025/26e	2026/27e	2027/28e	2028/29e	2029/30e	2030/31e	Terminal Year
Risk free rate	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	4.0%
Equity risk premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0
ESG discount/premium	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	**11.8%**	**11.8%**	**11.8%**	**11.8%**	**11.8%**	**11.8%**	**9.0%**
Cost of debt	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%
After-tax cost of debt	**6.3%**	**6.3%**	**6.3%**	**6.3%**	**6.3%**	**6.3%**	**6.3%**
Equity weight	82%	100%	100%	100%	100%	100%	100%
WACC	**10.8%**	**11.8%**	**11.8%**	**11.8%**	**11.8%**	**11.8%**	**9.0%**

DCF valuation

(PLN mn)	2025/26e	2026/27e	2027/28e	2028/29e	2029/30e	2030/31e	Terminal Year
Revenues	154.1	163.1	173.0	183.2	192.8	202.3	207.4
EBIT	-4.1	-1.5	0.9	3.6	6.0	8.0	10.4
Taxes on EBIT	0.0	0.0	-0.2	-0.7	-1.1	-1.5	-2.0
NOPAT	**-4.1**	**-1.5**	**0.7**	**2.9**	**4.9**	**6.5**	**8.4**
Depreciation and amortisation	10.8	10.1	9.7	9.0	8.4	7.9	8.1
Capital expenditures	-4.6	-4.9	-5.2	-5.5	-5.8	-6.1	-10.4
Change in NWC	-1.5	-1.2	-1.9	-2.1	-1.9	-1.9	-1.0
FCFF	**0.6**	**2.5**	**3.4**	**4.3**	**5.5**	**6.4**	**5.1**
Terminal value growth							*2.5%*
Terminal value							78.8
Discount factor	*0.89*	*0.80*	*0.72*	*0.64*	*0.57*	*0.51*	*0.51*
Present value of FCFF and TV	**0.5**	**2.0**	**2.4**	**2.8**	**3.2**	**3.3**	**40.3**
Enterprise Value	**54.5**						
Minorities	2.9						
Net debt	75.1						
Non-operating assets	19.5						
Other adjustments	336.6						
Equity Value	**332.5**						
Number of shares (mn)	15.3						
12M target price per share (PLN)	**24.30**						
Share price on February 26, 2025 (PLN)	26.00						
Upside/Downside vs. current price	*-6.5%*						

	2025/26e	2026/27e	2027/28e	2028/29e	2029/30e	2030/31e	Terminal Year
Revenues growth	-70%	6%	6%	6%	5%	5%	2.5%
EBIT margin	-2.7%	-0.9%	0.5%	2.0%	3.1%	3.9%	5.0%
Effective tax rate	19.8%	0.0%	0.0%	19.0%	19.0%	19.0%	19.0%
Capex/revenues	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	
Capex/depreciation and amortization	42.9%	48.5%	53.4%	61.0%	68.9%	76.6%	

Sensitivity of 12M target price per share to Terminal value growth & WACC

Terminal value growth/WACC	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%
-2.0%	26.52	26.49	26.46	26.42	26.38	26.32	26.24
-1.0%	25.44	25.37	**25.29**	**25.19**	**25.07**	24.93	24.75
0.0%	24.61	24.52	**24.42**	**24.30**	**24.16**	24.00	23.81
1.0%	23.94	23.84	**23.74**	**23.62**	**23.48**	23.32	23.13
2.0%	23.38	23.29	23.18	23.07	22.94	22.79	22.62

Sensitivity of 12M target price per share to key drivers' of company earnings

Target EBITDA margin/change in the market share	-30.0%	-20.0%	-10.0%	0.0%	10.0%	20.0%	30.0%
10.0%	24.06	24.41	24.77	25.12	25.46	25.81	26.15
9.0%	23.74	24.07	**24.39**	**24.71**	**25.03**	25.34	25.65
8.0%	23.42	23.72	**24.01**	**24.30**	**24.59**	24.87	25.15
7.0%	23.10	23.36	**23.62**	**23.88**	**24.13**	24.38	24.63
6.0%	22.78	23.00	23.22	23.45	23.67	23.89	24.11

Source: Pekao Equity Research.

Key financial data

P&L (PLN mn)	2022/23	2023/24	2024/25e	2025/26e	2026/27e	2027/28e
Revenues	**628**	**587**	**506**	**154**	**163**	**173**
Gross Profit	**156**	**153**	**122**	**25**	**29**	**32**
SG&A	-89	-95	-98	-29	-30	-31
EBITDA	**88**	**76**	**42**	**279**	**24**	**11**
Adj. EBITDA	**88**	**76**	**42**	**7**	**9**	**11**
EBIT	**69**	**57**	**24**	**268**	**14**	**1**
Adj. EBIT	**69**	**57**	**24**	**-4**	**-1**	**1**
Financial Income/Cost	-6	3	-5	-2	3	3
Pretax Profit	**60**	**59**	**23**	**270**	**20**	**7**
Income Tax	-13	-7	-4	-27	-3	-1
Net Profit	**42**	**49**	**18**	**243**	**16**	**6**
EPS (PLN)	**2.68**	**3.17**	**1.14**	**15.98**	**1.08**	**0.39**

Balance Sheet (PLN mn)	2022/23	2023/24	2024/25e	2025/26e	2026/27e	2027/28e
Total Current Assets	**252**	**210**	**306**	**230**	**240**	**243**
Cash and Equivalents	29	14	15	173	183	182
Other Current Assets	223	196	291	57	57	60
Total Fixed Assets	**195**	**200**	**104**	**97**	**96**	**95**
Tangible Assets	79	74	41	36	32	28
Other Fixed Assets	116	126	63	61	64	67
Total Assets	**448**	**410**	**410**	**327**	**337**	**338**
Stockholders` Equity	**214**	**225**	**218**	**261**	**271**	**270**
Noncontrolling interest	**12**	**3**	**3**	**3**	**3**	**3**
Long Term Liabilities	**86**	**75**	**96**	**37**	**36**	**36**
Long -Term Debt	82	71	90	35	35	35
Other Long - Term liabilities	4	4	6	2	1	1
Short Term Liabilities	**136**	**107**	**93**	**27**	**27**	**28**
Short -Term Debt	14	17	0	0	0	0
Other Current Liabilities	121	90	93	27	27	28
Total Equity & Liabilities	**448**	**410**	**410**	**327**	**337**	**338**
Net debt	67	74	75	-138	-148	-147

Cash Flow (PLN mn)	2022/23	2023/24	2024/25e	2025/26e	2026/27e	2027/28e
Net Profit	42	49	18	243	16	6
Depreciation and Amortisation	19	19	18	11	10	10
Other (incl. WC)	3	-20	-5	-276	-8	-9
Operating Cash Flows	**64**	**49**	**31**	**-22**	**19**	**7**
Capital Expenditures	-11	-20	-13	-5	-5	-5
Other	-1	1	-1	363	5	6
Cash Flows from Investing Activities	**-12**	**-19**	**-14**	**358**	**0**	**0**
Dividends paid	-10	-24	-12	-199	-5	-4
Other	-33	-20	-4	20	-4	-4
Cash Flows from Financing Activities	**-43**	**-44**	**-16**	**-179**	**-9**	**-8**
Others/FX effect	0	-2	0	0	0	0
Change in Cash	9	-14	1	158	10	-1
Cash at the end of period	**29**	**14**	**15**	**173**	**183**	**182**
DPS (PLN)	0.63	1.51	0.77	13.00	0.32	0.27
Y/Y growth ratios						
Revenues	27%	-7%	-14%	-70%	6%	6%
EBITDA	50%	-13%	-45%	564%	-92%	-55%
EBIT	56%	-17%	-59%	1039%	-95%	-94%
Net profit	40%	18%	-64%	1289%	-93%	-64%
EPS	40%	18%	-64%	1296%	-93%	-64%
Margins						
EBITDA	**13.9%**	**13.0%**	**8.3%**	**180.8%**	**14.5%**	**6.1%**
EBIT Margin	10.9%	9.7%	4.6%	173.8%	8.3%	0.5%
Net Margin	6.6%	8.4%	3.5%	157.8%	10.0%	3.4%
ROE	**20.9%**	**22.5%**	**7.9%**	**101.6%**	**6.1%**	**2.2%**
Balance Sheet Ratios						
BVPS (PLN)	13.73	14.48	14.24	17.16	17.96	18.13
Net debt/EBITDA	0.8	1.0	1.8	-0.5	-6.3	-13.9
Bank Debt/Equity	45.1%	38.9%	41.3%	13.4%	12.9%	13.0%

Note: The table above shows 2022/23 and 2023/24 figures as published, 2024/25e figures without OOO Mercor-Proof, and continuing operations from 2025/26e.

Source: Pekao Equity Research.

Summary of key financial data

PLN mn	2022/23	2023/24	2024/25e	2025/26e	2026/27e	2027/28e	2028/29e	2029/30e	2030/31e
EPS, GAAP	2.68	3.17	1.14	15.98	1.08	0.39	0.55	0.69	0.82
Revenue	628	587	506	154	163	173	183	193	202
Gross Margin %	24.9%	26.1%	24.1%	16.3%	17.6%	18.7%	19.8%	20.7%	21.4%
EBIT	69	57	24	268	14	1	4	6	8
EBITDA	88	76	42	279	24	11	13	14	16
Net Income, GAAP	42	49	18	243	16	6	8	10	12
Net Debt	67	74	75	-138	-148	-147	-149	-150	-151
BPS	13.73	14.48	14.24	17.16	17.96	18.13	18.53	19.00	19.54
DPS	0.63	1.51	0.77	13.00	0.32	0.27	0.20	0.28	0.35
Return on Equity %	20.9%	22.5%	7.9%	101.6%	6.1%	2.2%	3.0%	3.7%	4.2%
Return on Assets %	9.5%	11.5%	4.3%	66.0%	4.9%	1.7%	2.4%	2.9%	3.4%
Depreciation	13	14	13	8	7	7	6	6	6
Amortization	6	5	6	3	3	3	3	3	2
Free Cash Flow	53	29	18	1	2	3	4	6	6
CAPEX	11	20	13	5	5	5	5	6	6

Note: The table above shows 2022/23 and 2023/24 figures as published, 2024/25e figures without OOO Mercor-Proof, and continuing operations from 2025/26e.

Source: Pekao Equity Research.

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Damian Szparaga	Expert, Analyst	Mercor	n.a.	n.a.	n.a.	n.a.

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METHODS USED TO FORMULATE OUR RECOMMENDATIONS:

Our company valuations are based on two valuation methods selected from among the following: discount model, multiples-based model or asset-based valuation method.

Discount models are characterized by simultaneous and comprehensive consideration of key determinants of intrinsic value, e.g. operating cash flow, capex, cost of capital (WACC). They are theoretically appealing and provide a direct computation of intrinsic value. However, discount model valuations are highly sensitive to changes in assumptions, particularly the risk free rate and terminal growth rate. Moreover, projections cannot be stated with certainty; unforeseen future events can cause income or earnings projections to be invalid.

Multiples-based models are based on the analysis of the valuation multipliers of a given company in relation to other similar companies in the industry. Among strengths of multiplier models we can highlight their simplicity, as they are easy to compute as well as to understand. Moreover, only the key statistics for investors are chosen for valuation. On the other hand, multiples are based on historic data or near-term forecasts. Valuations based on multiples will therefore fail to capture differences in projected performance over the longer term. Finally, it may be problematic to select a suitable peer group.

Asset-based models can be used even if a company has a brief record of earnings or its future existence is uncertain. However, it may be challenging to determine market value of some assets, particularly intangibles. Additionally, asset-based models do not take into account future changes in financial results, nor do they include non-balance sheet items, such as know-how.

Valuation models are dependent on macroeconomic factors, such as interest rates, exchange rates, raw materials, and on assumptions about the economy. Furthermore, market sentiment affects the valuation of companies. The valuation is also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries. Our recommendations and target prices derived from the models might therefore change accordingly.

The investment ratings generally relate to a 12-month horizon. They are, however, also subject to market conditions and can only represent a snapshot. The ratings may in fact be achieved more quickly or slowly than expected, or need to be revised upward or downward. In the tables and charts throughout this report, we designate the years with an “E” to denote that the figures presented are forecasts and estimates.

Definition of ratings used in our publications:

We currently use a three-tier recommendation system for the stocks in our formal coverage: Buy, Hold, or Sell (see definitions below):
A **Buy** is applied when the expected total return over the next twelve months is higher than 15%.
A **Hold** is applied when the expected total return over the next twelve months is within the range of 0% to 15%.
A **Sell** is applied when the stock's expected total return over the next twelve months is negative.

We employ three further categorizations for stocks in our coverage:
Restricted: A rating and/or financial forecasts and/or target price is not disclosed owing to compliance or other regulatory considerations such as blackout period or conflict of interest.
Coverage in transition: Due to changes in the research team, the disclosure of a stock's rating and/or target price and/or financial information are temporarily suspended. The stock remains in the research universe and disclosures of relevant information will be resumed in due course.

Under review: A rating and/or financial forecasts and/or target price is at the moment under revision of an analyst and the previous rating and/or financial forecasts and/or target price should not be relied on.
Not rated: We do not issue company-specific recommendations and we do not plan to issue them in the foreseeable future.

EXPLANATION OF THE PROFESSIONAL TERMINOLOGY USED IN THE REPORT:

P/E – „Price/Earnings" is the ratio of the financial instrument price to the net financial result for the issuer of the financial instrument.
P/B – „Price/Book Value" is the ratio of the price of the financial instrument to the issuer's equity capital.
EPS – „Earnings per Share", i.e. net profit per share.
BVPS – „Book Value per Share".
FWD – „Forward" - stands for the ratio (eg. P/E) calculated on the basis of the expected results.
DPS – „Dividend per Share".
DY – "Dividend Yield", a ratio calculated as dividends per share divided by the current share price.
EBIT – „Earnings Before Interest and Taxes".
EBITDA - „Enterprise Value / Earnings Before Interest, Taxes, Depreciation and Amortization".
EV/EBITDA – "Enterprise Value / Earnings Before Interest, Taxes, Depreciation and Amortization" is the company's market capitalization (price x number of shares) increased by the value of net financial debt and the value of minority shareholders divided by the operating result increased by the value of the company's asset depreciation.
AGM – Annual General Meeting