



# **Warsaw Stock Exchange**

## **The most dynamic market in the CEE**

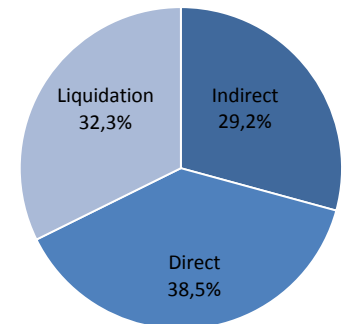
**Yuriy Kukhtanych**, Director  
Belgrade, November 2015

## Three major methods used during the privatization process in Poland

- ▶ **Mass privatization.** In the very beginning, employee leasing programs were dominant, however, already during the Common Privatization Program, all Poles were enabled to receive ownership certificates in selected enterprises.
- ▶ **Direct privatization.** Early on, privatization was conducted via direct sales of small enterprises, which was later extended to sales of major enterprises to foreign and domestic strategic investors.
- ▶ **Indirect privatization.** Privatization through the capital markets has been gaining in significance in due course. Currently the dominant method of privatization.

Program	Summary
Mass privatization	Although the program wasn't financially successful, 512 SOEs were restructured and privatized in a relatively quick manner which paved the way for other privatization processes.
Direct privatization	Dominant at first, hundreds of small and medium sized SOEs got sold off in the early stages. Later on, after law changes regarding foreign investors, many high value transactions took place. Their importance has been declining in recent years.
Indirect privatization	Gained real significance after 1996, currently the most common privatization method. The use of IPOs in the privatization process offered transparency and led to improvements in corporate governance, positively affecting the financial standing of privatized companies.

*Number of privatized companies by method*

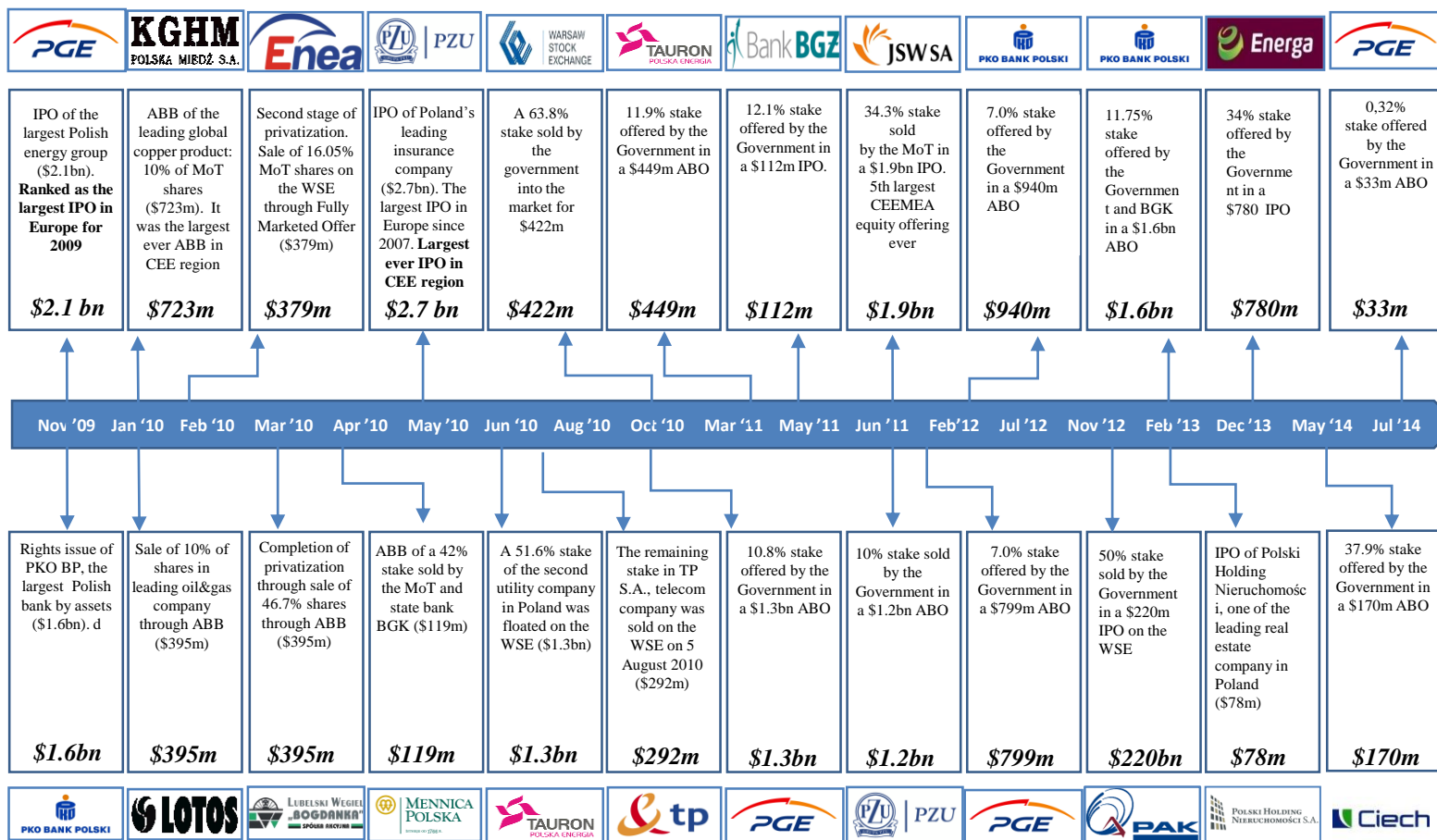


# Major privatization IPOs 1997 - 2008

Company	Sector	Date	Stake sold	Value (PLNm)	Value (USDm)
Bank Handlowy	Banking	1997	30%	1,309	364
KGHM	Mining	1997	33%	1,538	428
Pekao	Banking	1998	15%	916	258
Telekomunikacja Polska	Telecom	1998	15%	3,140	885
PKN Orlen	Oil	1999	45%	2,213	517
PKO BP	Banking	2004	39%	7,601	1,942
Lotos	Oil	2005	31%	1,015	317
PGNiG	Oil & Gas	2005	15%	2,682	836
ENEA	Energy	2008	23.5%	2,000	670

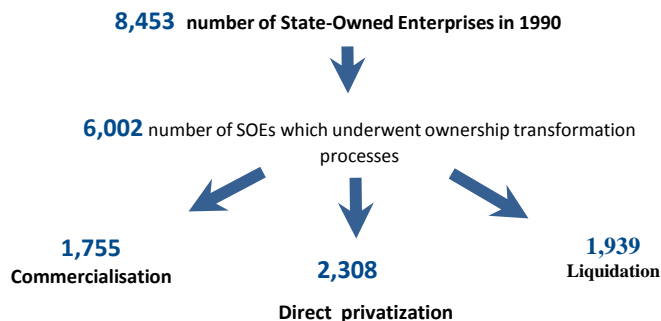
**After a slowdown during the years 2006-2008, privatization accelerated again in 2009**

# Major privatization IPOs 2009-2014



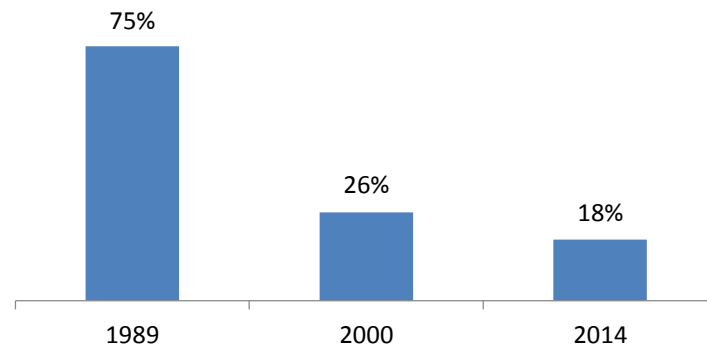
# Polish privatization in numbers (1990 – 2015)

## Privatization in numbers



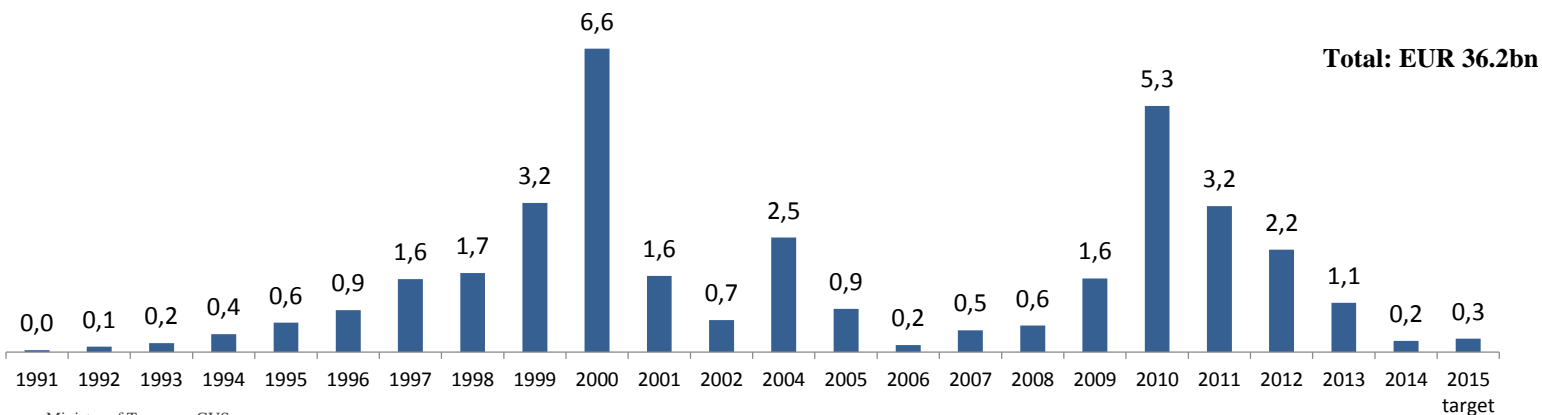
Source: Ministry of Treasury

## Public sector contribution to the Polish GDP



Source: Ministry of Treasury, GUS

## Privatization revenues 1991-2015YTD (EURbn)



Source: Ministry of Treasury, GUS

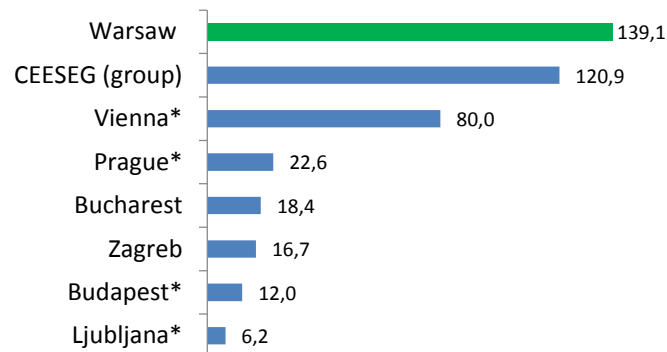
# Listed companies still in the state portfolio

Company	Sector	Market Cap (EURm)*	Current Stake held by State Treasury	Target stake	Description
Grupa Azoty	Chemicals	1 883	33%	33%	Strategic. Created as a result of consolidation in the chemical sector.
ENEA	Energy	1 722	51%	0%	Not of strategic importance
Energa	Energy	2 278	51%	0%	Not of strategic importance
PGE	Energy	8 646	58%	50%	„Energy policy of Poland until 2030” plans to maintain a majority shareholding by the government
Tauron	Energy	1 917	30%	30%	„Energy policy of Poland until 2030” plans to maintain a majority shareholding by the government
PKO BP	Financial	9 753	31%	25%	Strategic, the state is to maintain corporate governance.
PZU	Financial	9 628	35%	25%	Strategic, the state is to maintain corporate governance
WSE	Financial	508	35%	0%	Not of strategic importance
PGNiG	Oil & Gas	9 482	72%	72%	Company of economic and defense importance
PKN Orlen	Oil & Gas	7232	28%	28%	„Energy policy of Poland until 2030” plans to maintain the state shareholding at the current level
Grupa Lotos	Oil & Gas	1 302	53%	50%	The state will remain the majority shareholder in accordance with the „Policy for the petroleum industry in Poland”
PHN	Real Estate	272	70%	0%	Not of strategic importance
KGHM	Mining	5 453	32%	32%	Holds strategic resources and executes key investments
JSW	Mining	382	55%	34%	Not of strategic importance

# Privatization outcome

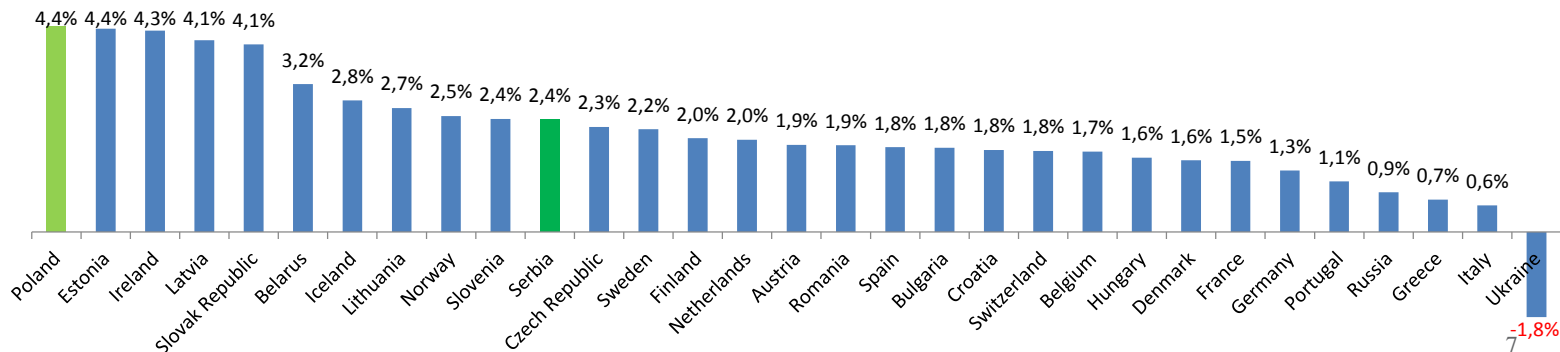
- The privatization process in Poland has been successful.**  
 The state's participation in the economy decreased and there was a notable improvement in companies' efficiency on the back of increased productivity, transparency and implementation of the corporate governance standards.
- Poland's economic growth has outpaced most European nations.**  
 Privatization was among the key drivers for the rapid economic growth that Poland experienced over the past 24 years.
- WSE has grown to the largest stock exchange in the CEE.**  
 One of the key accomplishments of the privatization was the rapid development of the financial market. Today WSE has grown to the largest and the most active stock exchange platform in the CEE region.

Domestic market capitalization (2014, EURbn)



\* Constituent of the CEESEG stock exchange

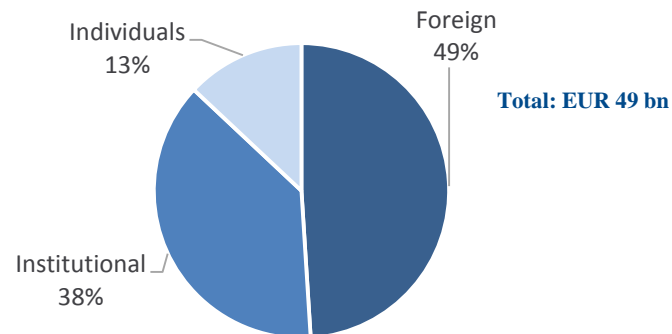
Compound annual GDP growth rate 1992 - 2014



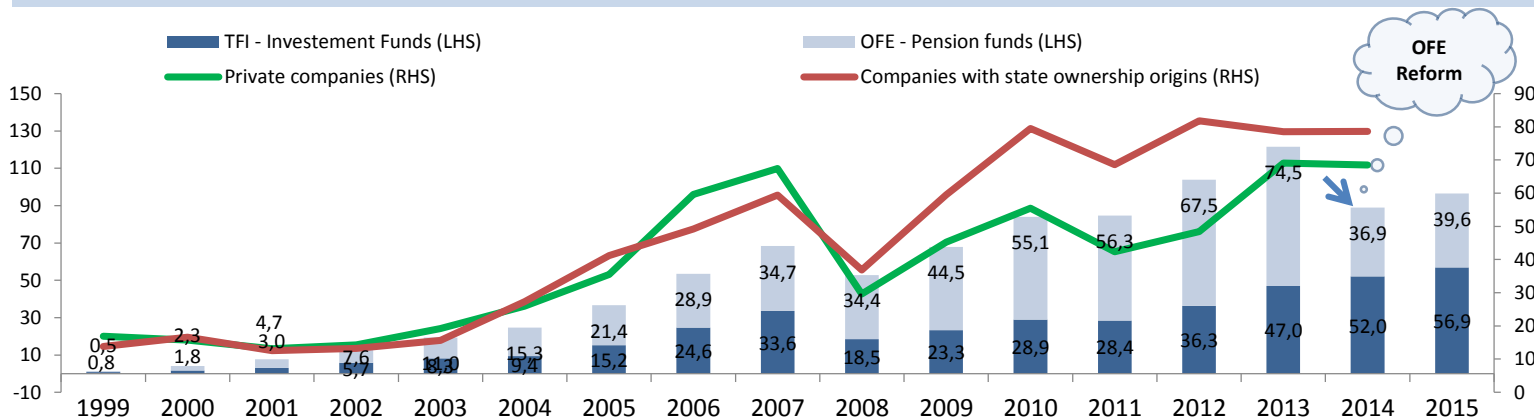
# Private sector development

- Privatization of SOEs has served as a ground for transactions from the private sector. Growing pool of money in the local asset management sector has created an appetite for the privately-held companies to be listed on the local stock exchange.
- With a consequent market maturation, international investors have started to park their money in Polish equities, subsequently becoming major liquidity providers on the WSE.
- In 2014, after pension reform changes, pension funds asset base has been trimmed by c.50%, however both pension and open investment funds continue to grow, and so far the reform has had only limited consequences on the market

**Domestic vs foreign share in total turnover on the WSE (2014)**











**AUM of investment funds (EUR bn) and the Mcap development of Private/Public Companies on the WSE (EURbn)**





# Poland features the biggest and fastest growing economy in the CESE...

## Snapshot of CESE countries

								
	Serbia	Poland	Czech Rep.	Romania	Hungary	Slovakia	Croatia	Bulgaria
<b>Credit metrics</b>								
<b>Credit rating<sup>1</sup></b>	<b>B+</b>	<b>A-</b>	<b>A+</b>	<b>BBB-</b>	<b>BB+</b>	<b>A+</b>	<b>BB</b>	<b>BBB-</b>
CDS spread (5y, US\$)	284	<b>65</b>	48	114	139	48	265	167
<b>Macroeconomic size, growth &amp; inflation</b>								
<b>Population'14, million</b>	<b>7</b>	<b>38</b>	<b>11</b>	<b>20</b>	<b>10</b>	<b>5</b>	<b>4</b>	<b>7</b>
Nominal GDP '14 (US\$bn)	44	547	206	200	137	100	57	56
<b>GDP per capita'14 (US\$)</b>	<b>6,123</b>	<b>14,379</b>	<b>19,563</b>	<b>10,035</b>	<b>13,881</b>	<b>18,454</b>	<b>13,494</b>	<b>7,753</b>
Real GDP growth'15E	0.5%	3.6%	2.5%	2.7%	2.7%	2.9%	0.5%	1.2%
<b>Real GDP growth'16E</b>	<b>1.5%</b>	<b>3.4%</b>	<b>2.7%</b>	<b>2.9%</b>	<b>2.3%</b>	<b>3.3%</b>	<b>1.0%</b>	<b>1.5%</b>
Inflation'14	2.1%	(0.0%)	0.4%	1.1%	(0.3%)	(0.1%)	(0.2%)	(1.6%)
<b>Government finance</b>								
<b>Debt/GDP'14</b>	<b>72.4%</b>	<b>48.8%</b>	<b>41.6%</b>	<b>40.4%</b>	<b>76.9%</b>	<b>54.0%</b>	<b>80.9%</b>	<b>26.9%</b>
Current account balance/GDP'14	(6.0%)	(1.2%)	0.6%	(0.5%)	4.2%	0.2%	0.7%	0.0%
Fiscal deficit/GDP'14	(6.3%)	(3.5%)	(1.0%)	(1.9%)	(2.6%)	(3.0%)	(5.0%)	(3.7%)
<b>10 y sovereign yield (lcy)</b>	<b>8.85%</b>	<b>2.48%</b>	<b>0.86%</b>	<b>3.48%</b>	<b>3.38%</b>	<b>0.81%</b>	<b>2.94%<sup>2</sup></b>	<b>2.71%</b>

Source: IMF, Bloomberg as of May 29, 2015 except and Poland – July 26,

<sup>1</sup> Rating by Fitch <sup>2</sup> 5 year sovereign yield <sup>3</sup> Actively tradable 5Y sovereign bond

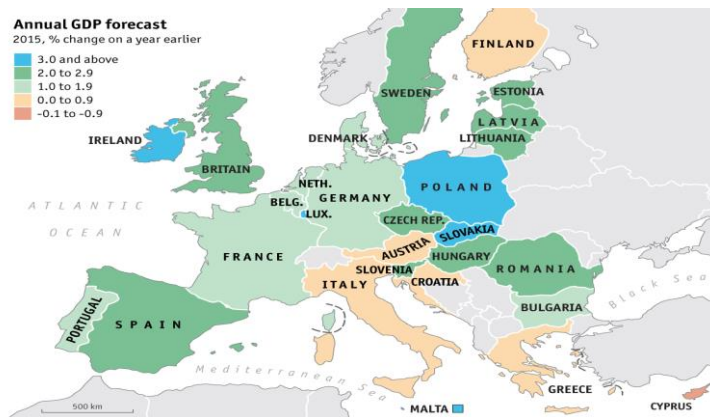
## ... gradually narrowing the gap to its western peers

- ◆ **Largest** economy in the CEE region, **8th** economy in the EU, **22nd** economy world-wide by GDP
- ◆ GDP growth remains the **highest in the EU**: 2008-2014 cumulative GDP growth **24,1%**, with continuing momentum going forward (projected growth 2015, 2016 – **3,6%** and **3,4%** respectively)
- ◆ Poland is one of just two European Union economies to make Bloomberg's All-Stars of the Global Economy (list of top 20 fastest-growing economies in the world)

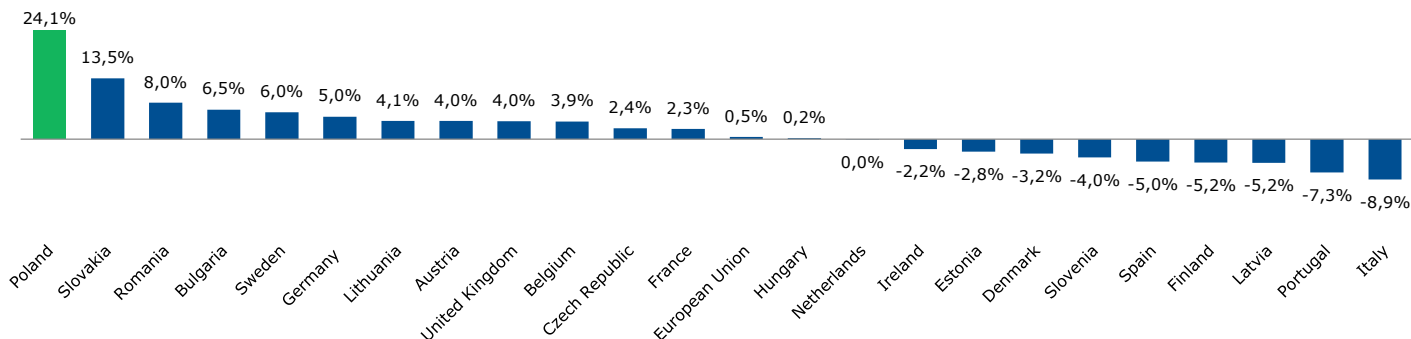
### 2015 GDP growth forecast by country

**Annual GDP forecast**  
2015, % change on a year earlier

- 3.0 and above
- 2.0 to 2.9
- 1.0 to 1.9
- 0.0 to 0.9
- 0.1 to -0.9

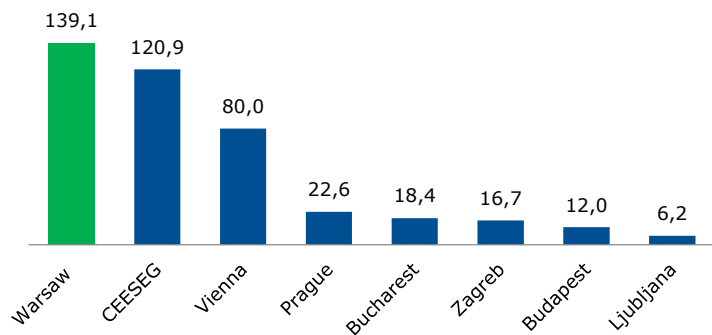


### Cummulative GDP growth 2008-2014

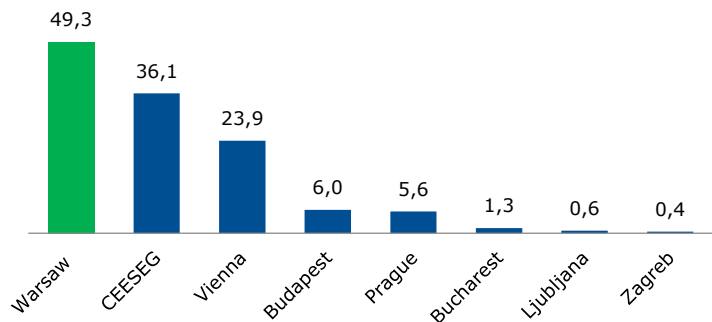


# WSE - the largest equity platform within the CEE region

## Domestic market capitalization (2014, EUR bn)

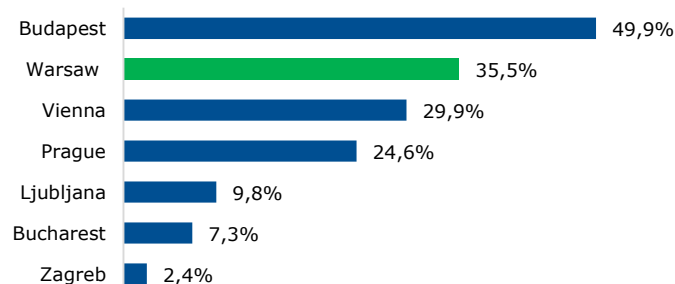


## Value of session equity trading (2014, EUR bn)...

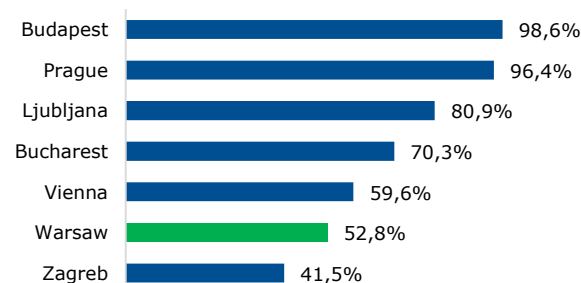


Note: Includes all CEE stock exchanges with value of session equity trading exceeding EUR 0.1bn in 2014  
Source: FESE, WFE, GPW as of the end of 2014

## Turnover velocity in 2014



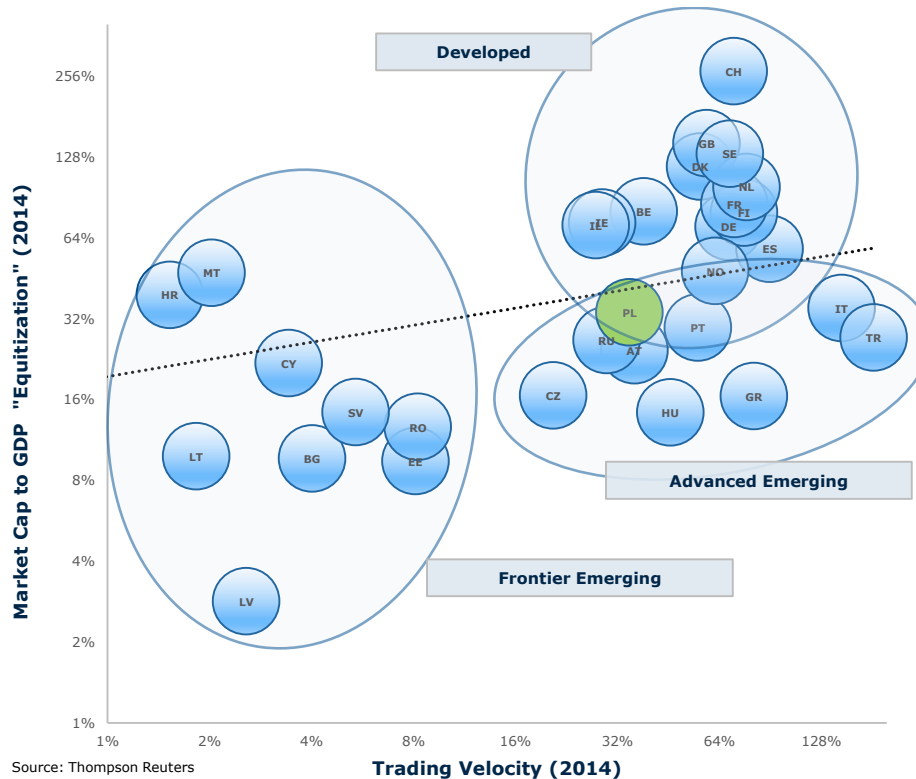
## ...featuring low concentration of trading\*



\* Top5 companies as % of total turnover (2014)

# Polish equity market is catching up with DM

## Poland is among smaller markets but with substantial growth potential



Source: Thompson Reuters

## Market Cap ranking shows further growth opportunity

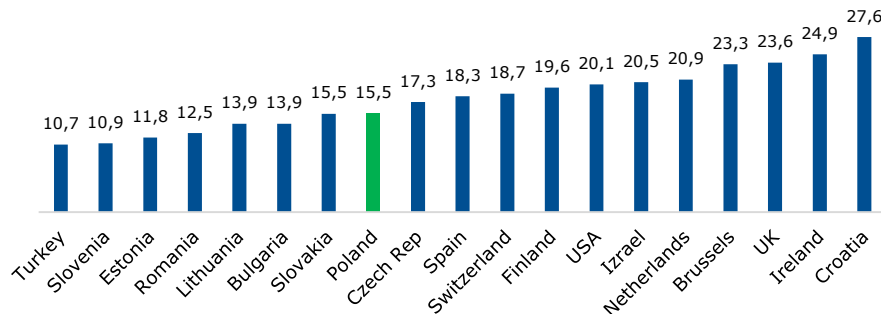
Company	Market Cap EURbn	Equivalent rank		
		GPW	LSE	DAX
Pekao	9,67	1	70	40
PGNiG	8,87	2	72	41
PZU	8,76	3	73	41
PGE	6,61	7	89	55
PKN Orlen	7,34	5	82	48
KGHM	3,68	10	148	74
Cyfrowy Polsat	3,41	11	157	76
LPP	3,36	12	160	76
OrangePL	2,24	14	198	88
Grupa Azoty	2,07	15	204	92
CCC	1,47	19	262	112

- ◆ Market Cap has grown by 37% since 2009
- ◆ Free float has increased from 39% in 2009 to 48% currently
- ◆ Turnover velocity in 2014 is at the level of 31% vs Europe at 57%

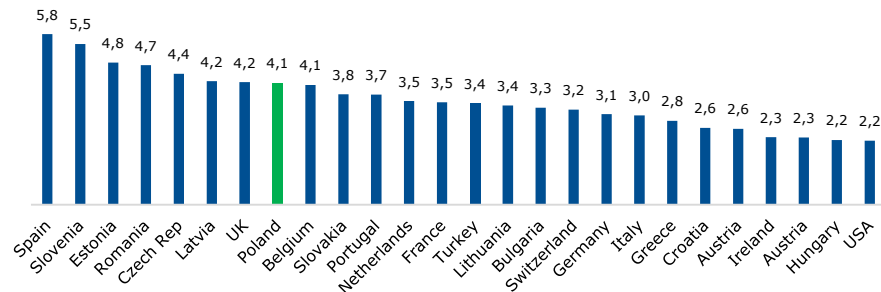
Source: Bloomberg as of 09/2015

# Attractive valuations in Poland and moderate yields provide an opportunity for new issuers

## Comparison of current P/E ratios

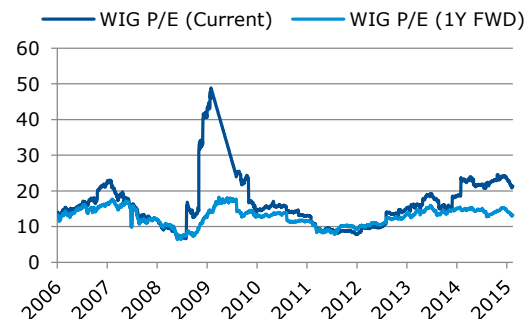


## Comparison of current dividend yields

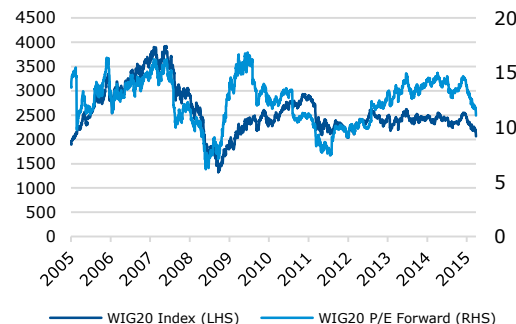


Note: Data for WIG index. Forward earnings calculated as estimates for the next four quarters  
Source: Bloomberg as of 14/08/2015

## Development of WIG P/E ratio

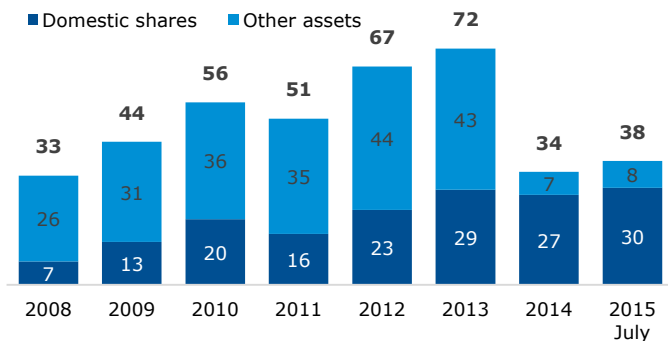


## Development of WIG20 index

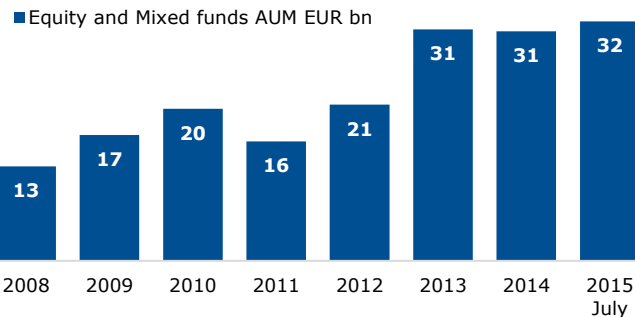


# Stable Polish Pension Funds (OFE) exposure on domestic shares

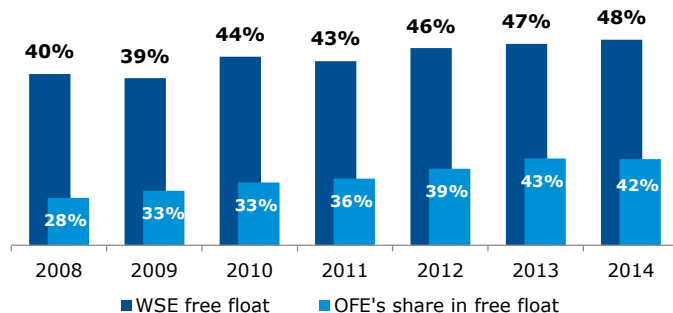
## AUM of Open Pension Funds – OFE (EUR bn)



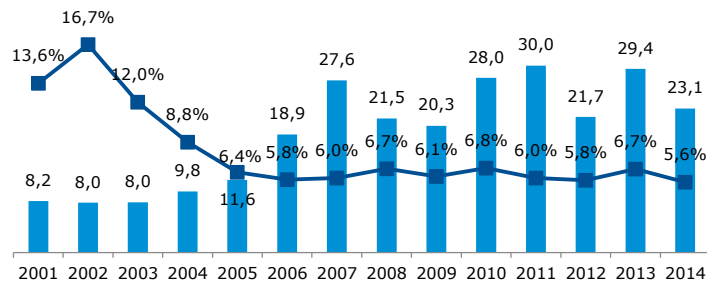
## AUM of investment funds (EUR bn)



## OFE's share in WSE free float

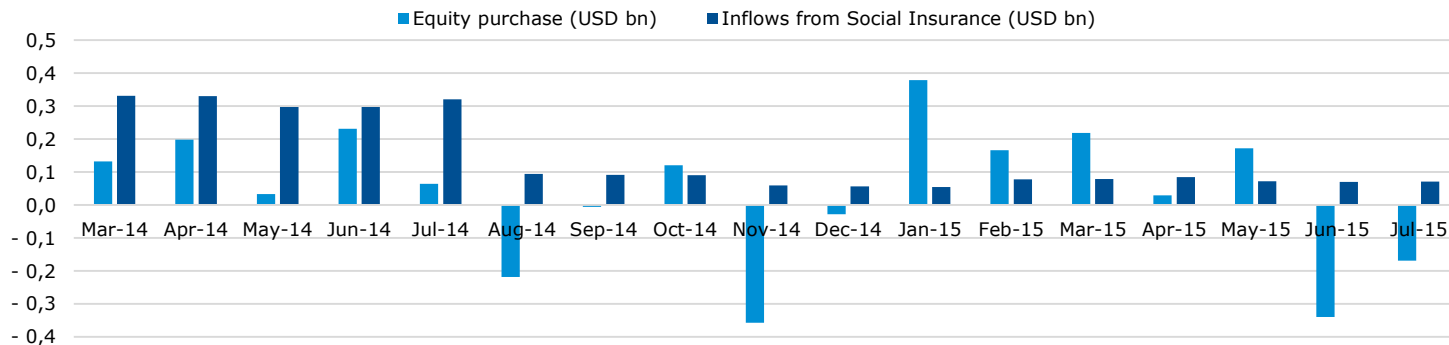


## Pension fund's shares in trading on WSE

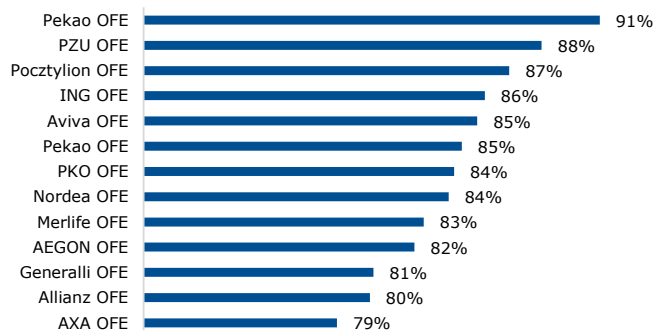


# OFEs remain active equity buyers

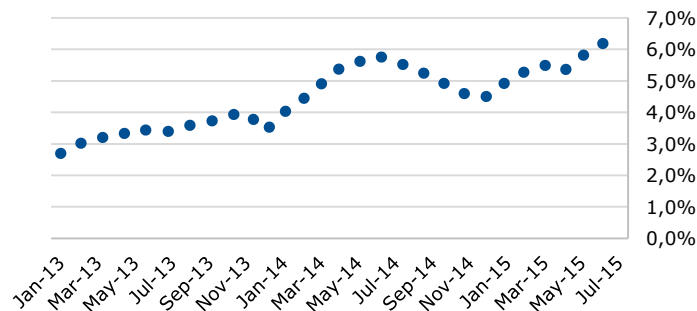
## Social Insurance (ZUS) inflows to OFE and their equity purchases



## OFE Equity allocation (July 2015)



## Foreign stocks share in OFE portfolio

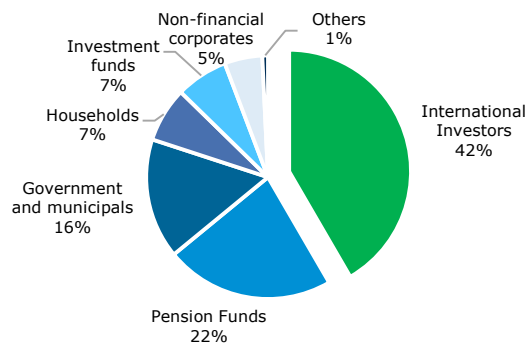


# Strong presence of international investors provides liquidity and balanced shareholders' base

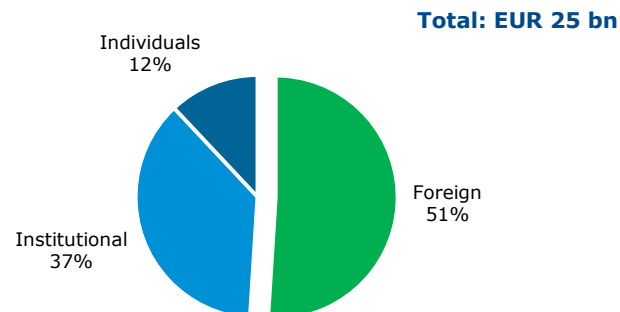
## Portfolio turnover ratio on the WSE (selected investors)

Year	Domestic Investors			International investors
	Pension Funds	Investment Funds	Individual Investors	
2008	28%	71%	62%	42%
2009	26%	92%	134%	50%
2010	21%	73%	89%	53%
2011	19%	80%	100%	57%
2012	13%	69%	89%	44%
2013	14%	75%	83%	48%
2014	9%	60%	62%	41%

## WSE stakeholders by market capitalisation of AUM



## Share in turnover on the WSE (Q2 2015)



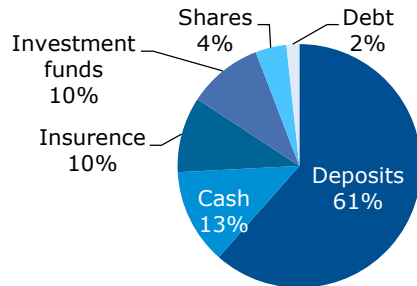
## Conclusions

- ◆ With an established and growing presence, international investors have been major liquidity providers on the WSE
- ◆ Domestic funds continue to be inward-looking, fuelling valuations in Poland to one of the highest levels in the CEE
- ◆ Positive perception of the WSE has recently led to a nearly 60% allocation of shares in the CCC ABB to foreign investors, strongly outperforming domestic demand

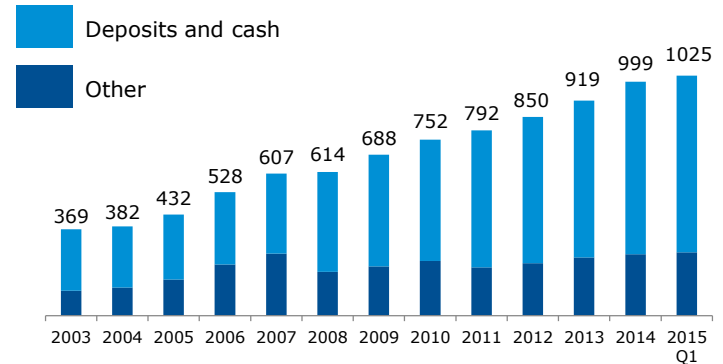


# Polish retail investors are emerging and are likely to continue to provide significant liquidity momentum

## Poles' savings\* (%)



## Household assets\*\*, 2003-2014 (PLNbn)



## Conclusions

- ◆ Poles continue to keep most of their savings in bank deposits: in the low interest rates environment there is a significant growth potential for increased investments on the WSE
- ◆ Shares represent only 4% of retail savings\*\*\*, however, individual investors are very active on the WSE (generating 13% of the total turnover in 2014)
- ◆ WSE promotes initiatives to encourage investment on the Stock Exchange through education, joint initiatives with market participants and continuing support for the Civic Shareholding program

\* Net of pension entitlements (pension funds and Social Insurance Institution sub-accounts), non-listed shares, other equity interest

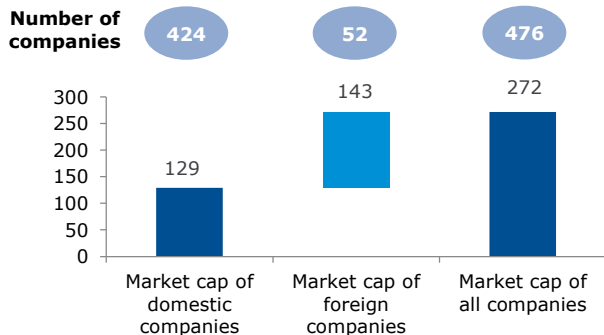
\*\* Short and long-term debt securities, short and long-term loans

\*\*\* Listed shares, insurance, investment funds, short and long-term debt securities, short and long-term loans

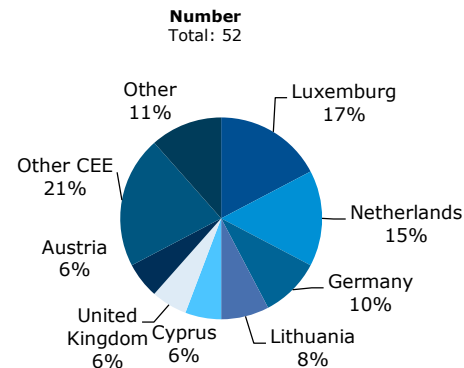
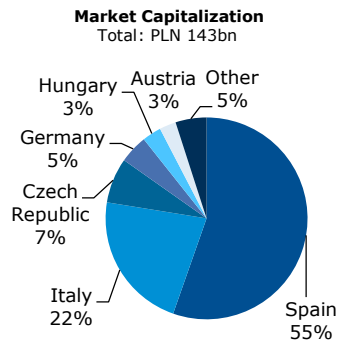
Source: National Bank of Poland (NBP); data as of the end of Q1 2015

# WSE as a platform of choice for foreign issuers

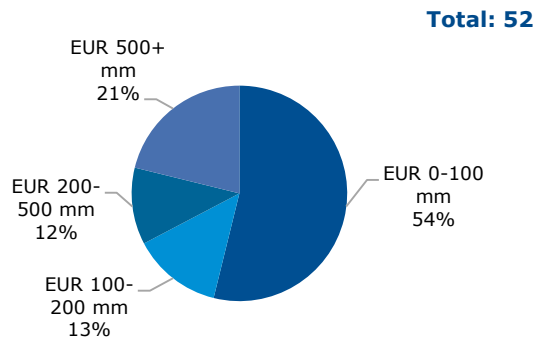
## Number and market cap of companies listed on the WSE



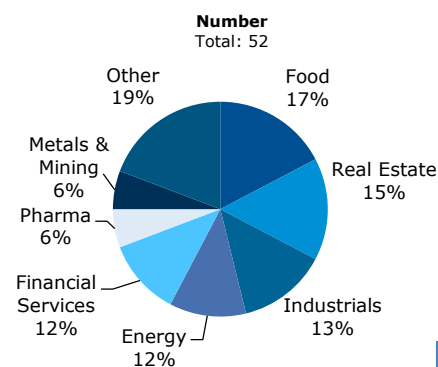
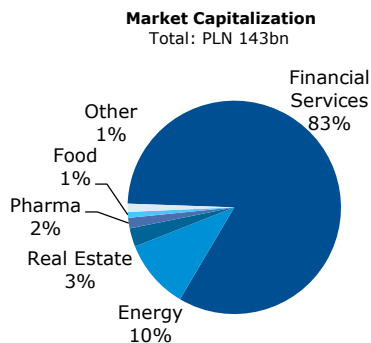
## Foreign companies by country



## Number of foreign companies by market cap



## Foreign companies by sector


















# Indicative comparison of listing platforms

5 Favourable 1 Unfavourable		Warsaw	London	Vienna	Germany	Budapest	Prague
Market characteristics	No. of IPOs & volume raised since 2007 (EURbn)	600+ / 12,33	431 / 54,91	9 / 2,25	108 / 22,16	3 / 0,09	9 / 0,28
	Market Capitalization 1H 2015(EURbn)	149,4	3758,4	87,3	1 577,7	15,3	24,3
	Liquidity (2014 EURbn)	54,4	3 210,4	23,9	1 279,2	6,0	5,6
	Local market P/E	15,3x	23,2x	17,9x	23,5	23,5x	17,2x
Listing requirement	Listing requirements & documentation	4	3	4	3	4	4
	Execution timetable & costs	5	4	5	4	5	5
	Corporate Governance	4	5	4	5	4	4
	Reporting requirements	3	3	3	3	3	3

# Benchmarking of major stock exchanges

## Total number of listed companies\* (by 2Q-15 ranking)

	(full number)	Dec-09A	Dec-10A	Dec-11A	Dec-12A	Dec-13A	Dec-14A	Q2 2015
1	 BME	3,472	3,345	3,276	3,200	3,245	3,452	3 595
2	 London Stock Exchange Group	6,176	2,966	2,886	2,767	2,736	2,752	2720
3	 Euronext	1,160	1,135	1,112	1,073	1,062	1,055	1 065
4	 GPW	<b>486</b>	<b>585</b>	<b>777</b>	<b>867</b>	<b>895</b>	<b>902</b>	<b>908</b>
5	 NASDAQ OMX **	797	778	773	751	755	787	817
6	 DEUTSCHE BÖRSE	783	765	746	747	720	670	644
7	 BULGARIAN STOCK EXCHANGE	399	390	393	387	381	372	367
8	 MOSCOW EXCHANGE	234	250	536	293	262	257	258
9	 ATHEX GROUP	288	280	272	265	251	244	243
10	 BORSA ISTANBUL	248	264	264	243	236	227	225
11	 wiener börse.at <small>cee stock exchange group</small>	115	110	105	99	102	99	96
12	 BUCHAREST STOCK EXCHANGE	64	69	79	79	83	83	81
13	 BORZA <small>cee stock exchange group</small>	76	72	66	61	55	51	48
14	 BUKARESTI BORSĂI GRUP <small>cee stock exchange group</small>	46	52	54	52	50	48	46
15	 PRAGUE STOCK EXCHANGE <small>BURZA CENOVÝ PŘÍRUKA cee stock exchange group</small>	25	27	26	28	26	23	24

Source: World Federation of Exchanges, FESE

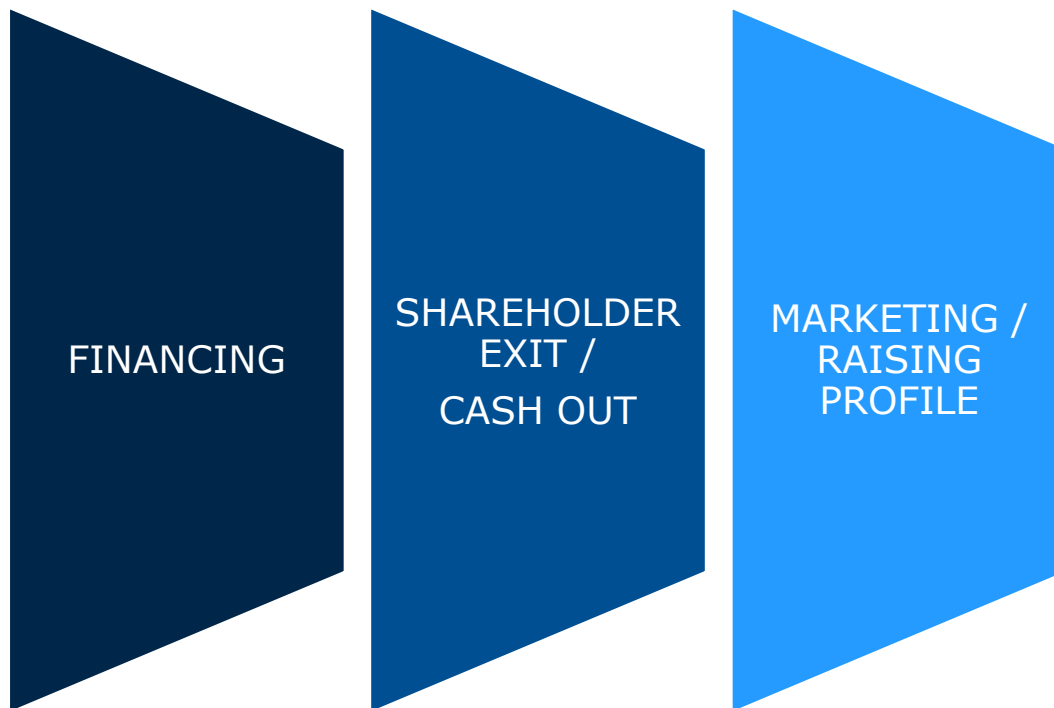
\* Number of companies with shares listed on an exchange at the end of the period, excluding investment funds, and unit trusts, and companies whose only business goal is to hold shares of other listed companies

\*\* Nasdaq OMX only for nordic exchanges

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## **IPO considerations**

# Typical issuers' motivation for an IPO



# Why have an IPO?

## Company's and vendor's objectives are complementary but not identical

### Company

- Capital raising
- Build broad and stable shareholder base
- Raise profile / marketing
- Facilitate future fund raising and possibility future acquisitions
- High valuation maintained in the secondary market trading. Relative valuations
- Bringing professional management onboard

### Vendor (selling shareholder)

- Maximize proceeds
- Maximize value of remaining shares
- Exit for founders or other investors
- Parent companies selling subsidiaries
- Privatizations

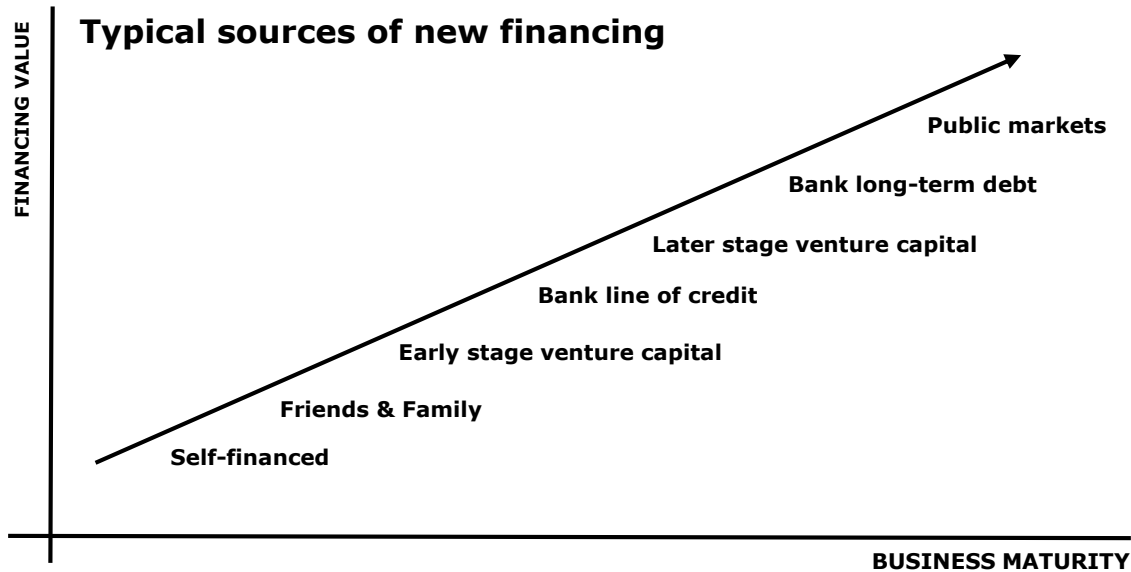
### Investor (future shareholder)

- Maximize share price return
- Portfolio diversification
- Exposure to position not easily found in the secondary market (scarcity value)

# When to have it?

## Typical reasons for financing through an IPO:

- Capital raising for business expansion
- Reducing debt levels (leverage of the company)





# Are you ready for an IPO?

## Key pre-IPO considerations

### Predictability & Visibility

- Take the time you need to ensure that you have built predictability into your company before the IPO.
- Are you ready to deliver forecasted results?
- **Be able to draw scenarios with a high degree of certainty.**

### Underlying Growth Potential

- Do you grow fast?
- Is there a large market in front of you?
- Invest in growth projects and conduct IPO when **early** results from investments are encouraging. Waiting too long to do your IPO might allow a competitor to steal your thunder.
- **Have a game plan !**

### Vulnerability Assessment

- Do you have a large customer or two?
- Do you have a dominant supplier or distributor?
- Are you exposed to a single regime, technology or process?
- **Remove single points of failure to boost attractiveness and value**

# Selected successful IPOs on the WSE



Source: Bloomberg as of 09/2015; 12M trailing P/E

# Preparing for an IPO – considerations

**The financial advisor / investment bank and the company should look at fundamentals as early as possible**

## **Assess the need for capital**

- A company's first issue of shares is critical and should be driven by fundamentals
- Projects, M&A strategy and/or other needs should be well-defined and addressed

## **Identify shareholders intentions**

- Intentions of existing shareholders: do they wish to reduce/increase their stakes?
- Lock up period
- Availability of shares for over-allotment option

## **Valuation**

- Valuation under various scenarios, business structures and strategies and perform sensitivity analysis

## **Strategy & positioning of the equity story**

- Considering implications of company strategy in the context of its sector peers
- Formulating the investment case

## **Deal structure & communication**

- Regulatory approvals
- Disclosure considerations
- Institutionals vs retail (should be based on the nature of the underlying business)
- Defining communication strategy and plan

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