Euroxx Research – Retail

Small & Mid Cap Research - Initiation Report

March 18, 2015

Plaisio Computers

EUROXX SECURITIES

Overweight

Emerging Stronger From the Crisis

Share Price: €5.75 (close of March 17)

12M Price Target: €7.50

Expected Total Return: 39%

Estimates

	2014	2015e	2016e	2017e
Sales (€m)	297.5	300.2	307.2	318.3
EBITDA (€m)	25.8	26.3	27.7	29.8
margin (%)	*8.7%*	*8.8%*	*9.0%*	*9.4%*
Net profit (€m)	16.1	17.1	18.4	20.2
Reported EPS (€)	0.73	0.77	0.83	0.91
EPS chng (%)	*12.9%*	*5.9%*	*7.7%*	*9.7%*

Source: Plaisio, Euroxx Research

Ratios

	2014	2015e	2016e	2017e
P/E (x)	7.9	7.4	6.9	6.3
EV/EBITDA (x)	3.6	3.5	3.1	2.6
EV/Sales (x)	0.3	0.3	0.3	0.2
FCF Yield (%)	1.3%	9.2%	9.6%	10.4%
Div Yield (%)	8.7%	5.2%	6.1%	7.0%
P/BV (x)	1.4	1.3	1.2	1.1

Source: Plaisio, Euroxx Research

Stock Performance

	3M	6M	12M	YTD
Absolute	-2.4%	-15.8%	-20.4%	4.5%
Difference (ATG)	8.3%	16.2%	23.3%	11.4%

Stock Data:

Market Cap (€ m)	127
Outstanding shares (#)	22,080,000
Daily volume (#)	4,447
Low / High 52 w (€)	4.99-7.98
Free float	18.3%
Bloomberg / Reuters	PLAIS GA / PLAr.AT

Company Description:

Plaisio is a leading IT and consumer electronic retail chain with 21 stores in Greece and 1 in Bulgaria. The company imports, manufactures and trades PCs, peripherals, office supplies, IT network and telecom products.

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Ever Growing Retailer Beyond Greece's Challenges: Contrary to the challenging domestic economic environment in the past few years, Plaisio's strong business model and right strategy produced 2009-14 EBITDA and EPS CAGRs of 12% and 28% respectively. This despite the 24% cumulative sales decline since 2009 – which compares with the 25% fall in nominal GDP in Greece – and >50% decline in the retail segments that Plaisio operates. This was the outcome of management focus on growing own-branded products which now account for 1/3rd of group sales and offer 5-10% higher gross margin than the group average of c25%.

Successful Strategy Focusing on Quality, Service and Price: Plaisio's rising profitability during the crisis was also aided by more direct & on-line sales and the cautious store expansion (last store opening in Nov'11). High quality customer service/after sales support ('fix it in 4 hours') is also core to its proposition. Plaisio now plans to invest for growth (subject to market conditions) by a) overhauling its 22 stores for an improved customer experience, b) adding new product categories (like TVs in Q4'13) and selective new PoS in Greece, and c) improving infrastructure (ERP & CRM).

Positive Earnings Momentum Despite the Macro Uncertainty – with sales, EBITDA and EPS CAGRs of 2%, 5% and 8% over 2014-17e, driven by Plaisio's further penetration in private label products, direct and on-line sales and cost discipline. Our estimates do not incorporate an aggressive store outlook in Greece or abroad. The fragile economic and political conditions in Greece, an unfavourable €/$ parity, the potential entry of competitors (e.g. Amazon) and the weak corporate governance (not unusual for such a small, family-owned business) are the key negative risks.

Strong, Underleveraged Balance Sheet: Plaisio entered the Greek crisis (2008) with €21m of net debt and it impressively ended 2014 with net cash of €35m (28% of the market cap). The business model is also cash generative with estimated FCF of €12-13m in 2015-17e (9-10% yield). This leaves good scope for high future dividend distribution (DY 5-7% in 2015-17e), i.e. on top of the €0.50 capital return in 2014, which implies a yield of 9% at current prices.

Initiate Coverage at O/W; TP at €7.50 (39% Total Upside) – based on a 2-stage DCF (12.0% WACC). With a 2015e P/E and EV/EBITDA of 7.4x and 3.5x respectively, Plaisio trades at >50% discount to peers, only partly justified by its smaller size and country-related risk. Our positive view on Plaisio derives from its healthy BS, quality management, strong future FCF and growth potential. That said, despite the recent Eurogroup agreement on Greece, we believe there is still significant macro uncertainty ahead which could further impair economic sentiment and weigh on Greek retail sales.

Summary of Financials

(in €m, unless otherwise stated)

PROFIT & LOSS (€m)	2013	2014	2015e	2016e	2017e
Sales	**282.7**	**297.5**	**300.2**	**307.2**	**318.3**
chng (%)	*-1.4%*	*5.2%*	*0.9%*	*2.4%*	*3.6%*
Gross profit	68.8	73.1	75.2	78.1	82.3
Gross margin	*24.3%*	*24.6%*	*25.0%*	*25.4%*	*25.9%*
chng (%)	*6.8%*	*6.2%*	*2.9%*	*3.9%*	*5.4%*
EBITDA	**23.5**	**25.8**	**26.3**	**27.7**	**29.8**
chng (%)	*37.7%*	*9.9%*	*1.8%*	*5.4%*	*7.5%*
D&A	-2.9	-2.5	-2.1	-1.8	-1.6
Operating profit (EBIT)	**20.5**	**23.3**	**24.1**	**25.8**	**28.2**
chng (%)	*52.4%*	*13.6%*	*3.4%*	*7.1%*	*9.0%*
Net finance income/(cost)	-1.2	-1.1	-1.1	-1.1	-1.0
Share of profit associates	0.1	0.1	0.1	0.1	0.1
Pre-tax profit	**19.4**	**22.3**	**23.1**	**24.9**	**27.3**
chng (%)	*48.2%*	*14.5%*	*3.7%*	*7.7%*	*9.7%*
Tax	-5.1	-6.1	-6.0	-6.5	-7.1
effective tax rate	*26.4%*	*27.5%*	*26.0%*	*26.0%*	*26.0%*
Net profit	**14.3**	**16.1**	**17.1**	**18.4**	**20.2**
chng (%)	*39.2%*	*12.9%*	*5.9%*	*7.7%*	*9.7%*
Reported EPS (€)	0.65	0.73	0.77	0.83	0.91
chng (%)	*39.2%*	*12.9%*	*5.9%*	*7.7%*	*9.7%*
DPS / Capital Return (€)	**0.20**	**0.50**	**0.30**	**0.35**	**0.40**

BALANCE SHEET (€m)	2013	2014	2015e	2016e	2017e
Tangible Assets	30.5	28.8	28.7	28.8	29.2
Intangible FA	0.8	0.7	0.7	0.7	0.7
Other Fixed Assets	5.6	5.5	5.5	5.5	5.5
Total fixed assets	**36.9**	**35.1**	**34.9**	**35.1**	**35.5**
Inventory	30.5	39.5	41.1	42.9	44.9
Trade debtors	16.5	19.6	20.7	22.5	24.7
Other Current Assets	1.8	2.6	2.6	2.6	2.6
Cash & cash equivalents	52.2	45.1	44.2	48.2	52.3
Total current assets	**101.0**	**106.7**	**108.6**	**116.2**	**124.5**
Total Assets	**137.9**	**141.8**	**143.5**	**151.2**	**160.0**
Total debt	***14.3***	***10.0***	***8.0***	***6.0***	***4.0***
Net Cash	***38.0***	***35.1***	***36.2***	***42.2***	***48.3***
Working Capital	***11.9***	***26.1***	***31.6***	***37.6***	***44.1***
Trade creditors	35.1	32.9	30.3	27.8	25.6
Short - term debt	4.3	4.3	4.3	4.3	3.3
Total Current Liabilities	**46.3**	**43.0**	**40.6**	**38.5**	**35.8**
Long term debt	10.0	5.6	3.6	1.6	0.6
Deffered Income	3.2	2.9	2.9	2.9	2.9
Other LT liabilities	1.0	1.1	1.1	1.1	1.1
Shareholder's Equity	76.8	88.5	94.6	106.4	118.8
Total Equity & Liabilities	**137.9**	**141.8**	**143.5**	**151.2**	**160.0**

CASH FLOW (€m)	2013	2014	2015e	2016e	2017e
EBITDA	**23.5**	**25.8**	**26.3**	**27.7**	**29.8**
Net Interest Expense	-1.2	-1.1	-1.1	-1.1	-1.0
Tax paid	-2.9	-7.7	-5.7	-6.0	-6.5
Change in Working Capital	-7.0	-14.2	-5.4	-6.5	-7.0
Other (Other Receiv. & Liab., Provisions, etc.)	-0.1	-0.4	0.1	0.1	0.1
Operating Cash Flow	**12.3**	**2.3**	**14.1**	**14.3**	**15.3**
Capex	-0.4	-1.0	-2.0	-2.0	-2.0
Other Investments	0.8	0.0	0.0	0.4	0.5
Free Cash Flow	**12.7**	**1.4**	**12.1**	**12.6**	**13.8**
FCFE (Exx definition)	**11.9**	**1.6**	**11.7**	**12.2**	**13.2**
Dividends	-2.7	-4.4	-11.0	-6.6	-7.7
Change in Debt	-3.1	-4.3	-2.0	-2.0	-2.0
Other	0.0	0.2	0.0	0.0	0.0
Increase/(Decrease) in Cash & Equivalents	**6.9**	**-7.1**	**-0.9**	**4.0**	**4.1**

RATIO ANALYSIS	2013	2014	2015e	2016e	2017e
P/E (x)	8.9	7.9	7.4	6.9	6.3
EV/Sales (x)	0.3	0.3	0.3	0.3	0.2
EV/EBITDA (x)	3.8	3.6	3.5	3.1	2.6
EV/EBIT (x)	4.3	3.9	3.8	3.3	2.8
P/BV (x)	1.7	1.4	1.3	1.2	1.1
FCF Yield (%)	9.3%	1.3%	9.2%	9.6%	10.4%
FCF/EBITDA conversion (%)	50.5%	6.3%	44.5%	43.9%	44.3%
Dividend Yield (%)	3.5%	8.7%	5.2%	6.1%	7.0%
Net Cash/EBITDA (x)	1.4	1.4	1.5	1.6	1.7
Debt/Equity (x)	0.1	0.1	0.1	0.0	0.0
ROE (%)	18.3%	18.1%	17.3%	17.0%	16.8%
EBITDA Margin (%)	8.3%	8.7%	8.8%	9.0%	9.4%
EBIT Margin (%)	7.3%	7.8%	8.0%	8.4%	8.9%
Net Profit Margin (%)	5.1%	5.4%	5.7%	6.0%	6.3%

Source: Plaisio, Euroxx Research

SWOT Analysis

STRENGTHS

- Strong management (since 1969) that steered the group through the crisis
- 22 stores and 30k visitors per day with high 48% in-store conversion rate
- String IT Infrastructure – SAP since 1999 with in-house training
- Strong design, merchandising and marketing track record
- High brand awareness – Turbo-X leads the desktop and tablet markets, while it holds a Top-3 position in the laptop and TV segments
- Robust financial position – Net cash since 2010, growing cash flow and c44% EBITDA to FCF conversion rate in 2015-17e
- Reasonable levels of inventory (57 days in 2014) and receivables (22 days)
- Strategy of aggressive retail pricing (c10% below competition) - extensive product range
- Servi-tailing approach with 22 service points and a 4-hour service promise
- Biggest e-shop in Greece with 100k unique visitors a day
- 160k B2B customers, servicing 80% of the largest companies
- Impressive earnings growth during the domestic recession, compared to competitors shutting down i.e. Saturn or Fnac

WEAKNESSES

- Dependence on Chinese manufacturers, PC component and other product suppliers
- Exposure to the $ denominated freight costs and the €/$ parity (as c30% of COGS is in US$)
- Exposed primarily to the domestic market (c98% of total sales)
- Store number has been stable in the last 3 years
- Relatively high sales-force turnover
- High dependence on Gerardos family, which is the group's founder, key shareholder and chairman/CEO. Limited delegation to middle level management
- Weak corporate governance controls as highlighted in the 2014 annual report and as commonly found in tightly family-owned / run businesses
- Low stock market liquidity and low free float of 18.3%
- Not audited by one of the major international accounting firms

OPPORTUNITIES

- Further growth of higher-margin own-branded products
- Branch expansion domestically to cover a wider geographical area. 21 stores could be a sub-optimal size (e.g. Jumbo is at 52)
- Room for international expansion
- Internet / computer penetration in Greece still behind EU average and significant scope for growth in e-sales (7% of group sales)
- Expansion of product categories, such as the entry in the TV market in Q4'13
- Renovation of existing stores under way
- Expansion of high-margin mobile subscription services

THREATS

- Entry of Amazon in Greece (no amazon.gr at this stage)
- Further slowdown of the Greek economy could further impair economic sentiment and weigh on Greek retail sales
- Price war by any new entrant could put pressure on the group's margins
- Foreign entrants in retail stores could pose a threat i.e. Media Markt, Fnac or Saturn in the past
- The bigger Plaisio becomes the more competitive it becomes to Jumbo in certain categories (e.g. stationery) risking a more aggressive pricing approach by the much larger Jumbo
- Higher product sourcing costs

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Investment Thesis

Our positive view on Plaisio derives from its healthy BS, quality management, strong future FCF generation and growth potential

Plaisio is a successful Greek retailer with a range that varies from office to computer & digital equipment and telecom products. The group operates 21 stores in Greece and 1 in Bulgaria, hence it is fully exposed to the fragile Greek macroeconomic environment. That said, the shift in focus towards its own-branded, high-margin products, cost discipline as well as the defensive approach concerning store expansion has strengthened group profitability during the recession. Indicatively, Plaisio exhibited 2009-14 EBITDA and EPS CAGRs of 12% and 28%, respectively, despite the 24% cumulative revenue drop over that period. Looking ahead, we forecast revenues, EBITDA and EPS to grow by 2014-17e CAGRs of 2%, 5% and 8% respectively, mainly backed by further growth of its private label products and the entrance in new market segments. Our positive view on Plaisio derives from its quality management and solid track record, as well as the improving profitability margins, healthy balance sheet and strong future FCF generation, despite the domestic macro uncertainty, which could further impair economic sentiment and weigh on Greek retail sales. We initiate coverage with an Overweight rating and DCF-based target price of €7.50 per share (39% total upside potential including the €0.50/share 2014 capital return).

We initiate coverage at O/W and TP of €7.50 per share (39% total upside potential incl. the €0.50 2014 capital return)

In our view, Plaisio's investment positives include the following:

Successful Business Model and Quality Management: Plaisio has successfully developed a multi-channel, multi-customer and multi-product business model. It has also an efficient organizational structure with limited layers of management.

Strong, Underleveraged Balance Sheet and Future Free Cash Flow: Since 2010, Plaisio is consistently in a net cash position (€35m in 2014). The strong future FCF generation (9-10% yield in 2015-17e) also leaves scope for high dividend distributions.

Attractive Relative Valuation: Plaisio's 2015e P/E and EV/EBITDA of 7.4x and 3.5x, imply 50-56% discount to peers, which in our view, is only partly justified by Plaisio's smaller size and country-related risk.

On the other hand, we highlight the following investment negatives:

Fragile Economic and Political Conditions in Greece – which, in our view, is the key downside risk for Plaisio. Despite the recent Eurogroup agreement on Greece, we believe there is still significant macro uncertainty ahead which could further impair economic sentiment and weigh on Greek retail sales. At the same time it could increase the country's risk premium and negatively impact the performance of shares.

Entry of Competitors: The potential entry of foreign giants of online shopping (e.g. Amazon) could potentially lead to profit margin erosion. That said, in our view, the management deserves a lot of credit for successfully tackling competition in the past.

Strong Dependence on Gerardos Family – which cumulatively owns 81.7% of the company's share capital. Plaisio is a tightly, family-owned business, which raises some corporate governance issues.

Low Stock Market Liquidity – mostly deriving from the stock's low free float of 18.3%. However, this has somewhat improved recently due to Plaisio's addition to FTSE/ATHEX Mid Cap index in December 2014.

Finally, in our view, the key potential catalyst for Plaisio involves the reduction of competition in the domestic market and the expansion of its product range. Clearly, the exit of a competitor could pave the way for market share gains and margin support. Obviously, the addition of a new market player should have the opposite effect.

Valuation & Rating

In our view, the 12.0% WACC reflects country-specific risks adequately

We use a 2-stage DCF model, in which we form an explicit set of forecasts for the period up to 2019e, after which we assign a terminal value growth of 1%. Our WACC has been set at 12.0%, which we believe captures well domestic political/macro risks (as depicted in the rising Greek bond spreads to c1,000 bps) and the group's size. Our WACC assumption is based on sector beta of 1.0, a risk-free rate of 0.3% (German 10-year Bund yield) and an equity risk premium of 13% that in our view reflects country-specific risks adequately.

DCF model returns a fair value of €7.50/share (39% total upside); Initiate at O/W

Our DCF model returns a fair value of €7.50 per share, implying 39% total upside from current price levels, including the €0.50 2014 capital return. Hence, we initiate coverage with an Overweight rating.

Table 1: Plaisio DCF valuation

Assumptions %	2015e	2016e	2017e	2018e	2019e	Terminal
Sales Growth	0.9	2.4	3.6	3.5	3.5	1.0
EBIT Margin	8.0	8.4	8.9	9.3	9.8	9.0
Tax Rate	24.9	25.0	25.2	25.3	25.4	26.0
WC Δ (% of sales)	1.7	1.8	1.9	2.0	1.9	1.9
CapEx (% of sales)	0.7	0.6	0.6	0.6	0.6	0.5
Depreciation (% of sales)	0.7	0.6	0.5	0.4	0.4	0.4
Cost of Capital	**12.0**	**12.0**	**12.0**	**12.0**	**12.0**	**12.0**

Valuation (in €m)	2015e	2016e	2017e	2018e	2019e	Terminal
Sales	**300**	**307**	**318**	**329**	**341**	**344**
EBIT	24.1	25.9	28.2	30.7	33.4	31.0
Less: Adjusted Tax	6.0	6.5	7.1	7.8	8.5	8.1
effective tax rate	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%
NOPAT	**18.1**	**19.4**	**21.1**	**23.0**	**24.9**	**22.9**
Non-cash adjustments - depreciation	2.1	1.8	1.6	1.4	1.3	1.3
Working Capital Δ	5.2	5.6	6.0	6.5	6.4	6.4
CapEx	2.0	2.0	2.0	2.0	2.0	1.8
Cash Flow to the Firm (FCFF)	**13.1**	**13.6**	**14.7**	**15.9**	**17.7**	**16.0**
Present Value of Cash Flows	12.0	11.2	10.8	10.4	10.3	75.7

Terminal Value % of EV	**58.0%**
Enterprise Value	**130**
Less: Net debt / (Cash) 2014a	(35)
Value of Equity	**166**
Number of Shares (m)	22.1
Value of share (€)	**7.50**
Current Price (€)	*5.75*
Total Upside/(Downside) Potential (%)	***39%***

Source: Euroxx Research

TP sensitivity to WACC and terminal growth (€ per share)

	0.0%	**0.5%**	**1.0%**	**1.5%**	**2.0%**
11.0%	7.49	7.68	7.88	8.11	**8.36**
11.5%	7.32	7.49	7.68	7.89	8.11
12.0%	7.17	7.33	**7.50**	7.68	7.89
12.5%	7.03	7.17	7.33	7.50	7.69
13.0%	**6.90**	7.03	7.17	7.33	7.50

Source: Euroxx Research

The table above shows the sensitivity analysis to our DCF valuation based on WACC and long-term growth. For every 50bps delta in our 12.0% WACC assumption there is a €0.2/share sensitivity (c2%) in our DCF-based appraised value, and for every 50bps delta in our 1% long-term growth assumption the sensitivity in our TP also stands at €0.2/share (c2%).

Relative Valuation: At Discount to Foreign Peers (and Jumbo)

Y-t-d Plaisio has gained 5% in absolute terms, outperforming the market by 11%

In 2014, Plaisio outperformed the General Index, since it lost 15% in absolute terms, while the market fell by 29%, mostly on increased political risks. In our view, this outperformance was due to the successful management's strategy that resulted in positive free cash flow, healthy balance sheet and increased profitability. Y-t-d Plaisio is up 5%, outperforming the market by 11%.

Plaisio trades at significant discount to peers on most multiples only partly justified by its smaller size and country-related risk

Plaisio now trades at a 2015e P/E and EV/EBITDA of 7.4x and 3.5x, respectively, which implies 50-56% discount to foreign peers. The chosen peer group consists of global players in the electronics retail sector with admittedly many differences in structure and scale. We believe such discounts can be only partly justified by Plaisio's smaller size, country-related risk and low stock market liquidity. The best in class Greek retailer, Jumbo, now trades at a June 2015e P/E of 10.6x and EV/EBITDA of 6.2x.

Table 2: Plaisio Relative Valuation

Company	Price	MCap	---------PE (x)---------			------EV/EBITDA (x)--------			-------Div. Yield (%)-------			-------EBITDA Margin (%)-------			----------2014-17e CAGRs----------		
	(€)	(€m)	2015e	2016e	2017e	2015e	2016e	2017e	2015e	2016e	2017e	2015e	2016e	2017e	Sales	EBITDA	EPS
Best Buy	39.16	13,735	16.2x	14.4x	13.6x	5.6x	5.4x	5.4x	2.3%	2.3%	2.3%	5.4%	5.6%	5.4%	5.6%	13.6%	33.9%
Fnac	54.74	908	17.9x	16.9x	16.4x	6.0x	5.8x	5.5x	-	-	-	3.8%	3.9%	4.1%	1.1%	-	9.7%
Darty	5.97	6,877	18.2x	15.4x	13.6x	9.4x	8.4x	7.6x	1.7%	2.1%	2.3%	5.2%	5.8%	6.2%	73.1%	64.3%	62.8%
JB Hi-Fi	0.94	500	16.6x	11.7x	9.7x	6.7x	5.8x	5.3x	-	-	-	3.3%	3.6%	3.8%	2.8%	4.7%	-
Yamada Denki	12.85	1,272	13.8x	13.1x	12.6x	7.4x	7.0x	6.7x	4.8%	5.0%	5.2%	6.4%	6.4%	6.4%	5.2%	4.3%	4.1%
Peer Group Weighted average			***16.7x***	***14.7x***	***13.6x***	***6.9x***	***6.4x***	***6.1x***	***2.3%***	***2.4%***	***2.5%***	***5.3%***	***5.6%***	***5.6%***	***25.3%***	***28.4%***	***40.0%***
Plaisio	**5.75**	**127**	**7.4x**	**6.9x**	**6.3x**	**3.5x**	**3.1x**	**2.6x**	***5.2%***	***6.1%***	***7.0%***	***8.8%***	***9.0%***	***9.4%***	**2.3%**	**4.9%**	**7.7%**
Premium/(discount) to foreign peers			*-56%*	*-53%*	*-54%*	*-50%*	*-52%*	*-57%*	*128%*	*158%*	*180%*	*3.4%*	*3.4%*	*3.7%*	*-23.0%*	*-23.6%*	*-32.3%*
Jumbo	8.58	1,167	10.6x	9.6x	8.8x	6.2x	5.4x	4.7x	2.8%	3.1%	3.4%	26.8%	26.4%	26.1%	9.6%	8.3%	9.5%
Premium/(discount) to Jumbo			*-30%*	*-28%*	*-28%*	*-45%*	*-44%*	*-44%*	*85%*	*95%*	*104%*	*-18.1%*	*-17.4%*	*-16.8%*	*-7.3%*	*-3.4%*	*-1.8%*

Source: Bloomberg, Euroxx Research, Prices are as of 17 March

Investment Risks and Future Potential Catalysts

We believe Plaisio is a medium-risk company, as it is fully exposed to the volatile Greek macroeconomic environment; that said it has managed to significantly increase its profitability throughout the domestic recession period.

Key downside investment risks

In our view, Plaisio's **key downside investment risks** include the following:

- **Large Exposure to the Fragile Economic and Political Conditions in Greece:** Plaisio's vast majority of operations are located in Greece, with only one of its 22 store-network located abroad (Bulgaria). Should economic recovery proves to be softer-than-expected and GDP falls below EC forecasts (2015e: +2.5% and 2016e: +3.6%), this would put further downward pressure on household income, thus affecting Plaisio's performance. Moreover, we see risks related to any potential renewed political uncertainty in the current period and after the expiration of the four-month extension agreement.
- **Potentially Increased Competition –** which would result in pricing pressures, hence lower profit margins and potentially market shares. The entrance of a large international group, such as Amazon, would be a major downside risk for Plaisio. However the group has managed to deal well with competition in the past, as reflected by its strong market positioning and the exit of large international players such as Fnac and Saturn from the domestic market.
- **Exchange Rate Risk:** Plaisio's c30% of cost of goods sold is in US$, hence the group is vulnerable to €/$ rates fluctuations. Management intends to pass any US$ appreciation to customers through price increases, however, this could have negative implications on Plaisio's competitive pricing profile (however limited in our view, as competitors also face the same difficulties).
- **Strong Dependence on Gerardos Family Which Owns a Cumulative 81.7%:** Mr. G. Gerardos (founder/chairman) holds 66.5% of the Plaisio's share capital, while his son, Mr. K. Gerardos (CEO) owns 15.2%. It is common in tightly family-owned businesses to have corporate governance issues, as it is also highlighted in the 2014 annual report.

Key future potential catalysts

On the contrary, **future potential catalysts** to Plaisio's performance and valuation are the following:

- **Competition Reduction –** with the potential exit of a domestic competitor obviously leaving scope for market share gains and margin support.
- **Store Expansion Mainly in Greece:** Assuming that the Grecovery theme is not derailed, a potential store expansion in Greece could increase the group's domestic coverage and likely lead to higher profitability margins in the long-run. An international expansion could, under the right circumstances, also lower the group's Greek exposure and hence systemic risk.
- **Entrance in New Product Categories:** Plaisio's entry in the TV market in Q4'13 has positively impacted 2014 results (also exploiting the opportunity of the World Cup competition during summer). Following this example, the possible entrance in new product categories could offer top line growth, potentially strengthen margins, as well as create synergies between the different product segments.

Brief Company Description

Plaisio is the leading IT and consumer electronics domestic retailer with a multi-channel, multi-customer and multi-product business model. Moreover, the group has an efficient organizational structure with limited layers of management.

Historical Milestones: Plaisio was established back in 1969 by Mr. G. Gerardos and it was listed on the Athens Stock Exchange in 1999. In 1986, Plaisio introduced its first PC under the own brand Turbo-X, whereas in 2005 the group expanded operations abroad through the opening of a store in Bulgaria. During 2009, Plaisio inaugurated a new logistics center in the broader Athens area, hosting its business operations and the group's technology stock.

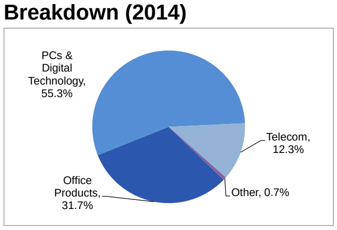
Gerardos family is the major shareholder with 81.7%; free-float at 18.3%

Shareholder Structure: Gerardos family owns 81.7% of the share capital. Chairman Mr. G. Gerardos holds 66.5%, while his son, and vice chairman, holds another 15.2%. The remaining 18.3% is free float, c12% of which is held by institutional investors.

Products range from office to PC & digital equipment and telecom

Wide Product Range – Four Key Product Categories:
(a) **Computer & digital equipment** (55% of revenues and 46% of EBITDA in 2014) is the largest product segment, carrying however the lowest EBITDA margin (2.3% - 7.2% in 2010-14). It includes ready and build-to-order computers, notebooks, hardware equipment, servers, memory cards and peripherals.
(b) **Office equipment** (32% of revenues and 37% of EBITDA in 2014) enjoys a rather inelastic demand and boasts the highest margins (varying between 4%-10% in the last 5 years). This traffic builder segment includes school products, stationery and office supplies.
(c) **Telecom products** (12% of revenues and 15% of EBITDA in 2014) have a growing contribution in sales and profitability mix, with EBITDA margins hovering around 4%-10.2% in 2010-14.
(d) **Other division** (1% of revenues and 3% of EBITDA in 2014) includes the service of PCs and transportation services.

Chart 1: Plaisio's Sales Breakdown (2014)



Source: Plaisio

Private label products are the key growth driver

Own-Branded Products: Plaisio's own brands are Turbo-X, goomby, Q-Connect, @Work and Sentio. Private label products account for c30% of the group's total sales and constitute its key sales and profitability growth driver; they also have an aggressive pricing policy and provide a strong after sales support service. Reflecting Plaisio's high brand awareness, Turbo-X is ranked 1st in the desktop and tablet categories, 2nd in laptops and 3rd in TVs, with Plaisio entering the latter only in Q4'13. Own-branded desktops and laptops are assembled in the group's premises with their parts being imported from China. As a result, private label products offer higher profitability margins. Regarding the brand policy, Plaisio trades high-end brands, whereas it has replaced middle-end brands with its private label.

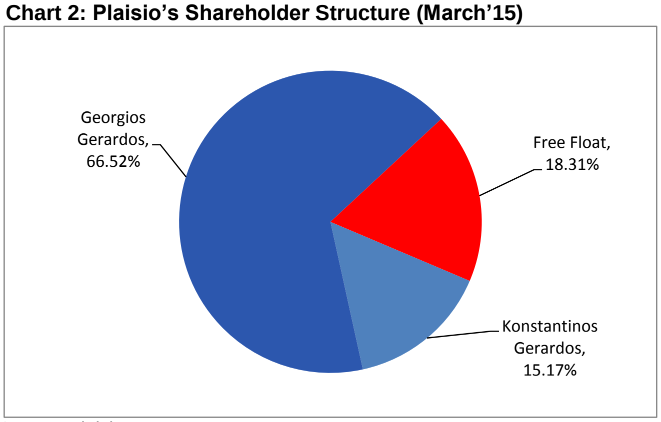
Distribution network consists of 22 stores, direct sales and internet

Distribution Channels: Plaisio's distribution network includes 3 channels, namely its 22-store network (21 stores in Greece and 1 in Bulgaria) that accounts for 70% of sales, its direct sales (23% of total), and internet, which accounts for 7% of total sales.

Two main customer categories: business and private customers

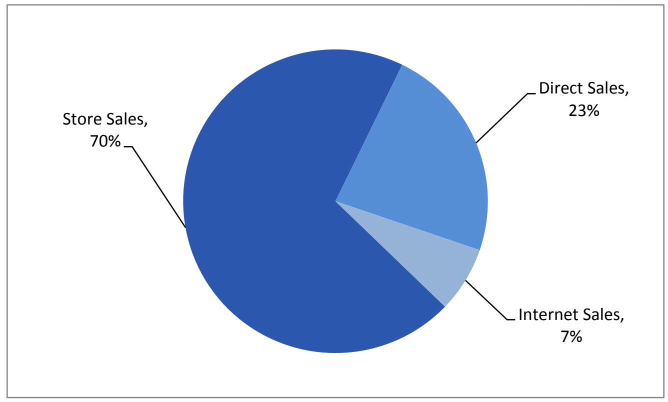
Customer Base - comprises 2 main categories: (a) B2B, which has 160k active business customers handled by the direct sales network. 8 out of 10 largest companies in Greece are Plaisio's customers; B2B generates 60% of the office equipment revenues, with Plaisio offering personalized catalogues, adapted to customers' needs, and (b) B2C, which accounts for 30k private consumers per day served in stores (with a 48% conversion ratio) and 100k unique visitors in the internet channel.

Chart 2: Plaisio's Shareholder Structure (March'15)



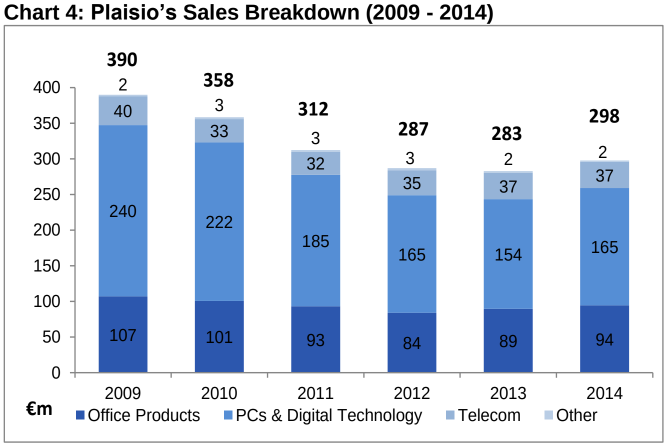
Source: Plaisio

Chart 3: Plaisio's Distribution Channel Structure



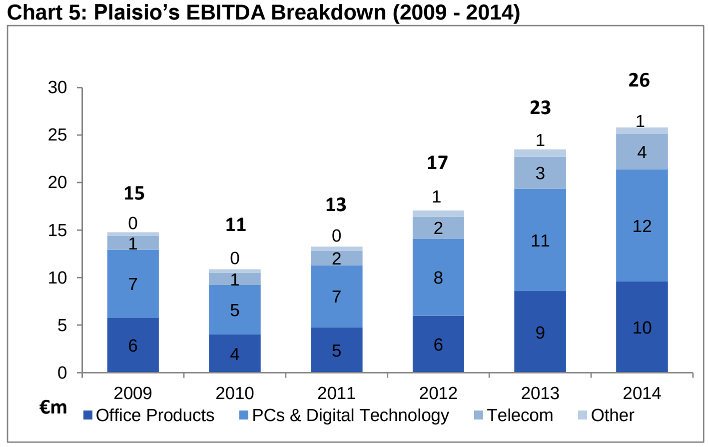
Source: Plaisio

Chart 4: Plaisio's Sales Breakdown (2009 - 2014)



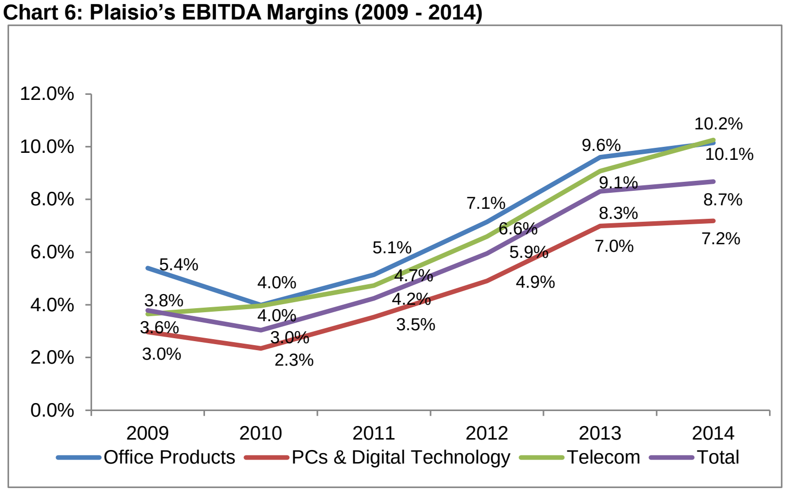
Source: Plaisio

Chart 5: Plaisio's EBITDA Breakdown (2009 - 2014)



Source: Plaisio

Chart 6: Plaisio's EBITDA Margins (2009 - 2014)



Source: Plaisio

Strategy & Outlook

Strong after sales support, customer service and sales experience

3-Pillar Strategy: Plaisio's successful strategy has been based on 3 main pillars, namely the strong/quality after sales support, customer service and sales experience, regarding both the stores and the catalogue. These factors, together with competitive pricing, are mostly responsible for the growth in own-branded products, partly offsetting customer perception of potential quality disadvantage against famous, high-end brands. Regarding the sales experience, it is the same in all distribution channels and it is considered to be of top quality, with immediate service and carefully organized stores. On top, the group follows an aggressive pricing policy, with highly competitive prices (c10% below competition).

Store Roll-Out Plan: Currently, Plaisio operates 14 stores in Athens, 4 in Thessaloniki and 1 store in Larissa, Patra and Irakleio respectively, whereas there is no presence in cities of c100k residents, such as Ioannina (Northwest Greece), Kalamata (South Greece), etc.

Management plans to open 4-5 new stores in Greece

Management's key strategic focus is to relocate some of its existing stores (average 1.3k sqm surface) to newer and larger ones. On top of that, it plans to open 4 to 5 stores in new domestic territories during the next years, with a possibility to open one or more in 2015e, subject to economic conditions. According to management, Plaisio's store roll-out is based on specific standards regarding organizational structure and customer service. Thus, new openings need careful consideration and detailed planning, which could be time consuming.

Intention to expand abroad in the next 5 years

International Expansion: The group operates only one store outside Greece (Bulgaria). Plaisio's increased profitability during the domestic crisis has not added pressure for geographical diversification. However we believe that the management may examine international expansion opportunities in the next 3-5 years, with optimal location and market structure issues thoroughly studied.

Management aims to expand further the online distribution channel

Online Expansion: Sales through the internet account for 7% of total, while the group has gradually increased its online product range. Management plans to expand this distribution channel further, although the domestic consumer usually tends to choose online and then purchase from a store.

Plans for strengthening the private label and entering new product markets

Strengthen Own-Branded Products Trading: The management plans to grow further its private label products (both in terms of awareness and market share) which offer significant top line/profitability support. The strategy is to trade only one third-party product for every 3 private label products. Worth to mention that the newly introduced own-branded TVs record 3-digit growth, with tablets having diminishing growth rates and PCs being more stable. Plaisio aims to strengthen the lucrative own-branded smart phones category, as well as to enter new product markets, in an effort to improve further its profitability margins.

Plans to invest in ERP, CRM systems to further improve customer experience

Improve Infrastructure (ERP, CRM): Last but not least, the management plans to invest further so as to improve its infrastructure in terms of ERP and CRM systems, with the aim to further improve customer experience, and exploit personalized services and cross channel sales opportunities.

Financial Forecasts: Positive Earnings Momentum Despite the Domestic Macro Uncertainty

Q4/FY'14 Results

Q4'14 sales and EBITDA retreated y-o-y, however net income was up 15% y-o-y due to lower depreciation, financial expenses and taxation charges

Plaisio's Q4'14 sales retreated slightly by 1% y-o-y to €84m, ending a positive growth trend that lasted for four consecutive quarters. The decline was mostly attributed to a rather weak Christmas period, adversely affected by the political turmoil and the bad weather. Office equipment revenue growth of 4% y-o-y was more than offset by declines in computers & digital equipment (-2% y-o-y) and telecom products (-7% y-o-y). Q4'14 EBITDA also fell by 5% y-o-y, with the respective margin standing at 11.5% (down 50bps y-o-y), since all divisions posted declines. On the other hand, net income was up 15% y-o-y, on lower depreciation, financial expenses and taxation charges.

In 2014, top line rose by 5% y-o-y to €298m. The computer & digital equipment division recorded a strong 7% y-o-y increase, positively affected by increased TV sales due to the World Cup during summer, while office equipment also posted a positive performance of 6% y-o-y. On the contrary, telecom products eased by 1% y-o-y. 2014 EBITDA rose by 10% y-o-y to €26m, with margin up 40bps to 8.7%. Computer & digital equipment generated 46% of group's EBITDA, with the telecom and the office sectors accounting for 15% and 37% respectively. 2014 reported net profits grew by 13% to €16m, or up 20% excluding the previous year's positive deferred tax income of €0.85m. Additionally, the group's net cash stood at €35m in 2014 (vs €38m in 2013) and operating cash flow fell to €2m from €12m in the previous year, largely mirroring a large increase of inventory.

Table 3. Plaisio Q4/FY'14 Results

in €m	Q1'13	Q2'13	Q3'13	Q4'13	2013	y-o-y	Q1'14	y-o-y	Q2'14	y-o-y	Q3'14	y-o-y	Q4'14	y-o-y	2014	y-o-y
Total Group Sales	**69.0**	**62.5**	**66.2**	**85.0**	**282.7**	**-1.4%**	**72.8**	**5.5%**	**70.5**	**12.7%**	**70.0**	**5.7%**	**84.3**	**-0.8%**	**297.5**	**5.2%**
Office Equipment	20.1	19.9	25.0	24.3	89.4	-1.4%	21.0	4.0%	20.8	4.3%	27.3	9.3%	25.3	3.9%	94.4	5.5%
Computers & Digital Equipment	39.6	33.7	31.6	48.9	153.8	-2.8%	41.9	5.8%	40.6	20.7%	33.9	7.3%	48.2	-1.6%	164.6	7.0%
Telecom Products	8.6	8.3	9.0	11.2	37.0	5.4%	9.4	9.7%	8.6	3.1%	8.2	-8.0%	10.3	-7.4%	36.6	-1.2%
Other	0.6	0.6	0.6	0.6	2.5	-11.7%	0.5	-22.0%	0.5	-20.5%	0.5	-20.3%	0.5	-11.4%	2.0	-18.7%
Total Group EBITDA	**3.7**	**4.7**	**4.9**	**10.2**	**23.5**	***37.7%***	**4.7**	***28.1%***	**5.2**	***9.7%***	**6.2**	***27.0%***	**9.7**	***-4.9%***	**25.8**	***9.9%***
Office Equipment	1.3	1.7	2.0	3.6	8.6	37.6%	1.7	31.1%	1.8	6.8%	2.6	27.4%	3.5	-2.1%	9.6	11.5%
Computers & Digital Equipment	1.8	2.1	2.0	4.8	10.8	37.2%	2.2	23.5%	2.5	15.7%	2.6	30.6%	4.5	-6.2%	11.8	9.9%
Telecom Products	0.5	0.7	0.7	1.5	3.4	45.1%	0.7	48.7%	0.7	6.5%	0.9	23.9%	1.4	-4.4%	3.8	11.6%
Other	0.1	0.2	0.2	0.3	0.8	18.3%	0.1	-10.8%	0.1	-22.7%	0.2	-6.3%	0.2	-20.1%	0.7	-16.0%
Group EBITDA margin	***5.4%***	***7.5%***	***7.4%***	***12.0%***	***8.3%***		***6.5%***		***7.3%***		***8.9%***		***11.5%***		***8.7%***	
Office Equipment EBITDA %	*6.4%*	*8.5%*	*8.0%*	*14.8%*	*9.6%*		*8.0%*		*8.7%*		*9.4%*		*13.9%*		*10.1%*	
Computers & Digital Equipment EBITDA %	*4.5%*	*6.4%*	*6.2%*	*9.9%*	*7.0%*		*5.3%*		*6.1%*		*7.6%*		*9.4%*		*7.2%*	
Telecom Products EBITDA %	*5.6%*	*8.4%*	*8.0%*	*13.1%*	*9.1%*		*7.6%*		*8.6%*		*10.8%*		*13.5%*		*10.2%*	
Other EBITDA %	*21.8%*	*28.7%*	*27.6%*	*50.9%*	*32.0%*		*24.9%*		*27.9%*		*32.5%*		*45.9%*		*33.1%*	
EBIT	**2.9**	**3.9**	**4.2**	**9.5**	**20.5**	**52.4%**	**4.2**	**42.7%**	**4.5**	**15.1%**	**5.6**	**33.6%**	**9.1**	**-4.7%**	**23.3**	**13.6%**
EBIT margin	*4.2%*	*6.3%*	*6.3%*	*11.2%*	*7.3%*		*5.7%*		*6.4%*		*8.0%*		*10.8%*		*7.8%*	
Net financial income (expenses)	-0.1	-0.1	-0.2	-0.8	-1.2	0.0%	-0.4	294.3%	-0.3	113.8%	-0.2	34.9%	-0.2	-82.4%	-1.1	-5.2%
Profits from Associates	0.1	0.0	0.0	0.0	0.1	0.0%	0.0		0.0		0.0		0.0		0.1	
Pre-tax profit	**2.9**	**3.8**	**4.0**	**8.7**	**19.4**	**52.4%**	**3.8**	**31.4%**	**4.3**	**12.0%**	**5.4**	**33.1%**	**8.9**	**1.5%**	**22.3**	**14.5%**
Tax	*0.1*	*-1.2*	*-1.0*	*-3.1*	*-5.1*	*80.4%*	*-1.0*	*n/m*	*-1.2*	*3.6%*	*-1.4*	*46.3%*	*-2.5*	*-52.3%*	*-6.1*	*19.1%*
Effective tax rate	*4.8%*	*-30.4%*	*-24.3%*	*-35.9%*	*-26.4%*		*-27.6%*		*-28.1%*		*-26.7%*		*-27.6%*		*-27.5%*	
Reported Net profit	**3.0**	**2.7**	**3.0**	**5.6**	**14.3**	**132.9%**	**2.7**	**-9.1%**	**3.1**	**15.7%**	**3.9**	**28.9%**	**6.4**	**14.6%**	**16.1**	**12.9%**
Adjusted Net profit	**2.1**	**2.7**	**3.0**	**5.6**	**13.5**	**0.0%**	**2.7**	**27.0%**	**3.1**	**15.7%**	**3.9**	**28.9%**	**6.4**	**14.6%**	**16.1**	**20.0%**

Source: Plaisio, Euroxx Research

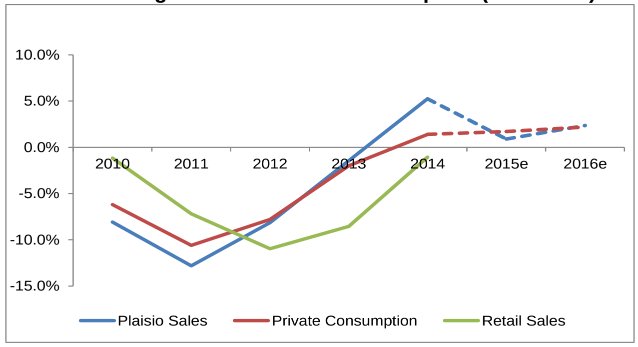
2015-17e: Positive Earnings Momentum

2014-17e revenues CAGR of 2.3% on the back of improved private consumption and further penetration of private label products

Looking ahead, we expect the political uncertainty to prevail the domestic macroeconomic environment, at least during the beginning of 2015. We are cautiously optimistic that Greece will successfully conclude the current review and reach an agreement over a new Programme after June, that should restore economic recovery in H2'15e. Taking also into account the latest EC projections of private consumption growth (+1.7% in 2015e and +2.2% in 2016e) and the increasing penetration of Plaisio's own-branded products, we (cautiously) forecast 2015e revenues to grow marginally by 1% y-o-y to €300m, before resuming to more 'normalised' growth rates of 2% y-o-y in 2016e (to €307m) and 4% y-o-y in 2017e (to €318m). Our implied 2014-2017e sales CAGR is 2.3%.

As shown in the graph below, there seems to be a strong linkage over 2010-14 between the y-o-y changes in the domestic private consumption and Plaisio's revenues.

Chart 7: Sales growth vs Private Consumption (2010 –16e)



Source: Plaisio, ELSTAT, European Commission (Econ. Forecast Winter '15)

2014-17e EBITDA and EPS CAGRs of 4.9% and 7.7% respectively, driven by growth in all products' segments

On the profitability front, we project EBITDA to rise by 2% y-o-y in 2015e, with a practically flat y-o-y margin of 8.8%, mainly to account for an unfavourable €/$ parity and difficult trade conditions. Note that as Plaisio's 30% of COGS is in US$, we expect the US$ appreciation to have a negative impact on profit margins, despite the group's hedging activity and management intention to occasionally pass-on any price hikes to end customers. All-in-all, we expect a 2014-2017e EBITDA CAGR of 4.9%, driven by cost efficiencies and margin gains resulting from the increased penetration of private label products. In a similar fashion, we project a 2014-17e EPS CAGR of 7.7%, including 6% y-o-y growth in 2015e (to €0.77), also aided by lower depreciation.

Table 4: Plaisio P&L Forecasts (2013-17e)

in €m	2013	2014	2015e	2016e	2017e	CAGR 14-17e	2014 yoy	2015e yoy	2016e yoy	2017e yoy
Group Sales	**282.7**	**297.5**	**300.2**	**307.2**	**318.3**	**2.3%**	**5.2%**	**0.9%**	**2.4%**	**3.6%**
- Office Equipment	*89.4*	*94.4*	*96.3*	*98.4*	*101.8*	*2.6%*	*5.5%*	*2.0%*	*2.2%*	*3.5%*
- Computers & Digital Equipment	*153.8*	*164.6*	*166.1*	*170.2*	*176.7*	*2.4%*	*7.0%*	*0.9%*	*2.5%*	*3.8%*
- Telecom Products	*37.0*	*36.6*	*35.9*	*36.7*	*37.8*	*1.0%*	*-1.2%*	*-2.0%*	*2.2%*	*3.0%*
- Other Sales	*2.5*	*2.0*	*2.0*	*2.0*	*2.0*	*0.0%*	*-18.7%*	*0.0%*	*0.0%*	*0.0%*
Gross Profit	**68.8**	**73.1**	**75.2**	**78.1**	**82.3**	**4.0%**	**6.2%**	**2.9%**	**3.9%**	**5.4%**
Gross Margin	*24.3%*	*24.6%*	*25.0%*	*25.4%*	*25.9%*					
Group EBITDA	**23.5**	**25.8**	**26.3**	**27.7**	**29.8**	**4.9%**	**9.9%**	**1.8%**	**5.4%**	**7.5%**
EBITDA Margin	*8.3%*	*8.7%*	*8.8%*	*9.0%*	*9.4%*					
- Office Equipment	*8.6*	*9.6*	*9.8*	*10.3*	*11.0*	*4.9%*	*11.5%*	*2.0%*	*5.2%*	*7.5%*
EBITDA %	*9.6%*	*10.1%*	*10.1%*	*10.4%*	*10.8%*					
- Computers & Digital Equipment	*10.8*	*11.8*	*12.1*	*12.7*	*13.7*	*5.2%*	*9.9%*	*2.3%*	*5.3%*	*8.0%*
EBITDA %	*7.0%*	*7.2%*	*7.3%*	*7.5%*	*7.8%*	-				
- Telecom Products	*3.4*	*3.8*	*3.7*	*4.0*	*4.3*	*4.8%*	*11.6%*	*-0.1%*	*7.1%*	*7.7%*
EBITDA %	*9.1%*	*10.2%*	*10.4%*	*10.9%*	*11.4%*					
- Other Sales	*0.8*	*0.7*	*0.7*	*0.7*	*0.7*	*0.0%*	*-16.0%*	*0.0%*	*0.0%*	*0.0%*
EBITDA %	*32.0%*	*33.1%*	*33.1%*	*33.1%*	*33.1%*					
Depreciation	2.9	2.5	2.1	1.8	1.6	-13.5%	-16.2%	-13.8%	-13.7%	-13.1%
EBIT	**20.5**	**23.3**	**24.1**	**25.8**	**28.2**	**6.5%**	**13.6%**	**3.4%**	**7.1%**	**9.0%**
EBIT Margin	*7.3%*	*7.8%*	*8.0%*	*8.4%*	*8.9%*					
Profits from Associates	0.1	0.1	0.1	0.1	0.1					
Net Financial Income/(Expenses)	-1.2	-1.1	-1.1	-1.1	-1.0		*-5.2%*	*-0.2%*	*-7.1%*	*-7.4%*
PBT (reported)	**19.4**	**22.3**	**23.1**	**24.9**	**27.3**	**7.0%**	**14.5%**	**3.7%**	**7.7%**	**9.7%**
PBT Margin	*6.9%*	*7.5%*	*7.7%*	*8.1%*	*8.6%*					
Tax	-5.1	-6.1	-6.0	-6.5	-7.1					
Effective Tax Rate	*26.4%*	*27.5%*	*26.0%*	*26.0%*	*26.0%*					
Net Income	**14.3**	**16.1**	**17.1**	**18.4**	**20.2**	**7.8%**	**12.9%**	**5.9%**	**7.7%**	**9.7%**
Net Margin	*5.1%*	*5.4%*	*5.7%*	*6.0%*	*6.3%*					
EPS reported (€)	**0.65**	**0.73**	**0.77**	**0.83**	**0.91**	**7.8%**	**12.9%**	**5.9%**	**7.7%**	**9.7%**
Adjusted Net Income*	13.5	16.1	17.1	18.4	20.2	*7.8%*	*20.0%*	*5.9%*	*7.7%*	*9.7%*
Adjusted EPS* (€)	**0.61**	**0.73**	**0.77**	**0.83**	**0.91**	**7.8%**	**20.0%**	**5.9%**	**7.7%**	**9.7%**

Source: Plaisio, Euroxx Research. Note: (*) In adjusted Net Income & adjusted EPS we have excluded the positive deferred tax income of €0.85m in 2013

We present below our key forecasts per Plaisio's segment:

2014-17e office equipment sales and EBITDA CAGRs at 2.6% and 4.9%, respectively

Office equipment - We expect 2015e sales to grow 2% y-o-y to €96m and we estimate revenue CAGR of 2.6% in the 2014-2017e period, supported by the Plaisio's large catalogue, as well as by its strong market positioning. We forecast 2015e EBITDA of €10m, 2% higher y-o-y, with flat margin due to pressures from an unfavourable €/$ parity. That said, we forecast slight EBITDA margin improvements post 2015e, driven by a more favourable product mix with an increased contribution from the high-margin school products.

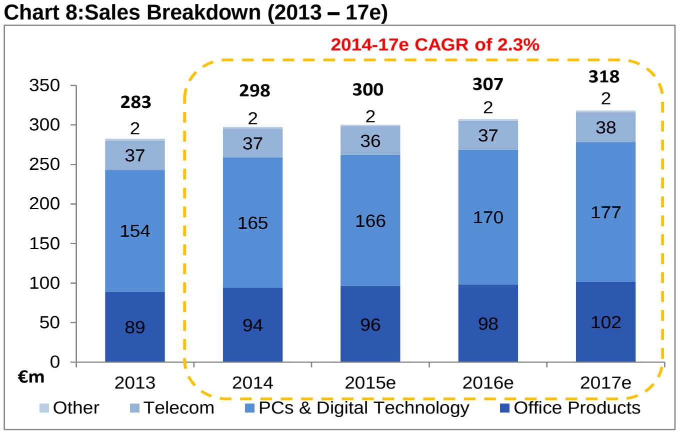
2014-17e computers & digital equipment sales and EBITDA CAGRs at 2.4% and 5.2%, accordingly

Computers & Digital equipment – We expect 2015e revenues of €166m, 1% higher y-o-y, and we estimate a 2014-17e CAGR of 2.4%, driven by increased brand awareness in private label products and a more focused TV advertising campaign. We forecast 2015e EBITDA of €12m, 2% higher y-o-y, accounting for 46% of total. Further ahead, we expect EBITDA margin to gradually grow from 7.3% in 2015e to 7.8% in 2017e mainly driven by the maturing of the business and an improving economic environment.

2014-17e telecom products sales and EBITDA CAGRs at 1% and 4.8%, respectively

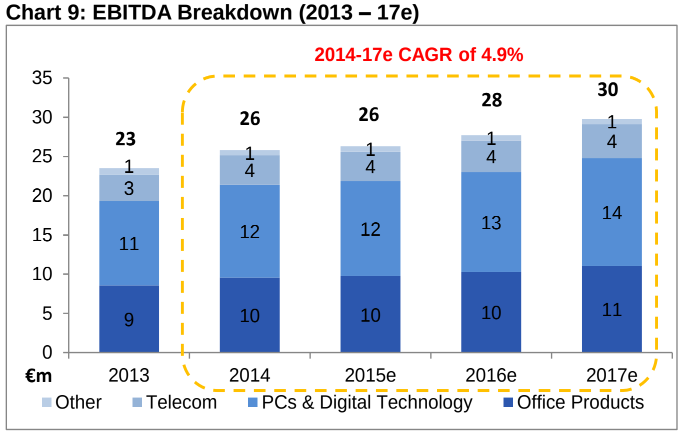
Telecom products – Mirroring 2014 trends, we forecast 2015e sales to decline 2% y-o-y to €36m, while we project a 2014-17e sales CAGR of 1%, also driven by a higher penetration of own-branded products and the group's focused marketing policy. We anticipate EBITDA margin to increase from 10.4% in 2015e to 11.4% in 2017e, again supported by the growing contribution of higher-margin private label products.

Chart 8:Sales Breakdown (2013 – 17e)



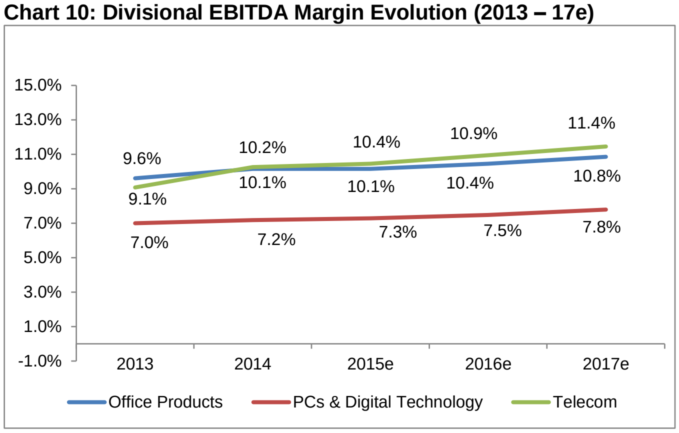
Source: Plaisio, Euroxx Research

Chart 9: EBITDA Breakdown (2013 – 17e)



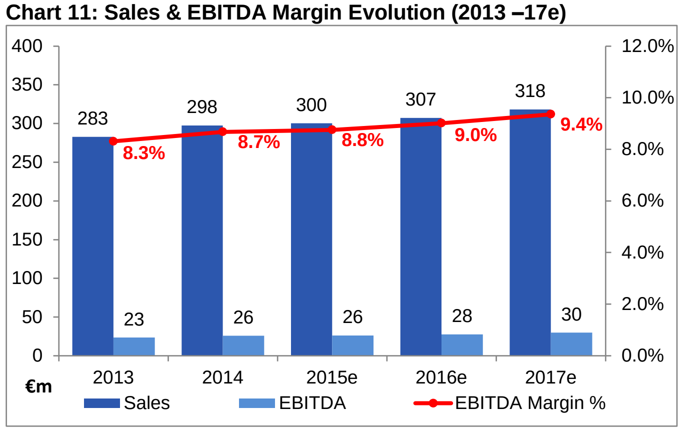
Source: Plaisio, Euroxx Research

Chart 10: Divisional EBITDA Margin Evolution (2013 – 17e)



Source: Plaisio, Euroxx Research

Chart 11: Sales & EBITDA Margin Evolution (2013 –17e)



Source: Plaisio, Euroxx Research

Healthy Balance Sheet and Strong Free Cash Flow in 2015-17e

Healthy underleveraged balance sheet with net cash position

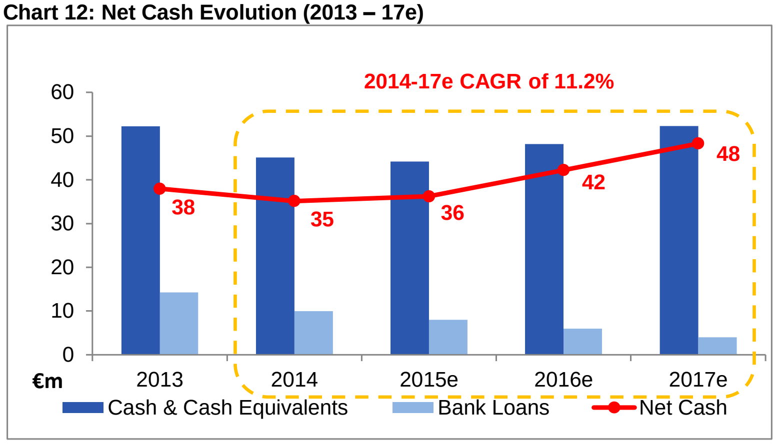
Plaisio currently boasts a healthy, underleveraged balance sheet with a net cash position since 2010, courtesy of a cash generative model with low receivables and limited capex. Net cash reached €35m in 2014 and we expect it to increase further to €36m in 2015e (despite the €11m capital return) and €42m in 2016e.

Strong FCF with low WC requirements

Plaisio's solid Free Cash Flow in 2010-13 (yield of 9-15%) was mainly supported by successful working capital management. That said, working capital rose sharply y-o-y in 2014 to €26m, mainly driven by a 30% y-o-y increase of inventory (attributed by the management to the own-branded products and the lower-than-expected Christmas sales), as well as due to lower payables, since the management has opted to increase cash payments in exchange of better pricing. Hence, 2014 FCF fell to €2m from €12m in 2013, implying a cash conversion cycle of 24 days vs 7 in 2013.

Going forward, we forecast FCF to return back to 2013 levels of c€12m, owing to the higher operating profitability but mostly to the lower WC changes (also mirroring management guidance).

Chart 12: Net Cash Evolution (2013 – 17e)



Source: Plaisio, Euroxx Research

Table 5: Free Cash Flow Forecasts (2013-17e)

in €m	2013	2014	2015e	2016e	2017e
EBITDA	23.5	25.8	26.3	27.7	29.8
-Tax paid	-2.9	-7.7	-6.0	-6.5	-7.1
-Capex	-0.4	-1.0	-2.0	-2.0	-2.0
-WC changes	-7.0	-14.2	-5.4	-6.0	-6.5
Free Cash Flow to the Firm (FCFF)	**13.2**	**2.9**	**12.8**	**13.2**	**14.2**
-Interest paid	-1.3	-1.3	-1.1	-1.1	-1.0
Free Cash Flow to Equity (FCFE)	**11.9**	**1.6**	**11.7**	**12.2**	**13.2**
FCF yield (%)	***9.3%***	***1.3%***	***9.2%***	***9.6%***	***10.4%***

Source: Plaisio, Euroxx Research

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Equalweight	Expected total return between -10% and +10%	3	13%	0%
Underweight	Expected total return < -10%	0	0%	0%
Under Review	Recommendation and Target Price are subject to revision	6	25%	0%
*The target price and rating have a time horizon of one year				

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Valuation Method
We value Plaisio using a 2-stage DCF model, in which we form an explicit set of forecasts for the period up to 2019e, after which we assign a terminal value growth of 1%. Our WACC has been set at 12.0%, based on sector beta of 1.0, a risk-free rate of 0.3% (German 10-year Bund yield) and an equity risk premium of 13%.

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Rating History

Date	Rating	Share Price	Target Price
18/03/2015	Overweight	5.75	7.50

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