INPOST

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Executive summary

InPost is a competitively advantaged player in the last mile logistics industry and is rapidly taking share in key markets across Europe. Starting in its home market of Poland, the company is building out dense networks of parcel lockers, otherwise known as Automated Parcel Machines or APMs. Couriers operating an APM network deliver 10x more parcels than couriers dropping to customers' homes (to-door delivery). The efficiency of its APM network means that InPost can offer APM deliveries 20-30% cheaper than incumbents offer to-door deliveries, while having a ~23% FCF margin and ~50% pre-tax ROIC in Poland. Customers love the lower prices and greater convenience, and merchants appreciate the reduced shipping costs, lower delivery failure levels, and higher conversion rates at checkout that parcel locker delivery enables. The green credentials of the model also help momentum across stakeholders.

InPost's disruptive 'win-win-win' value proposition has radically changed how last-mile parcel delivery works in Poland. InPost has been so successful that 15 years after its first APM delivery, they now deliver close to 50% of all parcels in Poland and they are still growing market share today. This is a remarkable feat in last mile logistics given the need for dense networks and massive volumes typically results in very high barriers to entry.

Having gained what appears to be an unassailable lead in their (still fast-growing) home market, in recent years InPost has begun exporting their model to Western Europe. InPost is growing quickly in the UK, France, Spain and Italy and has demonstrated strong product/market fit and highly attractive unit economics. In the UK, the offering is so well-received that utilisation of their 8,000-strong APM network is currently running above 100%. These core Western European markets are huge, with combined parcel volumes over 5x Poland's. Even with a fraction of the market share it has captured in Poland, InPost's Western European business could exceed its Polish operations in the years to come.

InPost went public in 2021 and despite nearly tripling its EBITDA since 2020 and continuing to grow revenue above 20% annually, their shares languish close to their listing price. At a valuation of ~17x recurring free cash flow[1], ~22x FY25E P/E, ~11x EV/FY25E EBITDA, the opportunity is compelling. We see a high probability of strong returns with solid downside protection. The market valuation fails to appreciate the rock-solid core in Poland, which is still growing strongly, and also fails to attribute any meaningful value to the increasingly tangible opportunity in Western Europe.

Business snapshot

InPost is the leading last mile parcel delivery courier in its home market of Poland, and has growing positions in key Western European markets including France and the UK. Unlike most of its competitors, its logistics network is out-of-home-focused and centred on APMs, giving it a structural cost advantage and differentiated value proposition that has enabled fast growth and share gains.

- Today the company has a presence in 9 countries, and a growing network of ~41k APMs, and ~33k PUDOs
- Born in Krakow, the company has been listed since 2021 (having previously been listed in 2015 and taken private in 2017 by Advent, a well regarded PE firm)
- Market cap: ~€ 9 billion; Net debt: ~€1.4 billion (~2.0x adj. EBITDA); Enterprise value: ~€10.4 billion
- 5yr revenue CAGR: ~65%, adj. EBITDA CAGR: ~90%
- Poland is ~60% of revenues and ~85% of adj. EBITDA (~46% margin), International is ~40% of revenue and ~15% of adj. EBITDA (~15% margin)
- Top management has a long-tenure in the company:
    - Founder and CEO, Rafal Brzoska (47 yrs): founded the company in 1999. Holds ~12.5% of shares
    - CEO of International, Michael Rouse (51 yrs): joined in 2020, in charge of InPost International
    - CFO, Javier van Engelen (56 yrs): joined the business in 2024
- Financial snapshot:

(PLN millions)	FY19	FY20	FY21	FY22	FY23	1H24
Revenue	1,243	2,528	4,602	7,079	8,863	5,049
Adj. EBITDA	350	994	1,626	1,961	2,733	1,647
Adj. EBITDA margin %	28%	39%	35%	28%	31%	33%
Net profit	54	352	492	456	648	593
ROIC (pre-tax)	11%	36%	20%	17%	25%	26%
ROIC (post-tax)	7%	27%	14%	12%	17%	18%
Net debt / LTM EBITDA	2.2x	2.5x	3.3x	3.2x	2.2x	2.0x

[1] Recurring FCF = EBITDA – Lease liabilities – Income Taxes – Interest Expenses – Maintenance Capex (as per InPost disclosure)

What are APMs and why do merchants and customers like them?

Though it will be discussed in more detail below, any discussion of InPost needs to start with an overview of their parcel locker network, as it underpins what has made them successful so far.

The heart of the business is their proprietary network of parcel lockers, otherwise known as APMs. An APM is a standalone unit consisting of individual compartments or ‘lockers.’ InPost couriers deliver parcels to APMs and customers come and pick them up, which effectively means that end-consumers do the last mile delivery themselves.

Customers can also complete returns via these lockers, dropping off unwanted parcels without needing to print a label. To retrieve or drop off a parcel, customers simply scan a QR code or use the InPost app, and the relevant locker opens. APMs are typically located in high footfall areas such as supermarkets, busy streets, transport nodes, apartment blocks etc, making them convenient for customers to access in their daily routines, often without requiring an additional journey. Nearly all APMs are outside, meaning they can be accessed 24/7.

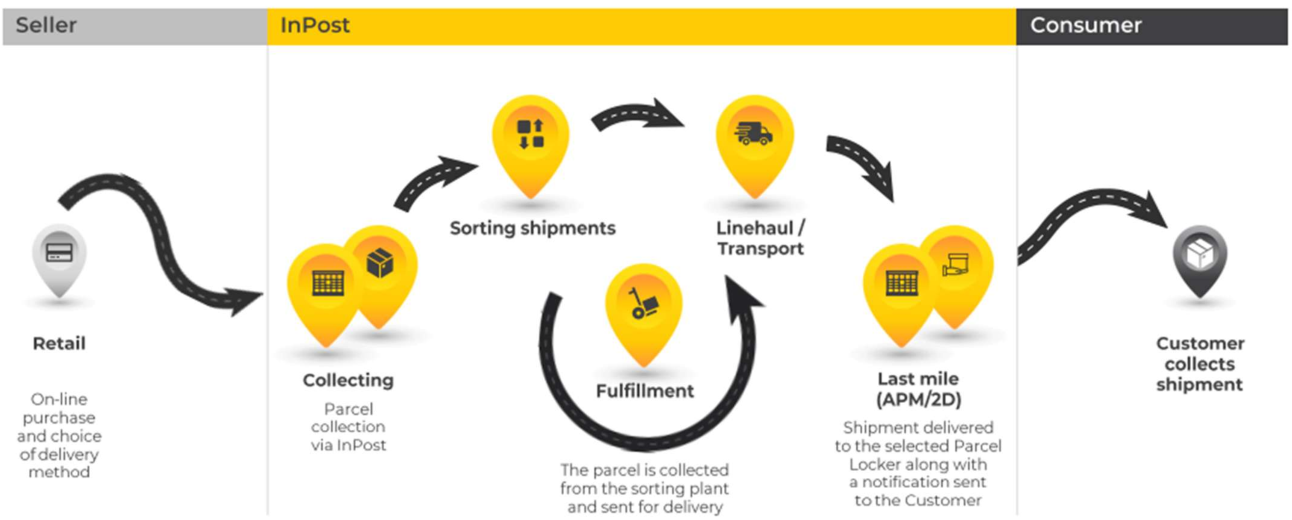
APMs are a type of ‘out of home’ (OOH) delivery, vs the traditional ‘to-door’ model by which most parcels have historically been delivered. OOH models require customers to collect parcels, instead of having them dropped off at their home. It may seem like an inferior offering, though in fact for many of the ecosystem participants – merchants and customers included – it can be significantly superior and *the* preferred form of delivery. The central advantage of APM delivery vs to-door is that it is drastically cheaper – a locker delivery typically costs merchants ~20-30% less than one delivered to someone’s doorstep, enabling them to reduce fulfilment expenditures, and customers to spend less on shipping costs. Perhaps as important, many consumers prefer to pick up their parcel when and where they choose rather than having to coordinate with a courier who delivers it to their home, provided the APMs are close enough.

The fundamental driver of the much better unit economics is that a single courier can deliver multiples more parcels when delivering to APMs vs to-door. A typical courier can deliver ~100 packages per day to doorsteps, averaging 1-3 parcels per drop, with a low ceiling on how high this can go given the realities of how much demand there is for parcels per home each day. With the APM model, the capabilities of a courier are radically greater, as they can deliver more than 150 parcels in a single visit to a locker bank. The beauty of how this model scales is quite clear from our numerous locker visits in France, the UK and Poland. Unlike a warehouse or a pick-up-drop-off (PUDO) location, the size and therefore capacity of an APM can dynamically increase as demand grows - the APMs are modular and new columns of lockers can be added with relative ease. For example, in the UK where InPost's operations are relatively nascent, we've seen many machines placed just outside corner shops with a few dozen lockers in 3-4 columns. Contrast this with Poland, where the business has been growing for many years and InPost has 1,000s of machines that have 200+ lockers.

With each drop taking just a few minutes and when factoring in drive times between locations, an average driver can visit 7-10 APMs per day, delivering up to ~1,000 parcels, while at the same time emptying lockers used up by returns.

By achieving multiples more drops per driver, operators of APM networks are able to gain massively more operating leverage over two of their biggest costs: labour and transport expenses.

In addition to lower costs, there are several other aspects of the APM/OOH model that can make it more appealing than to-door. For customers, it is often more convenient to visit a locker at a time of their choosing (e.g. on their commute, grocery shop or petrol station visit) than it is to wait at home for a courier to arrive, and for many APM visits there is almost no marginal time cost for consumers, as all they need to do is stop at a locker they were already passing, scan a QR code or open the app, and retrieve or drop off a parcel. Crucially, the underlying assumption here is that the APM network operator has a locker in a place where each consumer is already passing and, as we'll explore later, this density is one of the make-or-break aspects of running a profitable APM-centred network. Failed deliveries are also nearly non-existent as there is almost always space in the chosen location or one nearby. Lockers also reduce theft as they are more secure than leaving parcels outside when a customer isn't in. Merchants appreciate all these benefits because failed deliveries are a big cost for them, and issues with missing or damaged parcels harm their relationship with customers and distract from their main operations.



Source: Company presentation

Business description

InPost is a logistics and courier company that provides parcel delivery services in Europe, with its primary market being its home country of Poland. Unlike legacy delivery companies, they focus on out-of-home, with the core of their business being the network of APMs, though they also deliver via PUDOs ('pick-up and drop-off' locations in convenience stores and post offices etc), as well as also having some to-door volumes. They offer a full-service operation, and besides having the collection points (APMs and PUDOs), they also have all the infrastructure and facilities required to facilitate end-to-end parcel delivery, including distribution centres, regional hubs, local depots, drivers, and vehicles.

InPost was the first company to introduce APMs to the Polish market in 2009. The founder and current CEO, Rafal Brzoska, had the insight that parcel lockers offer both merchants and customers a far superior value proposition to that provided by the to-door focused incumbents. At the time, the Polish market was dominated by state postal operator Poczta Polska (Polish Post), which was notorious for high prices and poor service levels. Rafal believed that an APM network could deliver significantly lower prices for all parties, and that consumers would also come to prefer the convenience, flexibility and reliability of parcel lockers over the constraints of PUDOs, and the costs and potential inconvenience of to-door delivery.

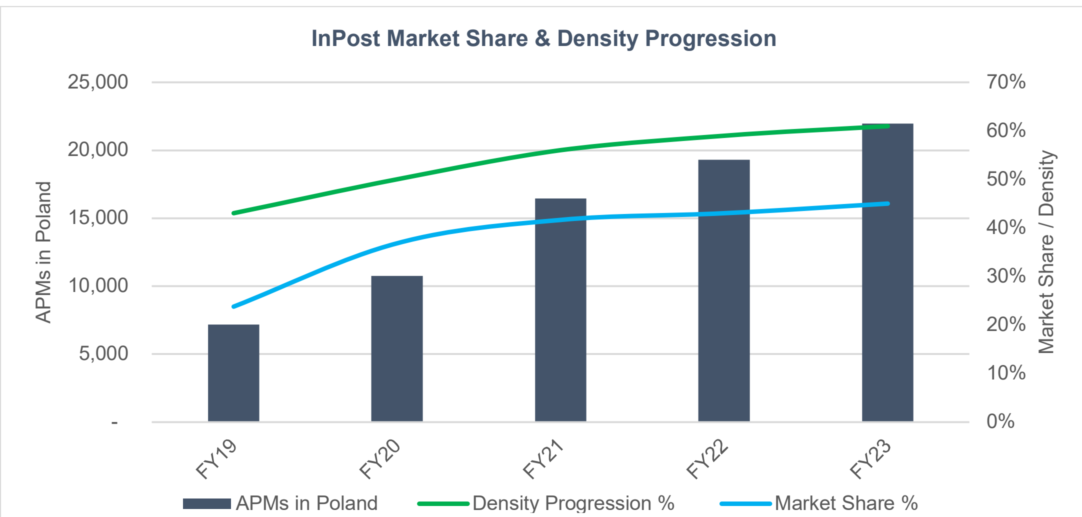
Starting in its hometown of Krakow, InPost rapidly built a network of APMs, using its first mover advantage to grab the best locations and gain a head start on building scale, merchant relationships, and customer acceptance. By the end of 2010 they had a few hundred APMs in the country and began rolling-out thousands more, which they complemented with to-door services and PUDOs to provide merchants and customers with all the services they wanted. Ecosystem uptake was swift, with merchants seeing value in lower costs and greater reliability, and customers similarly loved the reduced shipping fees and more flexibility, enabling InPost to grow volumes and further expand and densify their network. This led to major gains in unit economics, which they reinvested into lower prices and greater service levels, kickstarting a 'flywheel' that enabled them to continuously improve their value proposition and take market share.

The pace of growth and development in InPost's logistics has been striking. From 2018 to 2022, the company increased its sorting and depot capacity by 5x. They also completely rebuilt 27 of their existing depots, meaning that they effectively built a total of 54 depots in five years, and these depots are now much larger than they used to be (in 2017, depots were 500-2,000 sqm, while by 2022 8,000 sqm had become standard).

By continually redeveloping and refining their operations, InPost has driven step-change improvements in efficiency. For example, initially, parcels were collected from APMs and taken to local depots and then sent on to sorting hubs where they were redistributed overnight and sent back to depots to be placed in APMs in the morning. Today, depots can sort so that where it is more efficient, parcels move from depot to depot and never have to go to a sorting hub. This significantly reduces the miles travelled by each parcel and greatly increases the efficiency of the operation.

The fact that InPost has managed to improve its efficiency metrics while growing parcel volumes ~6x in five years demonstrates how well managed the business is. It also highlights how difficult it would be for another company to replicate this success. Developing an efficient operation is much more than just building a physical footprint as it requires constant adjustment depending on conditions. To compete with InPost, another company would need to reproduce their physical footprint and then somehow replicate InPost's ability to improve its operation as it grows, all while trying to battle a competitor as fearsome as InPost.

On the back of all of this, InPost's success in Poland has been extraordinary. Over 70% of all online shoppers in Poland use InPost, and InPost delivers almost 50% of all parcels in the country. They have the largest OOH network in Poland with 23,470 APMs and 3,886 PUDOs, compared to just 6,530 APMs and 19,723 PUDOs (which have a fraction of the capacity of each APM) for their nearest competitor, DPD. To give an indication of the density and ubiquity of InPost's footprint, over 60% of the Polish population lives within a 7 minute walk of one of their APMs, rising to ~87% when only including the urban population (three quarters of their APMs are in urban areas). They have become synonymous with OOH delivery and in 2009 even trademarked 'Paczkomat' as their own brand, which is how Polish people refer to parcel lockers. InPost has ~75% share of the OOH channel, which includes the majority of local e-commerce player Allegro's volumes. Customers love the InPost offering and it has the highest NPS in the country (an incredible 80 for its APMs) by a wide and growing margin.



N.B. Density represents the population of Poland within a 7-minute walking distance from an INPST APM.

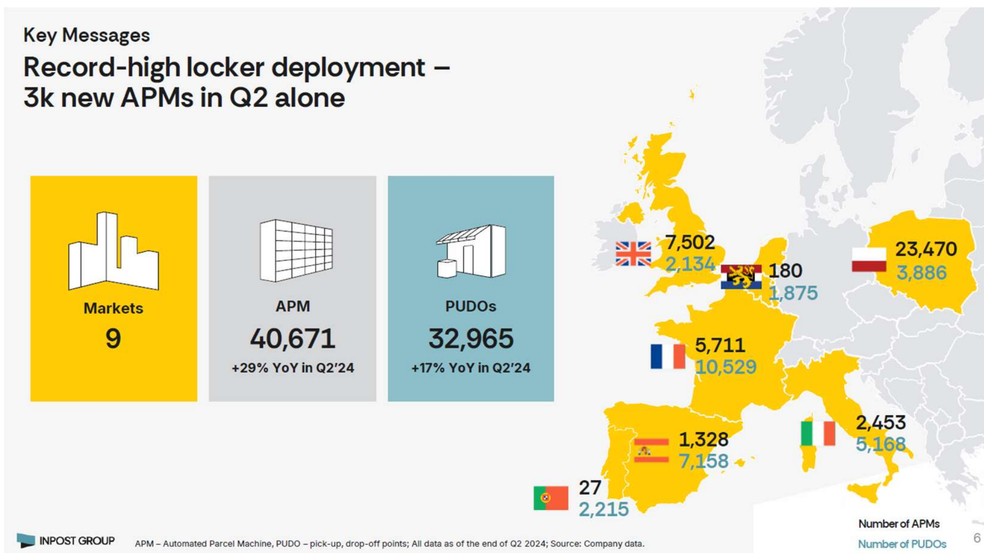
Source: Company filings

In recent years InPost have been expanding into markets outside Poland, with France and the UK being the largest two, and they also have growing footprints in Italy and Iberia. The idea is to replicate the success they have had in their home country by exporting the APM model to nations that are today predominantly served by to-door offerings.

Though still young, the early indications are good with rapid uptake of APMs in these markets, and promising signs that they could become a major operator in these countries over time. For instance, France and the UK are already profitable, with industry-leading growth and improving unit economics.

InPost generates the majority of its revenue from the fees it charges merchants for delivery through its network, typically charging on a per parcel basis. They also offer a subscription model that allows merchants to choose from a selection of standardized packages with a fixed monthly fee, which is mainly used by smaller clients, with contracts lasting 12-24 months. Subscriptions come with a certain number of credits which are then redeemed for parcel delivery services. Any remaining credit at the end of the month is not transferable to the next period. The deliveries in excess of the subscription amount are charged separately at a higher pre-agreed rate.

The company's founder, Rafal Brzoska, has been CEO since inception and is one the largest shareholders with a ~12.5% holding. Rafal is something of a visionary in the industry, having been the main force driving the establishment of APMs as the delivery channel of choice in Poland, as well as being the key proponent of their introduction into multiple other markets. He is a major asset for the firm and understands the nuances of the B2C delivery market better than pretty much anyone else in Europe, and he has big ideas for how far InPost can go (more on him and management below).



Source: Company presentation

Industry background & Company history

The company was founded in 1999 as Integer Group, with an initial focus on unaddressed leaflet distribution services, becoming a leader in the field within a few years. In 2006, they seized the opportunity presented by a major strike at the state-owned operator Poczta Polska to enter the mainstream addressed postal business, rebranding to InPost in the same year. At that time, Poczta Polska had a legal monopoly on the distribution of light mail and some parcel categories, which hampered InPost's ability to compete.

To give a sense of the obstacles they had to overcome, as well as an insight into Rafal's character, there's an instructive chapter of the company's early life in how they skirted around the rules that protected the incumbent's monopoly. Before the market was liberalised, Poczta Polska alone was allowed to deliver letters weighing below 50 grams, so to get around this, InPost attached small metal plates to individual letters to bring them above the weight threshold and into the competitive market. Even with the additional costs of doing so, they were still able to undercut Poczta Polska and offer a better service, leading to rapid growth. Inevitably they were challenged in court for this, which failed, and they were allowed to carry on weighting parcels. In due course, EU directives forced the market open, though the story nevertheless gives a good example of the scrappy and determined kind of operator Rafal is.

The market's watershed moment came in 2013, when the industry was radically liberalised and the legal monopoly was terminated, throwing open the market to competition. Rafal seized the moment and expanded aggressively into the newly free market, receiving a big boost when he won the nationwide contract to service the public courts, enabling InPost to quickly gain scale. As a consequence of this win, they obtained the footprint and economies of scale to attract a host of new customers, particularly in the emerging e-commerce market, where they won a major contract with key company Allegro in 2014, which proved to be a gamechanger for the business.

InPost began rolling out APMs in 2009, with parcel lockers quickly gaining widespread acceptance in Poland and becoming the preferred mode of parcel delivery (most Poles live in flats in households where both parents work, making to-door delivery impractical). To fund further expansion, InPost went public on the Warsaw Stock Exchange in 2015, using part of the capital raised to launch courier and logistics services to augment their expanding APM network. Some of this capital was also used to aggressively expand into international markets, taking on significant leverage in the process and incurring heavy losses. This strategy was not successful and imperilled the company, ultimately resulting in it being taken private in 2017 by the private equity firm Advent International. Our post-mortem analysis on the markets InPost entered at the time, mainly focused in the UK, French and Australian expansions, revealed similar issues: lack of focus and management depth at the country level, non-existent localisation of the product and a consumer that was just not ready to try this new form of delivery in the mid-2010s.

Under Advent's ownership, InPost evolved dramatically. They exited the declining mail business, exited their international operations while physically relocating the lockers to core geographies, and focused on the e-commerce parcel business in Poland. Doubling down on the domestic APM network proved highly successful, with the refocused company accelerating ecosystem uptake, driving down costs per parcel, and taking market share while growing margins. Within a few years InPost became the #1 parcel delivery business in Poland. Having shored-up its core, repaired its balance sheet, and returned to profitable growth, InPost went public again in January 2021, this time with a primary listing on the Euronext in Amsterdam.

While Advent has clearly been critical to the development of the company, it is important to stress how much Rafal has learned himself. He still has big ambitions and moves fast, but is highly unlikely to risk his business again. There are benefits to investing with someone who has nearly gone bust, as Rafal did, as getting close to the brink forces the entrepreneur to think deeply about business fragility and to make sure similar circumstances never again arise. With only an ~11% ownership stake remaining, Advent is no longer in control, though we are fine with this, believing that Rafal is now a safe pair of hands who no longer needs 'adult supervision'.

In the build up to the latest IPO, the company began to look at international expansion once again, this time in a more disciplined and targeted manner. There are several reasons why the international expansion will be more successful this time around. First, the core Polish business is much stronger and more mature than when InPost first expanded internationally. This gives the company a large and growing source of cashflow with which it can invest in new markets. Second, in its early international expansion InPost aimed to secure large numbers of APM locations in a wide array of markets in a short space of time, which stretched them too thin. The expansion plan today is much more focused, and InPost is targeting its investment to build density quickly in a handful of key markets while guaranteeing the best locations. Third, with the massive growth in parcel volumes, there is much more need for the APM solution today than in 2015. Back then, PUDO locations had spare capacity, whereas today they are overwhelmed with parcels. With e-commerce competition increasingly cut-throat, merchants are desperate to optimise the cost of delivery and returns and to improve checkout conversion rates by making delivery as seamless as possible. And customers, overwhelmed with the number of parcels they receive and return, see more benefit in the convenience of APMs. Finally, since 2015, InPost have developed close relationships with many international merchants in Poland who are interested in working with them elsewhere, making InPost much better placed today to secure volumes for their new APM networks.

Today, InPost's key international markets are France and the UK. InPost entered France shortly after going public in January 2021 with the acquisition of Mondial Relay. Mondial Relay was the #2 parcel business in France with a strong PUDO network. InPost has grown organically in the UK, where its APM solution has proven wildly popular with customers and it is now by far the market leader in APMs. InPost is also growing in Italy and Spain and has small operations in a number of other European markets.

The rapid success of InPost has been made possible by their core relationships with fast growing merchants that helped the novel APM network gain widespread customer acceptance. In Poland, the key merchant was Allegro.

The Allegro relationship

Allegro is the dominant online marketplace in Poland, with approximately 50% share of the retail e-commerce market. Following InPost's win of a major contract to deliver Allegro parcels in 2014, the two have been close – and sometimes uneasy – partners, with each accounting for a high proportion of each other's business. At the time of InPost's listing, Allegro accounted for ~62% of their volumes and ~47% of their revenue.

Allegro and InPost interact in two main ways: their most direct interaction is when dealing with Allegro's membership programme, called Smart!, which is somewhat like Amazon Prime, in as much as for an annual fee customers get free delivery for orders over a certain value. In the Smart! programme Allegro pays the cost of delivery directly to the chosen courier[2], which is often InPost.

Given the symbiotic relationship between both players, Allegro and InPost negotiate long-term agreements for these volumes, which are currently governed by the 2020 'Framework' agreement (updated in January 2024) which stipulates price levels, minimum volumes, and adjustment mechanisms. We estimate that InPost delivers more than half of all Smart! orders and a greater proportion of Smart! OOH orders. In InPost's listing prospectus they disclosed that Smart! deliveries made up ~35% of Polish parcel volumes and ~25% of their Polish revenue during the nine months ended Sep-2020. These are the only InPost volumes that Allegro directly controls.

The second way InPost and Allegro interact is when a customer who is not part of the Smart! program places an order on Allegro, and either the merchant or the customer pays for delivery themselves. Typically merchants offer a couple of delivery options, with one of them invariably being to an InPost APM. Orders like this, which are made over the Allegro marketplace but are paid for by merchants under their own terms with InPost were reported to account for ~20% of InPost's Polish revenue when it IPO'd. Though these volumes come via the Allegro platform, Allegro has little control over which carriers are used for their delivery.

Given the level of co-dependence, the relationship between the two companies has not always been easy, and Allegro has made several unsuccessful attempts to wean itself off its reliance on InPost (discussed in more detail below). Following the foundering of these attempts and a change of Allegro's CEO in 2022, the relationship between the two companies has become more co-operative and cordial, with Allegro realising it doesn't have much choice but to work with InPost. It has subsequently de-emphasised plans to build out its own delivery capabilities so long as it continues to get good terms from InPost, instead focusing on its core business.

As InPost has continued to grow and take market share, it has slowly gained the upper hand over Allegro. By becoming increasingly dominant in last-mile logistics in Poland, InPost has become an indispensable delivery partner in the market and has continued to account for a very high share of Allegro volumes (we estimate 60+% of all Allegro checkouts). Even though Allegro cooperates with other carriers, they simply don't have another partner they can work with who has the capacity to take on their volumes at scale and offer a similarly good service that customers want to use. The reverse is less true, as InPost has diversified its footprint and customer base as it has expanded, and Allegro Smart! volumes now account for just ~31% of InPost's revenue in Poland, and ~18% of their overall revenue (Vinted is now their largest customer accounting for ~23% of Group sales). As InPost continues to strengthen and reduce its exposure to Allegro, we expect they will continue to work together in a mutually beneficial manner, albeit with periods of elevated tension.

The win-win-win offered by InPost's APM network

The beauty of InPost's Polish APM network is that it offers a win-win-win proposition to all ecosystem participants – merchants, customers, and landlords – and this has been fundamental in driving its super-fast market uptake and share gains.

Benefits for Consumers

From the consumer's perspective, lower fees vs to-door are an important attraction, though represent just one of several aspects of APM delivery that can make them preferable to other channels. As noted above, locker delivery can

[2] In practice, Allegro offsets the income it receives from membership fees against the cost of delivery. More recently, Allegro has also been asking merchants for increasing co-pays to fund the cost of Smart! deliveries

be more convenient than waiting at home for a doorstep delivery, particularly when delivery windows are wide and when the consumer is expecting parcels from multiple merchants. Rather than having to wait around for a delivery or deliveries to show-up, when using an APM a customer can go at a time of their choosing (24/7 in most cases), and can change their mind when they choose to go. As mentioned, in many instances, there is almost no additional time cost in visiting an APM as the customer was already going past it on their commute or when shopping etc. Customers can also redirect deliveries last minute on the InPost app. This means they can change the delivery location to suit amendments in their schedule, which generally cannot be done with to-door deliveries. Another benefit of APMs is that customers can collect several packages from different retailers at the same time, whereas if these were to-door deliveries, they would likely come via multiple couriers at different times. That is thanks to the multiparcel feature introduced by InPost to increase the effectiveness of the APM network.

In a market where speed is becoming increasingly important, InPost often has the shortest delivery times, and was the first provider in Poland to offer next day, weekend, and even same day delivery. Their scale and efficiency enables them to offer these best-in-class services with greater reliability and lower costs than other providers.

There are also benefits for customers from using the same APM, and from using a single APM provider. Using multiple APMs owned by several network owners is less convenient than being able to visit just one, which benefits the first mover as they are most likely to have the incumbent relationship with customers and merchants.

As InPost's density advantage improves, they are more likely to own the most convenient locations for customers, thus improving their value proposition vs other networks. To further this advantage, InPost have also built the best app in the sector ('InPost Mobile'), which enables contactless opening of APM lockers, tracks shipping and delivery information, and facilitates searching of APM locations, as well as label-less shipment and returns. Their app is considered far superior to peers and is an important differentiator: customers clearly love it, as shown by its ~13m active customers and 5.0* rating on the App Store in Poland from ~1m reviews.

The above mostly concerns the benefits of APMs vs to-door delivery, though there are significant advantages to using APMs over PUDO locations. In the PUDO model, where the parcels are typically stored in places like post offices and newsagents/corner shops, someone wishing to pick-up or return a parcel often has to wait in line with the other customers of the venue. This can be frustrating vs the ~30 seconds it takes to retrieve a parcel from an APM, which can be used by multiple customers at the same time. Additionally, parcels held at a PUDO location are often stored in a pile in a back room, which increases retrieval time and the chances of packages getting lost or damaged. The use of PUDOs is also limited to the opening hours of the host, making their use less convenient from a timing perspective vs the 24/7 access for nearly all APMs. This is especially true in France where PUDO opening hours are often 9-5. While in Poland APMs dominate the out-of-home market and the share gains are mostly from to-door, in international markets the immediate share gains are from PUDOs, given that customers of these locations are already making the decision to collect parcels out-of-home and therefore the friction of a new collection method is dramatically reduced.

Benefits for InPost

While a PUDO-first network is clearly more frustrating for customers than an APM network, a PUDO-first network is also less efficient for delivery operators. First, PUDO-locations cannot accept more than 50-100 parcels at most. Second, because they are less efficient, less convenient, and less available, PUDO locations exhibit nearly 1.5x longer parcel 'dwell times' than APMs. Taken together, to replicate the parcel capacity of a 1,000 APM network, an operator would require over 2,200 PUDO locations. This means that fulfilling that network would require 2.2x the number of driver stops to deliver the same number of parcels, making the network significantly less efficient.

Parcel lockers also offer customers the most seamless returns process in the marketplace, as sophisticated operators like InPost operate a label-less service, by which customers simply need to put the item in a particular locker which has been assigned to it, and the courier takes care of the labelling and returns logistics. This is a significant improvement on the previous models, which often require the printing of a label and a visit to a post office or similar establishment. InPost also lets customers use their label-less capabilities for customer-to-customer (C2C) parcel sending, which can be much more convenient vs other models for similar reasons. The value of this service is significantly greater when the network being used has high national density, as it increases the chances that both the sender and recipient will have a convenient locker nearby.

Benefit for Merchants

The key attraction of InPost's offering for merchants is that the use of APMs lowers their delivery costs, with a typical APM parcel costing them 20-30% less than an equivalent to-door delivery. Besides reduced costs, there are several other ways that merchants gain from using APMs vs incumbent delivery modes. Key among them is the higher conversion rates merchants achieve when they have InPost as an option on their check-out page, as consumers often have a strong preference for their lockers. Indeed, some customers will not order from a website that does not include InPost as a delivery option. Unsurprisingly, this makes it extremely rare for merchants to turn off InPost. We have heard anecdotes which suggest that merchants who have done so experience 25% drops in conversion, and typically switch InPost back on again in short order.

Another benefit for merchants is the lower rate of failed deliveries they experience when using the APM channel, which can be a significant source of additional cost and customer dissatisfaction. With to-door, there's a reasonable chance the recipient isn't in when the courier arrives or they are unable to find the correct address. When this happens, they can either leave the parcel in a 'safe space' or they can return the parcel to the depot, and attempt delivery again later. This causes issues for merchants as they have to pay for an attempted delivery, regardless of whether or not it is successful, and if the courier leaves a parcel outside, it's liable to be stolen or damaged, which also increases costs and causes issues with customers (and couriers). The APM channel is much less susceptible to these issues as the driver knows exactly where they are located, and they know in advance which locker to put each parcel in, safe in the knowledge that only the designated customer will be able to access it. In the rare cases when an APM is full, InPost knows this in advance and can redirect the parcel to the nearest APM that has capacity. The customer is notified of this move, and can either collect from the new location or request that the parcel is redelivered to their preferred APM.

Benefits for landlords

APMs also bring positive benefits for the landlords of the real estate they are located on, as well as for nearby businesses. The landlords, who are typically shop owners, transport operators, and apartment block owners, get an extra source of rental revenue from the square footage that they already own (or lease), with the added benefit that having an APM there can increase the attraction of their location for their customers. The installation of an APM at a location also results in increased foot traffic to that area, which is valuable for the stores and other businesses located nearby.

Clearly, if a landlord is a shop, they will want to rent their space to the APM operator with the highest utilisation to drive the highest incremental footfall to their shop. Consultants have told us that APMs can increase convenience store footfall meaningfully, with as much as 10% of APM visits converting into additional purchases. This dynamic tips the scales even more firmly in favour of the busiest APM network.

To illustrate, if an InPost APM brings 3x more footfall than a competitor's APM, to compensate the landlord for the lower uplift to their gross profit, the competitor might have to pay annual rent per parcel 8-9x more than InPost's average rent. This would bring the competitor's APM rental cost per parcel to PLN 3.82 versus InPost's average rent per parcel of PLN 0.44. This delta is significant in the context of InPost's total fully loaded cost per parcel of PLN 4.8.

Illustrative example - rent economics	Inpost	Competitor
Lockers per APM	150	120
Utilisation (%)	60 %	25 %
Parcels per year	22,680	7,560
Proportion of APM collections leading to shop purchase	10.0 %	10.0 %
Additional shop visits per year	2,268	756
Spend per shop visit (PLN)	50	50
Retailer gross margin (%)	25.0 %	25.0 %
Annual additional retailer gross profit driven by footfall (PLN)	28,350	9,450
Rent paid in order for landlords to be indifferent (PLN)	10,000	28,900
Total landlord income	38,350	38,350
APM rent / parcel	***0.44***	***3.82***

Benefits for the environment

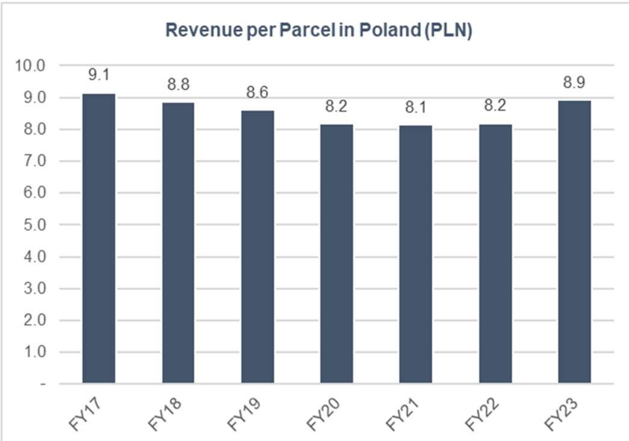
An additional attraction of the APM model is that it is much more environmentally friendly than other delivery methods. This is an important attraction for increasingly environmentally-conscious merchants and consumers. Higher drop densities result in lower fuel consumption per delivery, as well as other carbon emissions associated with fulfilment, with the overall result that CO2 emissions per parcel are ~66% lower in urban areas and ~90% lower in rural areas vs to-door delivery. The decongestion of cities due to fewer courier vans is also a major benefit of the offering.

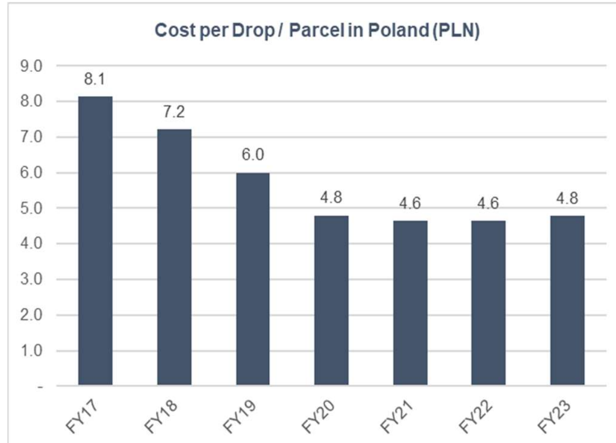
Moat

InPost's Polish business has powerful competitive advantages based on scale, density, and customer captivity. Parcel delivery is an industry in which scale and capillarity are key, and InPost has by far the densest network and almost 50% share of the Polish market, ~3x larger than the next biggest player. InPost is continually reinvesting in its offering by improving prices, rolling-out more APMs, and trialling new services like same day delivery. This enables them to grow faster than the market, whilst at the same time improving their unit economics and continually widening their moat. Rapid growth and expanding margins have resulted in very high returns on capital for the Polish business, with profitability that far exceeds peers (InPost's adj. EBITDA margin in Poland is ~46%, vs the more typical levels for logistics companies of 5-15%).

To take a step back, scale economies here are similar to those of many logistics operators, and derive from the high fixed costs of running a multi-nodal distribution network. To be competitive, a network has to have sufficiently high pick-up and drop density that it is convenient for both consumers and merchants, as well as economical to operate. In order to achieve this, a network must have a lot of volumes, which presents a chicken-and-egg problem: you can't persuade merchants to send volumes your way if you don't have the scale to distribute them efficiently and the ability to demonstrate customer acceptance of your offering, which can only be done with volumes and a track record, which requires merchant acceptance. If an entrant is somehow able to attract the necessary volumes, it then has the daunting task of distributing them economically. Revenue per parcel is low – InPost averages PLN 8.9 / €2.1 in Poland – and profitably distributing these parcels requires huge volumes and extreme levels of efficiency, so that the marginal cost of distributing each incremental parcel becomes negligible. To have the capability to do this, vast sums need to be spent on equipment, people and infrastructure, and huge sums are also needed to fund losses across the network as it scales up, presenting yet another hurdle. All in all, with these challenges in mind it's no surprise that the parcel distribution industry generally has very high barriers to entry and tends to be highly consolidated, with most markets having just 2-3 scaled players.

This brings us to InPost and what makes the company so special. InPost managed the highly unusual feat of breaking into the last mile logistics market, and did so because it had a disruptive innovation. Thanks to its APM network, InPost has been able to achieve much lower unit and marginal costs than traditional to-door operators, primarily due to the ability of their couriers to deliver multiples more parcels per day than the incumbents. This results in the model having a higher degree of fixed costs vs to-door, making it more scalable, and it is this advantage that has fundamentally driven InPost's share gains. By reinvesting efficiency gains into lower prices and better service levels, InPost's volumes in Poland have grown by ~11x from 2017 to 2023, whilst their cost per parcel has declined by -41% in nominal terms and more than 80% in real terms. Moreover, revenue per parcel has declined by -2% in nominal and more than 45% in real terms over the same period, demonstrating the power of the flywheel in practice.





Source: Company filings

If InPost broke into the market thanks to its APM network, what is to stop another player replicating its network in Poland? The first hurdle is that to do so would require massive capital investment. We estimate a competitor would need to spend over € 500m just to recreate InPost's locker network in the country. When including all the sorting hubs, depots, and vehicles, the total figure for creating something approximating InPost's network would likely be 2-3x as high[3]. And these are just the initial costs to build out the physical footprint, which do not include the additional costs required to get a logistics network up and running.

Second, a new network would incur heavy operating losses for years and maybe perennially. For instance, given how entrenched, ubiquitous and low cost InPost has become, a highly optimistic maximum size for a hyper-aggressive would-be entrant into Poland seems to be to capture somewhere a bit below half the OOH market (we estimate all new entrants, including Allegro, Orlen and Cainiao, have currently sub 10% share put together), resulting in roughly 20-25% share of the total market. In order to do this the new competitor would need to have as many APMs as InPost in similarly good locations (which is probably impossible), otherwise they wouldn't win meaningful volumes. By splitting the OOH market with InPost, it would result in low utilisation for both networks, and the entrant would do well to get to ~20% utilisation. The big problem with this, as detailed below, is that at such levels the high fixed costs of the network make it loss-making even at the contribution level, so heavily loss-making when fully costed. If we very optimistically assume it would take a well-funded entrant 5 years to get to ~20% market share and ~30% utilisation, we ballpark estimate they would have cumulative operating losses of hundreds of millions of Euros and would only just be breakeven. This is on top of the physical build-out costs of over € 1 bn and represents a huge sum to spend for an operation that is only marginally profitable after 5 years, even when using very generous assumptions.

To further demonstrate the issues of operating a low utilisation network, the table below shows the illustrative unit economics of an APM network at different utilisation levels. What's clear is that at low levels, the economics are horrible and significant volumes are required just to break even. This means a challenger needs to be pretty sure that they'll succeed to make it worth the effort, otherwise they will be left with giant sunk costs and big cumulative losses. In recent years, there have been a handful of attempts to break into the market, with some being well-funded and aggressive, though none have gained much traction so far and don't appear to pose a real threat to InPost in their home market (more on this below).

[3] We estimate that InPost has spent € 1.0-1.5 bn on capex in Poland alone in real terms

APM Unit Economics (PLN)	Utilisation							
	1%	5%	10%	20%	30%	40%	50%	60%
Parcels dropped per courier per day	17	83	167	333	500	667	833	1,000
Courier and Transport cost per day	1,186	1,186	1,186	1,186	1,186	1,186	1,186	1,186
Revenue per parcel	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2
Courier cost per parcel	(11.9)	(8.3)	(5.9)	(4.2)	(3.0)	(2.1)	(1.5)	(1.2)
Other costs per parcel	(5.7)	(4.4)	(3.5)	(3.1)	(2.5)	(2.2)	(1.9)	(1.8)
APM Gross Profit per parcel	**(9.3)**	**(4.4)**	**(1.2)**	**1.0**	**2.7**	**3.9**	**4.8**	**5.3**
Gross margin per parcel %	*-113%*	*-54%*	*-15%*	*12%*	*33%*	*47%*	*58%*	*64%*
Maintenance capex and Leases per parcel	(7.8)	(5.4)	(3.9)	(2.7)	(1.9)	(1.4)	(1.0)	(0.8)
APM Contribution per parcel	**(17.1)**	**(9.9)**	**(5.1)**	**(1.7)**	**0.8**	**2.5**	**3.8**	**4.5**
Contribution margin per Parcel %	*-207%*	*-120%*	*-62%*	*-21%*	*10%*	*31%*	*46%*	*55%*

Note: assumptions are illustrative, with the 60% column based on InPost Poland disclosure. Others from various sources

On the flip side, returns can be very attractive at high utilisation levels, as we can see at the ~60% mark, which is roughly what InPost has in Poland[4]. Once a dominant network has achieved such high utilisation, it can reinvest incremental margin gains into lower prices, making it near-impossible for a would-be entrant to catch up. If any challenger did start to gain traction, the incumbent can respond by temporarily lowering prices, pushing the entrant into losses and likely out of business.

Besides the capital outlay, a would-be entrant has several other hurdles to contend with. When InPost was building out its offering in Poland, it was superior and cheaper vs the incumbents, meaning that as in the UK and France today, their APMs were full as soon as they were deployed, helping them get to profitability quickly and invest in further growth. Anyone else building an APM network today faces a much more difficult challenge, as instead of competing with a bloated and inefficient state postal company and a handful of subscale private operators, they would have to compete with InPost's highly efficient network that is already benefitting from all the advantages they would hope to use to win share. To make things more difficult, InPost has first mover advantages, which have enabled them to secure many of the best APM locations, as well as to be the first to form relationships with merchants and customers. To sum-up the point, it's a very different and far harder challenge to scale an APM business in a market with a dominant APM network in place, than it is to build one in a market with structurally inferior incumbents, with the result that an entrant in Poland today faces a much tougher competitive battle than InPost originally encountered.

An entrant also has to contend with both consumer and merchant captivity. Consumers have little reason to change their preferred APM service as delivery is generally free for them, with merchants stomaching the cost. Given that consumers don't directly pay, it is difficult for InPost's competitors to incentivise customer switching through pricing. They also have to overcome customers' habit formation, with many customers being accustomed to using certain APMs as part of their routine, and captivity also stems from frequent use of the highly-rated InPost app, with millions of people using it every day.

Barriers to trial and switching are higher still with merchants. Delivery and fulfilment are core parts of the e-commerce value chain, so merchants are unsurprisingly reluctant to deviate from a provider with a good service that customers like. There is a reluctance to display a new form of delivery in the limited checkout box space as the brand risk for merchants is relatively high, with delivery problems and complaints being a significant pinch point. Merchants are particularly cautious about doing anything that might negatively impact conversion rates, so while they may be tempted to add cheaper delivery options, it is very unlikely they would be prepared to remove InPost given the popularity of the service. Highlighting the risk here, we estimate that a 4% decrease in checkout conversion (illustratively from 3.00% to 2.88%) could outweigh a 25% discount in delivery costs in the net impact it has on

[4] Note that to be consistent with InPost's reporting, we are using their convention for utilization, which is to assume a 252-day year. This is somewhat confusing as InPost now delivers effectively every day of the year. Nonetheless, they target utilization of ~60-70% on a whole year basis using a 252 day convention because this correlates with their lockers being fully utilized over the Christmas period

merchant takings. This helps explain why competitors have struggled to secure much volume even with aggressive price discounts, and why Allegro is wary of doing too much to deemphasise InPost on its checkout.

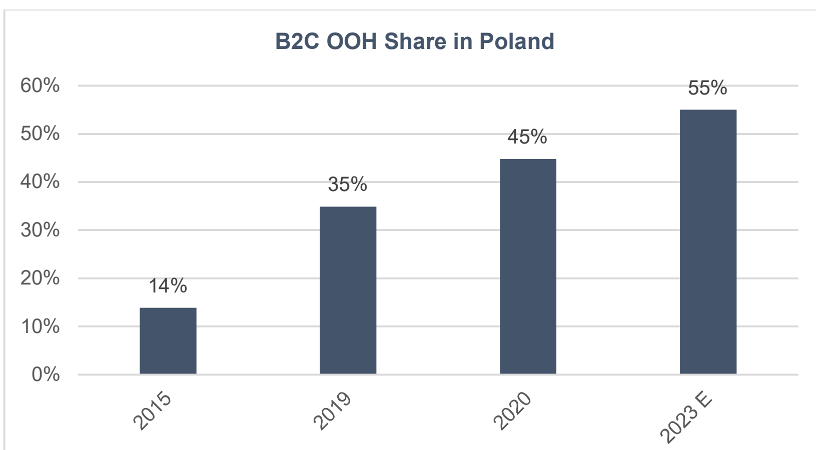
To entrench the advantages it has by being the dominant APM operator, InPost shares the delivery infrastructure, courier network and pool of resources between its APM, PUDO and to-door service segments, with delivery vehicles carrying mixed loads of parcels, thereby spreading network costs, and enabling them to further increase drop density and reduce travel time between stops.

To further evidence the power of the network and the lack of incentives to compete, before entering Poland, Amazon and Shopee both felt the need to sign multi-year framework agreements with InPost to meet their fulfilment delivery needs. While the two companies are aggressively expanding in the Polish market, and would not normally want to join a competitor's network, it appears they felt they had no option but to partner with InPost, given its dominance in B2C delivery.

Competitive landscape in Poland

The Polish logistics market largely consists of seven international and domestic providers, including InPost, Poczta Polska, DHL, UPS, FedEx, DPD and GLS. As respectable as some of these brands sound to someone unfamiliar with the Polish market, walking the aisles of the Polish e-commerce expo or simply the streets of Warsaw or Poznan made it apparent to us that in Poland things are different, and they are for the most part not significant players. InPost is the only player that focuses primarily on the OOH B2C market and is the only one with dense APM coverage countrywide.

The rise of InPost and the growth of the OOH channel have been the main changes in the Polish market over the last decade, driving a fundamental shift in how B2C parcel distribution functions, and who the key players are. When InPost launched parcel lockers in the country, it was an overwhelmingly to-door market, with the largest providers being Poczta Polska, DHL and DPD. The roll-out of APMs and their rapid customer acceptance has driven OOH to become the largest channel, now accounting for over 50% of sector volumes (APMs are over 40% with PUDOs around ~10%). The introduction of a new form of structurally lower-cost and more convenient supply has upended market dynamics, and pushed to-door delivery below 50% share (having been ~65% as recently as 2019, and over 85% in 2015).



Source: Prospectus and management commentary

InPost owns the OOH channel in Poland, with their network representing more than 56% of the installed base of APM lockers and the vast majority of APM deliveries, due to their much higher utilisation. It is their dominance here that has propelled them into the #1 spot across all channels, with no signs of share gains stopping (they also have mid-teens share of to-door deliveries). With an estimated APM market share around 90% and an overall e-commerce market share of around 50%, they are now nearly the same size as all their competitors put together, with Poczta Polska and DPD behind in #2 and #3 position, each with a mid-teens percentage market share.

Within OOH, APMs have quickly taken share from PUDOs as their superior value proposition has attracted customer and merchant volumes. This share transfer has been accelerated by the near-saturation of the pre-existing base of PUDOs in many areas, with there being a limit on how many venues are willing to host these operations, and how many parcels each one can handle.

InPost has faced several well-funded entrants into the APM market in Poland, and whilst none so far have had much success, it's worth going into more detail on some of the more notable attempts - Allegro, Orlen and Cainao/AliExpress - as they provide useful case studies on how hard it is to challenge InPost in their home market.

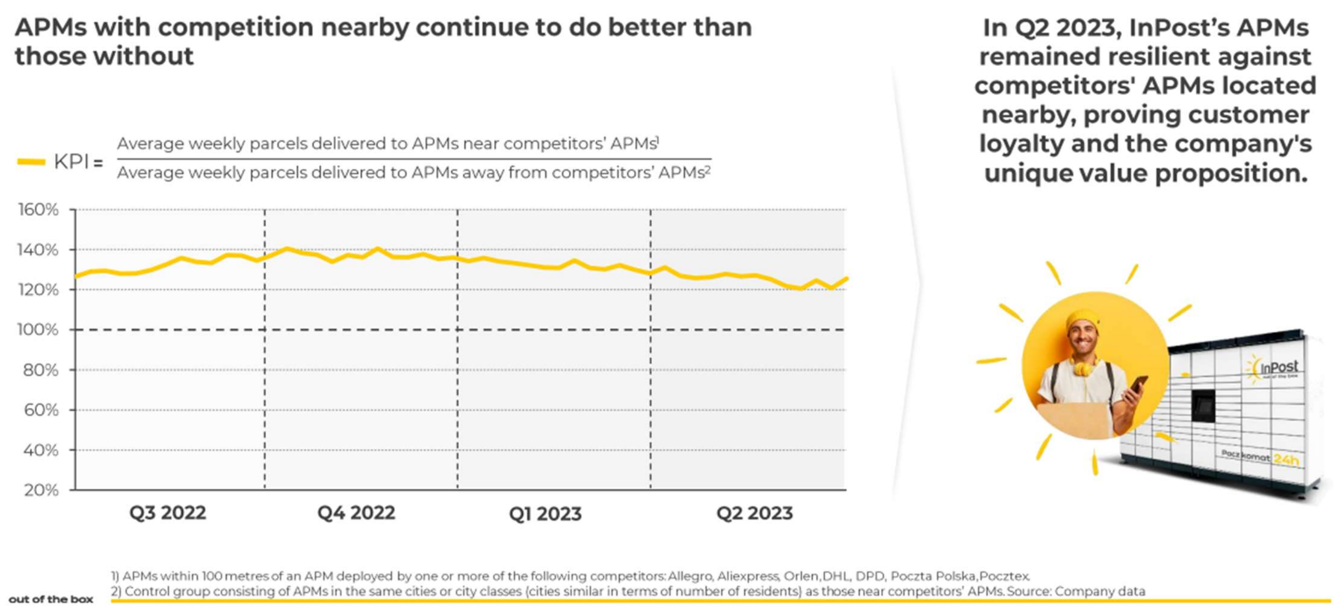
The most aggressive new entrant is a state owned energy conglomerate, Orlen. Orlen launched an APM network and delivery service, Orlen Paczka, in 2021 and so far has built ~4,500 APMs. Orlen is offering merchants prices roughly 1/3 below InPost's in an effort to steal share. Despite this, market anecdotes suggest Orlen is struggling to reach even 10% APM utilisation – a level at which it will be heavily loss-making even if it were charging the same as InPost – demonstrating how hard it is to use prices to encourage switching. Rumours are seemingly corroborated by the fact that Orlen recently agreed to open their APM network to Allegro, implying they have lots of unused locker capacity. There have also been rumours that Orlen's parcel operations could be rolled-into Poczta Polska, and were that to occur it would likely cause the threat from Orlen to diminish significantly. Poczta Polska is loss-making and cash strapped, and as such is unlikely to have the appetite to pour more money into a troubled APM roll-out.

Allegro has also made a concerted effort to wean itself off InPost and to create its own APM network, though this too has disappointed. They first announced a plan to create their own delivery infrastructure and roll-out lockers in 2021, coming out with the ambitious target to install ~3,000 APMs by the end of 2022 (a target they missed by ~500 APMs). While Allegro pursued these targets aggressively at first, the plan appears to have stalled, with the rate of APM deployment slowing to just a hundred or so additions each quarter (to a current total of ~3,800). Despite all the advantages of being the dominant e-commerce marketplace in Poland and heavily promoting their own channel on the platform, they have failed to attract significant volumes, and there have been multiple reports suggesting this network operates with very low utilisation. We can corroborate these reports by using recent changes in Allegro's disclosure: a change in accounting policy means they must now record logistics revenue where they are 'responsible for the end-to-end service' as a principal rather than agent. Taking this disclosure and further details within their ESG report, we can triangulate the number of parcels delivered across their APM network, and this too points to very poor utilisation levels of low-single-digit percentage points.

It so far appears Allegro have fallen well short of creating a sufficiently dense and well-served network to tempt customers away from InPost, and they have begun to de-emphasise the creation of their own delivery network. Our efforts to understand Allegro's internal politics through multiple former employee interviews revealed an organisation that was stretching itself by expanding into fintech, fulfilment, last mile delivery, 1P commerce and international acquisitions. Something had to give, and Allegro's previous CEO departed relatively abruptly likely as a consequence. A turning point was Roy Perticucci becoming CEO in Sep-22, as he pivoted away from the previous strategy and has since made it clear that building-out their own delivery capabilities isn't a priority. He has struck a more co-operative and conciliatory tone in dealings with InPost, and has signalled that so long as Allegro continues to get good terms, they intend to be significant partners long-term. In their Sep-24 earnings call, Allegro strongly hinted that their delivery operation is still loss making and they are focusing on the utilisation of their existing lockers instead of rolling-out additional units, suggesting the chances of them posing a meaningful threat to InPost any time soon remain low. It is worth noting that recently Roy himself announced he will be abruptly leaving his role, and therefore some level of uncertainty still remains surrounding this relationship.

The latest significant challenge to be posed to InPost's dominance has come from another client – AliExpress – who have come out with some of the most aggressive expansion rhetoric in the recent past. AliExpress has never been a typical client for InPost given the low price point of its products and long-lead times, and we understand that it has never accounted for more than 2-3% of InPost's Polish volumes. With low customer delivery expectations, a just-in-time network like InPost's is in some regards an overkill for AliExpress customers and not a good fit. Whilst some investors have been spooked by the big ambitions of a global giant in InPost's core market, it's likely these concerns are overblown. For starters, Alibaba itself doesn't appear to believe in their targets, basing their plans on a contract with a local provider that puts the financial burden of failure mostly on the partner's balance sheet. It's also unlikely that a long lead-time 'cheap' network would be a credible day-to-day competitor to InPost's convenience-based offering, given how distinct their use-cases are. Additionally, most merchants don't want to join a network run by an e-commerce competitor, and even if they were okay with it, the majority likely wouldn't run the risk of associating themselves with a lower quality service. Corroborating the above, Alibaba has already significantly scaled back its rhetoric and restructured their APM project into a JV with DHL. Their own employees in the country have said the initiative is not gaining traction, so it's probably safe to assume for now that they are not likely to cause InPost real problems any time soon.

To demonstrate the limited impact of competitors opening APMs near existing InPost locations, the company released a chart which shows that their APMs which have a competitor within 100 metres actually perform better and have higher utilisation than those without a nearby alternative:

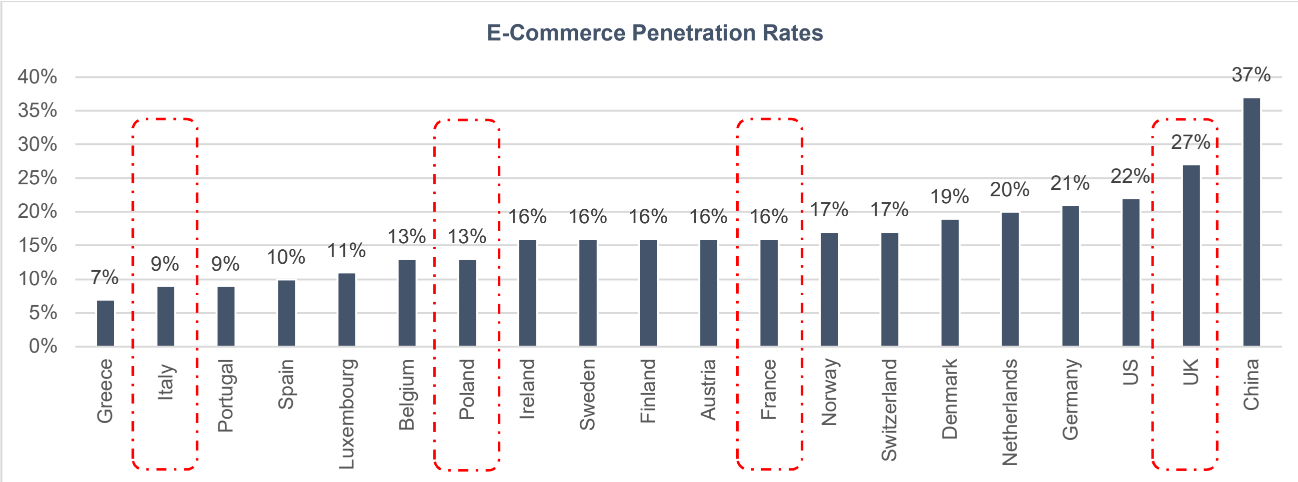


Source: Company presentation

Demand in Poland

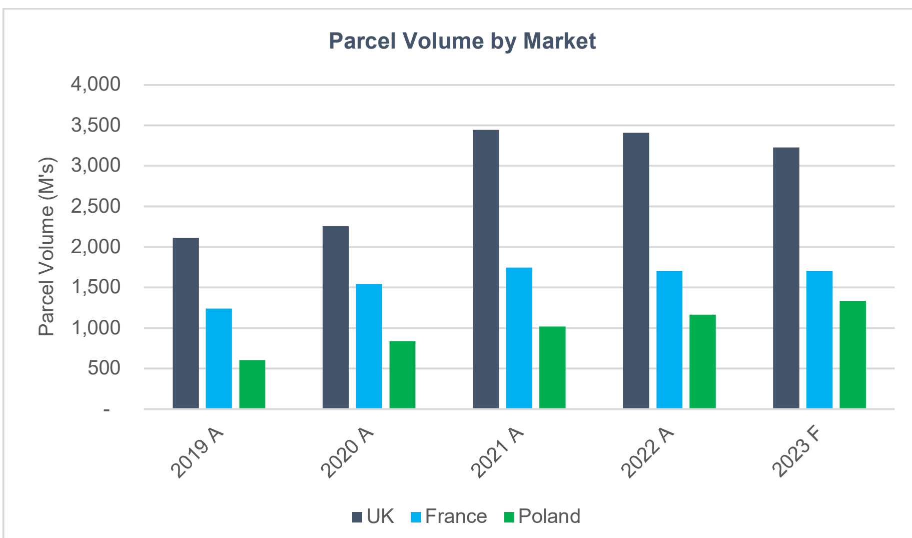
Demand for InPost's services is driven by parcel volumes, which are in turn largely driven by e-commerce penetration. The rise of online shopping has been by far the greatest contributor to market growth over the last couple of decades. Within e-commerce there are several distinct services that are important to grasp in order to understand InPost's value proposition: i) taking a parcel from a merchant to a consumer (OOH or to-door), referred to as forward logistics; ii) taking a return from a consumer to a merchant, referred to as reverse logistics; and iii) taking a parcel from one consumer to another (usually done entirely OOH), referred as C2C.

The rates of e-commerce growth and penetration vary markedly by country, with higher growth rates in less penetrated markets such as Poland, and lower rates in more mature markets such as the UK, though there is healthy market expansion across InPost's footprint. Whilst there is some cyclicality in demand driven by macro, there is a high likelihood of further addressable market growth for many years to come, with no markets globally seeing e-commerce penetration max-out.



Source: Company prospectus

Volumes in the Polish parcel market are estimated to be ~1.3 billion units a year, having grown at ~21% CAGR since 2019, driven by a sharp rise in e-commerce penetration. This is somewhat faster than volume growth in other markets such as the UK at ~11% CAGR since 2019 and France at ~8% CAGR, and it's likely Poland will continue to outpace them due to its lower penetration and higher GDP growth. While all markets saw a surge and subsequent drop in parcel volumes during the pandemic, most are now back to trendline and we should see more normalised growth levels going forward. It's also worth noting that whilst InPost has grown significantly faster than the overall Polish market, the extent of this outperformance will narrow over time as they already account for nearly 50% of volumes, making it mathematically harder to outperform by a wide margin, as well as gradually limiting scope for further share gains.



Source: Last Mile Experts, Ofcom Post Monitoring Report , Effigy Consulting

Of InPost's parcel volume in Poland, more than half comes from platforms (including Allegro Smart!) and from merchants with direct contracts with InPost that sell their products through the Allegro platform, while the remaining volumes broadly come from other large domestic retailers and domestic SME merchants. Only a small percentage comes from international merchants. InPost's share of checkout is often above 50% across the merchant spectrum.

InPost has also become a major logistics partner of Temu and Shein, both Chinese e-commerce players who are known for their consumer and fashion products sold at much lower prices than Western equivalents. Their low average basket sizes and high volumes make InPost's offering highly attractive vs alternatives, as traditional carriers are often too expensive and lack the spare capacity needed to handle the additional volumes. The potential benefits of these partnerships are well showcased by InPost's business in Italy, which has grown rapidly as a consequence of Shein and Temu volumes, and is now EBITDA breakeven, despite only ~2,500 APMs being deployed in the market so far.

As InPost becomes more mature in its core logistics market, they have begun to explore adjacencies and to innovate with what they can offer, broadening their TAM. One such new product is InPost Pay, which they launched in 2023. InPost Pay is a payment service that allows users to swiftly pay for and collect purchases using the InPost app without having to share personal information with merchants, as well as offering a few additional functions. Whilst a relatively new service, InPost Pay already has over 4 million registered users, demonstrating how quickly they can enter adjacent services. In due course, we expect them to keep experimenting and broadening their offering, perhaps vertically integrating and starting to offer their own white label goods (similar to Amazon Basics), or building their own marketplace.

It is worth noting that InPost can grow above market for a long time because their price point and convenience enable new use cases. Their playbook is to attach themselves to a growing marketplace and grow with it and then branch out to a diverse set of B2C use cases. In Poland we're obviously further down the line in this progression and in the UK and France we are still pretty early.

International markets – France

InPost entered France via the acquisition of Mondial Relay in Jul-21. Mondial Relay is predominantly a French business, but has toeholds in Benelux and Iberia. They paid a total consideration of ~€513m, representing a trailing EV/ EBITDA multiple of ~8.5x

At the time of the acquisition Mondial Relay delivered ~80% of its volumes to PUDOs, with the remaining ~20% delivered to-door (Mondial Relay had no APMs). It was primarily a customer-to-customer (C2C) business with ~40-50% market share in the channel, driven by partnerships with online marketplaces such as Vinted, eBay, Rakuten and Leboncoin. It is important to note that Mondial Relay was a 'cheap and cheerful' service with deliveries often taking 3-5 days. The business had been starved of capital by its previous owners and its distribution network had been significantly under invested.

The rationale for the transaction was that InPost would provide financial backing and expertise for Mondial Relay to build out an APM network, while also investing to improve delivery times and service levels. The French market was particularly attractive as it already had high OOH penetration of ~35%, showing customer acceptance for the channel. The shift from PUDOs to APMs can be highly value creative if you have sufficient APM utilisation, as there are considerable cost savings from switching deliveries from one method to the other. Each time a parcel is delivered via a PUDO, the carrier must pay the PUDO operator (typically a newsagent) ~€0.5 per parcel, whereas this cost falls to ~€0.2 per parcel for APM deliveries (covering capex, rent, maintenance and utilities). Given that Mondial Relay currently makes ~€0.32 in adj. EBITDA per parcel, a saving of ~€0.3 per parcel has a dramatic impact on profitability.

A key part of InPost's strategy in France is to make next day (D+1) delivery a differentiating part of their proposition and a more mainstream product. At the moment, D+1 volumes are small in France and few people opt for it, in large part due to costs of € 8-10 per parcel, multiples more than in many similar countries (for context, in the UK, D+1 delivery is standard and costs around £ 2-3).

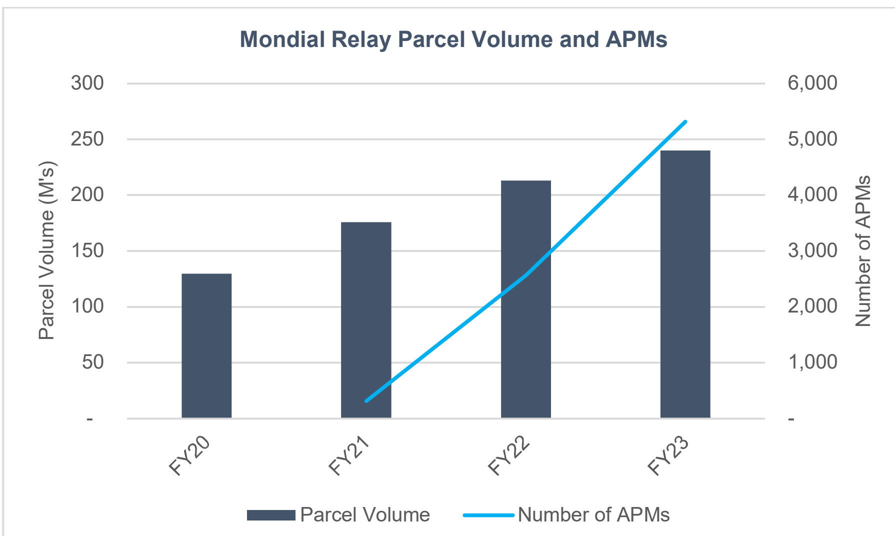
The cost of D+1 in France is high because the population is thinly spread across a large and mountainous country (France has a population density of 122 per km vs 438 per km in England). Since acquiring Mondial Relay, InPost has been investing aggressively to build the depot network necessary to offer D+1, increasing Mondial Relay's depot count from 26 to 45 since the acquisition in 2021. This investment is starting to pay off, with ~60% of their B2C volumes now being delivered next day. Nevertheless, Mondial Relay's network still requires significant investment before InPost can be confident of guaranteeing nationwide D+1 delivery on a large volume of parcels. The necessary investment is fully budgeted for in InPost's existing capex guidance.

While it requires significant investment to offer D+1 across France, the size of the prize makes the investment worthwhile. As D+1 is not a big part of the French market, incumbent networks are not optimised for it and will struggle to reconfigure their networks to respond to Mondial Relay's disruptive offer. It is worth stressing here that if Mondial Relay can reliably offer D+1 in France at a reasonable price (perhaps € 5), the website checkout conversion of merchants working with Mondial Relay will increase significantly. Competing merchants will be almost forced to offer the same service, leading to a powerful snowball effect drawing B2C merchants and consumers to Mondial Relay.

A major driver of demand across InPost's footprint – in particular in France and the UK – has been the rise of re-selling platforms like Vinted, and the entry into the European market of low cost Chinese e-commerce players such as Temu and Shein. Vinted now represents ~23% of InPost's revenue, up from ~11% in FY21, as its popularity has surged across Europe. InPost's network is particularly well-suited to Vinted's ecosystem as the low average parcel value and C2C nature make the value proposition of InPost's low prices and convenient offering particularly appealing. With the value of orders on Vinted often being under € 10, delivery can represent 30-40% of the order total, making low delivery costs essential. Volumes from these platforms have been key drivers of InPost's growth and market share gains in France and the UK, where secondhand e-commerce has boomed. Their close relationship and track record with Vinted is a powerful tool for scaling-up rapidly in other markets, as they have a ready-made high-volume partner with a need for low-cost fulfillment.

Under InPost's ownership, Mondial Relay's performance has improved significantly, with volumes increasing ~36% from FY21-23 despite sluggish market growth, and it now has the highest NPS score of any carrier in France. Driving this has been the expansion of the network, with Mondial Relay now having 21,777 PUDOs and 7,246 APMs across all markets, vs just 15,800 PUDOs and no APMs at time of acquisition.

InPost is still in the early innings of reshaping the business, and while some elements of the plan are taking longer than expected, progress so far has nevertheless been promising. Consumers in France have been quick to shift their delivery preference towards the APM network, with ~1/4 of Mondial Relay's French volumes now being delivered to APMs (versus none when it was acquired), and there remains a long runway for MR to keep installing lockers, improving the service, and taking market share.



Source: Company filings

In France, InPost faces a number of competitors who have tried to build rival OOH networks, though most have struggled to gain traction and their roll-outs have generally stalled. To date, none have been able to gain ground on Mondial Relay, whose lead in the channel has continued to widen amid substantial market share gains.

The largest of these competitors is the national carrier La Poste, which operates three distinct brands in the French market: Colissimo (~40% market share), Chronopost (~13% market share) and DPD France (~7% market share). All three brands share an OOH network under the Pickup brand which currently operates ~19,000 PUDOs (called 'Pickup Points') and ~3,000 APMs throughout France. La Poste has been the most reactive to Mondial Relay's resurgence, reducing prices in 2023, though these have been largely rowed back, as customers have generally stuck with Mondial Relay on account of its lower prices and superior network density. A low-price strategy was particularly problematic for La Poste, as it accelerated the transfer of higher value to-door deliveries to OOH channels, cannibalising their most profitable units. As it stands today Mondial Relay is materially undercutting both Colissimo and Chronopost's PUDO offerings, with prices up to 40% lower. Following this largely failed attempt to rise to the challenge, La Poste's APM roll out has slowed considerably, while Mondial Relay's has accelerated and their lead in OOH has grown.

Colis Prive is a French postal operator owned by CMA CGM Group (a shipping and logistics company), which specialises in B2C and has ~5,000 PUDOs and ~1,500 APMs. Their network handles ~76m parcels a year, equivalent to a ~4% market share, or 1/3 that of Mondial Relay. Colis Prive position themselves as a premium offering typically targeting delivery times of 1-2 days. Whilst they have been ambitious with their roll-out targets, they have generally fallen short and the growth of their network has been slow. They appear to have struggled to secure good locations for APMs in high numbers, and in order to combat these constraints, they have tried unorthodox approaches to expansion, including turning people's homes into PUDO points, which predictably has been unsuccessful, with only ~500 people signing up.

Another local carrier is Relais Colis, which operates an OOH network of ~9,000 PUDOs and ~300 APMs made by Quadient (more below). Relais Colis is a pure OOH carrier, and is partly owned by DHL. They handle ~42m parcels per year, making it just 1/5 the size of Mondial Relay. In late-2022 they announced a plan to deploy 300 APMs in France, however they are all located in Carrefour stores so the network is not available 24/7, and tellingly, they have not communicated plans to extend the network any further.

A final competitor of note is Quadient, which operate an open network in France, and elsewhere. Quadient have ~1,500 APMs deployed in the country and have relationships with key carriers such as La Poste and Relais Colis. Whilst little is known of the utilisation of their network in France, revenue growth of their Parcel Locker Solutions segment (which houses their APM business) grew organically by just ~2% in 2023, comparing unfavourably to Mondial Relay's ~8% over the same period, with the latter deploying more APMs each year than Quadient has in their entire French estate.

International markets – UK

InPost's other key international market is the UK, which they entered organically in 2017 by starting to build out an APM network in selected large cities. They began by building an APM-only network – they didn't operate depots, sorting hubs, or hire couriers – with backend logistics providers doing the fulfilment and delivery to APMs, first partnering with CitySprint, and later Evri and Menzies.

To gain traction, InPost initially targeted the returns segment, seeing an opportunity to gain a foothold by focusing on an area where the existing offering was subpar and they could quickly scale up. Consumers didn't like the prevailing model of having to drop-off returns at the Post Office or a PUDO, and merchants were frustrated with the high costs and complexity of the process. By reorienting returns to run via their APM network, as InPost was already doing elsewhere, they were able to provide an alternative that customers preferred (no waiting in line or printing a label), while offering merchants an operationally simpler and lower cost channel.

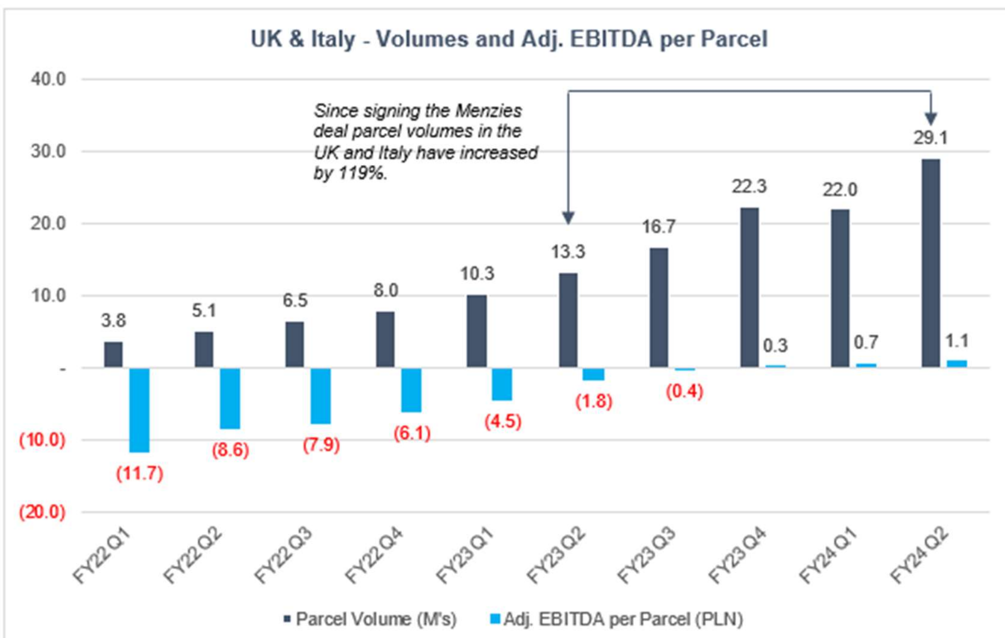
The returns angle also helped APMs gain broader customer acceptance, and as the returns provider is chosen after purchase, it doesn't require customers to select InPost at check-out, which they may have been reluctant to do given its low brand awareness at the time. Additionally, it has helped InPost build relationships with key UK merchants, which is proving useful as they move into B2C, something they are currently trialling with twenty or so large merchants (inc. Zara/Inditex and ASOS). They are testing a minimum viable product with these retailers, and aim to roll it out more widely once they've been able to demonstrate consumer uptake and high service levels.

Since entering the UK, InPost have been rapidly expanding their network and the range of services they offer. In 2019, they introduced a C2C offering, which has benefitted hugely from the rise of Vinted and other pre-owned marketplaces, and C2C is now the largest contributor to InPost's volumes in the UK. Alongside this, they have been installing APMs at a fast pace and have the largest network in the UK at approximately 8,000 units, with ~64% of the population in the top three cities now within a 7 minute walk of one of their APMs.

Given the rapid growth, InPost quickly outgrew their pre-agreed volumes with CitySprint and Evri, with both carriers capping InPost volumes due to their own lack of network capacity, limiting growth. Not used to delivering to APMs, these initial partners also had poor service quality and therefore even if they had had capacity, they were not suitable long-term solutions for InPost UK. Any operator trying to run an APM network as part of a conventional delivery operation will never achieve anything close to InPost's customer satisfaction or operating efficiency. In short, replicating InPost's success requires much more than just deploying APMs, as the operator has to build an entirely new 'APM-first' distribution network. This is why it is so hard for conventional operators to respond to InPost's success; to do so they would have to spend huge amounts of capital to deploy an APM network and then duplicate their fixed costs while cannibalising volumes from one network to feed another.

To solve its fulfilment issues, in July 2023 InPost acquired a 30% stake in Menzies for £ 49m, with a three year option to acquire the remaining 70% stake. In October 2024, this option was exercised early due to the tie-up outperforming expectations. Menzies has historically been a newstrade distribution business, delivering newspapers, magazines, and other items to thousands of newsagents around the UK, first thing in the morning, 364 days a year. Menzies logistics motion and vehicle utilisation meshes well with that of InPost, making their couriers, vehicles, and warehouses surprisingly well suited to making APM deliveries. Our own conversations with people intimately familiar with Menzies and its main UK competitor Smiths show that people in newstrade distribution were also surprised to hear about the InPost partnership but acknowledged that while unconventional, the move makes a lot of sense from a logistics perspective.

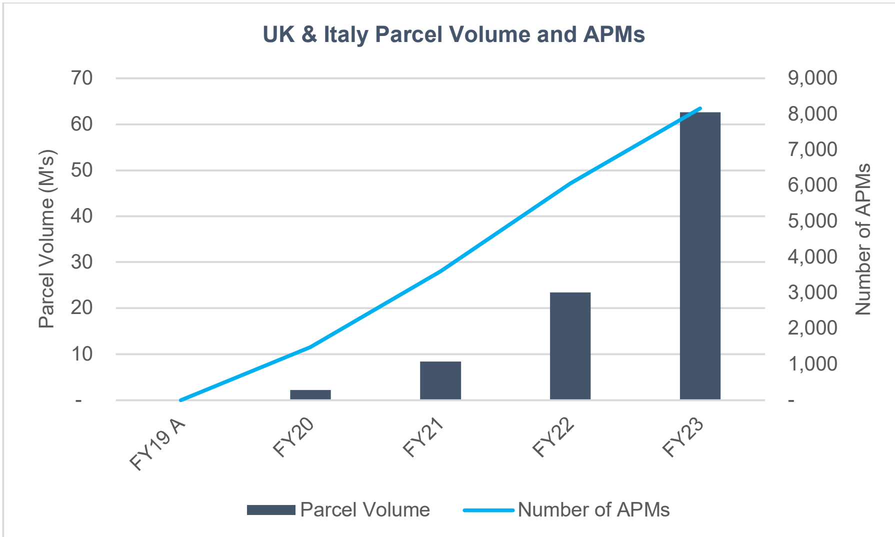
InPost saw the transaction as an opportunity to match their urgent need for more capacity with a dense network that was looking for additional volumes, without having to immediately take full ownership or operational control. So far, the plan is exceeding expectations, and the removal of capacity restrictions placed on their network by the previous logistics partners has allowed for a step-change in InPost's growth, as can be seen in the chart below. Additionally, the increase in scale, customer acceptance and delivery capabilities has been a big help in enabling them to win some of the UK's largest B2C companies as clients.



Source: Company filings. Disclosure is only for UK & Italy combined, though the UK accounts for nearly all the division

Increasing service breadth, network densification, and growing logistics capacity have driven exponential growth. InPost's parcel volumes in the UK grew from ~8m in FY21 to ~63m by the end of FY23 and are still growing over 150% y-o-y in recent periods. The rate of growth and pace of consumer adoption of APMs has significantly outperformed the company's own aggressive business plan. Increased volumes have also dramatically improved unit economics, with the division achieving EBITDA profitability at the end of 2023, with continued improvements since.

InPost is clearly popular with consumers in the UK, and will likely continue to grow volumes as it deploys APMs to reach more of the population and to add capacity to a network that is currently at full utilization. We estimate that InPost may already have as much as a 20% market share in C2C and returns in the UK. To continue to grow at the rate that it has so far, InPost will need to start to establish itself as a player in B2C deliveries. As noted above, InPost currently has a number of B2C trials which is a very positive sign, as it is not easy to convince merchants to put you in their checkout box and integrate with a new delivery operator. We note, however, that to process high volumes of B2C deliveries, InPost/Menzies will likely need to invest in modern distribution centres (Menzies was not a parcel operator and therefore does not have this infrastructure), which will require significant capex. We are comforted by the fact that there is plenty of experience building such facilities in the UK – Yodel and the Royal Mail have between them invested nearly £ 2 billion in such facilities in the last five years – and that InPost will only commit to making the investment once it is gaining significant traction with key retail clients.



Source: Company filings

The UK parcel market has four key players: national carrier Royal Mail (~34% share), Evri (~20%), Amazon (~17%) and DPD (~10%). Amazon currently operate a closed network which is served exclusively by their couriers and with parcels from their platform, so aren't direct competitors to InPost.

Royal Mail are predominantly a to-door carrier, and have been steadily ceding ground over the past decade. Their market share has fallen from ~75% to ~34% since 2013 as they've struggled with a shrinking letter business, wage disputes, pension liability issues, and intensifying competition. Their previous CEO, who left in 2018, focused on to-door, resulting in the Group being very slow to build an OOH offering. Instead they partnered with a third party operator called Collect+ which operates and manages a nationwide PUDO network, taking Royal Mail's PUDO network to 14,000 locations including their own post offices. Royal Mail have consequently been late in launching APMs, installing their first in April 2024, and they are guiding to have around 1,500 locations by the end of the year, although current indications suggest the roll out has been slow.

Given pressures elsewhere in the business, cannibalisation issues, and their late start in OOH, Royal Mail is unlikely to pose a serious threat to InPost in the UK, though the risk has increased recently due to the Czech billionaire Daniel Kretinsky's ongoing effort to buy the company. The proposed takeover has been agreed by the Royal Mail board, but is currently under review by the UK Government and the outcome isn't yet known. Kretinsky has vowed to turn the business around, and in particular has spoken of deploying 20,000 lockers across the country in a bid to modernise the offering. An investment of this scale would require significant capital (at least ~€ 500m) and the capacity would be difficult for them to fill without cannibalising much of their to-door volumes. Such a large build-out is made harder by the unionised nature of the Royal Mail workforce, which results in high pay levels, inflexible staff rotas, and little scope to rationalise headcount. All in all, whilst a possible Kretinsky takeover probably increases the threat to InPost from Royal Mail, it's not likely to have a material impact in the medium-term.

Evri is the second largest carrier in the UK with ~20% market share, and was recently sold by Advent to Apollo. Evri is primarily a to-door carrier as well, though their network also has ~8,500 PUDOs and ~5,500 APMs in the UK, as well as facilities at ~2,000 Royal Mail post offices. A significant proportion of the APMs Evri use are actually InPost locations, and it is estimated the number of Evri-owned APMs is materially lower at around 1,500-2,000. Evri are able to utilise some of InPost's APM network due to an old framework agreement which was negotiated when Evri was their exclusive logistics partner back in 2021-22, though this ends in 2024-25, by which time the number of APMs Evri can access will diminish significantly. Evri has a good quality footprint and is therefore a credible competitor to InPost.

DPD is the third largest carrier in the market with ~10% market share and is also focused on to-door volumes. It is owned by a subsidiary of La Poste and is positioned as a premium service in the UK, with revenue per parcel of ~ £ 4.7, compared with Evri's ~ £ 2.3. DPD's OOH ambitions are still nascent with the business seemingly worried about cannibalising their existing offering, which is a particular concern given their high price point. They launched a returns business in Jan-24, which will compete directly with InPost for volumes, though these returns can only be processed via their ~8,000 PUDO locations, with DPD being far behind other carriers when it comes to their APM rollout. DPD signed an agreement with Quadient back in Jul-22 to deploy 500 lockers in the UK with a plan to reach 5,000 in the coming years, however industry sources suggest that Quadient have so far only installed around 200 units in the UK.

In light of these challenges, some UK carriers like DHL, DPD, Evri and UPS have opted not to build their own APM infrastructure at scale and instead partnered with third party operators. One such network, Quadient, operate what is called an 'open network', in which they own the physical lockers, but don't provide any logistics, volume sourcing or fulfilment, instead opening-up their APMs for couriers to 'rent' capacity for a fee (whereas InPost's network is a 'closed' one, as only they can use their lockers). While open systems can help with the issue of low volumes by aggregating demand from several couriers, they cause other problems and are inferior for a number of reasons. The main drawback is that with several carriers the complexity increases exponentially, as there are multiple parties trying to use the busiest APMs in a network and at more desired times, which causes conflicts with who gets capacity at peak periods such as Christmas, as well as making it harder to predict demand and manage utilisation. Additionally, open networks are unable to achieve the drop density of closed ones, as a single courier van is only able to fill part of an APM, whereas in a closed network they have access to all their lockers. Lastly, expansion planning is also tricky as each participating carrier in the open network has their own ideas about where the next APM should be located.

To give a sense for the scale of the opportunity in International markets, it's worth considering how large the European market for parcels is, and how capturing even a fairly small slice of that could be enormously value creative for InPost. If we just take the markets in the UK, Italy and France, they currently comprise about ~6 billion in annual parcel volumes between them, and if we conservatively assume that this grows at ~5% p.a. for the next 5yrs, volumes will then get to around ~7.7 billion units. If InPost is able to capture 20% of those volumes, they would then have ~1.5bn parcels from these three countries alone. At around € 1 in EBITDA per parcel – approximately what they achieve in Poland today – this could represent ~€ 1.5 billion in EBITDA from these three countries alone, or roughly double what the whole InPost Group achieves today. If they are only successful in the smallest of those three markets (Italy), which has ~1 bn parcels today or ~1.3 bn parcels in 5 years' time at ~5% annual growth, then a 20% share of that would still equate to a very valuable ~ € 250m in additional EBITDA. Given the growth runway and that early levels of profitability are considerably above expectations, it is not unreasonable to expect the international operations to be more valuable than the Polish core in the medium-term.

Management

InPost is led by founder Rafal Brzoska (47 yrs), who owns ~12.5% of the business (~62m shares via A&R Investments). He is a hands-on leader who is involved in most significant decisions the company makes. Rafal has created a culture of innovation across the business which is both aggressive and long-term. It is also clear he has learnt from previous mistakes, particularly with regards to expanding too wide and too quickly when InPost was first listed, and he is now much more disciplined with growth, profitability and maintaining balance sheet resilience. In a logistics business exposed to fast-moving e-commerce trends, we believe Rafal's boldness along with his attention to detail make him a key asset for the Company. Over time, however, he has also needed robust advice and input from his top managers and board members, including Advent, and the quality of his close advisors has been helpful for InPost in reaching its goals.

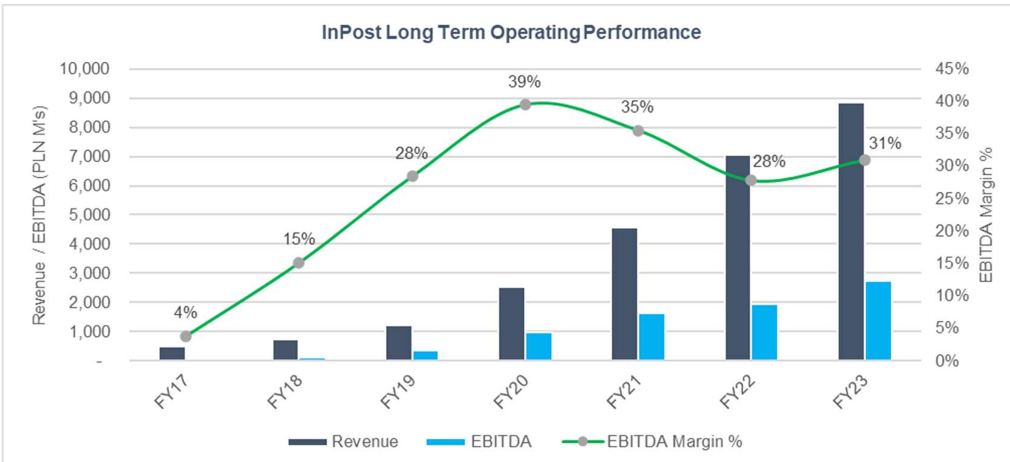
As the business expanded abroad, Rafal brought on Michael Rouse (51 yrs) as the International CEO. Michael joined the business in 2020 and was later promoted to the Management Board in 2021. He has executive responsibility for all InPost's international operations. Michael was responsible for the purchase and integration of Mondial Relay, and prior to joining InPost, was Chief Revenue and Commercial Officer at Klarna, leading market expansion activities, M&A and integrations of multi-national clients. Michael's experience and connections built during his time at Klarna with large merchants across Europe have helped to accelerate InPost's international strategy.

The newest member of the Management board is Javier van Engelen, the CFO, who joined in early 2024 following the long-serving former CFO Adam Aleksandrowicz's resignation. Javier has held financial leadership and management board positions at several listed companies in the industrial, FMCG and retail sectors, most recently as CFO for Signify (a global leader in lighting solutions), after roles as CFO of Grupo Telepizza (a food operator) and Jerónimo Martins (a listed food retailing company).

History of returns

Long-term operational and financial performance

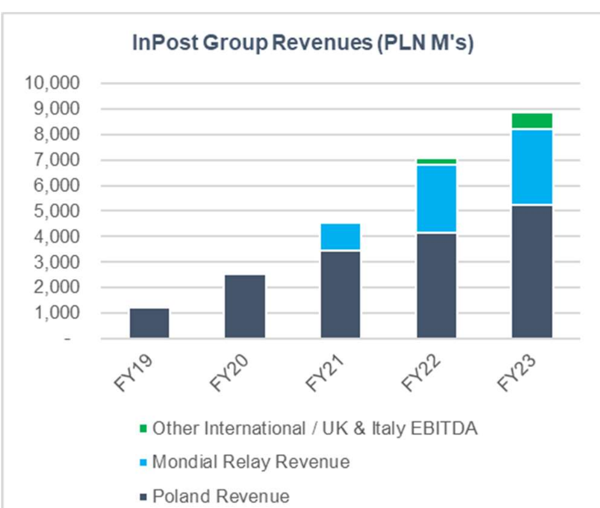
InPost has a long track record of strong growth in both revenues and earnings, driving substantial market share gains. Since, 2017 revenues have grown by a CAGR of ~62% to FY23, with EBITDA improving from PLN 18m to PLN 2,733m (the margin rose from ~4% to ~31%). The majority of this has been driven by organic volume growth, though the 2021 acquisition of Mondial Relay has also been an important driver.

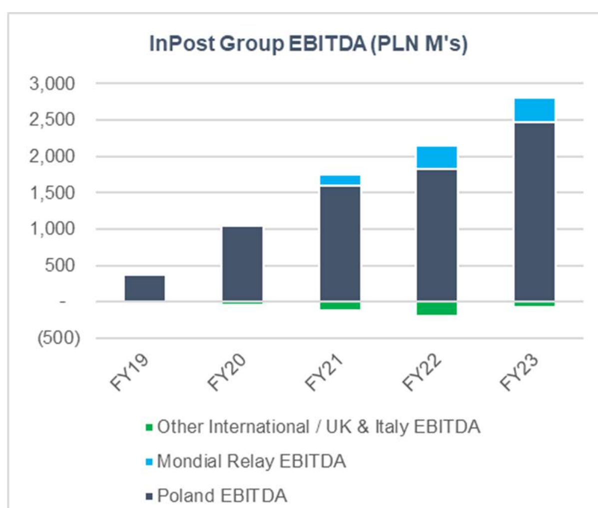


Profitability gains have been primarily driven by the growth of the Polish business, which currently achieves EBITDA margins in excess of 45%, and represents ~85% of Group profits. Volume growth has underpinned this, with parcels handled in Poland increasing from ~53m in FY17 to ~589m in FY23 (CAGR of ~49%), taking their share of volumes in the market from ~21% to nearly 50%.

Operating margins have been more volatile than the revenue line, largely due to: i) the COVID-related volume surge; ii) the margin-dilutive acquisition of Mondial Relay in FY21; and iii) losses sustained in the UK due to heavy investments.

As the UK is now profitable at the EBITDA level and investments in boosting capacity in France are starting to lessen, the operating margin of the International unit has been improving, helping overall profitability.

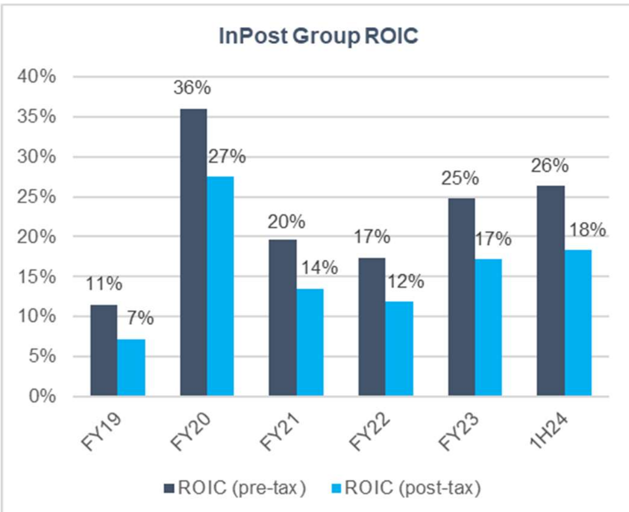


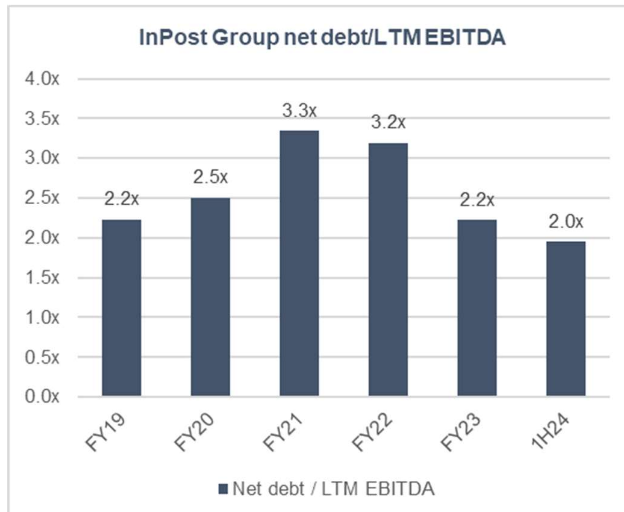


Source: Company filings

Improving scale, density and profitability have driven significant improvements in returns on capital, with pre-tax ROIC increasing from ~11% in 2019 to ~26% in 1H24 (with the exceptional profitability of the covid period obscuring trends). Returns in the Polish business are much better than this would suggest, as they've been masked by the acquisition of lower ROIC Mondial Relay in 2021, and heavy investments and losses in other international markets. We estimate that for FY23, the Polish business had a pre-tax ROIC of over 50% and was in excess of 35% in the prior few years.

As investments lessen and utilisation levels of the network improve, we expect returns on capital to increase significantly over time. In recent years, the company has been largely self-funding its growth, with the Polish operations providing a 'cash cow' to fund investments elsewhere. They also have some financial debt, though following the acquisition of Mondial Relay, their net debt/EBITDA (including lease liabilities) has been steadily decreasing, falling from a peak of ~3.3x in FY21 to ~2.0x in 1H24.

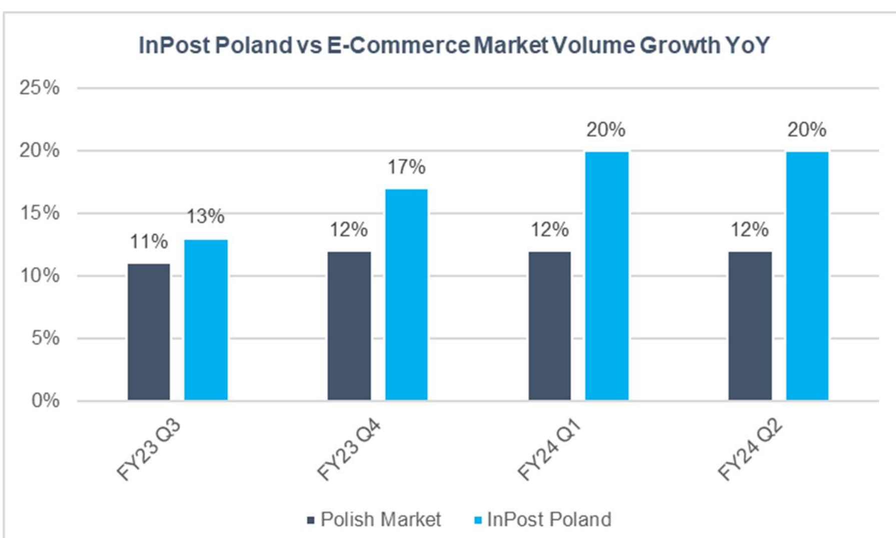




Source: Company filings[5]

Recent performance – Poland

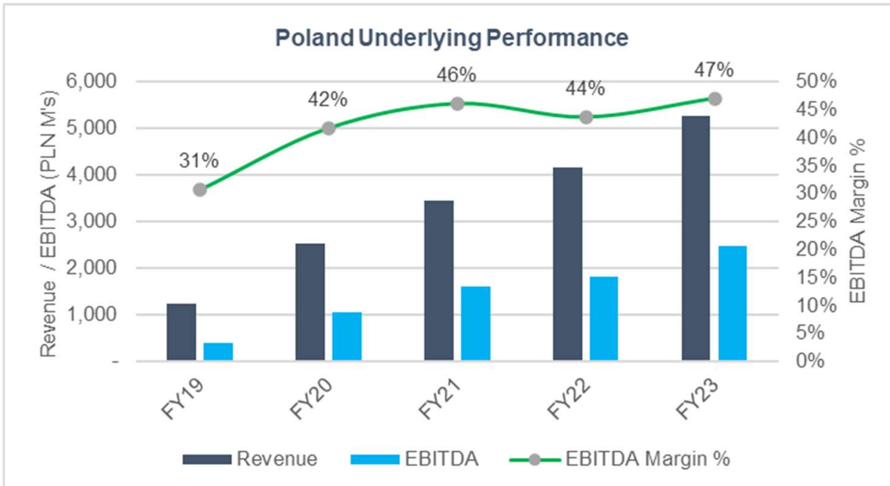
InPost has continued to go from strength-to-strength in its domestic market, with share gains in nearly every quarter (from a very high base). The company recently increased their target for the APM roll-out in the country from ~27,000 to ~30,000, suggesting there's still a decent runway ahead for further deployment vs the 23,470 they had at end-2Q24, with additional scope for growth from utilisation gains.



[5] ROIC calculation: pre-and-post tax LTM Operating profit / Invested Capital (PP&E + Intangibles ex. goodwill + Net working capital)

Source: Company presentation

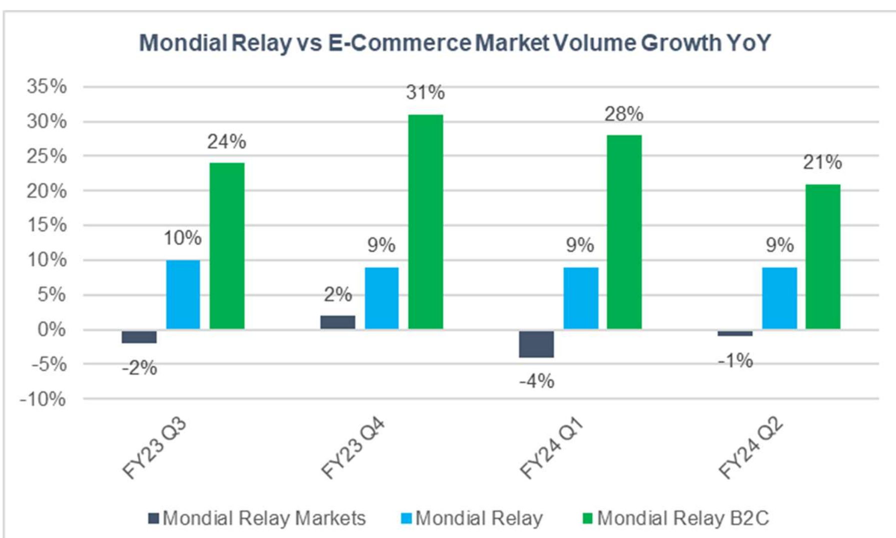
While the broader trend has been for margin increases in Poland, over the last few periods the margin has compressed marginally to ~45.8% in 1H24. This has been driven by aggressive re-investment in price to drive volumes and improve their relative value proposition, as well as InPost's decision not to fully pass-on inflationary cost rises, which they were entitled to do given pre-existing agreements with merchants. All in all, the company is primarily focused on overall profit growth and not profit margins. We approve of this position as it's more likely to drive long-term value creation, as well as reduce manoeuvring room for competitors.



Source: Company filings

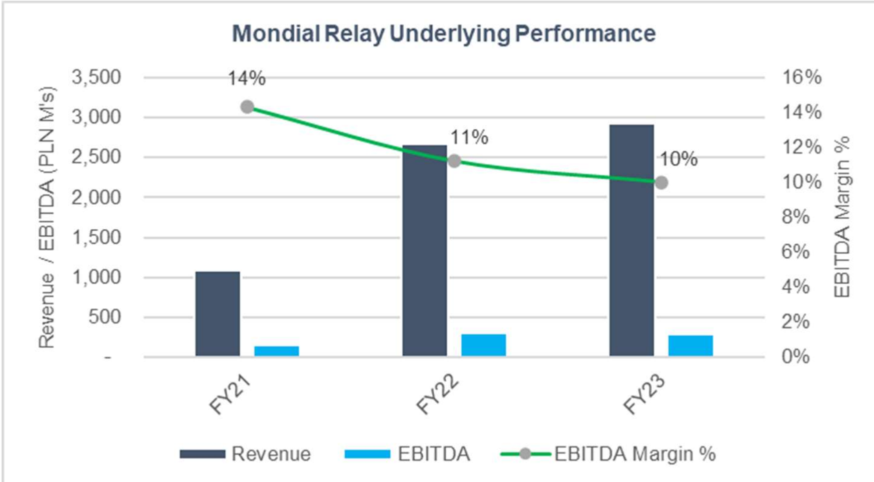
Recent performance – Mondial Relay

Mondial Relay has performed well since the acquisition, and continues to grow and take share in a difficult market that has seen weak demand in recent periods due to macro softness. Regardless of broader market conditions, we expect share gains and decent growth to continue, with strong performance in B2C being a key driver of this.



Source: Company presentation

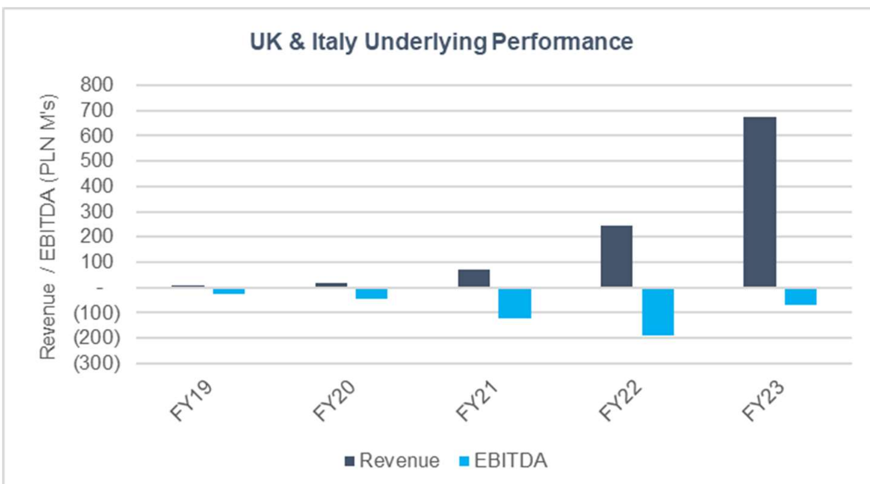
InPost has front loaded investments in Mondial Relay, leading to elevated costs and deliberate excess capacity across the network. Consequently, adj. EBITDA margins reduced to ~10% in FY23 from the ~14% achieved prior to the acquisition. While investments in the network are ongoing, increasing scale and utilisation have already driven margin recovery, with the business recording an adj. EBITDA margin of ~14% in 1H24. Tellingly, the 2Q24 adj. EBITDA margin for Mondial Relay reached ~17%, and whilst we don't expect that rate of margin expansion to persist as they reinvest back into the value proposition to drive growth, it gives a good indication of how fast scale and density gains can drive margins higher.



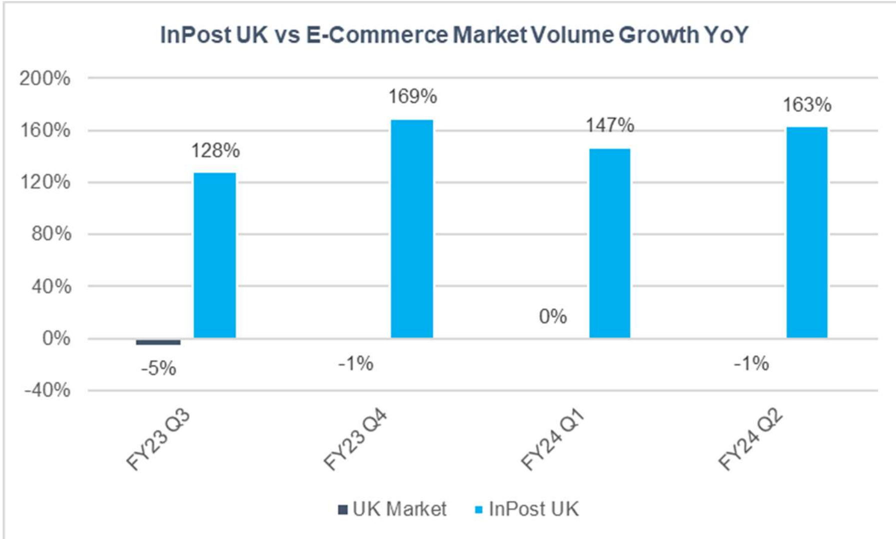
Source: Company filings. Note: Mondial Relay was acquired in Jul-21, so only 6 months of financials are shown

Recent performance – UK & Italy

InPost's operations in the UK and Italy have performed exceptionally well, with both developing ahead of expectations, indicating strong product/market fit. Rapid growth has recently translated into EBITDA profitability, marking a watershed moment in InPost's international operations, as this has assuaged market fears about the wisdom of expanding outside Poland.



Revenue in the UK & Italy has grown exponentially over the last three years, growing nearly 10x from PLN 69m in FY21 to PLN 673m by FY23, with UK volumes growing at an average of more than 150% y-o-y for the last 3 quarters. As the flywheel continues to spin and aggressive investments are deployed, we expect high growth and improvements in unit economics to continue.



Source: Company presentation

The shares

InPost IPO'd in Jan-21 at € 16/share and they currently stand at around € 18/share, representing little appreciation over the period despite very substantial earnings growth. A cause of this was the high multiple that it listed at (over 40x NTM PE), whereas today it trades on ~22x, having troughed as low as ~11x in Mar-22.

Shortly after listing, the stock de-rated substantially, taking the shares down as low as ~€ 4.2, representing a near-75% drop vs the IPO price, and more vs post-listing highs. The main driver of this was market fears about the outlook for the Polish business, following an announcement by key customer Allegro that they were going to aggressively roll-out their own APM network, suggesting a reduction in their usage of 3rd party logistics partners such as InPost. At the time of listing, Allegro accounted for ~60% of InPost's volumes and ~50% of its revenue, and the prospect of InPost losing these volumes over time and the idea that the APM business is potentially replicable by challengers, spooked the market, causing a precipitous sell-off (with the unwinding of the COVID-led demand boom adding additional pressure).

The extent of the fall was a significant overreaction, and belies the limited market understanding of the moat of a dominant APM network. While Allegro's and others' ambitions were large and superficially troubling, it was already evident at that time they were going to struggle to challenge InPost with a credible offering. Market scepticism, however, persisted and it has taken the passage of time and the demonstration that competitors' manoeuvres are unlikely to amount to much for investor sentiment to become incrementally more positive. This has been helped by steady share gains in the Polish market, and further evidence of 'failed entry' in the marketplace.

As sentiment on the Polish business has improved, so have perspectives on the International operations. Whereas the market was once highly sceptical of the non-Polish operations, the strengthening performance in France, as well as the rapid growth and emergent profitability of the UK and other countries have changed this. Meanwhile, the scale of the opportunity – and how well placed InPost is to seize it – is becoming clearer. A strong showing across all regions and recent earnings beats have lifted the stock to its highest level since early 2021.

Valuation & expected returns

Given the relatively low valuation that InPost trades at vs the strength of its core business, its toll-like ability to benefit from structural e-commerce growth, and the significant scope for value creation both in Poland and elsewhere, we find the current situation highly attractive. With high confidence of at least a ~15% annual return over multiple years and limited losses in the eventuality of a weak performance from here, the fan of outcomes offers positively-skewed asymmetry.

Base Case

The base case assumes InPost grows revenue at a 15% CAGR from 2024-2029, with Poland growing at 14%, Mondial Relay at 10%, and International at 28%. The adj. EBITDA margin is forecast to increase to a Group blended figure of 35%, with marginal gains in Poland, and more significant gains in other units, with Mondial Relay having a 19% margin in 2029E, and International getting to 18%. Using these assumptions, we expect EPS to grow at a CAGR of 23% over 5yrs.

To reflect the greater maturity of the business, as well as the likelihood of further growth for some time, we are using an exit NTM PE multiple of 18x. Assuming that all FCFE generated is reinvested in the business and that no dividends are paid, we arrive at expected total returns of ~106% over 5yrs, or a ~15% CAGR.

Base Case	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E
Revenue growth (%)	**82%**	**54%**	**25%**	**23%**	**19%**	**17%**	**15%**	**14%**	**12%**
Poland	38%	22%	27%	20%	18%	16%	14%	13%	12%
International	289%	202%	207%	100%	50%	35%	25%	20%	18%
Mondial Relay	0%	147%	8%	10%	10%	10%	10%	10%	10%
EBITDA Margin (%)	**35%**	**28%**	**31%**	**31%**	**32%**	**33%**	**33%**	**34%**	**35%**
Poland	46%	43%	46%	46%	47%	47%	47%	47%	47%
International	-175%	-91%	-11%	0%	5%	8%	12%	15%	18%
Mondial Relay	14%	12%	11%	13%	14%	16%	17%	18%	19%

Bull Case

The bull case assumes slightly higher growth, greater margin gains and less multiple contraction. With revenue CAGRs of 15% in Poland, 14% for Mondial Relay, and 32% for International, the Group blended figure is 17%. If the adj. EBITDA margin in Poland expands to 48%, with Mondial Relay getting to 23% and International to 22%, the Group margin is 36% in 2028E. Using these marginally more aggressive assumptions, EPS grows at a CAGR of 28% over the next 5yrs.

With an exit NTM PE multiple of 22x, and again assuming all FCFE is reinvested in the business, we arrive at expected total returns of ~223% or a ~25% CAGR over 5yrs.

Bull Case	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E
Revenue growth (%)	**82%**	**54%**	**25%**	**23%**	**21%**	**20%**	**18%**	**17%**	**16%**
Poland	38%	22%	27%	20%	18%	17%	16%	15%	14%
International	289%	202%	207%	100%	60%	40%	30%	25%	20%
Mondial Relay	0%	147%	8%	10%	11%	16%	15%	15%	15%
EBITDA Margin (%)	**35%**	**28%**	**31%**	**31%**	**32%**	**33%**	**34%**	**35%**	**36%**
Poland	46%	43%	46%	46%	47%	47%	48%	48%	48%
International	-175%	-91%	-11%	0%	5%	10%	14%	18%	22%
Mondial Relay	14%	12%	11%	13%	15%	17%	19%	21%	23%

Bear Case

The downside case assumes slower than expected growth and margin pressure across the business, with e-commerce growth disappointing, competition increasing, and uptake in international markets failing to meet expectations.

With revenue CAGRs of 5% in Poland, 5% for Mondial Relay, and 12% for International, the Group blended figure is 6%. If the adj. EBITDA margin in Poland contracts to 44%, with limited gains in Mondial Relay resulting in a 12% margin in 2029, and International only expands to a 7% margin, the Group margin ends up at 30%. Using these more bearish assumptions, EPS growth is sluggish, achieving a CAGR of just 7% over the next 5yrs. With the NTM PE multiple compressing to just 14x, the TSR would be -31% over the next 5yrs.

Bear Case	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E
Revenue growth (%)	**82%**	**54%**	**25%**	**19%**	**6%**	**6%**	**6%**	**6%**	**5%**
Poland	38%	22%	27%	20%	5%	5%	5%	5%	5%
International	289%	202%	207%	60%	20%	15%	10%	10%	8%
Mondial Relay	0%	147%	8%	8%	5%	5%	5%	5%	5%
EBITDA Margin (%)	**35%**	**28%**	**31%**	**32%**	**31%**	**31%**	**30%**	**30%**	**30%**
Poland	46%	43%	46%	46%	46%	45%	45%	44%	44%
International	-175%	-91%	-11%	0%	2%	4%	5%	6%	7%
Mondial Relay	14%	12%	11%	12%	12%	12%	12%	12%	12%

Key risks

Given InPost's rock solid position in its home market and how the current share price attributes little value to international operations, one of the most likely branches of downside comes from management doing something that either undermines their Polish operations, or they so badly mismanage their international endeavours that it more than offsets value creation in the core. The company has form when it comes to overexpansion, and whilst its historical issues in this arena are concerning, management has learned a lot from the experience.

In recent years, they have again started to expand into Western Europe, and whilst the expansion may look alarming in some respects (they are now present in 8 international markets), there are good reasons to believe this time it will be more successful, and won't imperil the overall business. The Group now has a strong balance sheet, and the core operations are much larger and are highly profitable, enabling it to endure greater missteps elsewhere, if it comes to that. It appears that round two of international expansion is more disciplined than the first attempt, with the company focusing on a handful of key markets where the opportunity is large, and they seem to have strong product/market fit. They are now break-even or better in the key markets, which marks a big difference vs previous forays, making the whole plan more stable and less dangerous. Whilst the current situation looks better, that isn't to say that things couldn't change. There remains the risk that in order to fund international expansion, InPost simply take their eye off the ball and in doing so create the conditions that could enable a competitor to scale up and take share in the core Polish business. Whilst they have taken more price in Poland than is completely necessary, they haven't fully passed on inflation whereas some competitors have, and the value proposition gap vs peers remains very large. They would have to be egregious with price rises or service quality declines to cause significant problems, and there are currently no signs of this happening.

There is also the risk Rafal is an inveterate empire builder and at some stage he'll do a huge acquisition that weakens the balance sheet, though this now appears improbable. He seems to have learnt the lessons from historical overstretching, and recent events give a good demonstration of this: it has been known for some time that one of the biggest to-door operators in the UK (Evri) was for sale, and InPost believed that it could be a transformative acquisition, catapulting them into the UK big leagues. They made it clear they would be interested in the combination, and went so far as to meet with investors in a type of informal roadshow to prepare the ground for a possible equity raise to help fund what would be a multi-billion euro acquisition. Despite having gone through this process, Apollo ended up clinching the deal, securing Evri at a hefty price tag of approximately £ 2.7 bn. The relevance of this is that it shows InPost's management to be disciplined with capital allocation, and being willing to pass on opportunities they find very appealing when prospective returns aren't high enough.

There also remains a risk that Allegro does somehow manage to move volumes away from InPost over time, though we don't think this would be a binary event. If a competitor was able to replicate InPost's capacity and customer acceptance – an extraordinary feat – and Allegro moved volumes to them, this shift would likely take a number of years. The fact that this would take time would allow InPost to replace the lost volume. The Polish parcel market is not stationary and at over 1.3 billion parcels per year growing over 10%, the market grows by more than 130 million parcels annually. Just by maintaining its current share of the incremental growth, InPost would capture an additional ~65 million parcels a year, an amount that is very likely greater than Allegro could transfer volumes to an alternative network. To put this figure in context, InPost grew its volumes in Poland by over 110 million parcels per year on average from 2019-2023, helping give confidence that InPost could still grow, albeit at a slower rate, if Allegro were able to gradually wean themselves off their network.

Another potential source of competitive threat comes from Amazon. While Amazon's forays into APMs to date have been fairly minor (they still view themselves as to-door first), there is the risk that if lockers gain considerable traction and become as ubiquitous in other markets as they are in Poland, this could force players like Amazon to pivot to an APM-first strategy to satisfy their customer base. If they were to fully commit to lockers, it could have a substantial negative impact on InPost, as this would be done with huge resources and without unit economics in mind. Their attempts so far to encourage customers in the UK to use Amazon-owned APMs have been somewhat half-hearted, with them rolling out ~8,000 APMs at peak, and making little attempt to encourage shoppers to select them at checkout. In a market that's become accustomed to to-door at low costs, persuading customers to switch was always going to involve some motivation, and Amazon didn't use financial or other incentives to encourage customers to select APM delivery. Our understanding is that the roll-out hasn't met expectations and Amazon has subsequently started to shrink its APM footprint in the UK. Whilst this is encouraging from InPost's perspective, there remains a risk that Amazon have a change of perspective and realise that a substantial chunk of their customers would rather use lockers, so long as they had a dense network of well-served locations. Were this to happen, Amazon could deploy billions of dollars in a short space of time, and using their logistics expertise, they could probably cause a lot of issues for InPost, particularly outside of Poland. We would caveat this risk with the fact that for merchants, having a credible alternative to Amazon is paramount and makes InPost's position particularly strong. Additionally, even if Amazon were to come in with a 'frenemy' offering at low prices, it would face significant difficulties in building as broad a merchant base as InPost's. Furthermore, given the intricacies of building a world-class APM-first back-end, it might make materially more sense for a player like Amazon to acquire InPost than attempt to replicate its footprint.

The possibility of anti-monopoly regulation is a remote, but growing, threat in Poland as InPost comes to increasingly dominate the market. As a critical economic service and one that tends towards natural monopolies/oligopolies, there is a chance that the Government acts to reduce the Company's dominance or otherwise intervenes in a way that harms the business. While there's little history of government intervention in logistics, it is possible InPost could be forced to open their network, submit to price regulation, or something similar. As InPost offers the best value proposition in the market with competitive pricing, and there are no signs of gouging merchants or customers, or other abusive behaviour, we think that this isn't a big risk. One can't, however, be certain about how governments will react when a company becomes very powerful in a utility-like sector.

There is also possible risk stemming from recent changes in the shareholder register, which has seen Advent reduce its stake from ~46% in early 2023 to ~11% at latest disclosure, with most of the shares sold being snapped up by PPF Holdings, which now holds ~29% of the company. While we were close enough to Advent's team to appreciate the positive impact they had on InPost's financial discipline and focus, we are still getting to know the people at PPF. PPF is a private investment group founded by the late Petr Kellner, a Czech billionaire who became hugely wealthy during the privatisation of formerly government-owned assets following the collapse of the Iron Curtain. Kellner died in a heli-skiing accident in Alaska in 2021, though PPF continues to be an active investor, and now has a stake that can clearly influence how InPost is run. Though we don't see any particular risks stemming from their ownership, there's always scope for very large shareholders pushing companies to do things that aren't necessarily in the interests of other public shareholders.

Another branch of potential permanent capital loss comes from geopolitical events disrupting the business, and whilst this is a tail risk, we can't rule out that a worsening of tensions in Eastern Europe causes real problems for InPost in Poland e.g. a Russian invasion of part or all of the country. Whilst such a move would represent a massive escalation of the deteriorating relations between Russia and the West given that Poland is an EU country and a NATO member (whereas Ukraine is neither), it remains a possibility and one that investors shouldn't dismiss.

Closing remarks

All in all, we believe the InPost investment provides a healthy risk-adjusted return profile, with contained downside risk supported by a strong Polish core while carrying a high probability of strong returns from here under most scenarios. With a disruptive offering, InPost has a long runway to grow its business at pace and has the ability to be a true game changer in an otherwise pedestrian logistics market.