

13/2025/GPW (25) April 11, 2025

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Program 4.0.

Digital Network

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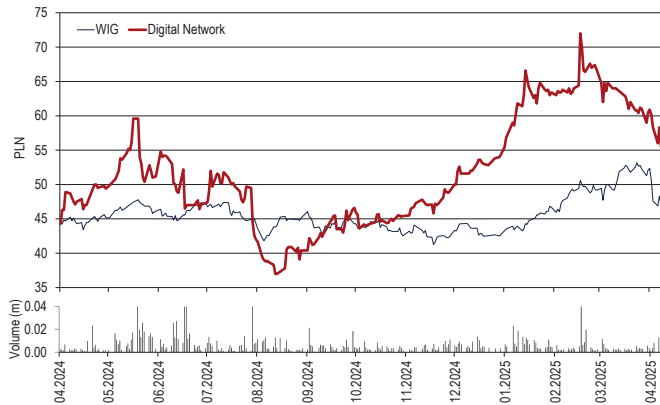
Analysts: Mikołaj Stępień,
Sobiesław Pająk, CFA

Sector: TMT – media
Bloomberg code: DIG PW
Price: PLN 59.30
12M EFV: PLN 81.0 (→)

Market Cap: US\$ 66 m
Av. daily turnover: US\$ 0.09 m
12M range: PLN 37.00-72.00
Free float: 36%

Digital Network

Stock performance



Source: Bloomberg

1Q25 revenues estimations

On April 11, before the WSE trading hours, Digital Network released preliminary 1Q25 sales that reached c. PLN 15.4 million, up 25% yoy. We believe it is a very good result, the more so that it does not derive from the low base effect, as a growth dynamic in 1Q24 was positive and stood at +25% yoy as well.

Guide to adjusted profits

Adj EBITDA, adj EBITDA without leasing and adj EBIT exclude the Company's goodwill impairment.

Adj net profit excludes the Company's goodwill impairment and profit on a disposal of stakes in subsidiaries.

Key data

| IFRS consolidated | | 2023 | 2024E | 2025E | 2026E |
|------------------------|-------|-------|-------|-------|-------|
| Sales | PLN m | 64.3 | 74.6 | 79.8 | 88.4 |
| EBITDA | PLN m | 33.3 | 43.7 | 45.0 | 50.3 |
| Adj EBITDA | PLN m | 35.1 | 43.7 | 45.0 | 50.3 |
| EBITDA ex. leases | PLN m | 25.9 | 35.2 | 35.5 | 39.9 |
| Adj EBITDA ex. leases | PLN m | 27.7 | 35.2 | 35.5 | 39.9 |
| EBIT | PLN m | 22.7 | 31.7 | 32.1 | 36.4 |
| Skor. EBIT | PLN m | 24.5 | 31.7 | 32.1 | 36.4 |
| Net income | PLN m | 21.3 | 25.2 | 23.9 | 27.0 |
| Adj net income | PLN m | 17.0 | 25.2 | 23.9 | 27.0 |
| Adj EPS | PLN | 4.02 | 5.95 | 5.64 | 6.37 |
| Adj EPS r/r | % | 96 | 48 | -5 | 13 |
| Net debt ex. leases | PLN m | -25.4 | -13.8 | -12.9 | -16.5 |
| Net debt incl. leases | PLN m | -1.2 | 13.7 | 17.1 | 16.3 |
| P/E | x | 14.8 | 10.0 | 10.5 | 9.3 |
| P/CE* | x | 13.5 | 8.9 | 9.3 | 8.3 |
| EV/EBITDA* | x | 10.1 | 7.6 | 6.9 | 6.0 |
| EV/EBIT* | x | 10.9 | 8.4 | 7.6 | 6.6 |
| DPS | PLN | 0.73 | 4.10 | 5.57 | 5.49 |
| Gross dividend yield | % | 1.2 | 6.9 | 9.4 | 9.3 |
| Number of shares (eop) | m | 4.2 | 4.2 | 4.2 | 4.2 |

* multiples based on estimates of proportionally consolidated D&A, EBIT and EBITDA.

Source: Company, DM BOŚ SA estimates

Recent events

1. Interim dividend payout for 2024 (DPS at PLN 2.41): November 28, 2024
2. Preliminary sales for FY24: January 28
3. FY24 forecast revision: February 17

Upcoming events

1. 4Q24 financial results release: April 30
2. 1Q25 results release: May 30
3. 2Q25 financial results release: September 30

| | |
|-------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Risk factors | <ol style="list-style-type: none">1. Adoption of the landscape resolution in Warsaw (and/or other cities) possibly limiting further development of <i>DOOH</i> and the Company2. Increased competitive pressure3. Low diversification of the client base4. Losing key employees5. Technological changes6. Technology malfunctioning7. Violations of privacy and data leaks8. Loan default by entities from outside the Group9. Potential share supply overhang |
| Catalysts | <ol style="list-style-type: none">1. Further dynamic growth of the <i>DOOH</i> market2. Increasing inventory utilization3. Increases in the price list4. Adj profits yoy growth5. Profitability yoy improvement6. Further expansion of technical infrastructure |
| Competitive advantages | <ol style="list-style-type: none">1. Economies of scale achieved (the biggest <i>DOOH</i> chain in Poland)2. High entry barriers (red tape, technology, limited attractive locations available)3. High capacity of network (broadcasting) loop vs the current level of inventory utilization4. Well-developed technical infrastructure (all over Poland)5. Numerous premium locations6. Constant modernization of technical infrastructure |

BASIC DEFINITIONS

A/R turnover (in days) = $365/(\text{sales}/\text{average A/R})$
Inventory turnover (in days) = $365/(\text{COGS}/\text{average inventory})$
A/P turnover (in days) = $365/(\text{COGS}/\text{average A/P})$
Current ratio = $(\text{current assets} - \text{ST deferred assets})/\text{current liabilities}$
Quick ratio = $(\text{current assets} - \text{ST deferred assets} - \text{inventory})/\text{current liabilities}$
Interest coverage = $(\text{pre-tax profit before extraordinary items} + \text{interest payable})/\text{interest payable}$
Gross margin = $\text{gross profit on sales}/\text{sales}$
EBITDA margin = $\text{EBITDA}/\text{sales}$
EBIT margin = EBIT/sales
Pre-tax margin = $\text{pre-tax profit}/\text{sales}$
Net margin = $\text{net profit}/\text{sales}$
ROE = $\text{net profit}/\text{average equity}$
ROA = $(\text{net income} + \text{interest payable})/\text{average assets}$
EV = $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$
EPS = $\text{net profit}/\text{no. of shares outstanding}$
CE = $\text{net profit} + \text{depreciation}$
Dividend yield (gross) = $\text{pre-tax DPS}/\text{stock market price}$
Cash sales = $\text{accrual sales corrected for the change in A/R}$
Cash operating expenses = $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$

DM BOŠ S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:

Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;
Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;
Sell – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms
Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms
Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM BOŠ S.A.'s recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first.

Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

Distribution of DM BOŠ's current recommendations

| | Buy | Hold | Sell | Suspended | Under revision | Not rated |
|------------|-----|------|------|-----------|----------------|-----------|
| Numbers | 40 | 31 | 6 | 5 | 0 | 5 |
| Percentage | 46% | 36% | 7% | 6% | 0% | 6% |

Distribution of DM BOŠ's current market relative recommended weightings

| | Overweight | Neutral | Underweight | Suspended | Under revision | Not rated |
|------------|------------|---------|-------------|-----------|----------------|-----------|
| Numbers | 27 | 40 | 10 | 5 | 0 | 5 |
| Percentage | 31% | 46% | 11% | 6% | 0% | 6% |

Banks

Net Interest Margin (NIM) = $\text{net interest income}/\text{average assets}$
Non interest income = $\text{fees}\&\text{commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$
Interest Spread = $(\text{interest income}/\text{average interest earning assets})/(\text{interest cost}/\text{average interest bearing liabilities})$
Cost/Income = $(\text{general costs} + \text{depreciation})/(\text{profit on banking activity} + \text{other net operating income})$
ROE = $\text{net profit}/\text{average equity}$
ROA = $\text{net income}/\text{average assets}$
Non performing loans (NPL) = loans in 'basket 3' category
NPL coverage ratio = $\text{loan loss provisions}/\text{NPL}$
Net provision charge = $\text{provisions created} - \text{provisions released}$

DM BOŠ S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc. Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

Distribution of DM BOŠ's current recommendations for the companies which DM BOŠ has supplied with material investment services within the last 12 months

| | Buy | Hold | Sell | Suspended | Under revision | Not rated |
|------------|-----|------|------|-----------|----------------|-----------|
| Numbers | 4 | 4 | 0 | 1 | 0 | 2 |
| Percentage | 36% | 36% | 0% | 9% | 0% | 18% |

Distribution of DM BOŠ's current market relative recommended weightings for the companies which DM BOŠ has supplied with material investment services within the last 12 months

| | Overweight | Neutral | Underweight | Suspended | Under revision | Not rated |
|------------|------------|---------|-------------|-----------|----------------|-----------|
| Numbers | 4 | 3 | 1 | 1 | 0 | 2 |
| Percentage | 36% | 27% | 9% | 9% | 0% | 18% |

Recommendation tracker

| Analyst | Fundamental Recommendation | Relative Recommendation | Report date | Reiteration date | Distribution date | Price at issue/ reiteration* | EFV (12 months) |
|----------------------------------|-----------------------------------|--------------------------------|--------------------|-------------------------|--------------------------|-----------------------------------------|----------------------------|
| Digital Network | | | | | | | |
| Mikolaj Stepień/ Sobiesław Pająk | Not rated | Not rated | 27.11.2024 | - | 27.11.2024 | 48.90 | 81.00 – |
| Mikolaj Stepień/ Sobiesław Pająk | - | - | - | 01.12.2024 | 02.12.2024 | 49.00 | 81.00 → |
| Mikolaj Stepień/ Sobiesław Pająk | - | - | - | 06.01.2025 | 07.01.2025 | 56.80 | 81.00 → |
| Mikolaj Stepień/ Sobiesław Pająk | - | - | - | 29.01.2025 | 29.01.2025 | 63.80 | 81.00 → |
| Mikolaj Stepień/ Sobiesław Pająk | - | - | - | 18.02.2025 | 18.02.2025 | 72.00 | 81.00 → |
| Mikolaj Stepień/ Sobiesław Pająk | - | - | - | 19.02.2025 | 19.02.2025 | 69.80 | 81.00 → |
| Mikolaj Stepień/ Sobiesław Pająk | - | - | - | 14.03.2025 | 14.03.2025 | 63.60 | 81.00 → |
| Mikolaj Stepień/ Sobiesław Pająk | - | - | - | 10.04.2025 | 10.04.2025 | 57.60 | 81.00 → |
| Mikolaj Stepień/ Sobiesław Pająk | - | - | - | 11.04.2025 | 11.04.2025 | 59.30 | 81.00 → |

* prices at issue/reiteration are the closing prices at the report or reiteration date

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The report was distributed on April 11, 2025 at 6.30 p.m.

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