OTT-ONE

18 APRIL 2021 RESEARCH MATERIAL

The Hungarian Central Bank (MNB or Central Bank) has suspended the trading of OTT-ONE's shares as of 16 April 2021, as the issuer did not fully disclose that its auditor had returned his mandate on 15 April 2021 and was terminating the audit contract with extraordinary notice. Although the issuer published information about this in an extraordinary announcement, it did not publish the reason for the termination, i.e. it withheld information that could potentially affect the Company's judgment. The Central Bank is currently reviewing OTT-ONE's disclosure practices in a previously launched targeted review and has also made a report based on the available data, says a statement issued by the Central Bank.

The suspension will last until OTT-ONE publishes its 2020 annual report, supported by an independent audit report.

Listed issuers are highly expected to disclose reliable and true information about their assets, financial and income position as specified in the accounting rules. The risk of failure to report annually jeopardizes the legitimate interests of investors and the balance of the capital market. The annual report ensures that investors have a reliable and realistic picture of the issuer's income-generating capacity, assets, financial position and future plans.

In the present circumstances, MNB considers that investors do not have all the information necessary to make an informed investment decision, therefore, until the elimination of the information asymmetry, i.e. the publication of the annual report for the financial year 2020, MNB decided to suspend the stock exchange trading of the shares.

Until further information on this situation is made public, the previous target rate will be suspended, and we will put the target price for OTT-ONE shares under review.

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Change from the prior research

Our first research was published on 31 August 2020. In that Initiating Coverage our target price was HUF 296. The changes in fundamental factors and the operation in the Company required an update of our model and the target price. Based on changes mentioned above, our target price was changed from HUF 296 HUF 275 on October 12 2020 which is 7,09 % lower than the precious target price. Based on the suspension of trading of the

Company's shares mentioned above, we do not currently have a valid target price for the Company's shares, as we put our price target under review.

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Methodology used for equity valuation and recommendation of covered companies

The discounted cash flow valuation is a method of valuing a company (or project, assets, business, etc.) with the time value of the money. The model forecasts the company's free cash flow (free cash flow to firm) and discounts it with the average cost of capital (WACC). The cash flow is simply the cash that is generated by a business and which can be distributed to investors. The free cash flow represents economic value, while accounting metric like net earning doesn't. The WACC represents the required rate of return by the investors. If a business is risky the required rate of return, the WACC will be higher.

Discounted cash flow model (DCF): We analyze the companies using five year forecast period and set a terminal value based on the entity's long term growth or on different exit multiples like EV/EBITDA or EV/EBIT. In certain cases the forecast period may differ from five years. In this case the analysts must define the reason for difference. The cash flows are discounted by the company's WACC unless otherwise specified.

In the first step we have to forecast the company's cash flow. The free cash flow to firm (FCFF) is based on the earnings before interest and taxes (EBIT), the tax rate, depreciation and amortization (D&A), net change in working capital (which is based on the current assets and current liabilities) and the capital expenditures (CAPEX). The model requires a terminal value which can be based on the long term growth or on an exit multiple like EV/EBITDA, or EV/EBIT. Forecasting the terminal value is a crucial point because in most cases it makes up more than 50% of the net present value.

The discount rate (WACC): The average cost of capital of the company is dependent on the industry, the risk free rate, tax, the cost of debt and the equity risk premium. The cost of equity is calculated by the CAPM model, where the independent variables are the risk free rate, the industry specific levered beta, and the equity risk premium. The WACC is dependent on the capital structure, so the forecast of the equity/debt mix is crucial.

At the end we get the enterprise value (EV). The EV is the market capitalization plus the total debt and preferred equity and minority interest, minus the company's cash. In the last step we have to reduce the EV with the net debt. This figures divided by the shares outstanding we arrive at the target share price.

The discounted cash flow model includes sensitivity analysis which takes the effects of the change in the WACC, the long term growth or the used exit multiples on which the terminal value is based.

Our target price is based on a 12 month basis, ex-dividend unless stated otherwise.

Peer group valuation: For comparison we use peer group valuation. The analysis based on important indicators and multiples like P/E, EV/EBITDA, EV/EBIT, market capitalization, P/S, EBITDA margin, net debt to EBITDA, EBITDA growth, dividend yield and ROIC. If the industry justifies we may use other multiples. The peer group is compiled according to the companies' main business, with respect to the region (DM or EM market).

Recommendations

- Overweight: A rating of overweight means the stock's return is expected to be above the average return of the overall industry, or the index benchmark over the next 12 months.
- Underweight: A rating of underweight means the stock's return is expected to be below the average return of the overall industry, or the index benchmark over the next 12 months.
- Equal-weight: A rating of equal-weight means the stock's return is expected to be in line with the average return of the overall industry, or the index benchmark over the next 12 months.
- Buy: total return is expected to exceed 10% in the next 12 months.
- Neutral: Total return is expected to be in the range of -10 - +10% In the next 12 months.
- Sell: Total return is expected to be below -10% in the next 12 months.
- Under revision: If new information comes to light, which is expected to change the valuation significantly.