Eurobank Equities

GREECE | EQUITY RESEARCH | RETAIL
June 04, 2015

INITIATION REPORT

PLAISIO

Under-the-radar but best-in-class; initiate with a Buy

Initiate coverage with a Buy – Plaisio is one of Greece's largest retailers of digital technology and office products operating 21 stores (plus 1 store in Bulgaria). Besides being a retailer, it is also a product assembler importing technology equipment parts from China and assembling those in its facilities under its own brand Turbo-X. Plaisio has consistently grown its market share (now being no. 1-2 in desktops and tablets) taking advantage of downtrading trends. The vertical integration has been instrumental in protecting its profitability (EBITDA on the rise since 2010), while the combination of low capital investment and efficient working capital management have driven high cash conversion and impressive returns on capital since 2011.

Low-single digit organic sales growth – Our numbers factor in low-single digit organic sales growth on the back of stabilization of disposable income (flat in Q4'14), trading down dynamics, and industry attrition benefits. Supply-led expansion could add another c3-5% to reported sales assuming 1-2 store openings per annum, but we conservatively assume only one new store roll-out (in end 2015).

Intense competition but most competitors are loss making – The industry is rather competitive and has seen high attrition rates in the last few years as small competitors have been unable to replicate Plaisio's low-cost in-house assembly model, while international operators have either had to exit the market (e.g. Fnac) or sacrifice margin. Overall, the industry's accumulated losses are >EUR200mn.

The "Jumbo" of electronics – Plaisio shares several common characteristics with Jumbo (sourcing from China, shift of the mix towards private label, robust balance sheet and strong management team). Although Jumbo's structurally higher margins have enabled it deliver superior returns, Plaisio has seen an impressive improvement in ROCE as margins recovered from 2010 (trough). With Plaisio trading at >30% EV/EBITDA discount to Jumbo, we see the current levels as an attractive entry point.

Strong track record of cash returns… and scope for even more – Plaisio has a strong track record of returning cash to shareholders through dividends and/or capital returns (25-65% historic payout). The strong balance sheet and the high cash generation – in the absence of aggressive capacity expansion – leave plenty of scope for above-average cash returns, implying there is upside risk to the c5% DPS yield embedded in our numbers. There is also a 2-year share buyback program in place (up to 3% of the share capital, price range €3.0-€10.0).

Valuation – Our PT is based on a blended valuation methodology applying a 50% weight to our 3-stage DCF and a 50% weight to a target EV/EBITDA multiple of 7x (c20% discount to our target for Jumbo due to Plaisio's more limited free float/stock liquidity). It effectively values Plaisio at c7.2x 2016e EV/EBITDA (small discount to the stock's long-term average) and at an undemanding 2016e PE of c12.3x.

Estimates

EUR mn	2013a	2014a	2015e	2016e	2017e
Revenues	282.7	297.5	299.4	319.4	334.1
EBITDA adj.	23.9	26.3	27.6	26.4	29.1
Net Profit	14.3	16.2	16.4	16.5	18.5
EPS	0.65	0.73	0.74	0.75	0.84
DPS*	0.20	0.50	0.24	0.24	0.27

Valuation

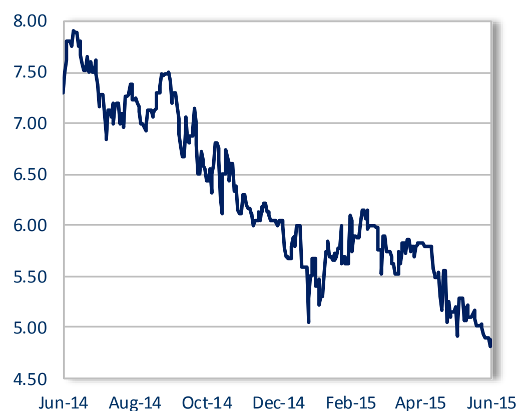
	2013a	2014a	2015e	2016e	2017e
P/E	9.8	9.3	6.6	6.5	5.8
EV/EBITDA	5.0	5.1	3.6	3.6	3.0
EBIT/Interest Expense	11.4	17.3	11.5	12.8	14.1
Dividend Yield	3.1%	7.3%	4.9%	4.9%	5.5%

** DPS includes capital returns*

Recommendation	**BUY**
Target Price	**€9.20**
Closing Price (03/06)	€4.88
Market Cap (mn)	€107.8

Expected Return	88.5%
Expected Dividend	4.9%
Expected Total Return	93.4%

Plaisio Share Price



Stock Data

Reuters RIC	PLAr.AT
Bloomberg Code	PLAIS GA
52 Week High (adj.)	€7.90
52 Week Low (adj.)	€4.81
Abs. performance (1m)	-6.2%
Abs. performance (YTD)	-11.3%
Number of shares	22.1mn
Avg Trading Volume (qrt)	7.3k
Est. 3yr EPS CAGR	4.7%
Free Float	18%

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See Appendix for Analyst Certification and important disclosures

Contents

Investment case ... 3

Share price performance ... 4

Valuation ... 5

DCF Valuation ... 7

Sensitivity Analysis ... 8

Risks ... 9

Plaisio – in focus ... 10

Strategy and Business Model ... 13

Sales growth drivers ... 15

Cost structure and margins ... 18

Working capital ... 20

The competition ... 23

Plaisio vs. Jumbo ... 25

Balance Sheet ... 27

Quarterly performance ... 28

History ... 30

Management team and shareholder structure ... 30

Group Financial Statements ... 31

Investment case

We initiate coverage on Plaisio with a Buy rating and a EUR9.2 price target, based on a blended valuation methodology applying a 50% weight to our 3-stage DCF and a 50% weight to a target EV/EBITDA multiple of 7x. The latter represents a c20% discount to our target multiple for Jumbo due to Plaisio's more limited free float/stock liquidity. Our PT effectively values Plaisio at c7.2x 2016e EV/EBITDA, small discount to the stock's long-term average and c20% discount vs. our target on Jumbo.

One of the largest retailers in Greece

Plaisio is one of Greece's largest retailers of PC, digital technology and office products. It operates 21 stores in Greece and another 1 in Bulgaria. The group was established in 1969 and got listed in the ASE in 1999. Besides being a retailer, Plaisio is also a product assembler importing technology equipment parts from China and assembling those in its facilities under its own brand Turbo-X. Overall, Plaisio offers discounter pricing with premium service and experience based on a multi-channel, multi-customer and multi-product approach. The investment case is as follows:

Low-single digit organic growth supported by trading down dynamics and market share gains

Plaisio has consistently been gaining market share in its core product categories, with its Turbo-X brand now enjoying the number one market position (in terms of volume share) in desktops and tablets, the number 5 position in laptops and a top 3-4 position in TVs and mobile phones. While we recognise the short term headwinds facing the industry due to the political uncertainty in Greece, we believe that, in the medium term Plaisio should benefit from trading down dynamics and industry attrition, delivering low-single digit organic growth. Supply-led expansion could add another 3-5% to reported sales, assuming 1-2 store openings per annum, but we conservatively assume just one new store roll-out in end 2015.

Competition is intense but most competitors are loss-making

The fragmented nature of the market as well as intense price competition and working capital risk have been the main reasons why this industry has been rather competitive and has seen high attrition and store closure rates in the last few years. Having said that, small competitors have not been able to replicate the low-cost in-house assembly business model of Plaisio, while large international operators have struggled to cope with severe downtrading to which they have reacted either by exiting the market (e.g. Saturn, Fnac) or by sacrificing margin. As a result, with cEUR300mn of sales Plaisio is one of the largest retailers involved in electronics but, most importantly, much more profitable (the industry's accumulated losses are in excess of EUR200mn) and in a much healthier financial position than its competitors.

Vertical integration instrumental in driving Plasio's profitability and returns

Being a vertically integrated retailer controlling the product design and sourcing products from China (it assembles its own-label products in-house, sourcing their component parts from third parties), Plaisio has managed to consistently grow EBITDA margins since 2010 despite the top line pressures. In addition, the business requires relatively little capital with recurring capex near EUR2mn (<1% of sales). Working capital does not exceed 8% of sales (as of end Dec 2014) thanks to Plaisio's 22K sqm logistics center, which has facilitated the efficiency of inventory management. As a result, Plaisio has managed to deliver impressive returns on capital since 2011.

Low capital investment needs

The combination of low capital investment and efficient working capital management render Plaisio quite cash generative. Historically, the cash conversion cycle has translated to 50-200% of EBITDA being converted into operating cash flow, with the conversion ratio falling to c10% in 2014 due to inventory stocking-up. Looking ahead into 2015-17e, we expect Plaisio to deliver cumulative Free Cash Flow of cEUR25mn, namely c23% of the market cap.

Scope for above-average cash returns, with mgt having a good cash return track record

The already strong balance sheet (EUR28mn net cash as of Mar'15, or EUR1.3 per share) and the high cash generation leave plenty of scope for above-average cash returns. It is worth pointing out that Plaisio has a strong track record of returning cash to shareholders through dividends and/or capital returns: the dividend payout has been 25-65% of EPS in most of the years, while Plaisio paid out almost 100% of earnings in 2005-2006. In the absence of imminent store roll-outs, we believe there is upside risk to the c5% DPS yield embedded in

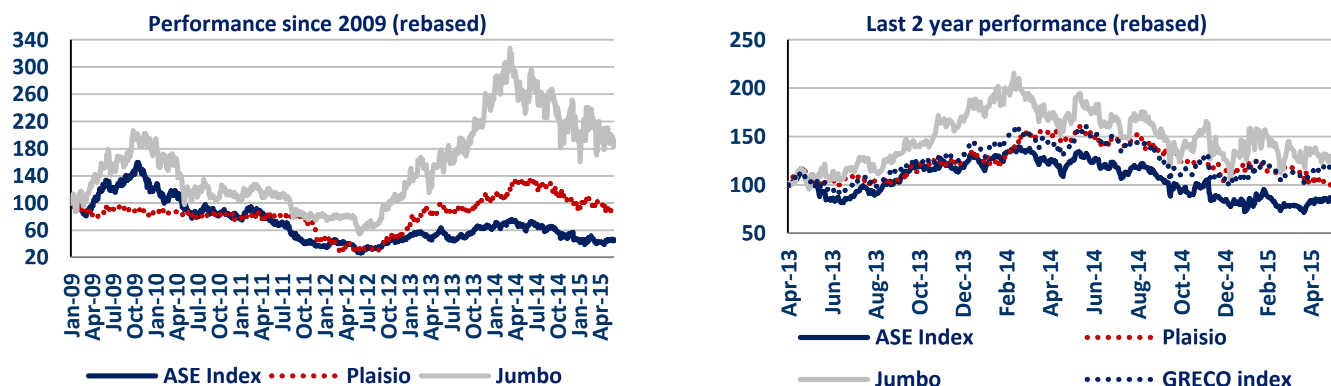
our numbers. We also note that besides the cash dividend/capital return, the management recently decided to commence the implementation of the 2-year share buyback program (expiring in Dec 2016) which enables Plaisio to proceed with the repurchase of up to 662K shares (3% of the share capital), with the price range set between EUR3.0 and EUR10.0 per share.

Share price performance

Plaisio's shares have significantly outperformed the ASE index since the start of the Greek crisis in 2009. The closely held share capital (Gerardos family and Greek institutional investors) and the group's resilient financial performance have all been factors that have protected the stock price from exaggerated declines.

More recently (in the last 2 years), Plaisio's shares have also performed much better than the general index (c15%), with the outperformance being more pronounced taking into account the cEUR0.70 per share distributed to shareholders in 2014-15 (dividend and capital return). On the other hand, Plaisio's performance has lagged that of the GRECO index. Relative to Jumbo, Plaisio is a laggard partly due to the former's higher liquidity, we reckon, which is an important factor at periods of elevated uncertainty. Jumbo has also gained more traction thanks to its inclusion in the MSCI Greece index.

Share price performance of Plaisio, ASE, Jumbo and GRECO index (rebased)



Source: Eurobank Equities Research , Company data

Eurobank Equities

Valuation

Plaisio does not have direct Greek-listed peers, with its closest peer being Jumbo due to the common characteristics of the business model (sourcing from China, shift of the mix towards non-branded products etc.) and the investment case (strong balance sheet, solid management team, high cash conversion etc.).

In the table below, we cross-check Plaisio's current valuation against a selected group of European peers. This includes Darty, Dixons, Kingfisher, Home Retail Group, Fnac and the recently listed B&M. The aforementioned companies are general merchandise retailers (primarily discounters) selling a wide range of products including electronic goods, hardware, housewares, health and beauty and general merchandise items. Some of these have also developed private label products (e.g. B&M).

As shown in the table that follows, Plaisio's sits at the bottom end of the group in terms of valuation, trading at significant discount on both PE and EV/EBITDA metrics relative to all its international peers aside from Fnac. It also offers a higher sustainable dividend yield, enjoys one of the strongest balance sheets in the European retail space and is forecast to deliver superior returns on assets (even on a lease-adjusted basis). In our view, part of the valuation discount can be explained by Plaisio's smaller size, lower market cap and rather limited free float.

Peer group valuation	PE		EV/EBITDA		Div. yield	FCF yield	Net debt / EBITDA	EPS CAGR	ROA
Stock	**2015e**	**2016e**	**2015e**	**2016e**	**2015e**	**2015e**	**2015e**		**2015e**
European									
Darty	14.3x	11.0x	6.2x	5.6x	4%	8%	1.7x	23%	3%
Dixons Carphone	17.6x	15.3x	9.4x	8.5x	2%	1%	0.5x	24%	4%
Kingfisher	17.0x	15.6x	8.6x	8.2x	3%	5%	-0.4x	6%	4%
Home Retail Group	12.8x	11.9x	3.4x	3.3x	2%	2%	-1.0x	15%	3%
B&M	28.5x	23.7x	19.3x	16.4x	1%	3%	2.2x	79%	10%
Fnac	19.8x	18.2x	3.1x	2.9x	0%	6%	-3.9x	15%	NA
Average	**18.9x**	**16.7x**	**10.1x**	**9.1x**	**2%**	**3%**	**0.2x**	**25%**	**5%**
Euro Stoxx Retail	20.2x	18.1x	8.8x	8.2x	2%	NA	0.9x	11%	7%
Jumbo	10.1x	8.9x	6.1x	5.1x	5%	8%	-1.0x	11%	11%
Plaisio	**6.6x**	**6.5x**	**3.6x**	**3.6x**	**5%**	**1%**	**-0.9x**	**5%**	**12%**
US									
Best Buy	13.9x	12.4x	4.8x	4.4x	2%	8%	-0.7x	24%	7%

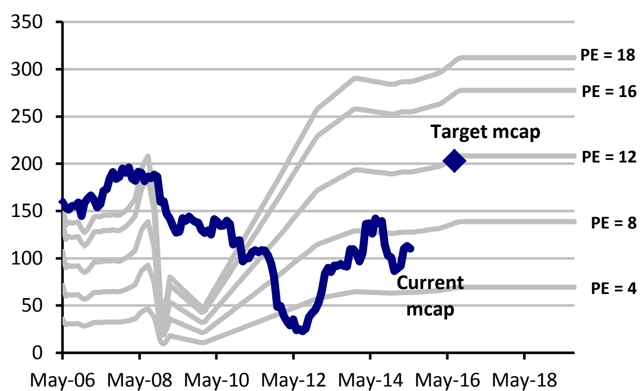
Source: Eurobank Equities Research, Bloomberg

Stock trading on significant discount to its long-term valuation

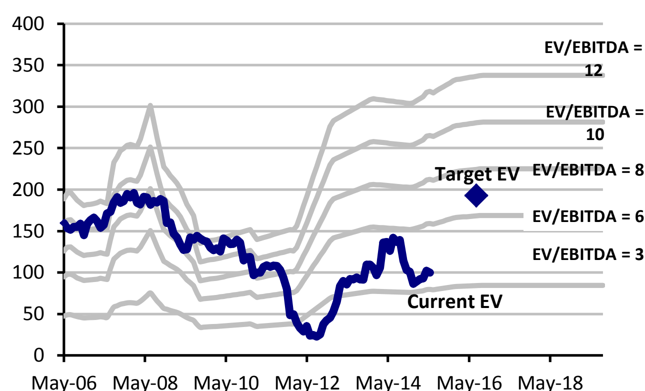
To put Plaisio's current valuation within a historical context, the stock has historically traded within a wide valuation range, reflecting the fact that it is part of a highly cyclical sector. As a result, the stock trades at high forward-looking earnings multiples during recessionary periods (when short-term earnings are depressed) on the expectation that profits will recover from their trough. This was the case for Plaisio between 2008 and 2011. In 2012, the stock de-rated to as low as 2x EV/EBITDA and 3x PE reflecting primarily elevated Greek risk premia. Since then, the stock has re-rated to a great extent but still trades at very attractive levels.

The long-term average PE has been close to 13x (one-year forward) were we to exclude the 2008-2009 period (when the stock was trading in excess of 30x PE). On EV/EBITDA, the stock has traded between 2x and 12x with the average valuation being c7x. As a result, the stock appears to be trading at >40% discount to its long-term average.

Plaisio market cap (EURmn) and PE



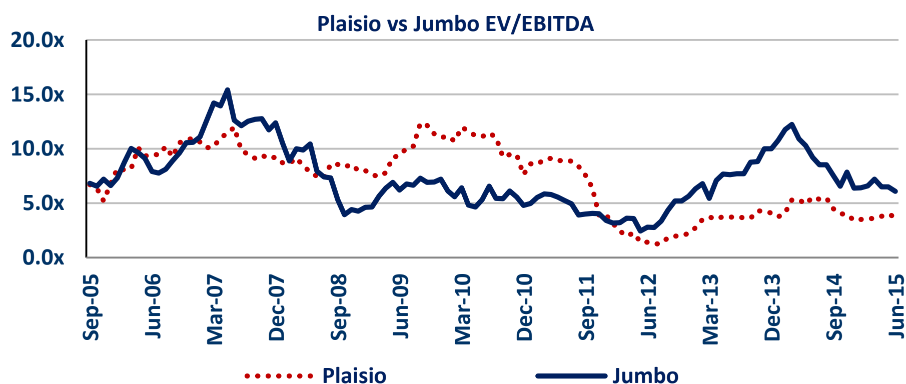
Plaisio EV (EURmn) and EV/EBITDA



Source: Eurobank Equities Research , Bloomberg

It might also be interesting to compare Plaisio's historic valuation with that of Jumbo, given that the two companies are two of the "best-in-class" retail names in Greece and share several common characteristics (sourcing from Asia, resilient cash generation, robust balance sheet, strong management team, scope for above-average-cash returns, etc.). As the chart below depicts, Plaisio has been trading at a sizeable discount vs. Jumbo since 2012 with the discount narrowing somewhat post 2013 but remaining near 40%.

Plaisio vs. Jumbo, historic EV/EBITDA valuation



Source: Eurobank Equities Research , Bloomberg

DCF Valuation

We base our PT on a blended valuation methodology applying a 50% weight to our 3-stage DCF (detailed below) and a 50% weight to a target EV/EBITDA multiple of 7x. The latter represents a c20% discount to our target multiple for Jumbo due to Plaisio's more limited free float/stock liquidity. Our PT effectively values Plaisio at c7.2x 2016e EV/EBITDA, small discount to the stock's long-term average and c20% discount vs. our target on Jumbo.

Plaisio Valuation		
EURmn (unless otherwise stated)	Value	comment
DCF-based	**9.2 €**	See below
Multiples-based		
2015e EBITDA	25.9	
Target multiple	7.0x	20% discount to our Jumbo target valuation
Target EV	**180.3**	
Adj. net cash (debt)	20.1	
Target Equity value	**200.4**	
12-month Equity value	**201.1**	
Number of shares (m)	22.1 m	
Multiples-based fair value	**9.1 €**	
12-month price target/share (EUR)	**9.2 €**	

Source: Company, Eurobank Equities Research

The key assumptions underpinning our DCF are as follows:

- Sales CAGR of c3% over 2015-19e mostly driven by LFL growth (just one new store assumed in our model), fading to c1% in the medium term.
- EBIT CAGR of c5.4% over the same period, implying c100bps margin expansion over 2014-2019e supported by the positive product mix (rising contribution from private label items) partly offset by the negative FX. We assume sustainable EBIT margins c7.7% (c10% at peak).
- We use a long-term growth rate assumption of 0%, implying an exit EV/EBITDA multiple of <6x.
- We incorporate sustainable cash conversion (OCF/EBITDA), close to c70% in the medium term, not out of sync with historic levels (cash conversion has at times exceeded 100%).
- WACC of 11%.

A summary of our DCF can be seen below:

Plaisio DCF	2015	2016	2017	2018	2019	2020	2021	2022	2023
NOPAT	19.2	18.3	21.0	22.5	24.0	25.1	24.7	24.7	23.7
Depreciation	2.3	2.3	2.3	2.2	2.2	2.1	2.0	1.9	1.8
Working Capital/other	(15.7)	(6.8)	(8.9)	(8.1)	(5.0)	(1.5)	(2.7)	(2.6)	(1.7)
Capex	(3.0)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(2.0)	(1.9)	(1.8)
Unlevered Free Cash Flow	**2.8**	**12.7**	**13.2**	**15.4**	**20.0**	**24.6**	**22.0**	**22.1**	**22.1**
PV	2.8	11.5	10.7	11.3	13.2	14.6	11.8	10.7	9.6
PV of terminal value	87.1								
Enterprise Value	**183.1**							**Terminal**	**200.6**
Net cash (adj.)	20.1							**exit**	**5.8x**
Equity value	**203.2**	**210.5**	**224.7**	**239.8**	**255.2**	**270.5**	**283.9**	**298.5**	**313.0**
no. of shares	22.1 m								
Per share	9.2 €	9.5 €	10.2 €	10.9 €	11.6 €	12.2 €	12.9 €	13.5 €	14.2 €
12-month fair value per share	**9.2 €**								

Source: Eurobank Equities Research

A basic sensitivity on a combination of WACC and terminal growth rates is presented at the table below:

DCF – sensitivity to perpetuity growth and WACC assumptions

		Perpetuity growth						
	€/share	**-3.0%**	**-2.0%**	**-1.0%**	**0.0%**	**1.0%**	**2.0%**	**3.0%**
WACC	**9.0%**	9.7	10.0	10.5	11.0	11.6	12.5	13.6
	10.0%	9.0	9.3	9.6	10.0	10.5	11.1	11.9
	11.0%	8.4	8.6	8.9	**9.2**	9.6	10.0	10.6
	12.0%	7.9	8.1	8.3	8.5	8.8	9.1	9.6
	13.0%	7.4	7.6	7.7	7.9	8.2	8.4	8.8
	14.0%	7.0	7.2	7.3	7.4	7.6	7.8	8.1
	15.0%	6.7	6.8	6.9	7.0	7.2	7.3	7.5

Source: Eurobank Equities Research

Sensitivity Analysis

Currency: The key foreign currency for the group is the US dollar given part of its cost base in USD-denominated (c30% of COGS). The management monitors foreign currency risks and we understand that it occasionally evaluates the need for hedging through derivative contracts. Below we present the sensitivity of EBITDA and EPS to a 5% appreciation of the USD against the EUR, noting that this is presented for illustrative purposes and ignores the impact of hedges.

Sensitivity to EUR/USD

EUR/USD rate	EBITDA vs. current estimates	EPS vs. current estimates
1.00	-28%	-33%
1.05	-13%	-15%
1.10	**0%**	**0%**
1.15	14%	17%
1.20	26%	31%

Source: Eurobank Equities Research

Like for like growth: The group has only limited presence in Bulgaria (through 1 store) and therefore the performance of the Greek operations remains the primary determinant of value. In our base case estimates we have assumed that revenues in Greece rise by a low-single digit number – mostly driven by LFL sales growth assuming no increase in selling space except for the upcoming store roll-out in end 2015. Effectively, we are assuming Plaisio's LFL sales growth lags the GDP growth embedded in the European Commission's latest forecasts (0.5%-2.9% in 2015-16 respectively). We estimate that varying our LFL growth assumption for the domestic operations by 1% would alter our EBITDA and EPS estimates by c3% and c4% respectively.

Risks

Plaisio impacted by potential continuation of Greek recession

We believe the main risk for Plaisio is its high exposure to the Greek consumer demand with c98% of its sales being Greek-based. It is clear that any significant decline in economic activity will result in a continuing decline of consumer spending which, in its turn will weigh on Plaisio's performance – especially given the discretionary characteristics of the product offering. A prolonged period of uncertainty regarding employment prospects is also likely to weigh on consumer spending as consumers pay down debt and increase their saving ratios. Deteriorating consumer spending, in general, may also affect the company's strategy causing delays in the rollout of new stores and affecting Plaisio's growth.

Working capital risk due to seasonality and the nature of the industry

Plaisio generates c30% of its annual turnover in the last quarter of the year. This seasonality requires merchandise purchases to be made well in advance and demands rationality in working capital management, especially during peak seasons. Any inadequacy to deal with increased demand during these periods is likely to negatively affect the group's results, while overstocking could result in products sitting on the shelf for longer than expected, eventually leading to inventory markdowns. Having said that, we note that: 1) the on line/ real time connection between the store network and the logistics center (22K sqm) facilitate the efficiency of stock management; 2) Plaisio follows a conservative policy (in terms of provisions) so as to limit the risk of inventory mark-downs, with accumulated provisions for inventory devaluation at c23% (as of end March 2015).

Currency risk

As mentioned above, a significant part of Plaisio's goods are imported from China, resulting to c30% of COGS being USD-based. Consequently, a potential appreciation of the USD (or, alternatively, the Chinese yuan) against the EUR will make Chinese imports more expensive weighing on the group's margins. We estimate that a 5% appreciation of the USD against the EUR will impact the group's EBITDA and EPS by 14/17% respectively. Note however that this sensitivity does not take into account mitigating actions on behalf of Plaisio (e.g. negotiating with suppliers better terms, passing on any increased cost to the consumers, and FX hedging).

Reliance on the Gerardos family

The CEO Mr. Gerardos has guided the group through its evolution from a 1-store family business to one of Greece's largest retailers of technology and office products. Any decision by Mr. G. Gerardos to step down could result in uncertainty about the group's future strategy. Having said that, the active involvement of the son of Mr. Gerardos in the business for nearly 20 years is likely to ensure continuity in the management even after the Chairman eventually steps down.

Price competition

Within Plaisio's target market, and particularly PC and digital technology products, competition is quite intense due to: 1) the presence of several international players that are fighting for market share, and are often keen to reinvest operating margin into pricing, 2) the "fashion" element of the industry which results in destocking by market participants so that they avoid being left with obsolete merchandise; and 3) intensifying competition by e-commerce retailers which may result in more aggressive price competition.

Store cannibalization

Too fast expansion of Plaisio's selling space through the roll-out of new points of sale might result in cannibalisation of the existing stores. The extent of potential cannibalisation depends on several factors among which Plaisio's penetration in the particular area of space expansion, presence of competition etc. In general, management has been quite disciplined regarding speed of expansion and has refrained from adding capacity too fast.

Product innovation

c55-60% of Plaisio's sales relate to product categories where technological innovation plays a key role in meeting customer demands. Keeping up with technological developments is, in this sense, key in growing or at least maintaining footfall and market share.

Low free-float

Aside from the abovementioned business risks, the limited free-float means there is also liquidity risk embedded in the investment case.

Plaisio – in focus

Plaisio is one of Greece's largest retailers of technology and office products. It operates 21 stores in Greece and another 1 in Bulgaria. The group was established in 1969 and got listed in the ASE in 1999. Besides being a retailer, Plaisio is also a product assembler importing technology equipment parts from China and assembling those in its facilities.

The group's product offering includes 3 main categories:

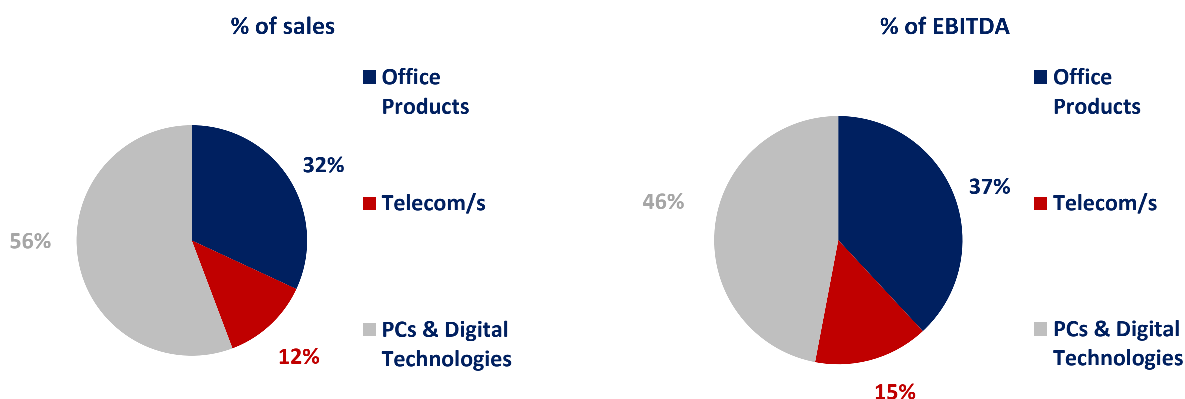
1) **PC and digital technology products:** This category includes desktops, notebooks, tablets, TVs, hardware, peripherals etc. Plaisio sells both products of third party manufacturers or build-to-order PCs under its own brand name (Turbo-X). PC and digital technology products is the highest revenue contributor for Plaisio accounting for c56% of the sales mix. On the other hand, they naturally carry the lowest margin (EBITDA margin near 7%). Given their discretionary characteristic, sales from these products experienced an average c9% annual decline during the Greek recession (2009-2013).

2) **Office products:** Stationery and office products are the second largest segment for Plaisio accounting for c32% of sales. Due to their superior margins (EBITDA at c10%), their importance in the EBITDA mix is quite high (near 37%). They have proved more resilient than PC/digital technology experiencing an average mid-single digit drop over 2009-13.

3) **Telecommunication products:** Plaisio entered the Greek mobile telephony market about 15 years ago as service provider to telecom operators. It also distributes internet subscriptions and sells phone handsets and accessories. Telecom sales have ranged between EUR30mn and EUR40mn over 2006-2014 and now account for c12% of the sales mix. The EBITDA margin is similar to office products at c10%.

   There are two additional revenue generating segments for Plaisio, namely PC servicing and transportation services but these account for <1% of sales.

Product mix % of sales and EBITDA, 2014



Source: Eurobank Equities Research

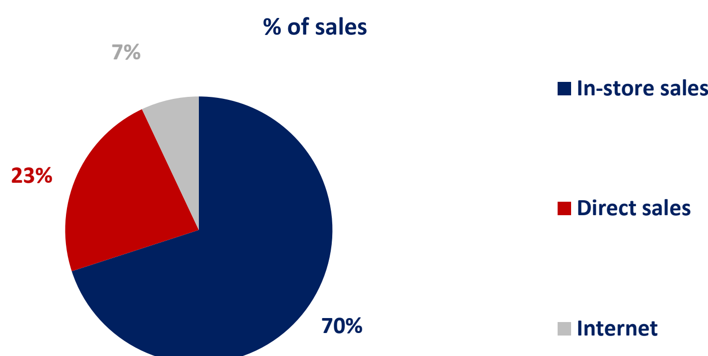
With regard to distribution, this takes place through 3 different channels:

1) **Retail stores:** This remains Plaisio's main distribution channel accounting for c70% of sales. Plaisio opened its first store in 1969 but did not embark on its expansion strategy until 1992. Until late 90's most of its stores were relatively small (<1000 sqm). In the last 15 years most of the stores rolled-out by Plaisio are larger in size (up to 2,500 sqm), with the average selling space now at c1,300-1,400 sqm.

2) **Direct Sales:** These are performed through catalogue, sales force visits, and the call-center. Direct sales target primarily business customers. According to the management, 8 out of the 10 largest companies in Greece are customers of Plaisio rendering it the No.1 B2B provider in Greece. Overall, Plaisio enjoys a B2B client base amounting to c160K accounts. Direct sales account for 23% of the mix and are the primary sales channel for office products.

3) **Internet:** e-commerce accounts for c7% of sales and clearly presents a major opportunity given that Greece remains underpenetrated with regard to e-commerce sales. Note, however, that this channel should in our view be seen as complementary to in-store sales, in the sense that customers may not necessarily transact online but may use the website to browse the product range more easily and locate the nearest store to buy the product.

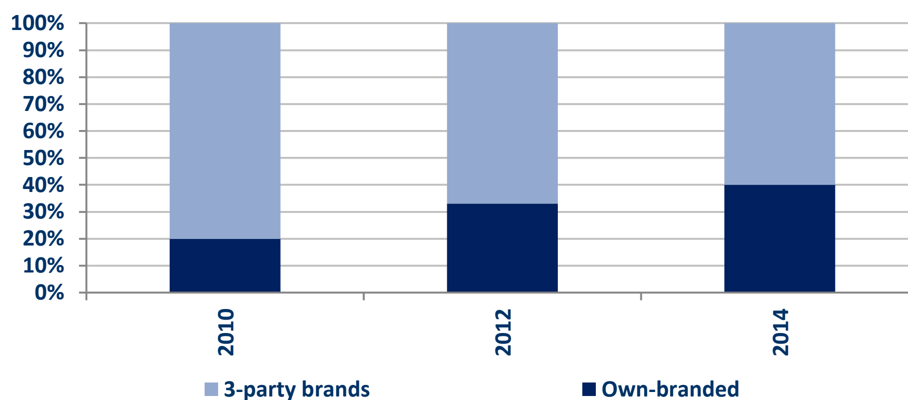
Distribution channels, % of sales



Source: Eurobank Equities Research , Company

As mentioned above, Plaisio retails not only products of international brands (e.g. Samsung, LG) but also own-branded products. This is mainly the case for desktops (with built-to-order PCs assembled by Plaisio under its brand Turbo-X), tablets, laptops and, recently, TVs. Interestingly, Plaisio is now the market leader (in terms of volume share) in Desktops and Tablets, while it enjoys a top five share in Laptops and TVs. Note that Plaisio launched its own-branded TV only recently (2013). Own-branded products, which obviously carry higher margins, account for c40% of sales (from about 20% in 2010) and mgt target a balanced mix over the coming years implying there is still significant room for higher penetration of own-branded products.

Branded vs. own-branded, % of sales



Source: Eurobank Equities Research , Company

Plaisio operates a leased stores strategy, being an owner of just 3 of its stores and leasing the remaining 19. The net book value of land and buildings as of end Dec 2014 was cEUR27mn. We understand that the group will most likely control the capital intensity of the business by continuing with the use of leases as a means of expansion.

Strategy and Business Model

The group's strategy is clearly defined: offering discounter pricing with premium service and experience based on a multi-channel, multi-customer and multi-product approach.

In what follows, we lay out in more detail the core principles of Plaisio's strategy:

Retailer and assembler sourcing many of its products

Plaisio differentiates itself from several competitors in the Greek consumer electronics sector in that it is not only a retailer (selling third-party items) but also an assembler. The group sources most of its own-branded products from China but it mandates the product design while the assembly actually takes place in Greece in its 22K sqm logistics center. The latter's assembly capacity amounts to c300K items. In short, Plaisio sources primarily from Asia and develops/assembles its own-label products in-house.

Raising brand awareness

Investing in building its own brand so as to maintain its value-for-money offering and be able to position itself at price points lower than those of competitors. Plaisio is present in 3 different product categories (PC/digital technology, office products, telecommunications) using the same brand (Turbo-X) for most of its own-branded products. This has helped Plaisio's brand awareness to increase markedly over the last few years with the group now enjoying a top 1-5 volume share in 4 major consumer electronics categories (desktops, tablets, laptops, TVs). Note that Plaisio only entered the TV category (and mobile phones) with its Turbo-X brand in the end of 2013.

Volume market shares and market position

Desktops			Laptops			Tablets		TVs	
	2012	2014 position		2012	2014 position	2014 position		2014 position	
Turbo-X	**20.7%**	**No. 1**	HP	29.4%	No. 1	**Turbo-x**	**No. 1**	Samsung	No. 1
HP	19.2%	No. 2	Toshiba	17.4%	No. 4	Samsung	No. 2	LG	No. 2
Dell	11.8%	No. 3	**Turbo-x**	**12.3%**	**No. 5**	E-star	No. 3	Sony	No. 3
e-shop	4.6%		Sony	11.1%		MLS	No. 4	**Turbo-x**	**No. 4**
Info-Quest	3.9%		Dell	8.2%	No. 3	Bitmore	No. 5	F&U	No. 5
Lenovo	3.6%	No. 4	Lenovo	5.5%	No. 2				
Apple	3.1%	No. 5	LG	5.2%					
Oktabit	3.0%		Acer	4.6%					
Multirama	1.7%								
Fujitsu	1.2%								

Source: Company, IDC, Eurobank Equities Research

Investment in customer support

Technical and after-sales support stands at the core of Plaisio's strategy. Its 22 retail stores act as service points with fast response rates and a 4-hour service promise. Technical support is available not only in-store but also through the call centers, and interestingly, on-site. In our view, after-sales support is key in building brand awareness and driving volume growth since this differentiates Plaisio from other competitors offering solely branded products, for which service might require several weeks.

Competitive pricing to offer value-for-money

Most of the 3rd party products that Plaisio sells are offered at prices similar or lower than competition. However, its own brands are sold at >10% discount vs. international brands' comparable products enabling Plaisio to take advantage of trading down trends evident in the last few years. Although the group seeks to be the cheapest in the market place, it also strives to provide the best value-for-money proposition.

Multi-channel distribution

Plaisio offers a wide variety of products through various distribution channels so as to meet consumers' needs and take advantage of cross selling opportunities. Its 22 stores attract c30K visitors per day with c48% conversion rate, while its e-shop enjoys c100K unique visitors daily. Most importantly, Plaisio also offers customized services to corporate clients (160K B2B customers) doing business with 80% of the largest Greek corporates.

Wide variety of products at relatively large stores

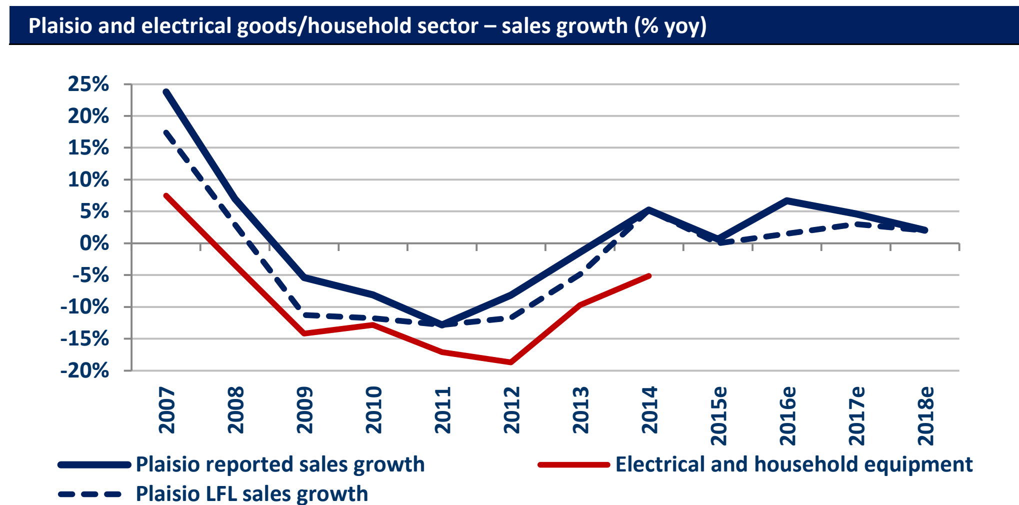
In order to accommodate its increasingly diverse product offering, Plaisio has gradually been expanding its network via larger stores (from c150-800sqm until 2000 to above 1000 sqm in the last few years). Given the relatively large site and the low price points vs. competitors, clearly high volumes are required throughout the day. In turn, however, this generates industry leading annual turnover per sqm of cEUR7K, which – in combination with the superior gross margins relative to competition (due to the high margin of own-branded products) – has helped Plaisio keep its EBITDA margins in the mid-single-digits even during 2011-2012. This compares with only marginally positive or even negative EBITDA for many of its competitors. In order to be able to handle the vast amount of product codes, the group has also focused on developing an advanced logistics infrastructure moving into a unique logistics center of 22K sqm in Athens in 2009. The real-time/online connection of the store network with the warehouse is a key part of the business model, we understand.

Sales growth drivers

Strong track record of outperforming the market

The historic rate of total sales growth of Plaisio has ranged from -13% to +24% over 2007-14. The worst annual performance was recorded over the years 2010-2012, with the group reporting sales declines of c8-13%. Having said that, as seen from the chart below, Plaisio has consistently outperformed the electrical and household equipment market by 4-10% since 2008.

Plaisio and electrical goods/household sector – sales growth (% yoy)

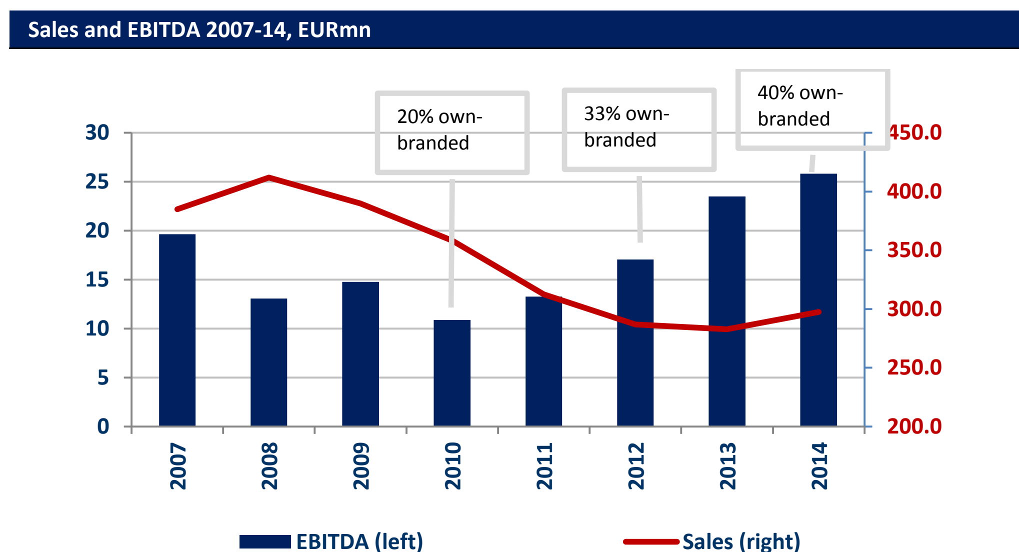


Source: Eurobank Equities Research, Company data, ELSTAT

Plaisio has managed to grow EBITDA even during years of negative operating leverage

In addition, it is also worth highlighting that Plaisio's EBITDA has followed an upward trajectory since 2011 despite the fact that the top line remained under pressure until 2013. The driver of the profit resilience was cost rationalisation and positive mix (shift towards own-branded products).

Sales and EBITDA 2007-14, EURmn



Source: Eurobank Equities Research, Company data

Disciplined capacity expansion

Focusing on the business performance since 2007, it is interesting to note that the store network has not changed much in terms of capacity (21-23 stores) as mgt was careful not to expand too fast and remained disciplined in terms of space expansion when the first clouds of the recession appeared on the horizon. Having said that, available capacity has grown somewhat through the addition of selling space in existing sites.

In the table that follows, we have attempted to attribute the historic sales growth of Plaisio to: 1) Selling capacity expansion, namely sales from the addition of new selling space (new stores, expansion of existing stores through renovation etc.); and 2) Like-for-like growth, namely increased volume or price/mix within the existing stores. Note that we have used as a proxy the sales per average square meter (given management does not actually provide like-for-like sales data) acknowledging that this measure may not be a 100% accurate reflection of the LFL growth and does not take into account the cannibalisation effect from new stores.

Sales growth breakdown - Plaisio

% yoy	2008	2009	2010	2011	2012	2013	2014
Capacity growth	4%	6%	4%	0%	4%	3%	0%
Organic sales growth	3%	-11%	-12%	-13%	-12%	-5%	5%
Total sales growth	**7%**	**-5%**	**-8%**	**-13%**	**-8%**	**-1%**	**5%**

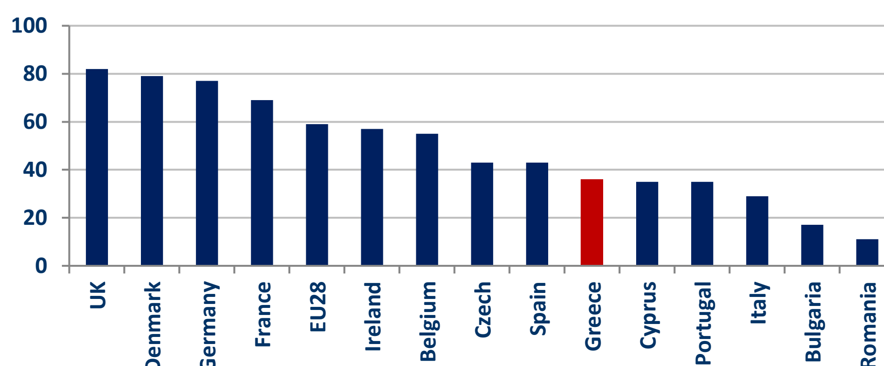
Source: Company, Eurobank Equities Research

As the table clearly depicts, the selling space expansion-rate decelerated over 2008-2011. It is worth pointing out that the negative organic growth rates shown above were achieved over an extremely challenging environment for the sector, and were primarily the result of the tough macroeconomic backdrop and the nature of the industry itself (and not company-specific). In any case, we are of the opinion that sales growth can only be regarded as successful if it is accompanied by margin accretion, since it is easier to grow sales and market share at lower margins. In this sense, mgt has been successful in that it has been consistent in growing EBITDA margins despite the negative operating leverage.

Regarding future sales growth drivers, we identify the following:

- **Channel**
  For in-store sales growth, besides competitive pricing one of the footfall drivers is convenience. As a result, renovation of existing stores to improve the customer experience will be one of the key pillars supporting in-store sales growth. Regarding the internet, the growth opportunity is obvious as e-commerce penetration in Greece remains at significantly lower levels than the EU average. Direct/B2B sales also present an interesting opportunity for Plaisio with the group set to benefit from higher corporate spending as the economy recovers.

% of internet users having used internet in the previous 12 months for purchasing



Source: Eurobank Equities Research, Eurostat

- **Product Categories**
  Management is constantly looking for ways to develop the product offering, natural in our view given the “fashion” element embedded in PC and digital technology products. One of the reasons for Plaisio’s success has been the continuing focus on improving the private label offering by introducing new categories that cater to the customers’ needs. Plaisio’s recent entry in the TV segment is one such example, with customers being receptive to the value proposition of the Turbo-X TV from the first year of launch (no. 4 market share).

- **Geographies:**
  In the previous decade, management focused on increasing the density of the Plaisio network in Attica while establishing presence in regional Greece. Going forward, management believes there is an opportunity for 2 store openings per annum, translating to annual space growth of 1.5-2.5K sqm (mid single-digit percentage growth). In fact, the mgt intends to proceed with the launch of a new store in Athens by the end of 2015 (2K sqm). On our understanding, further penetration in Bulgaria is not included in management’s imminent plans.

- **Services:**
  Continuing investment in infrastructure as a means of ensuring high level of customer support is certainly at the core of Plaisio’s culture. The group has been investing consistently in SAP/CRM systems and has recently redesigned the client relationship administration procedures. It also remains focused on the after-sales service process.

Leased vs owned capacity

Plaisio operates primarily a leased store model. It occupies most of its stores on a leasehold basis while also owning the freehold of 3 stores and the 22K distribution centre (EUR26mn investment). On our understanding, any potential expansion in the near-term will come through leased sites based on long-term leases. This means that the group will require relatively little capital, with annual capex not likely to exceed EUR2mn (for renovations and maintenance). Having said that, seeking to purchase sites is an option that mgt might consider, we reckon, given the solid financial position of the company and the abundance of sites at attractive prices in Greece.

Plaisio selling space in sqm

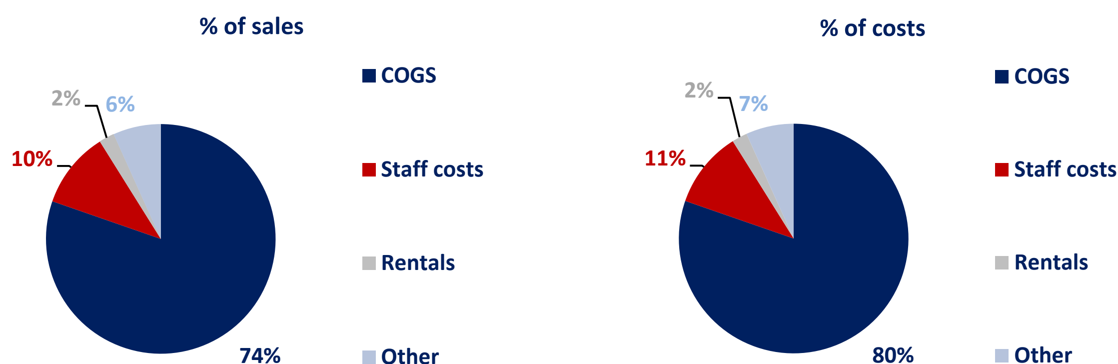
Source: Eurobank Equities Research, Company data

Regarding our top line estimates over 2015-17e, we have conservatively assumed that same stores sales growth remains muted ranging between 0% and 3%. Note that according to AMECO, disposable income in 2016 is set to increase c4% yoy, with our Plaisio LFL growth assumption being more conservative (0%), especially given the lukewarm start to the year (impacted by the political uncertainty in Greece). We have not assumed any store openings in the coming years aside from the new store mgt intends to open in H2 2015. As mentioned above, mgt have left open the possibility of opening up to 2 sites per annum depending on available opportunities, and, mostly, the state of the Greek economy.

Cost structure and margins

Of the cost base, some 80% relates to raw materials/COGS and another c11% to personnel. The remaining cost base of cEUR25mn is a mixture of rents (c2%) and other expenses. Note that distribution expenses account for the bulk of opex (c85%), with the group increasing its investment in TV advertising during 2014 in order to raise brand awareness for its recently established TV and mobile own-branded products.

Plaisio cost base, 2014



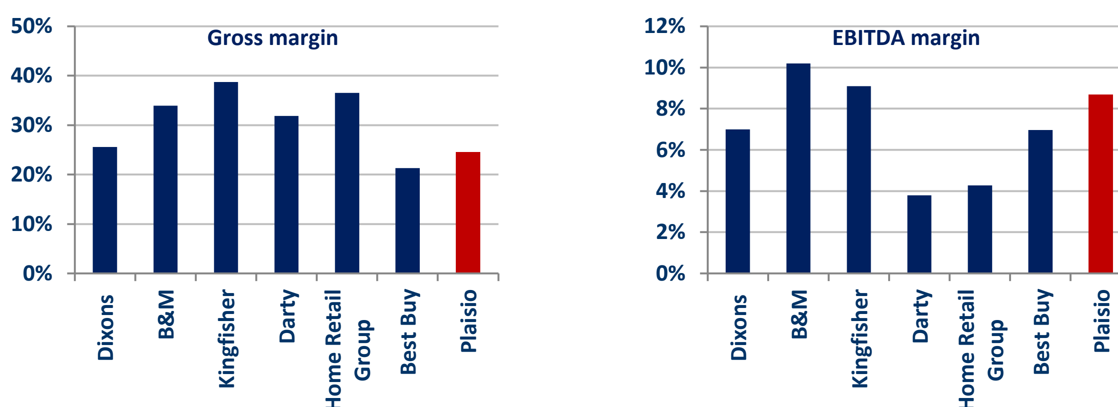
Source: Company, Eurobank Equities Research

Due to the high contribution of COGS to the cost base, we note that a significant increase in the cost of goods as a % of sales would make a considerable difference to the group's earnings. As discussed previously, Plaisio sources many of its products from China. Having said that, the bulk of the cost base is euro denominated. On our estimates, c30% of the cost of goods is in USD.

Being one of Greece's largest electronic retailers, Plaisio enjoys higher gross margins than its competitors in Greece as presented in detail in the sections that follow. For non-Greek investors not familiar with the company, we thought it might be useful to compare Plaisio's cost structure with that of international retailers.

As shown below, Plaisio's gross margin is close to its nearest peer Best Buy but lower than that of other retailers, presumably due to product mix differences (category, private label contribution etc.). Plaisio's operating cost ratios are also at the low end of the peer group, potentially reflecting lower labour costs, lower rental expenses (for most of the peers rentals are c4-5% of sales vs 2% for Plaisio) and – to an extent – vertical integration.

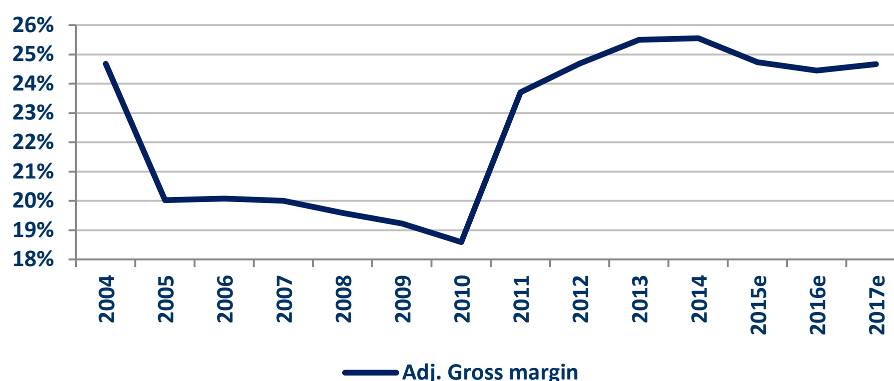
Margins for Plaisio and international retailers



Source: Company data, Bloomberg, Eurobank Equities Research.

From a historical viewpoint, after several years of gross margin pressure due to intense competition and lower disposable income, Plaisio has managed to stabilize gross margins near 25% thanks to increasing contribution from the higher-margin private label products to which consumers have been quite receptive. Going forward, we assume margin compression of c80 in 2015 driven mainly by FX and another 30bps in 2016, with margins expanding slightly thereafter as the benefit from greater own-branded product penetration is accompanied by less need for margin reinvestment (to maintain a small price gap vs. competitors) as the economy recovers.

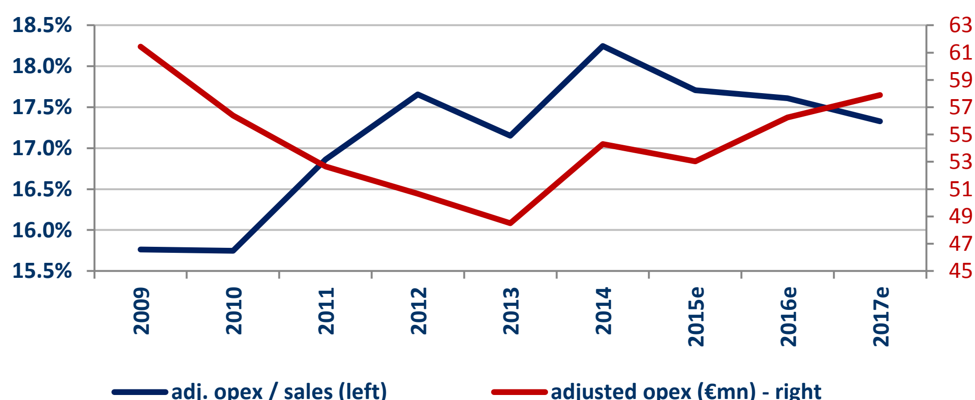
Plaisio adj. gross margin evolution *



Source: Eurobank Equities Research, Company data * adjusted for impairments

With regard to EBITDA margins, as expected these have been rather volatile but, in general, Plaisio has managed to contain the increase in the opex/sales ratio, especially since 2008. As the chart below shows, the decline in sales at the peak of the Greek crisis (2009-12) was accompanied by cost rationalisation with opex down by a similar or greater rate, especially in 2011-12. For 2015, we anticipate opex to fall slightly yoy as 2014 was burdened with higher marketing expenses due to the Turbo-X TV investment. In 2016-17e, we are labouring under the assumption that the ratio of opex as % of sales will improve somewhat (c10-30bps) reflecting management’s focus on cost rationalisation.

Plaisio adj. opex (in EURmn and % of sales)



Source: Eurobank Equities Research, Company data * adjusted for exceptional items

Working capital

Working capital management has been a key for Plaisio's success. Since 2009, the group has been operating a 22K sqm logistics center, where goods are assembled and dispatched from. Note that until 2009 goods were dispatched from 6 different warehouse facilities, something that was certainly not as efficient. The stock replenishment system is now much more automated and "live", enabling Plaisio to maintain the store inventory at desired levels depending on demand.

As seen below, the days of "inventory on hand" did not change significantly between 2010 and 2013, with the group actually holding a lower level of inventory in 2013 vs. 2010 (in EURmn). Following its investment in TV and mobile phones in end 2013, the group's inventory increased by c29% in the last financial year. We believe that the inventory increase might also reflect management's decision of "early stocking" in order to take advantage of the more favourable EUR/USD exchange rate until the beginning of Q4 2014 which ought to have enabled it to purchase inventories at more favourable prices.

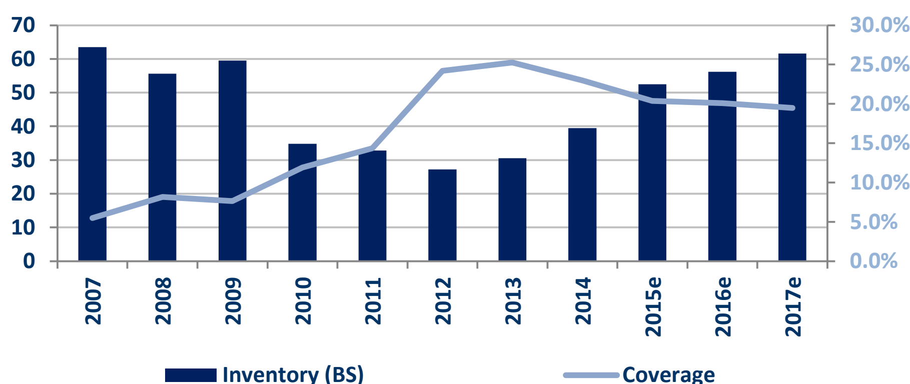
Days inventory on hand - Plaisio

Source: Company data, Eurobank Equities Research

With regard to inventories, we would also note the following:

- Given the "fashion" element of part of its product offering (PC and digital technology products), the group follows a conservative policy in order to limit the risk of inventory mark downs. In particular, accumulated provisions for inventory devaluation are close to 23% (as of end Mar 2015), having increased significantly compared with 8% in 2009.

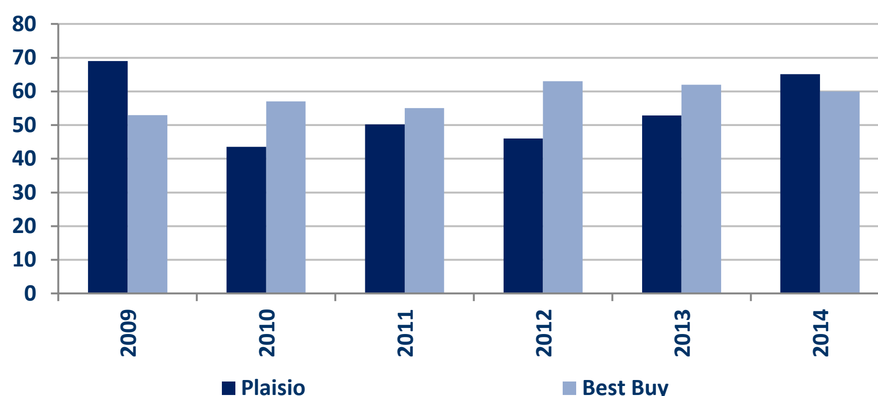
Inventory on balance sheet and provision coverage ratio - Plaisio



Source: Company data, Eurobank Equities Research

- Comparing Plaisio's inventory turnover with that of international peers, we do not notice any marked difference. Below we present a comparison of the number of days required for Plasio and Best Buy to turn their inventory into sales.

Inventory turnover (days)

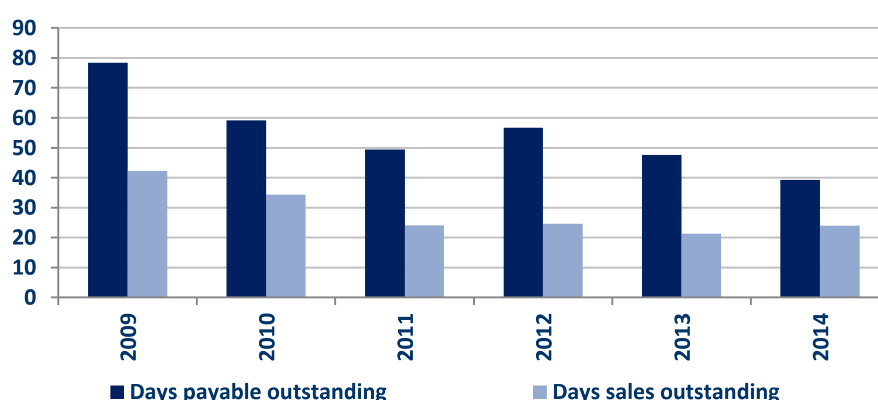


Source: Company data, Eurobank Equities Research

Plaisio follows a similar conservative policy for trade receivables despite the dispersion of credit risk over a large number of customers. Provisions for bad debts amounted to c26% of total receivables as of end 2014 and c30% as of Mar'2015. Net receivables amounted to cEUR20mn in 2014, translating to c24 days in terms of the period that receivable collection is outstanding. This is broadly in line with 2011.

On the payables front, the average number of days that Plaisio pays its suppliers has been gradually falling in the last few years (with the exception of 2012). However, this has been accompanied with better paying terms for Plaisio, acting as a tailwind for gross margins.

Plaisio Days sales and payable outstanding

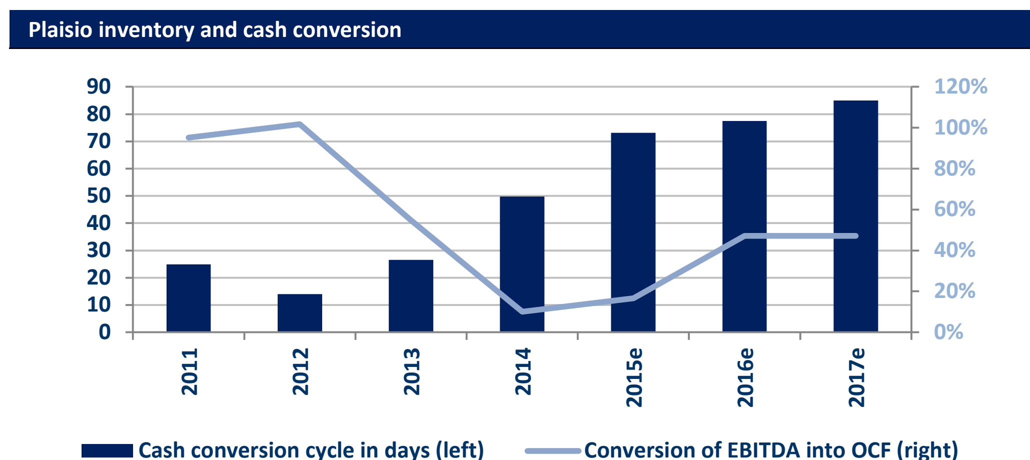


Source: Company, Eurobank Equities Research

Overall, the cash conversion cycle amounted to about 50 days in 2014, with our estimates conservatively assuming this increases to c73 days by 2016 as Plaisio stocks up ahead of the opening of its new store in Athens and in anticipation of an economic recovery in Greece from H2 2015 (assuming the govt seals an agreement with the EU institutions over a new financial package for Greece). We also expect some pressure on the payables front, as Plaisio offers its suppliers better terms to support its gross margins. Historically, the cash conversion cycle has translated to 50-200% of EBITDA being converted into operating cash flow, with the

conversion ratio falling to c10% in 2014 due to the inventory stocking-up. Looking ahead into 2015-17, we assume c20-50% of EBITDA is converted into OCF.

Plaisio inventory and cash conversion



Source: Company, Eurobank Equities Research

It is worth flagging that some concerns remain for inventory write-offs especially in an environment of slowing sales growth: overstocking could result in products sitting on the shelf for longer than expected without making money, eventually leading to inventory markdowns. We believe this risk remains elevated as unemployment remains above 25% and as political uncertainty weighs on consumer sentiment. Having said that, we reckon that the conservative provisioning policy as well as the tight working capital management offer a high degree of reassurance regarding the state of the balance sheet and future cash generation.

The competition

Penetration of e-commerce remains low in Greece

The Greek retail industry in general is highly competitive. Competition is principally based on price, store location and quality of products. Promotional pressures are evident primarily during the Christmas, Easter and summer seasons. Competition in Plaisio's main product category – that of PCs & Digital Tech products – consists primarily of electrical equipment chains (e.g. Public, Dixon's S.E. Europe, Media Markt). As far as the rest of Plaisio's addressable market (office products) is concerned, the group competes with hypermarkets, small mom & pop shops and to an extent, Jumbo. Note that e-commerce in Greece is an underpenetrated market, with the high-street remaining the main distribution channel. This means that, contrary to the situation in the US or other Western European countries, electronic retailers are not a major competitor at this point. On our understanding, this is partly explained by the Greek market's relatively low size (11mn population).

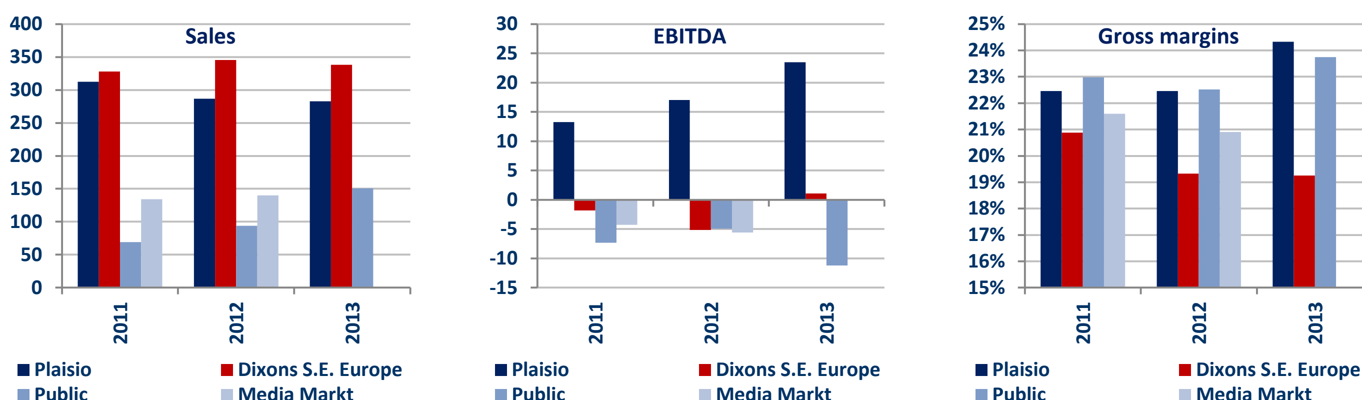
… but competition on the high-street has been rather intense

The fragmented nature of the market as well as intense price competition and working capital risk have been the main reasons why this industry has been rather competitive and has seen high attrition and store closure rates in the last few years. Until the mid-2000s new competitors were establishing their presence in Greece, among which French retail chain Fnac and German electrical goods retailer Saturn. However, the Greek crisis provided the catalyst for industry rationalisation. At the same time, buying power, cheap sourcing from China, and the strong balance sheet have been a major advantage for Plaisio, enabling it to take share at the expense of international competitors. As a result, following a period of poor trading, several competitors withdrew from the Greek market (e.g. Saturn in 2011 having seen a total sales decline of c25% in the last 2 years of operation, Fnac in 2010).

Most competitors are loss-making

At the moment, Plaisio's major competitors are electrical goods retailers Public, Media Markt, Dixons S.E. Europe etc. The following charts present a basic comparison of sales, EBITDA and gross margins for Plaisio and some of its abovementioned peers. As it can be seen, Plaisio is in a financially sounder position managing to consistently grow EBITDA over the period under consideration (2011-13) despite subdued sales growth. Overall, Plaisio's higher margins have been driven primarily by the rising percentage of imports from China and the increase of unbranded products in the mix. Other large players have appeared more willing to sacrifice margin in an attempt to gain market share, thus generating negative or marginally positive EBITDA. We estimate that the industry's accumulated losses are in excess of EUR200mn.

Peer group comparison in the Greek electrical goods market – profitability and margins

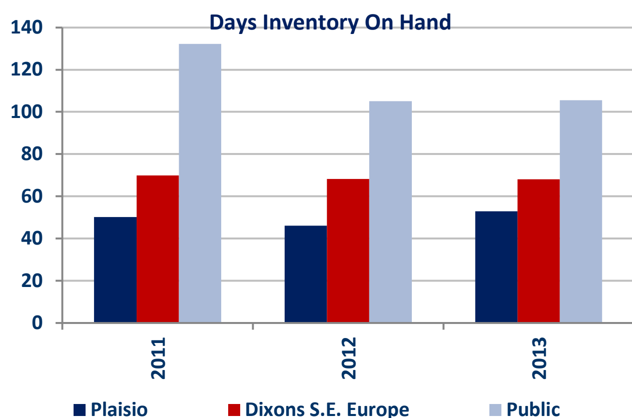


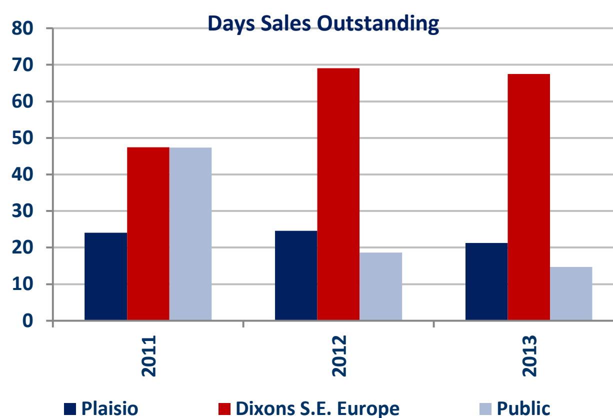
Source: Company data, Eurobank Equities Research, Naftemporiki. Data for Media Markt includes six stores. Figures above are not directly comparable due to the different financial year-end: December for Plaisio and Public, April for Dixons, September for Media Markt.

Eurobank Equities

As far as working capital is concerned, Plaisio appears to have the fastest inventory turnover, thus running a significantly lower risk of having to mark down stock or selling products with massive discounts. Plaisio seems to be quite efficient from a receivables perspective, too. We note that Public appears to have a slower inventory turnover holding inventories for more than 100 days, but we believe this might reflect differences in the product mix (e.g. books, music etc.).

Plaiso peer group comparison – working capital





Source: Eurobank Equities Research , Company data

Plaisio vs. Jumbo

With Plaisio sharing several common characteristics with Jumbo – as per our comments elsewhere in this report – we thought it might be useful to present a basic comparison of the two "best-in-class" retailers regarding several operational metrics. We lay out the findings of this comparison in the table that follows. As one can see:

- Both Plaisio and Jumbo have managed to stabilize and recently grow same stores sales. Interestingly, despite the discretionary nature of its product offering, Plaisio has seen a more pronounced recovery of its top line than Jumbo.

- On a per store basis, Plaisio's sales density appears only slightly higher, but this can be explained by the much smaller store size (1,400sqm) relative to Jumbo (>5K sqm on average). Sales per sqm is significantly higher for Plaisio, as one would naturally expect, given the high-ticket items consisting a significant portion of Plaisio's product offering.

- Plaisio's gross margins are significantly lower than those of Jumbo, partly due to the relatively lower contribution from own-branded products and partly due to structural reasons related to the type of the product and level of competition.

- Interestingly, Plaisio's operating cost ratios on a per store basis appear similar to those of Jumbo, despite the former's smaller store size. This means that Plaisio's cost structure on a per sqm basis is significantly higher than that of Jumbo. This is natural given Plaisio's need to hire better-skilled personnel to drive in-stores sales and constantly invest in customer service to enhance after-sales experience. In any case, opex/store appears to have fallen by c20% since 2009, reflecting mgt's commitment to make the cost structure leaner in order to offset the impact of negative operating leverage over 2009-13.

Plaisio vs. Jumbo

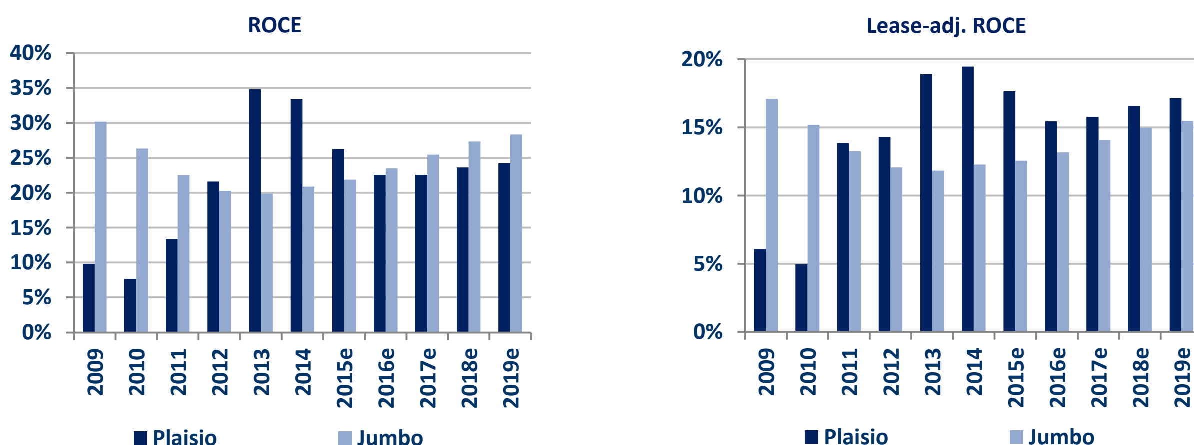
EUR mn	2009	2010	2011	2012	2013	2014
Plaisio						
Sales/store	12.7	11.4	9.8	9.0	8.8	9.5
EBITDA/store	0.5	0.3	1.0	0.8	0.9	1.0
Gross profit/store	3.4	3.0	3.4	3.2	3.3	3.5
Opex/store	2.9	2.7	2.4	2.5	2.3	2.4
employees/store	58	56	55	53	53	59
Jumbo						
Sales/store	10.6	10.5	9.5	8.7	8.1	8.2
EBITDA/store	3.1	3.0	2.5	2.3	2.1	2.1
Gross profit/store	5.8	5.7	5.1	4.7	4.3	4.4
Opex/store	2.7	2.7	2.6	2.4	2.2	2.3
employees/store	67	69	65	59	57	59

Eurobank Equities

Plaisio returns now superior to Jumbo

Another interesting comparison relates to returns on capital. Jumbo's structurally higher operating margins have enabled it to deliver superior returns in most of the past years, and most importantly, less volatile vs. Plaisio. On the other hand, Plaisio has a significantly lower capital base (smaller size of store network, lower inventory) and, as a result, it has seen an impressive improvement in ROCE as margins recovered from the 2010 trough. In fact, Plaisio is now generating superior returns relative to Jumbo. Going forward, on our estimates, returns for both retailers will remain high, with our estimates for Plaisio looking much more conservative at this point. We assume that returns will remain below previous peak levels for both Plaisio and Jumbo.

Plaisio vs. Jumbo, returns on capital



Source: Company data, Eurobank Equities Research

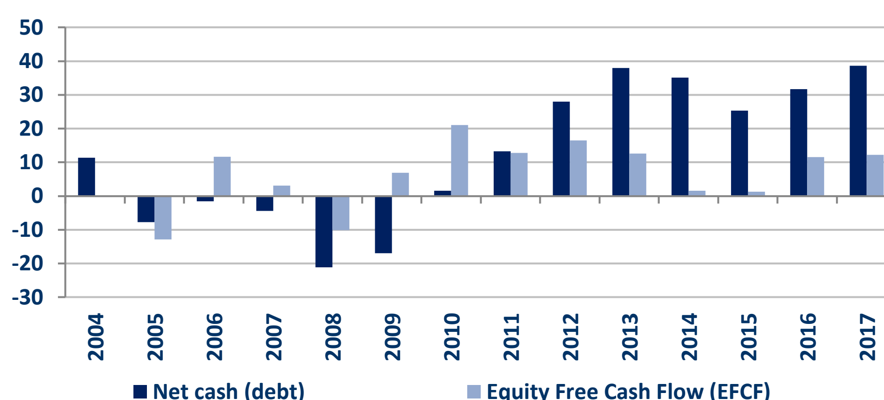
Balance Sheet

Robust balance sheet and high cash conversion

Plaisio enjoys a strong financial and liquidity position. In the absence of new store openings and significant investments, the group switched back into net cash in 2010 and stood on a net cash position of EUR35mn as of end December 2014. From a free cash generation perspective, historically (since 2004) Equity Free Cash Flow (EFCF) has ranged between negative EUR13mn and positive EUR21mn. Note, however, that negative FCF was generated solely in 2005 (weak margins due to intensified competition, with one of the two players leading competition back then having now exited the Greek market) and in 2008 (driven by Plaisio's heavy capex of EUR19mn related to the construction of its logistics center). EFCF in most years has exceeded EUR10mn, as shown in the table below.

In 2015-16e, we are looking for EFCF of cEUR1-12mn assuming EBITDA near EUR26mn and working capital outflows of cEUR5-13mn. Assuming OCF conversion rises to c50-60% post 2017 as inventory turn stabilizes, we expect EFCF to return in the mid-teens.

Plaisio net debt and Free Cash Flow (EUR mn)

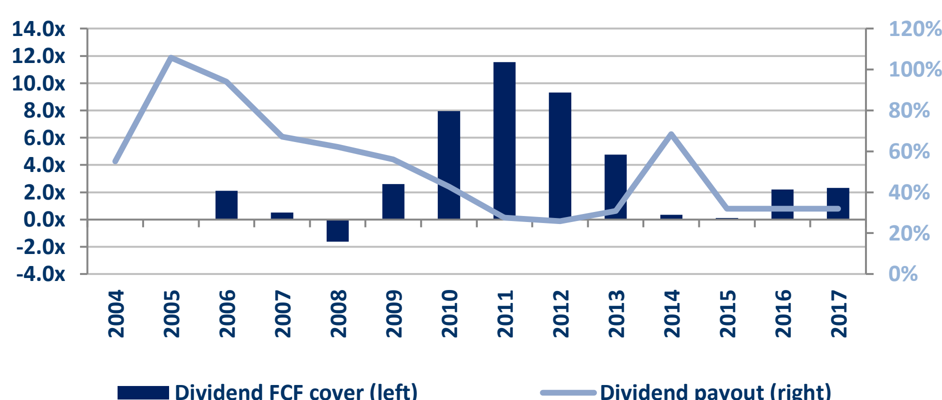


Source: Company, Eurobank Equities Research

Scope for above-average shareholder returns

Operating a net cash balance sheet during most years, Plaisio has consistently returned value to shareholders through dividends (and more recently the EUR0.50 per share capital return). As shown below, historically the dividend distributed to shareholders has been 25-65% of earnings most of the years, while Plaisio paid out almost 100% of earnings in 2005-2006. Free cash flow coverage has varied, depending on Plaisio's capex requirements across the years. Going forward, we assume about a third of profits is paid out as dividend; this will be comfortably covered by FCF. As a result, in the absence of significant store roll-outs, we believe there is upside risk to the 5% DPS yield embedded in our numbers.

Dividend payout and FCF dividend cover



Source: Company, Eurobank Equities Research

Note that besides the cash dividend/capital return, the management recently decided to commence the implementation of the 2-year share buyback program which was approved in the end of 2014 and which expires in December 2016. According to the program, up to 662K shares may be bought (3% of the share capital) with the specified price range set at EUR3.0-EUR10.0 per share.

Quarterly performance

Plaisio generates c30% of its annual turnover in the last quarter of the year which means that Q4'15 will largely determine the FY15 performance. In any case, Plaisio's quarterly top line performance improved markedly since Q4'13, with some slowdown evidenced in the last two quarters (Q4'14 and Q1'15).

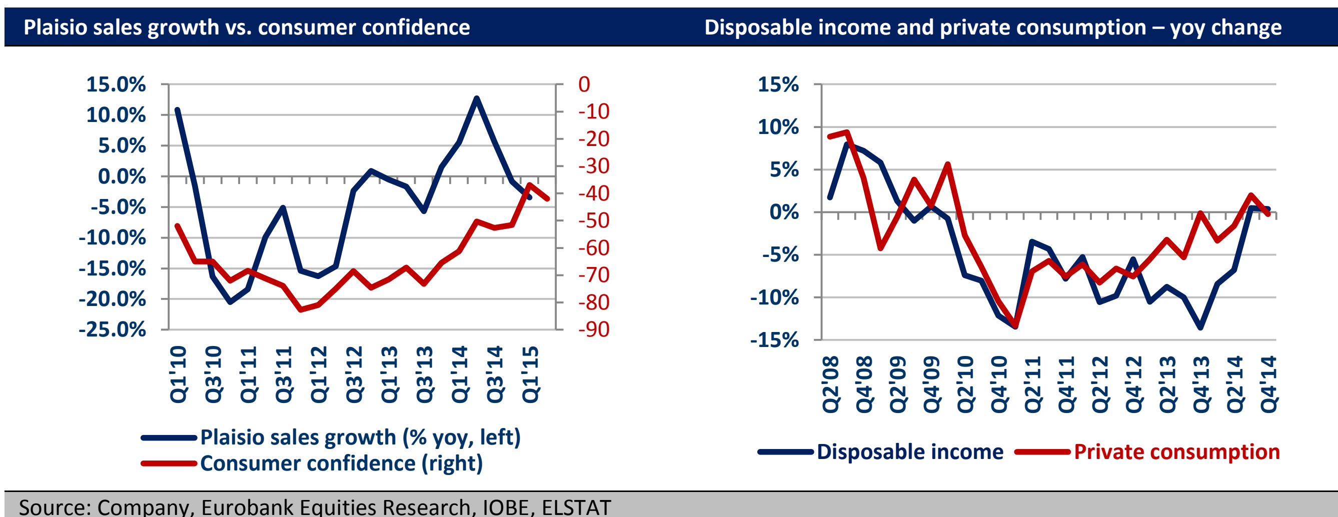
Plaiso Quarterly performance											
EURmn	Q1'13	Q2'13	Q3'13	Q4'13	FY'13	Q1'14	Q2'14	Q3'14	Q4'14	FY'14	Q1'15
Sales	**69.0**	**62.5**	**66.2**	**85.0**	**282.7**	**72.8**	**70.5**	**70.0**	**84.3**	**297.5**	**70.3**
yoy	-0.5%	-1.7%	-5.7%	1.5%	-1.4%	5.5%	12.7%	5.7%	-0.8%	5.2%	-3.4%
Gross profit	16.4	14.3	16.9	21.2	68.8	18.0	17.0	18.0	20.1	73.1	15.4
Gross margin	*23.7%*	*22.9%*	*25.5%*	*25.0%*	*24.3%*	*24.7%*	*24.1%*	*25.7%*	*23.9%*	*24.6%*	*21.9%*
Operating expenses (net)	-12.7	-9.6	-12.0	-11.0	-45.3	-13.2	-11.8	-11.8	-10.4	-47.3	-12.1
EBITDA	**3.7**	**4.7**	**4.9**	**10.2**	**23.5**	**4.7**	**5.2**	**6.2**	**9.7**	**25.8**	**3.3**
- Depreciation	-0.8	-0.7	-0.7	-0.7	-2.9	-0.6	-0.6	-0.6	-0.6	-2.5	-0.6
EBIT	2.9	4.0	4.2	9.5	20.6	4.2	4.5	5.6	9.0	23.3	2.6
Net financial expenses/other	0.0	-0.2	-0.2	-0.7	-1.1	-0.4	-0.3	-0.3	-0.2	-1.1	-0.1
Pre-tax Profit	**2.9**	**3.8**	**4.0**	**8.8**	**19.5**	**3.8**	**4.3**	**5.3**	**8.9**	**22.3**	**2.5**
- Tax	0.1	-1.2	-1.0	-3.1	-5.1	-1.0	-1.2	-1.4	-2.5	-6.1	-0.7
Net Profit	**3.0**	**2.7**	**3.0**	**5.6**	**14.3**	**2.7**	**3.1**	**3.9**	**6.4**	**16.2**	**1.8**
Operating Cash Flow	-5.2	1.9	1.6	14.5	12.9	-4.8	-1.8	6.3	2.9	2.6	-7.0
- capex	-0.1	-0.6	0.4	0.0	-0.2	-0.3	0.2	-0.7	-0.1	-1.0	-0.1
Free Cash Flow	**-5.3**	**1.3**	**2.1**	**14.5**	**12.6**	**-5.1**	**-1.7**	**5.6**	**2.8**	**1.6**	**-7.1**
Net cash / (debt)	**22.7**	**21.9**	**23.4**	**38.0**	**38.0**	**32.8**	**26.3**	**32.4**	**35.1**	**35.1**	**28.0**

Source: Company, Eurobank Equities Research

Q1'15 in particular was rather challenging, with the fragile domestic political environment weighing on Plaisio's performance. Sales were down -3.4%, having deteriorated from -0.8% in Q4'14 but remaining above the €70mn threshold. Reported EBITDA came in at €3.3mn, down c€1.4mn yoy. Note however that this included a higher-than-usual level of provisions (€1.6mn). Adjusting for this, the gross margin compression was reasonable (c100bps yoy) while EBITDA would have been only slightly down yoy. Net profits narrowed to €1.8mn compared with €2.7mn in Q1'14. On the cash flow front, in a seasonally weak quarter operating cash outflows widened to €7mn from €4.8mn in Q1'14. In the absence of significant capex, FCF was also near negative €7mn. As a result, Plaisio's net cash position amounted to €28mn from €35mn in Dec'2014. For the remainder of the year, our estimates are framed within the expectation that sales run-rates will improve in H2 2015 assuming that political uncertainty abates.

As shown in the table below and as one would naturally expect, there is a close link between levels of consumer confidence and Plaisio's quarterly growth rates. In this sense, the recent drop in the consumer confidence index is a negative read-through for Plaisio's short-term trading, though we reiterate our view that it is primarily the political environment that will drive future consumer confidence levels rather than disposable income. The latter appears to have stabilized in the last 2 quarters.

Plaisio sales growth vs. consumer confidence | **Disposable income and private consumption – yoy change**



Source: Company, Eurobank Equities Research, IOBE, ELSTAT

History

Plaisio was founded in 1969 through the establishment of a store in the center of Athens retailing stationery and office products. In 1986, the group diversified to PCs by assembling the first build-to-order computer under its own brand name (Turbo-X).

During the 1990s, the management embarked on a network expansion program which saw Plaisio add another 9 stores by 2000. In the meantime (1995), it introduced a secondary distribution channel through catalogues and rolled-out its direct sales business through its call center (1996). In 1999, Plaisio was listed on the Athens stock exchange and on the same year it launched its internet web site.

Further network expansion over 2000-09 saw Plaisio quadruple its annual turnover. During this period, the group started rolling out larger-than-previously stores (>1,000 sqm) to achieve operational efficiencies and maximize turnover.

One of the milestones for the group was the assembly of its first own-branded laptop in 2003. In 2005, the group made a move abroad rolling out its first international store in Bulgaria. The last significant milestone for the group was the construction of a 22K sqm logistics center in Athens in 2009. More recently (end 2013), the group introduced its private label products in two key categories, TVs and mobile phones managing to achieve a top 4 market share in the TV category from the first year.

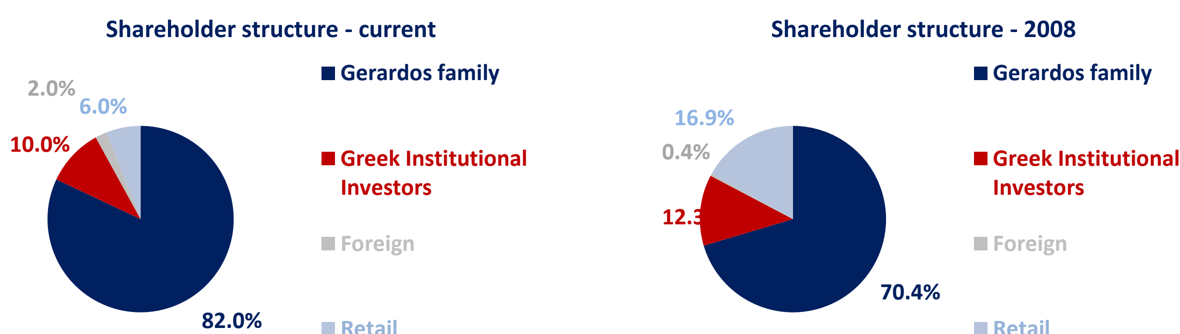
Management team and shareholder structure

Management's track record is quite solid. The Chairman of the BoD and CEO Mr. G. Gerardos is Plaisio's founder having led the business through its transformation into one of the leading retail groups in Greece. Mr. Gerardos was born in 1946 and holds a degree from the National Technological University of Athens (NTUA). He holds 66.5% of the share capital.

Mr. K. Gerardos, son of the founder, is Vice-Chairman and co-CEO. He was born in 1977 and holds a BA in International Business from Eckerd College, USA. He has been with the company since 1995. He holds c15.5% of the share capital.

As far as the rest of the shareholder structure is concerned, besides the 82% controlled by the Gerardos family, another 12% of shares are held by institutional investors (10% Greek, 2% foreign) with the remaining 6% being held by retail investors. Note that, relative to 2008, the Gerardos family appears to have increased its stake in the company.

Shareholder structure – current and in 2008



Source: Company, Eurobank Equities Research, Bloomberg

Group Financial Statements

Balance Sheet					
(EUR mn)	**2013a**	**2014a**	**2015e**	**2016e**	**2017e**
Non-current Assets					
Property, Plant & Equipment (net)	30.5	28.8	29.4	28.2	27.0
Intangible Assets	0.8	0.7	0.8	0.8	0.9
Participation and Long Term Receivables	5.6	5.5	5.5	5.5	5.5
Current assets					
Inventory	30.5	39.5	52.5	56.2	61.6
Receivables	16.5	19.6	21.2	24.7	27.2
Other	1.8	2.6	1.9	2.1	2.2
Cash & Cash Equivalents	52.2	45.1	37.1	37.1	37.1
Total Assets	**137.9**	**141.8**	**148.5**	**154.8**	**168.6**
Share Capital & Premium	19.0	19.0	19.0	19.0	19.0
Reserves	57.8	69.4	74.8	86.0	99.3
Minority Interests	0.0	0.0	0.0	0.0	0.0
Provisions	1.6	2.9	2.9	2.9	2.9
LT Loans	10.0	5.6	5.6	5.6	5.6
Other	1.8	2.6	1.9	2.1	2.2
Long Term Liabilities	**11.7**	**8.2**	**7.6**	**7.7**	**7.8**
ST Loans	4.3	4.3	6.1	0.0	0.0
Dividends Payables	0.0	0.0	0.0	0.0	0.0
Other ST Liabilities	13.8	13.8	13.9	14.8	15.5
Short Term Liabilities	**18.1**	**18.1**	**20.0**	**14.8**	**15.5**
Total Equity and Liabilities	**137.2**	**141.8**	**148.5**	**154.8**	**168.6**

Source: Company, Eurobank Equities Research

P&L					
(EUR mn)	2013a	2014a	2015e	2016e	2017e
Turnover	**282.7**	**297.5**	**299.4**	**319.4**	**334.1**
change	*-1.4%*	*5.2%*	*0.6%*	*6.7%*	*4.6%*
Gross profit (adj.)	72.1	76.0	74.1	78.1	82.4
Gross margin	*25.5%*	*25.6%*	*24.7%*	*24.5%*	0.2
Selling, Administrative & Other Expenses (net)	-48.5	-54.3	-53.0	-56.3	-57.9
Other Income (net)	0.2	4.6	6.6	4.6	4.6
EBITDA adjusted	**23.9**	**26.3**	**27.6**	**26.4**	**29.1**
change	*20.1%*	*10.3%*	*4.9%*	*-4.3%*	*10.2%*
EBITDA adj. margin	*8.4%*	*8.8%*	*9.2%*	*8.3%*	*8.7%*
EBITDA reported	**23.5**	**25.8**	**25.9**	**25.7**	**28.3**
change	*39.2%*	*12.9%*	*1.6%*	*0.5%*	*12.5%*
EBITDA rep. margin	*8.3%*	*8.7%*	*8.7%*	*8.0%*	*8.5%*
Depreciation	-2.9	-2.5	-2.3	-2.3	-2.3
EBIT	**20.5**	**23.3**	**23.6**	**23.4**	**26.1**
change	*52.4%*	*13.6%*	*1.2%*	*-0.9%*	*11.4%*
EBIT margin	*7.3%*	*7.8%*	*7.9%*	*7.3%*	*7.8%*
Net financial income/(expense)	-1.2	-1.1	-1.5	-1.1	-1.0
Associate income/other	0.1	0.1	0.0	0.0	0.0
Profit Before Tax	**19.4**	**22.3**	**22.2**	**22.3**	**25.0**
change	*48.2%*	*14.5%*	*-0.4%*	*0.5%*	*12.5%*
Tax	-5.1	-6.1	-5.8	-5.8	-6.5
Effective Tax Rate	26.4%	27.5%	26.0%	26.0%	26.0%
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit	**14.3**	**16.2**	**16.4**	**16.5**	**18.5**
change	*39.2%*	*12.9%*	*1.6%*	*0.5%*	*12.5%*
Net Profit margin	*5.1%*	*5.4%*	*5.5%*	*5.2%*	*5.5%*
EPS	**0.65**	**0.73**	**0.74**	**0.75**	**0.84**
DPS	**0.20**	**0.50**	**0.24**	**0.24**	**0.27**

Source: Company, Eurobank Equities Research

******EBITDA is adjusted for inventory markdowns and other own-offs.*

Cash Flow Statement					
(EUR mn)	2013a	2014a	2015e	2016e	2017e
EBITDA	23.5	25.8	25.9	25.7	28.3
Working Capital	-6.4	-14.5	-12.8	-5.4	-6.7
Tax	-2.9	-7.7	-6.1	-5.8	-5.8
Net interest paid	-1.3	-1.2	-1.5	-1.1	-1.0
Other	0.0	0.2	-1.2	-0.7	-1.5
Operating Cash Flow	**12.9**	**2.6**	**4.3**	**12.7**	**13.4**
Capex	-0.4	-1.0	-3.0	-1.2	-1.2
Other Investing cash flow	0.2	0.0	0.0	0.0	0.0
Net Inflows (Outflows) from Investing Activities	**-0.2**	**-1.0**	**-3.0**	**-1.2**	**-1.2**
Free Cash Flow	**12.6**	**1.6**	**1.3**	**11.6**	**12.2**
Dividends	-2.7	-4.4	-11.0	-5.3	-5.3
Pre Financing inflow/(outflow)	**10.0**	**-2.8**	**-9.7**	**6.3**	**6.9**
Net debt / (cash)	**-38.0**	**-35.1**	**-25.4**	**-31.7**	**-38.6**

Source: Company, Eurobank Equities Research

Ratios					
	2013a	2014a	2015e	2016e	2017e
P/E	9.8	9.3	6.6	6.5	5.8
P/BV	1.8	1.7	1.1	1.0	0.9
P/Sales	0.5	0.5	0.4	0.3	0.3
EV/EBITDA	5.0	5.1	3.6	3.6	3.0
EV/Sales	0.4	0.4	0.3	0.3	0.3
EBIT/Interest Expense	11.4	17.3	11.5	12.8	14.1
Total Debt/Capital	32.7%	16.9%	15.8%	7.1%	6.6%
Dividend Yield	3.1%	7.3%	4.9%	4.9%	5.5%
ROE	20.2%	19.5%	18.0%	16.6%	16.6%
Free Cash Flow Yield	9.0%	1.1%	1.2%	10.7%	11.3%
Payout Ratio	30.9%	68.4%	32.0%	32.0%	32.0%

Source: Company, Eurobank Equities Research

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12-month Rating History of Plaisio

Date	Rating	Stock price	Target price
04/06/2015	Buy	€ 4.88	€ 9.20

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Stock Ratings	Coverage Universe		Investment Banking Clients	
	Count	Total	Count	Total
Buy	15	50%	2	13%
Hold	10	33%	2	20%
Sell	1	10%	0	0%
Restricted	2	7%	2	100%
Under Review	2	7%	0	0%
Total	30	100%		

Analyst Stock Ratings:

Buy:	Based on a current 12-month view of total shareholder return (percentage change in share price to projected target price plus projected dividend yield), we recommend that investors buy the stock.
Hold:	We adopt a neutral view on the stock 12-months out and, on this time horizon, do not recommend either Buy or Sell.
Sell:	Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.
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