

# VIGO System

## 2Q20 Results Review

*Opinion. Results are vastly in-line with our expectations. 2Q20 was another strong quarter for VIGO, given ongoing pandemic. We highlight the material increase in company's margins, which was a result of flat level of operating costs and record revenues. We believe that higher margins are likely to be maintained also in next periods.*

VIGO System 2Q20 revenues arrived at PLN 13.9m (in line with preliminary numbers), EBITDA at PLN 6.9m (+144% y/y, 8% above IPOPEMA) and net profit at PLN 5.6m (187% y/y, 5% above IPOPEMA):

- **Revenues.** The company's revenues arrived at PLN 13.9m (+65% y/y, in line with already published preliminary data), which includes PLN 13.5m revenues from IR detectors segment (+60% y/y and +12% q/q) and PLN 0.4m revenues from Semiconductors segment (flat q/q). Revenues was driven by industry segment (54% of revenues in 2Q20) and military (21% of revenues).
- **Gross margin.** Gross margin arrived at 67.4% (vs. 61.4% in 1Q20), 4pp above our expectations. The increase was primarily possible due to higher production volumes.
- **SG&A costs.** SG&A cost arrived at PLN 4.9m flat q/q.
- **EBITDA.** VIGO's EBITDA arrived at PLN 6.9m (+144% y/y, +26% q/q and 8% above IPOPEMA) and EBIT at PLN 5.4m (194% y/y, +36% q/q and 12% above IPOPEMA forecast).
- **Net profit.** Net profit reached PLN 5.6m (187% y/y and 113% q/q, 5% above our expectations). The company noted positive PLN 0.2m net financial result (driven by positive impact of foreign exchange rates) and immaterial level of income tax.
- **Operating cash flow.** OCF arrived at PLN 3.9m (-36% y/y and -42% q/q). The lower q/q result was driven by negative impact of changes in working capital.
- **Capex.** Capex excl. grants reached PLN 5.7m, including PLN 3.6m on R&D (up 58% q/q). VIGO received grants of PLN 4.5m total value for R&D projects during that period.
- **Net Debt.** Net Debt has reached PLN 17.0m at the 2Q20 end (vs PLN 18.0m expected by IPOPEMA).

TMT

## VIGO System

BUY

FV PLN 650.00

12% upside

Price as of 27 August 2020 PLN 580.0

---

### Analitik

Michał Wojciechowski  
michal.wojciechowski@ipopema.pl  
+ 48 22 236 92 69

---

Figure 1. VIGO System 2Q20 results review

P&L (PLN m)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	y/y	q/q	2Q20E	Actual vs IPOPEMA
<b>Sales revenues</b>	<b>11.5</b>	<b>8.4</b>	<b>11.9</b>	<b>11.1</b>	<b>12.4</b>	<b>13.9</b>	<b>65%</b>	<b>12%</b>	<b>13.9</b>	<b>0%</b>
Industry	7.8	6.1	6.7	4.8	5.3	7.5	24%	44%	7.5	0%
Military	0.2	0.5	3.5	3.9	0.9	3.0	540%	234%	3.0	0%
Transport	2.9	1.3	0.9	0.7	2.3	1.9	42%	-19%	1.9	0%
Medicine and science	0.5	0.4	0.7	1.4	3.5	1.0	115%	-72%	1.0	0%
Other	0.1	0.1	0.1	0.1	0.1	0.1	15%	46%	0.1	0%
Materials for photonics	0.0	0.0	0.0	0.2	0.4	0.4	na	3%	0.4	0%
COGS	-4.1	-3.5	-4.3	-3.9	-4.8	-4.5	29%	-5%		
<b>gross profit/(loss) on sales</b>	<b>7.3</b>	<b>4.9</b>	<b>7.6</b>	<b>7.2</b>	<b>7.6</b>	<b>9.4</b>	<b>90%</b>	<b>23%</b>		
Other operating revenues	0.4	0.6	0.7	1.0	1.2	1.0	72%	-16%		
Selling costs	-0.7	-0.5	-0.6	-0.6	-0.6	-0.8	52%	44%		
G&A costs	-2.6	-3.0	-2.9	-3.7	-4.2	-4.1	35%	-3%		
Other operating costs	-0.4	-0.1	-0.4	-0.3	-0.1	-0.1	-43%	-2%		
<b>EBITDA</b>	<b>5.1</b>	<b>2.8</b>	<b>5.6</b>	<b>5.1</b>	<b>5.5</b>	<b>6.9</b>	<b>144%</b>	<b>26%</b>	<b>6.4</b>	<b>8%</b>
<b>EBIT</b>	<b>4.2</b>	<b>1.8</b>	<b>4.4</b>	<b>3.6</b>	<b>4.0</b>	<b>5.4</b>	<b>194%</b>	<b>36%</b>	<b>4.8</b>	<b>12%</b>
Net financial revenues	0.0	0.1	-0.6	0.4	-1.3	0.2	88%	na		
<b>Profit (loss) before tax</b>	<b>4.1</b>	<b>1.9</b>	<b>3.7</b>	<b>4.1</b>	<b>2.6</b>	<b>5.6</b>	<b>188%</b>	<b>113%</b>		
income tax	0.0	0.0	0.0	0.0	0.0	0.0	na	130%		
<b>Net profit</b>	<b>4.1</b>	<b>1.9</b>	<b>3.7</b>	<b>4.1</b>	<b>2.6</b>	<b>5.6</b>	<b>187%</b>	<b>113%</b>	<b>5.3</b>	<b>5%</b>
<b>Profitability ratios</b>	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>1Q20</b>	<b>2Q20</b>	<b>y/y</b>	<b>q/q</b>	<b>2Q20E</b>	
Gross margin on sales	64.0%	58.3%	63.8%	64.7%	61.4%	67.4%	9.1 pp	5.9 pp	63.4%	4 pp
EBITDA margin	44.3%	33.4%	46.8%	46.2%	44.2%	49.7%	16.2 pp	3.5 pp	45.8%	3.9 pp
EBIT margin	36.4%	21.8%	36.7%	32.9%	32.1%	38.9%	17.2 pp	6 pp	34.5%	4.4 pp
Net profit margin	36.1%	23.0%	31.3%	36.9%	21.2%	40.2%	17.2 pp	3.3 pp	37.9%	2.3 pp
<b>Cash Flow Statement (PLN m)</b>	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>1Q20</b>	<b>2Q20</b>	<b>y/y</b>	<b>q/q</b>	<b>2Q20E</b>	
<b>Net cash flow from operations</b>	<b>0.6</b>	<b>6.1</b>	<b>3.5</b>	<b>5.2</b>	<b>6.7</b>	<b>3.9</b>	<b>-36%</b>	<b>-42%</b>		
<b>Net cash flow from investment activities</b>	<b>-9.8</b>	<b>-13.3</b>	<b>-9.4</b>	<b>1.4</b>	<b>-4.4</b>	<b>-1.6</b>	<b>-88%</b>	<b>-64%</b>	<b>-2.9</b>	<b>-46%</b>
Grants	0.2	0.9	0.9	6.9	0.4	4.5	385%	1080%		
Gross capital expenditures	-10.0	-14.3	-10.3	-5.4	-4.7	-5.7	-60%	20%		
<b>Net cash flows from financial activities</b>	<b>8.1</b>	<b>9.0</b>	<b>6.9</b>	<b>-4.8</b>	<b>-1.9</b>	<b>-1.6</b>	<b>na</b>	<b>-16%</b>		
<b>Total net cash flow</b>	<b>-1.0</b>	<b>1.8</b>	<b>0.9</b>	<b>1.8</b>	<b>0.5</b>	<b>1.0</b>	<b>-47%</b>	<b>107%</b>		
Net Debt/ (Net cash)	13.2	20.4	27.2	20.5	19.6	17.0	-17%	-13%	18.0	-6%

Source: Company, IPOPEMA Research

This document has been prepared by IPOPEMA Securities S.A. with its registered seat in Warsaw, Próźna 9, 00-107 Warsaw, Poland, entered into the Register of Entrepreneurs of the National Court Register maintained by the District Court for the City of Warsaw, XII Commercial Division of the National Court Register under entry number KRS 0000230737, the initial capital and paid capital in the amount of PLN 2.993.783,60, NIP 5272468122, www.ipopema.pl. IPOPEMA Securities S.A. is supervised by the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego), Piękną 20, 00-549 Warsaw, Poland.

This document has been prepared by IPOPEMA Securities S.A. as a part of the Warsaw Stock Exchange Research Coverage Support Program ("Program") and was commissioned by the Warsaw Stock Exchange SA ("WSE"). Information about the Program is available at <https://www.gpw.pl/gpwpa>. The copyright to the document is vested in the WSE. For preparation of the document, IPOPEMA Securities S.A. will be remunerated by the WSE on the terms specified in the agreement concluded between IPOPEMA Securities S.A. and the WSE.

This document was prepared by IPOPEMA Securities S.A. for information purposes only. This document is addressed to IPOPEMA Securities S.A. clients entitled to receive it on the basis of contracts for the provision of services. This document, using media distribution channels, may also reach other investors. It has been produced independently of the company mentioned in this document and any forecasts, opinions and expectations are entirely those of IPOPEMA Securities S.A. Unless otherwise specified, the estimates and opinions contained in the document constitute an independent assessment of IPOPEMA Securities S.A. analysts preparing the document as of the date of issuing the document.

IPOPEMA Securities S.A. prepared this document with the preservation of all adequate diligence, thoroughness and reliability on the basis of publicly available information which IPOPEMA Securities S.A. believes to be reliable. While due diligence has been taken by IPOPEMA Securities S.A. to ensure that the facts stated herein are accurate and that any forecasts, opinions and expectations contained herein are fair and reasonable, IPOPEMA Securities S.A. has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. The opinions expressed in the document can change without notice and IPOPEMA Securities S.A. is under no obligation to keep these opinion current. None of the IPOPEMA Securities S.A. or any other person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith. This document nor any copy hereof is not to be distributed directly or indirectly in the United States, Australia, Canada or Japan.

This document does not constitute any offer to sell or induce any offer to buy or sell any financial instruments, can not be relied on in connection with any contract or liability and does not constitute advertising or promotion of a financial instrument or the company. Investment decisions should only be made on the basis of a prospectus or other publicly available information and materials.

The document was prepared without taking into account the needs and situation of the recipients of the document. When preparing the document, IPOPEMA Securities S.A. does not examine the recipient's investment objectives, risk tolerance level, time horizon and financial standing of the investors. The company or the financial instruments discussed in the document may not be suitable for the users of the document, i.e. it may not be suitable for the specific objectives and time horizon or the financial situation. Information included in the document can not be regarded as a substitute for obtaining investment advice service. The value of financial instruments may fluctuate, including declines. Changes in FX rates may have an adverse effect on the value of investments. The investment in financial instruments is linked to investment risks including loss of entire or part of the invested capital. Past performance is not necessarily indicative of future results. IPOPEMA Securities S.A. points out that the price of financial instruments is affected by many different factors that are or may be independent of the company and the results of its operations. These include, among others changing economic, legal, political and tax conditions.

Investors should be aware that IPOPEMA Securities S.A. or its related entities may have a conflict of interest that could affect this document's objectivity. The investor should assume that IPOPEMA Securities S.A. or its related entities may provide services in favour of the company and obtain remuneration on this account. They may also have another financial interest with respect to the company. IPOPEMA Securities S.A. or its related entities may seek to do business with the company or other entities mentioned in this document. IPOPEMA Securities S.A. has an organizational structure and internal regulations in place to ensure that the client's interests are not compromised in the event of a conflict of interests, in relation to preparing this document. This document was prepared irrespective and independently of the interests of IPOPEMA Securities S.A., the company that is the subject of this document and holder of financial instrument issued by aforementioned company.

IPOPEMA Securities S.A. uses a number of valuation methodologies including discounted cash flows models (such as discounted operating earnings or dividend discount model), and earnings and cash-flow based models, which are often related to comparisons with selected peer companies. Cash flow models encapsulate the cash streams forecast to flow to a company, and are widely used in the investment industry. Peer comparisons factor in amongst other factors, differential growth rates, and indicate how expensive one company might appear relative to a chosen comparator. The subjective opinions of the document's author or authors, formed by their knowledge and experience, play a significant role in the valuation. Also included are assumptions on numerous economic variables, particularly interest rates, inflation and exchange rates and varying these assumptions could result in significantly different opinions. The strength of the earnings and cash flow based models is the closer attention to a company on a standalone basis, and tying the valuation to its fundamental value. The weakness of such method is the number of assumptions, which need to be adopted and resulting sensitivity to those assumptions. The peer comparisons methods are less dependent on the analyst's judgment as to the individual parameters, however the problem with this method appears when the peer comparator is over- or undervalued. Moreover, leading multiples (based on the future earnings, book values, operating profit or cash flows) include an analyst's estimate of those values.

This document was not transferred to the company prior to its publication. This document was prepared according to the author's own view, assumptions and knowledge.

It is intended that the analytical report concerning the company will be updated at least twice a year starting from the date of publication of the initiating report, and in the event of key operations and/or changes in the assumptions underlying the report.

Recommendations issued by IPOPEMA Securities S.A. they are valid for a period of 12 months from the date of issue, unless they are updated during this period. IPOPEMA Securities S.A. updates the issued recommendations depending on the market situation and subjective analysts' assessment. In the last 12 months IPOPEMA Securities S.A. has prepared recommendations concerning the company.

The date and the time stated on the front page is the date of the publication of this document. The price used throughout the recommendation to calculate adequate ratios is the "last" price stated on the front page of this document.

The definitions of terms used in the document include:

NII – Net interest income – interest income minus interest expense.  
 Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.  
 LLP – loan loss provisions – an expense set aside as an allowance for bad loans.  
 NPL – non-performing loan – loans that are in default or close to be in default.  
 Cost/Income – operating expenses divided by total banking revenue.  
 ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.  
 ROA – return on assets – net income (or adjusted net income) divided by the average assets.  
 EBIT – earnings before interests and tax.  
 EBITDA – earnings before interests, tax, depreciation and amortization.  
 EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding.  
 P/E – price to earnings ratio – price divided by earnings per share.  
 PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.  
 CAGR – compound annual growth rate.  
 BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.  
 P/BV – price to book value - price divided by the BVPS.  
 DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.  
 DY – dividend yield – dividend of a given year divided by the current price.  
 DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.  
 FV – Fair Value, calculated based on valuation methods outlined in the document.

The author of this document has no conflict of interest with the company that is the subject of this document.

Investors should be aware that flexible part of the author's compensation may depend on general financial performance of IPOPEMA Securities S.A.

IPOPEMA Securities S.A. shall act with due diligence, honestly, fairly, professionally and in accordance with the provisions of the applicable law.

IPOPEMA Securities S.A. does not guarantee achieving the investor's investment objective, the performance of company or prospective prices referred to herein.

When applying ratings for companies following criteria are used with regards to the difference between IPOPEMA's FV and company's price at the date of recommendation:

Rating	Difference between FV and price at recommendation
Buy	Above 10%
Hold	In between (and including) -10% and 10%
Sell	Below 0%

## IPOPEMA Research - Distribution by rating category (April 1 – June 30, 2020)

	Number	%
Buy	23	55%
Hold	11	26%
Sell	8	19%
Total	42	100%

## Rating History – VIGO System

Date	Recommendation	Fair Value	Price at recommendation	Author
02.08.2019	BUY	PLN 380.00	PLN 334.00	Michał Wojciechowski
16.04.2020	BUY	PLN 480.00	PLN 384.00	Michał Wojciechowski
29.07.2020	BUY	PLN 650.00	PLN 550.00	Michał Wojciechowski