

## Dino Polska S.A. (WSE:DNP): Buy, 800 PLN 5-year price target with 13.5% IRR

As of:	4/28/23											Consensu	S
Price, PLN	423	Market Cap	41,510	PLN M	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2022E</u>	<u>2023E</u>	<u>2024E</u>
52 Wk High-Low	266 - 431	Debt	1,079	Revenue	4,463	5,839	7,647	10,126	13,362	19,802	26,058	31,653	37,274
FD shares o/s, M	98.0	Leases	706	Growth	32.4%	30.8%	31.0%	32.4%	32.0%	48.2%	31.6%	21.5%	17.8%
Float	48.8%	Cash	(383)										
30-day avg vol, M	106.1	EV	42,912	Gross Profit	1,041	1,412	1,861	2,604	3,324	4,763	6,225	7,652	8,987
				Margin	23.3%	24.2%	24.3%	25.7%	24.9%	24.1%	23.9%	24.2%	24.1%
DMD	stock price	(lact E2 w/k)											
DNP	Stock price	(last 52 WK)		EBIT	317	430	564	840	1,031	1,552	2,026	2,537	3,021
450			-	Margin	7.1%	7.4%	7.4%	8.3%	7.7%	7.8%	7.8%	8.0%	8.1%
400	~^^^	a change	mar										
350	John May			Net Income	214	308	411	644	805	1,132	1,528	1,973	2,370
300	~~~			Margin	4.8%	5.3%	5.4%	6.4%	6.0%	5.7%	5.9%	6.2%	6.4%
200													
150				ROIC %	16.7%	17.0%	19.7%	22.2%	21.0%	22.3%			
100													
50				NTM multipl	es						4/28/23		
				EV/Sales	1.3x	1.6x	1.7x	1.9x	2.2x	1.8x	1.6x		
9r-22 19-22 11-22	ur-22 Ig-22 :p-22 ct-22	ov-22 ec-22 in-23	ar-23 or-23	EV/EBIT	19.8x	22.2x	22.3x	25.6x	26.4x	21.8x	21.1x		
Ar Ma	o Se	Ja Die	AA	P/E	25.1x	29.7x	30.0x	34.7x	33.2x	27.7x	27.1x		

**Dino Polska** is a chain of proximity supermarkets in Poland with 2.2K stores open at 2022 year end. Dino's strategy is focused compact stores (400 sq m) in less urbanized areas, such as small towns, villages and suburban districts. Over the last decade, Dino grew the number of stores at 25% CAGR while increasing ROIC from mid-teens to low-twenties. As of 2022, it is the third largest grocery retail brand in Poland with approximately 5% market share.

Dino is listed on Warsaw stock exchange (\$10B market cap), and reports its financials in Polish Zloty (PLN). Throughout this pitch Dino's financials are presented in PLN.

## **Investment thesis**

Recent multiples compression on the fears of saturated TAM represent an opportunity to own a high-quality retailer with strong barriers-to-entry, significant runway of growth and expanding margins:

**Store TAM is larger than implied by the market**: Current stock price implies that the market expects Dino to open ~1.25K stores from 2023 onwards. I believe this number is conservative and should be closer to 3.25K based on Poland demographics. Company disclosures also suggest it already committed to ~2K stores to be open.

**Margins will expand as new stores additions become smaller part of the mix:** Dino's consolidated results are distorted by the newly open stores earning significantly lower margins. As Dino's growth eventually slows down, the margins should expand to match those of mature stores (by ~250bps 10.4% vs 7.9% in 2022) driven by stores operating leverage.

### **Dino Polska history**

Dino was founded in 1999 by Tomasz Biernacki, with first store opened in West Poland (Wielkopolska region). In 2002, first distribution center was created in Krotoszyn. In 2003, Dino acquired its fresh meat supplier, Agro-Rydzyna meat plant. Through 2004-2009 the company has experimented with store formats and settled down for its current niche: mid-sized supermarkets in small and medium-sized towns, and on the outskirts of large cities.

In 2010, the founder has sold 49% of the shares in the company for 0.2B PLN to Enterprise Investors, which provided funding for rapid store growth in subsequent years (111 stores in 2010 vs 628 in 2016). In 2017, Enterprise Investors sold its stake through company IPO on the Warsaw Stock Exchange. No additional shares were issued during the IPO.

### Poland grocery retail market overview

Poland is 19<sup>th</sup> largest economy in the world by GDP and 41<sup>st</sup> by GDP per capita. Following the fall of communism in 1989, the country has grown faster than its Eastern European peers and is now the largest economy in the region (ex Russia). Real GDP growth in the last 15 years was mainly achieved through increases in GDP per capita, with population remaining relatively stable at 38-39M people. About 40% of the population lives in rural areas.

2022 was marked by ~3x spike in inflation, landing at 14% (among the highest in the EU), and 1.1M inflow of Ukrainian refugees due to Russian invasion. Euromonitor expects the real GDP growth and inflation both to normalize at roughly 3% by 2025 (see Exhibit 2 for socio-economic indicators).

Euromonitor estimates Poland grocery retail market to reach 383B PLN (\$91B) in 2023. As demonstrated in Exhibit 3, the market has grown at 5.4% CAGR in 2009-2021 and is expected to grow at higher 7.4% CAGR in 2022-2027 mainly due to increase in inflation rates in 2022-2023. At the same time, the number of stores has been decreasing. Polish grocery sales through e-commerce have been growing at 18% CAGR since 2014, however, they still represent 0.6% of all grocery sales in the country.

Exhibit 3 also lists key players in Polish grocery retail market. Dino's largest competitor is Biedronka (owned by Portuguese company Jeronimo Martins), with 23.4% market share compared to Dino's 4.9% in 2022. So far, branded grocery store chains have been growing market share at the expense of traditional stores, which lost 18% share in 10 years. The top three players in 2022 - Biedronka, Lidl, and Dino - are the largest market share winners with 8.6%, 5.5% and 4.1% gained over the last decade, respectively. The rest of branded stores cumulatively have neither gained or lost market share.

## Dino Polska's niche and store economics

Dino Polska has only one reporting segment which covers its retail store operations. A typical Dino store is about 400 sq m (4,300 sq ft) in size, has 10-30 parking places and an area for truck deliveries. Dino stores offer their customers around 5,000 SKUs, 95% of the which are branded. The majority of Dino's sales (88%) is generated by food (39% fresh, 49% other). Each store includes a meat counter supplied by Agro-Rydzyna plant that Dino Polska acquired in 2003. Since 2010, Dino Polska is sole distributor of meat and ham products under Agro-Rydzyna brand (11% of sales). Majority of offering is sourced directly from producers or their main representatives, instead of wholesalers, to generate higher margins. Dino closely cooperates with Polish producers regional brands that serve as a cheaper alternative to leading national and global brands, analogous to the function of private label products offered by discount stores (Biedronka, Lidl). Dino conducts a weekly price review for key 500 SKUs to ensure that on average their prices match the largest competitors.

Dino has 7 distribution centers serving ~300 stores each, with 8<sup>th</sup> center pending opening in 2023. The company owns ~90% of its stores, which allows for store design standardization and more flexible choice of location. To build the stores, Dino uses Krot Invest, a construction business owned by Dino's founder.

Dino stores typically target 3,500 resident catchment areas in smaller towns / rural areas and provide parking spots. Targeting smaller communities allows Dino avoiding head-to-head competition with stores that demand more dense population (larger discounters and hypermarkets). Despite the fact that Dino is trying to occupy niche locations, the store economics do not demand for Dino to become a monopoly in the catchment area. Table on the right illustrates that an average customer only buys about a third of their groceries at Dino.

Exhibit 4 is a summary of a typical Dino store unit economics – illustrated for an owned store opened in 2022. According to management commentary, a typical store reaches maturity in 3 years with 60% sales of a mature store delivered in first year. The rest of assumptions on cost and margins are derived from the

Grocery sales TAM, B PLN	341
Population, M	38
Avg basket/year, PLN	8,950
Dino stores:	
Store revenue, M PLN	10.1
Catchment area, people	3,500
Avg basket/year, PLN	2,900
% of total customer spend	32%

Years of operating	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
Revenue of mature store, %	60%	80%	100%	100%
GM%	19%	23%	25%	25%
EBITDA %	-4%	6%	12%	12%
EBIT %	-6%	4%	10%	10%
FCF margin %	-3%	2%	8%	8%
ROIC %	-12%	9%	30%	30%

company's financial statements. Per summary table on the right, a typical Dino store earns 25% gross margin, 10% EBIT margin and 30% ROIC at maturity. During the first two years, however, these margins are way lower, which is distorting overall company performance given significant growth component in the prior years.

## Management team

The founder Tomasz Biernacki (age 49) remains a majority shareholder with 51% ownership. Biernacki is one of the most secretive businessmen in Poland. He didn't show up at the stock exchange during 2017 IPO, and his management team rejects investor requests to meet in Warsaw, instead asking them to visit the Dino's HQ about 200 miles away. Known for his frugality, Biernacki did not issue any additional shares during the IPO (and later), only placing 49% share previously owned by Enterprise Investors.

Dino Polska is managed by a three-person Management Board, consisting of Izabela Biadała, Michał Krauze and Piotr Ścigała (see Exhibit 5 for detailed biographies). All three board members have been with Dino since 2002-2003, when Dino Group's retail business comprised only about a dozen stores.

The management's capital allocation to date focused on reinvesting all operating cash flow (in 2022 the company generated 1.2B PLN) in Dino's store network. The company has not paid any dividends and has not repurchased any shares. This capital allocation approach seems reasonable given high ROIC from opening new stores and remaining capacity to do so. Dino also applies conservative policy when it comes to debt – the company kept Debt/EBITDA <2.0x since 2016 and currently has interest coverage of 11.0x.

## Competitive advantages / barriers to entry

Dino Polska is protected by several barriers to entry demonstrated by ROIC significantly above cost of capital and the growing market share:

Niche locations: Dino Polska targets low-density small towns, village areas and cities outskirts with ~3,500 customers nearby. The surrounding population in these locations is not enough to profitably locate a lot of competing stores, as well as place a larger store (e.g. a hypermarket). This niche positioning potentially can also

protect Dino from online grocery delivery competitors (e.g. frisco.pl) as those target large urban areas first. Given Dino buy land and builds its stores from scratch, it has more flexibility to pick the most efficient location.

• High network density and distribution cost savings: Dino originated in Krotoczyn area (wielkopolskie region) and gradually expanded into nearby regions, adding a distribution center for every 300 stores on average. The stores receive fresh products supply on a daily basis. Current network of 2.2K stores and 7 distribution centers requires significant investment from new entrant to replicate distribution cost savings.



- Supplier economies of scale: Dino supplies most SKUs directly from the producers or their main representatives. Large and constantly growing order volumes (3<sup>rd</sup> largest grocery retailer brand in Poland as of 2022) bring economies of scale and allow Dino to purchase the goods on favorable terms. Since Dino also owns its meat counter supplier, Agro Rydzyna, it is fair to assume that there are significant cost savings for meat products as well.
- Store ownership efficiencies: since Dino owns most of its stores and builds them from scratch, it can stick to exact same store format to optimize logistics and operations. Dino also has more oversight over the stores operations compared to franchised grocery retailers (Delikatesy Centrum, Zabka, Lewiatan etc). The fact that the stores are identical also provides the management with more certainty around where they should place the stores and how these will perform. Lastly, the store recovers initial investment in approximately 5-6 years, allowing Dino to save on lease payments.

## Thesis point #1 – Dino can add 2,000 more stores than the market expects

The key question for Dino's valuation is how large is the store TAM. Current stock price implies that the market expects Dino to open ~1.25K stores from 2023 onwards. I believe this number is conservative and should be closer to 3.25K based on Poland demographics. To calculate TAM, it is helpful to look at store locations and regional density dynamics at lower level than disclosed by Dino. The company publishes the density result by voivodeship (województwo, similar to a US state - 16 in Poland), but it can mask the differences in local demographics.

By scraping Dino's website and Google maps, I have obtained the list of all Dino stores as of April 2023 and allocated them by powiat (smaller administrative unit, 380 in Poland). Division by powiats helps segregate larger cities as those are less relevant for Dino's TAM.

Per Exhibit 7, 82% of Dino stores are located in powiats with density



Applying these store assumptions to whole Poland by powiat population density results in 4.6K stores TAM (2.4K to open)

for scenario where eventually newer regions catch up to mature ones and 6.3K stores (4.1K to open) in maximum density scenario (applying similar metrics as powiats with >25 stores per 100K to the rest of Poland). I have assumed the average of these scenarios as the base case for the valuation model (3,250 stores to go), implying 12.3% market share at maturity.

The competition from Biedronka is a key risk to be considered, given the chain leading position in Poland – therefore I have also obtained Biedronka store locations. Even in powiats with the most Dino locations per 100K (>25 stores) the two chains seem to be able to co-exist. Per table on the right, Biedronka is present in those locations at 10 stores per 100K (slightly below the country average) and is targeting ~3x larger population per store than Dino. This aligns with the

argument above that Dino does not have to be a monopoly store in the area to achieve current returns (as only one third of grocery expenses is spent at Dino). Dino also discloses the amount of off-balance sheet liabilities related to "further expansion of the Dino Group store network and expansion of warehouse space". As of 2022 this amount was 568M PLN, most likely comprised of preliminary agreements to purchase land for the stores (Dino starts land permits process several years in advance of store construction). Using average land prices (see asset value section under valuation) one can convert these liabilities to 1.6K stores

		Dii	10	Biedronka		
		Stores per 100K people	Population per store, K	Stores per 100K people	Population per store, K	
	above 25	28.7	3.5	9.9	10.1	
Dirc DOV	20-25	22.1	4.5	8.8	11.4	
2 7 7	15-20	17.2	5.8	9.4	10.6	
ts t pe	10-15	12.4	8.1	8.9	11.3	
via	5-10	7.6	13.2	8.2	12.2	
P 01 Sto	below 5	2.0	49.9	7.4	13.5	
	none	-	-	6.0	16.6	
	Total	5.9	16.9	7.6	13.1	

	2022
Off balance sheet liabilities, M	568
Land price per sq m	118
Land, K sq m	4,801
Stores equivalent - land commit	1,600
Construction in progress	1,416
Distribution center	100
CIP - stores	1,316
CAPEX per store	3.1
Store equivalent - CIP	421
Total stores committed	2,021



commitment. Additionally, there is a significant construction in progress balance that is equivalent to another 0.4K stores. Therefore, the bear case should assume 2,000 stores to be open.

## Thesis point #2 – Margins will expand as new stores additions become smaller part of the mix

As discussed in store unit economics section, Dino's consolidated results are distorted by the newly open stores earning significantly lower margins. This margins drag is quite significant given that as of 2022 about a third of Dino's stores were open within last two years and, therefore, were under-earning compared to mature stores. As Dino's growth eventually slows down, the margins should expand to match those of mature stores (by ~250bps 10.4% vs 7.9% in 2022) driven by stores operating leverage (see Exhibit 5). This dynamic might be overlooked by the market if it assumes current margins will extrapolate into perpetuity.

	#stores	Sales	GM	GM %	EBITDA	Margin	EBIT	Margin	ROIC
# of mature stores	1,473	14,949	3,742	25.0%	1,721	11.5%	1,560	10.4%	30.4%
#ofyear 1 stores	341	2,076	391	18.8%	(77)	-3.7%	(120)	-5.8%	-11.8%
# of year 2 stores	342	2,777	630	22.7%	161	5.8%	123	4.4%	9.3%
Total stores - weighted	2,156	19,802	4,763	24.1%	1,805	9.1%	1,563	7.9%	20.4%
Total stores - actual				24.1%		9.4%			22.3%

#### **Valuation**

#### Asset value

The most important assets for Dino Polska are its owned stores and land plots. To re-value the land and buildings balance, I have obtained the most recent average prices for rural commercial buildings and commercial land plots from Poland statistics office. Assuming an average Dino store is 400 sq m and sits on a 3,000 sq m land plot, the owned stores portfolio should be valued at 5.8B PLN at current prices. This is a 1.3B adjustment to 4.5B PLN net balance for land and buildings Dino had as of 2022.

Dino Polska does not heavily invest in advertising, therefore I have not capitalized the brand value. Other adjustments are (0.1)B PLN goodwill and intangibles write-off originated from Agro-Rydzyna meat plant acquisition and addition of 0.2B PLN required to replicate the workforce (10% of employee-related expenses incurred in 2022).

After these adjustments to book value of equity, Dino Polska assets should be valued at 5.7B PLN or 58 PLN per share. Calculation details are available in Exhibit 8 of the Appendix.

## Earnings power value

As mentioned above, the current earnings are not a good measure of sustainable earnings because the overall company results are distorted by newly opened stores underperforming during the first 2 years. Therefore, for Dino's EPV calculations it makes sense to use "mature state" EBIT margin of 10% instead of current EBIT margin of 8%. I have applied 9.5% WACC in line with the average used by the management for the last two years (goodwill impairment footnote), more conservative than ~8% suggested by CAPM.

These assumptions put Dino Polska earnings power value at 22.4B PLN or 214 PLN per share (calculations in Exhibit 9). The EPV is 3.7x higher than the asset value, confirming the presence of Dino's strong competitive advantages described above.

#### Growth

Dino has been reinvesting all operating cash flow in Dino's store network, where it can yield the highest ROIC. Assuming no disruption in store economics, this dynamic is to continue until stores TAM is exhausted. It is unlikely that the company would distribute any cash to investor before then. Therefore, to calculate the holding period return (HPR) for the next 5 years we can assume the reinvestment rate is capped at stores CAGR divided by ROIC. The table on the right summarizes the HPR results for three scenarios based on different TAM size assumptions for Dino stores. The calculation assumes significant multiple compression as TAM would be exhausted after 5 years and the company growth would largely follow inflation.

I also valued Dino through DCF as it helps model store openings and margin expansion in more detail. The model assumes Dino opening the remainder of the stores in the TAM (with total number of stores varying per bear, base and bull case) over the next 10 years and margins expanding to mature state. The terminal value uses 2.5% growth in line

	Bear	Base	Bull
# stores, 2022	2,156	2,156	2,156
#stores, TAM	4,156	5,406	6,256
CAGR, 5 years	14.0%	20.2%	23.7%
ROIC	22.3%	22.3%	22.3%
Reinvestment rate %	63%	90%	100%
Distribution rate %	37%	10%	0%
D/V	1.1%	0.3%	0.0%
g - organic	5.3%	5.3%	5.3%
g-investments	14.0%	20.2%	22.3%
g	19.3%	25.5%	27.7%
Current EV/NOPAT	26.0	26.0	26.0
Compressed to	16.0	16.0	16.0
h	-9.3%	-9.3%	-9.3%
Expected return	9.4%	14.1%	15.8%

DCF	Stock price	Implied new stores	5-year target	5-year IRR
Market	423	1,250		
Bear	476	2,000	698	10.5%
Base	549	3,250	798	13.5%
Bull	608	4,100	881	15.8%

with average Poland inflation and Euromonitor estimates, and 9.5% WACC. The results are summarized in the table on the right and Exhibit 9.

#### Key Risks

<u>Competition from Biedronka and other large chains</u>: Biedronka is the market leader with 23.4% market share, and, given this scale, has the resources to compete with Dino in most regions. However, as described above, Biedronka is already present in locations with dense Dino stores network and did not cause Dino's store economics to worsen. The typical customer is also likely to use both stores as their offerings are quite different: Biedronka focuses on private labels, while Dino offers well-known regional brands. In addition, Dino's meat counter is a key differentiator against the discounter chains that do not offer this service.

<u>Rise of grocery e-commerce</u>: Grocery delivery players such as Frisco.pl, Everli, Glovo and others are online supermarkets that allow same or next day delivery (some within an hour). Grocery e-commerce gained 0.6% market share and remains concentrated in larger cities that puts less pressure on Dino chain than Biedronka, Lidl or other large supermarkets. Dino currently does not offer delivery and could partner with one of the players to leverage Dino's network density and distribution capabilities for rural areas coverage.

<u>Poland urbanization</u>: Given Dino's location focus on smaller towns and villages, there is a risk of population decrease in those areas as urbanization trend gains pace. However, over the last 15 years the percentage of rural population in Poland remained stable at 40%.

## <u>APPENDIX</u>

# Exhibit 1 – Dino Polska store setup



## Agro Rydzyna meat counter:



### Exhibit 2 – Poland socio-economic indicators



Source: Euromonitor

## Exhibit 3 – Poland grocery retail market



### Key grocery retail players in Poland:

Name	Owner	Туре	Total stores, 2022	% store growth y/y	Sales, B PLN	Sales per store, M PLN	Average store size, sq m	Market share,%
Biedronka	Jerónimo Martins	Discounter	3,395	5%	82.0	24.2	600	23.4
Lidl	Schwarz Beteiligungs	Discounter	840	5%	26.9	32.0	Small 600 Large 1,000+	9.4
Dino	Dino Polska	Supermarket	2,156	19%	19.8	9.2	400	4.9
Lewiatan	Eurocash	Convenience	3,237	7%	15.3	4.7	200	4.6
ABC	Eurocash	Convenience	7,351	-20%	14.0	1.9	130	4.1
Zabka	Zabka Polska	Convenience	9,001	13%	13.6	1.5	60	4.0
Kaufland	Schwarz Beteiligungs	Hypermarket	237	6%	11.6	48.9	2,500	3.4
Auchan	Auchan Group	Hypermarket	102	10%	11.2	110.3	Small 500-2,500 Large 5,000-19,000	3.3
Delikatesy Centrum	Eurocash	Convenience	1,483	-5%	7.8	5.3	200	2.3
Netto	Salling Group	Discounter	660	10%	5.8	8.8	750	1.7





Source: Euromonitor

#### Exhibit 5 – Historical financials overview



## Exhibit 5 – Dino Polska store unit economics

PLN M, values for an owned store launched in 2022

Years of operating	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
Mature store revenue		10.1	11.4	12.1	12.5
Inflation		14%	12%	6%	3%
Revenue % of mature store		60%	80%	100%	100%
Variable COGS % of revenue		66%	66%	66%	66%
Revenues		6.1	9.1	12.1	12.5
COGS - variable		4.0	6.0	7.9	8.2
COGS - fixed		0.9	1.1	1.1	1.2
Gross margin		1.1	2.1	3.0	3.1
GM%		18.8%	22.7%	25.0%	25.0%
Employee salaries (~16 per store)		1.0	1.1	1.1	1.2
Other operating		0.4	0.5	0.5	0.5
EBITDA		(0.2)	0.5	1.4	1.4
EBITDA %		-3.7%	5.8%	11.5%	11.5%
D&A		0.1	0.1	0.1	0.1
EBIT		(0.4)	0.4	1.3	1.3
EBIT %		-5.8%	4.4%	10.4%	10.4%
Net income		(0.3)	0.3	1.0	1.1
Land and buildings	(2.0)	(0.0)	(0.1)	(0.1)	(0.1)
Other CAPEX	(0.8)	(0.1)	(0.1)	(0.1)	(0.1)
CAPEX	(2.7)	(0.1)	(0.2)	(0.2)	(0.2)
NWC		(0.0)	(0.0)	(0.0)	(0.0)
Free cash flow	(2.7)	(0.3)	0.3	1.0	1.0
Land and buildings	2.0	2.0	2.0	2.0	2.0
Other PP&E	0.8	0.8	0.8	0.8	0.9
PP&E	2.7	2.9	3.0	3.2	3.4
NWC	-	0.0	0.0	0.1	0.1
Invested capital	2.7	2.9	3.1	3.3	3.4
ROIC		-12%	9%	30%	30%

## Exhibit 6 – Key management background

#### Tomasz Biernacki – Chairman of the Supervisory Board

Tomasz Biernacki is the founder and main shareholder of "DINO POLSKA" S.A. He has been involved in the building of the Dino brand throughout his professional career.

In 1999, within the scope of his sole trader's business, he opened the first store under the Dino Supermarket brand. In 2007, Tomasz Biernacki established Dino Polska sp. z o.o. which was subsequently transformed into the "DINO POLSKA" S.A. in 2011. From 2009 to 2010 Tomasz Biernacki managed the "DINO POLSKA" as the President of the Management Board, and since 2010 he has been the Chairman of the Supervisory Board. Moreover, Tomasz Biernacki is a member of the authorities of numerous companies operating in various market sectors.

## Izabela Biadała – Management Board Member, Director of Operations and Administration

Izabela Biadała has been involved in the development of the Dino Group's business since 2002. Over the period from 2002 to



2011 she held a number of positions in the administration, logistics and accounting areas. Since 2011 she has been discharging managerial functions. From 2011 to 2019 she headed up the Database Management Department where her duties included the rollout of the IT sales system across the Dino network. In November of 2019 she was appointed to the position of Director of Administration and since March of 2020 she has been serving as the Director of Operations and Administration with responsibility for the departments handling store operations, procurement, sales, administration, IT, logistics, security and occupational safety and health and recruitment. Izabela Biadała was appointed to be a member of the

Management Board of "DINO POLSKA" S.A. in June of 2020. Izabela Biadała is a graduate in finance and accounting from the Faculty of Management at the Poznań University of Economics and Business.

## Michał Krauze – Management Board Member, CFO



Michał Krauze has been involved with the Dino Group since 2002. In 2002-2007 he served as an accountant, in 2007-2011 as an independent accountant, and in 2011-2016 held the position of financial controller. Since May 2014 Michał Krauze has served as a member of the Management Board, and since July 2016 he has also served as Chief Financial Officer. In the Company he is responsible for managing finance, expansion, internal control and risk management. Michał Krauze is a graduate of the Wielkopolska Academy of Humanities and Economics in Jarocin, where he majored in economic administration.

## Piotr Ścigała – Management Board Member, Director of the Control Department



Piotr Ścigała has been with the Dino Polska Group since 2003. He served as a Dino store manager in 2003-2004. He served in managerial functions in the head office from 2004 to 2014 where he was responsible for supporting current and new Dino stores and for the operational control of stores. In 2014 he took the post of Director of the Control Department to organize and supervise the operation of a number of departments engaged in quality assurance and the operation of Dino stores and distribution centers. He participates in the Dino Group's development as a member of the Company's key decision-making committees. Piotr Ścigała was appointed to be a member of the Management Board of "DINO POLSKA" S.A.

Poland population density

in December of 2022. He is a graduate of a technical high school.

## **Exhibit 7 – Store locations**

Dino stores as of December 31, 2022





					Dino Stores	per 100kp	copic		
		above 25	20-25	15-20	10-15	5-10	below 5	none	Total
	below 50	3	6	8	10	11	11	19	68
nsity, per sq km	50-100	5	11	29	33	35	20	9	142
	100-150	4	3	3	12	14	12	10	58
	150-200	-	-	-	2	7	8	5	22
De	200-500	-	-	-	1	9	12	1	23
bed	500-1000	-	-	-	-	3	9	1	13
	1000-5000	-	-	1	-	4	25	24	54
	Total powiats	12	20	41	58	83	97	69	380

#### Dino stores per 100K people

### mature markets only - wielkopolskie and lubuskie

		mature markets of	ny menope	nonce and re	ab u shire							
				Dino stores per 100K people								
			above 25	20-25	15-20	10-15	5-10	below 5	none	Total		
		below 50	-	5	1	2	-	-	-	8		
nsity, per sq km	кш	50-100	5	7	7	4	1	-	-	24		
	r sq	100-150	4	2	1	2	1	-	-	10		
	be	150-200	-	-	-	-	-	-	-	-		
Å.	ple	200-500	-	-	-	-	1	-	-	1		
beo	bed	500-1000	-	-	-	-	-	2	-	2		
		1000-5000	-	-	1	-	1	2	-	4		
	Total powiats	9	14	10	8	4	4	-	49			

Density, people per sq km	#powiats	Population, K	# Dino stores	Stores per 100K people	Population per store, K	#Biedronka stores	Stores per 100K people	Population per store, K
below 50	68	3,403	290	8.5	11.7	314	9.2	10.8
50-100	142	10,072	1,098	10.9	9.2	793	7.9	12.7
100-150	58	5,561	456	8.2	12.2	458	8.2	12.1
150-200	22	2,523	97	3.8	26.0	202	-	-
200-500	23	3,617	150	4.1	24.1	248	6.9	14.6
500-1000	13	1,313	45	3.4	29.2	108	8.2	12.2
1000-5000	54	11,418	109	1.0	104.8	770	6.7	14.8
Total	380	37,908	2,245	5.9	16.9	2,893	7.6	13.1

mature markets only - wielkopolskie and lubuskie	2
matare manaces only memorporsine and rabasine	

Density, people per sq km	# powiats	Population, K	# Dino stores	Stores per 100K people	Population per store, K	#Biedronka stores	Stores per 100K people	Population per store, K
below 50	8	425	82	19.3	5.2	48	11.3	8.9
50-100	24	1,657	316	19.1	5.2	136	8.2	12.2
100-150	10	939	196	20.9	4.8	88	9.4	10.7
150-200	0	-	-	-	-	-	-	-
200-500	1	436	41	9.4	10.6	31	7.1	14.1
500-1000	2	209	4	1.9	52.2	24	11.5	8.7
1000-5000	4	820	21	2.6	39.0	68	8.3	12.1
Total	49	4,486	660	14.7	6.8	395	8.8	11.4

#### powiats with >25 stores per 100K

powiats with >25 stores per 100K								
Density, people per sq km	# powiats	Population, K	# Dino stores	Stores per 100K people	Population per store, K	#Biedronka stores	Stores per 100K people	Population per store, K
below 50	3	111	31	28.0	3.6	9	8.1	12.3
50-100	5	320	89	27.8	3.6	31	9.7	10.3
100-150	4	288	86	29.9	3.4	31	10.8	9.3
150-200	0	-	-	-	-	-	-	-
200-500	0	-	-	-	-	-	-	-
500-1000	0	-	-	-	-	-	-	-
1000-5000	0	-	-	-	-	-	-	-
Total	12	719	206	28.7	3.5	71	9.9	10.1

			on par	with mature r	egions	on par w	ith most dense	powiats
Density, people per sq km	# powiats	Population, K	Stores per 100K people	Stores TAM	Stores to open	Stores per 100K people	Stores TAM	Stores to open
below 50	68	3,403	19.7	670	380	28.7	977	687
50-100	142	10,072	19.7	1,984	886	28.7	2,891	1,793
100-150	58	5,561	19.7	1,095	639	28.7	1,596	1,140
150-200	22	2,523	9.0	227	130	9.0	227	130
200-500	23	3,617	7.0	253	103	7.0	253	103
500-1000	13	1,313	7.0	92	47	7.0	92	47
1000-5000	54	11,418	2.0	228	119	2.0	228	119
Total	380	37,908		4,551	2,306		6,264	4,019
Average of the tw	vo scenarios			5,407	3,162			

## Exhibit 8 – Asset Value calculation

#### Balance sheet, 2022

Cash & ST investment	383
Receivables	344
Inventory	1,979
Other Current Assets	1
Current Assets	2,707
Net PP&E	6,170
Goodwill	65
Other Intangibles	30
Deferred tax assets	26
Other LT Assets	6
Total Assets	9,003
Accounts Payable	2,318
Income taxes payable	120
Other Current Liabilities	581
Current non-fin liabilitie	3,019
Total Debt	1,061
Total Leases	706
Deferred tax liability	24
Other LT Liabilities	(10)
Total Liabilities	4,799
Total Equity	4,204

#### Asset Value

BV of Equity	4,204
Goodwill	(65) Meat plant acquisition, integrated
Other intangibles	(30) Meat plant acquisition, integrated
Net PP&E	1,340 Commercial real estate values for land & buildings
Workforce	213 10% of employee costs
Total value	5,663
Share count	98
Per share	58

### PP&E adjustment:

Owned stores	1,940
Ownership %	90%
Total stores, 2022	2,156

	Area, sq m	PLN per sq m*	Total value	
Land plot per store, sq m	3,000	118		0.4
Store area, sq m	400	6,734		2.7
Land ex store	2,600	118		0.3
Total value per store				3.0

\*Real estate sales in 2021 report - Statistics Poland, Trade and Services Department

	Balance	Adjustment	Adj. balance	
Land and buildings	4,483	1,340	5,823	Value per store x owned stores
Machinery & equipment	661	-	661	
Means of transport	142	-	142	
Other fixed assets	304	-	304	
Construction in progress	474	-	474	
Right of use assets	105	-	105	
Net PP&E, total	6,170	1,340	7,510	

Workforce replacement cost adjustment:				
Employee costs, 2022	2,132			
% to replace	10%			
W/freplacement cost	213			

## Exhibit 9 – Earnings Power Value calculation

## **Earnings Power Value**

	<u>2023E</u>	Mature state	
Revenues	26,212	26,212	
Op margin %	8.0%	10.0%	Store unit economics
EBIT	2,097	2,621	
Excess D&A	6	6	Intangbles depreciation
Adj EBIT	2,103	2,627	
Тах	19%	19%	Poland tax rate
NOPAT	1,703	2,128	
WACC	9.5%	9.5%	
EPV	17,928	22,397	
Net debt	1,402	1,402	
Equity value	16,526	20,996	
Per share	169	214	

WACC			
Risk free rate	3.5%	Treasury 10Y	
Market premium	8.5%	US+2%	
Beta	0.5	5 year monthly	
Cost of equity	8.0%		
Cost of debt	8.0%	Current yields	
Tax rate	19.0%		
After tax cost of debt	6.5%		
Equity weight	96%		
Debt weight	4%		
WACC	7.9%		
WACC used by manager	ment for go	odwill impairme	nt testing:
	<u>2022</u>	<u>2021</u>	<u>Averag</u>
Pre-tax	13.3%	9.9%	11.69

10.7%

After tax

<u>Average</u> 11.6%

9.4%

8.0%

Income Statement	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
# of stores	410	511	628	775	977	1,218	1,473	1,815	2,156	2,506	2,856	3,206	3,556	3,906	1,281 z	4,656	5,031	5,406	5,406	5,406
Revenue per store - average	5.1	5.1	5.4	5.8	6.0	6.3	6.9	7.4	9.2	10.5	11.2	11.7	12.1	12.4	12.8	13.1	13.5	13.9	14.7	15.2
Revenue - total	2,108	2,590	3,370	4,463	5,839	7,647	0,126 1	3,362 1	9,802 2	6,212 3	1,994 3	7,462 4	2,925 4	8,600 5,	1,735 61	1,215 6	8,055 7	5,200 7	9,311 8	2,438
y/y growth		22.8%	30.1%	32.4%	30.8%	31.0%	32.4%	32.0%	48.2%	32.4%	22.1%	17.1%	14.6%	13.2%	2.6%	11.8%	11.2%	10.5%	5.5%	3.9%
COGS	1.644	2.005	2.599	3.422	4.426	5.785	7.522 1	0.038 1	5.039 1	9.872 2	4.222 2.	8.330 3	2.431 3	6.693 4	1.311 46	3.182 5	1.318 5	6.681 5	9.564 6	1.804
Gross Profit	464	585	771	1.041	1.412	1.861	2.604	3.324	4.763	6.340	7.772	9.133 1	0.493 1	1.908 1	3.424 1	5.033 1	6.738 1	8.518 1	9.747 2	0.634
Gross Profit %	22.0%	22.6%	22.9%	23.3%	24.2%	24.3%	25.7%	24.9%	24.1%	24.2%	24.3%	24.4%	24.4%	24.5%	4.5%	24.6%	24.6%	24.6%	24.9%	25.0%
\C.8.4 \C.8.4	315	37.4	480	638	871	1 133	1 566	2 045	2 911	3 865	4 669	5 420	6 167	. 777	2 800 5	3 606	0 631 1	0 608 1	0 873 1	1 145
SG&A % of sales	15.0%	14.4%	14.3%	14.3%	14.9%	14.8%	15.5%	15.3%	14.7%	14.7%	14.6%	14.5%	14.4%	14.3%	4.3%	14.2%	14.2%	14.1%	13.7%	13.5%
ERITDA	140	211	200	403	542	7.78	1 038	1 279	1 85.2	0 475	3 103	3 713	4 3.26	1 964	1 101	337	7 1 0 7	7 911	874	0.480
EBITDA %	2.0%	8.1%	8.6%	9.0%	9.3%	9.5%	10.3%	9.6%	9.4%	9.4%	9.7%	6.6%	10.1%	10.2%	10.3%	10.4%	10.4%	10.5%	11.2%	11.5%
	40	48	63	83	100	160	103	640	704	350	432	509	587	666	75.2	830	926	1 015	997	087
Intangibles D&A	2 N	0 t	20	3 0	6 C 2	4	2 12	947	4 9 9	900	4 1 1 1 1 1 1	600	۰° ۲	2	27	22	1	1	100	1
D&A	4	50	65	86 -	112	164	198	247	300	365	437	513	590	668	754	840	928	1,016	966	982
D&A % of sales	2.0%	1.9%	1.9%	1.9%	1.9%	2.1%	2.0%	1.9%	1.5%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.3%	1.2%
EBIT	107	161	225	317	430	564	840	1.031	1.552	2.110	2.666	3.200	3.736	4.296	1.870	5.497	6.179	6.894	7.876	8.507
EBIT %	5.1%	6.2%	6.7%	7.1%	7.4%	7.4%	8.3%	7.7%	7.8%	8.1%	8.3%	8.5%	8.7%	8.8%	8.9%	9.0%	9.1%	9.2%	9.9%	10.3%
NOPAT	95	138	163	235	298 26 70/	454 57 6%	694 52 00/	869 75 20/	1,233	1,714	2,164	2,595	3,029 46 70/	3,482	3,946	1,454	5,006	5,585	6,380	6,891
Growin yry		40.0%	0/.0.11	44.0%	Z0.1%	0/0.70	0/ 6.70	×2.2%	41.3%	020.020		0/.N.2	10.1%	0.0.0	0.0%	12.370	1 2.4 %	0/0.11	14.2%	0.0%
DCF	2014 05	2015	2016	2017	2018 202	2019	2020	2021 2021	2022 1 202	2023	2024	2025	2026	2027	2028	2029	2030	2031 7 707	2032	2033
Worlding conital about	95 95	138	163	922	298	454	694	869	1,233	1,/14	2,164	2,595	3,029	3,482	5,946 2	4,454	5,006 /26/	5,585	6,380	5,891 /16/
PP&E change	(131)	(195)	(249)	(327)	(527)	(020)	(808)	1.094) (	1.152) (	(37) (1.260) (	1.322) (	(20) 1.345) (	(20) 1.356) (	(23) 1.479) (	(1.492) (7	1.508) (	1.527)	307	271	237
Cash acquisitions	` ' ,	· .	` ' ,	· .	` '	` ' ,	• •	• •	· .								•			
FCF	49	2	4	52	33	(44)	(177)	20	(295)	417	812	1,222	1,645	1,973	2,422	2,912	3,444	5,855	6,630	7,112
Growth y/y											94.8%	50.6%	34.6%	20.0%	2.8%	20.2%	18.3%	70.0%	13.2%	7.3%
Terminal value																			10	4.140
Discount factor										0.9	0.8	0.8	0.7	0.6	0.6	0.5	0.5	0.4	0.4	0.4
Discounted FCF										380	677	931	1,144	1,254	1,405 '	1,543	1,666	2,587	2,675 4	7997 2,997
Discount factor (yr 5)														0.9	0.8	0.8	0.7	0.6	0.6	0.5
Discounted FCF (yr 5)														1,802	2,020 2	2,218	2,395	3,719	3,846 5	3,940
	2022	2027						Consens	us rev 2	6.058 3	1.653 3	7.274 4	2.449 4	8.226						
EV	55,260	74,941						vs cons	sensus	154	341	189	476	374						
Net debt	1,402	(3, 344)																		
Market cap	53,858	78,285					Conse	nsus rev ç	growth	31.6%	21.5%	17.8%	13.9%	13.6%						
Stock price	549	798						vs cons	sensus	0.8%	0.6%	-0.7%	0.7%	-0.4%						
Upside/downside	30%	89%										2000	9000	2000						
		0/ 0.01						Coloc /	77 07	2 1 2	<u>+ 7</u>	2 1 E	<u>2020</u>	1 1 1						
							а N	/EBIT	25.6	26.2	20.7	17.3	14.8	12.9						