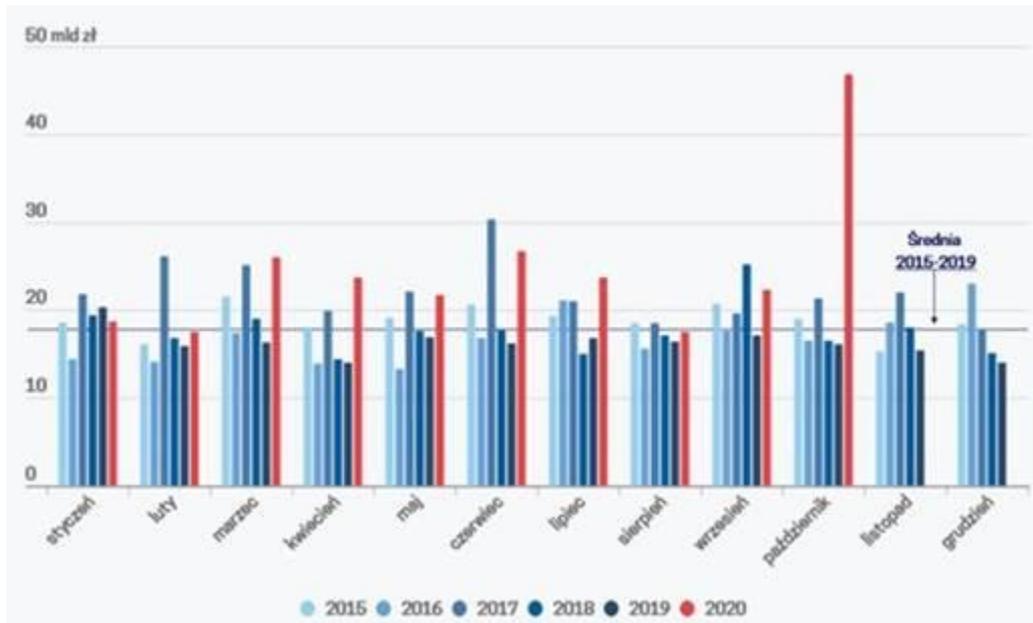


**Impact of the COVID-19 virus
on the Stock Exchange Market in Warsaw
(2019 -2020)**

(by Prof. Dr. Rafał Kusy)

The Covid-9 Pandemic has significantly affected the social, as well as business, life among societies almost in the entire world. In April 2020 the International Monetary Fund used the term “The Great Lockdown” as being the worst economic slowdown since the Great Crisis. However, many scientists have regarded the corona pandemic as the so-called “Black Swan” which has shaken the global economy. Despite this, the capital markets not only turned out to be resilient to the crisis caused by Covid-19 but also maximised the opportunity of this crisis. The liquidity on the stock exchange markets has improved in all the countries of the region and this situation has had an impact on the Polish capital and financial markets as well. This will have a direct bearing on the increasing value of turnover on the Stock Exchange Market in Warsaw (GPW). In December 2020 the total value of trading in shares on the main market of GPW amounted to 35.3 billion PLN and this was 152.6 % higher than in 2019. In addition, the record breaking month was October in 2020 (approx.. 50 billion PLN, Graph 1 given below).



Graph 1. The total monthly turnover of trading in shares on the main market of GPW (in billions PLN)

Source: GPW

GPW is currently number one in the world with respect to new enlisted shares of gaming companies overtaking the current leader, the stock exchange market in Tokyo. The offer of shares of the company Allegro in the amount of 9.18 billion PLN was deemed to be the largest entrance onto the GPW in its entire history.

In accordance with IPO Watch Allegro was the second largest IPO (*Initial Public Offering*) in value in Europe in the third quarter of 2020 and one of the 10th biggest IPOs in this year worldwide. On the day of the entrance onto the stock market the stock price rose by 51% and increased by 62.8% during the day. The market capitalization of Allegro resulting from the price indicated in the offer amounted to 44 billion PLN. It should also be stressed that shares of this company within public the offering were subscribed by over 35 thousand individual investors and this culminated in a significant reduction of subscription orders for these shares. In addition, the NewConnect market recorded the highest half yearly, monthly and daily turnover in its history. From the beginning of 2019 until the end of November 2019, the turnover on this market totaled 13.8 billion PLN and this amount almost equals its value between 2010 -2019 (141 billion PLN). From November 2019 it rose by 926% year over year reaching the amount of 1.5 billion PLN. The stock investors have divided companies into those that may face economic difficulties within the Covid-19 Pandemic and those that may profit from it. A boom was observed on buying shares in technology companies manufacturing games and companies aiming at the production of Covid-19 tests, medicine, face masks and protective gloves. Among factors having an impact on the intensification of trading on the stock market, the Covid-19 Pandemic was predominant and investors acted according to the rule "*Buy when the blood has been shed*" and took advantage of the reduction of the interest rate that resulted from the liberal monetary policy. Higher trading on the stock exchange was also

influenced by capital collected systematically through Employee Capital Plans (so called: "PPK").

However, the recovery on the Polish stock market has not respectively been translated into an increase of the stock exchange index ("WIG"). The WIG declined by 18% and WIG 20 by 24%. The decline of WIG – despite a lower scale of expected economic recession – may have been caused by a large involvement of the financial sector that usually responds abruptly and intensely to any negative economic phenomenon. Analysis of the European stock exchange index leads to the conclusion that during the considered period from 30th June 2019 to 30th June 2020 its values varied. In 2020, the values of some of them significantly dropped and this included among others: Ibex 35 (-21%), CAC 40 (-11%) and FTSE 100 (-17%). However, the USA stock exchange index such as S&P500 and NASDAQ recorded rises subsequently by 5% and 26%.

The Covid-19 Pandemic also had an impact on the market multiples. According to the data of companies from STOXX 600 index, the strongest drop of multiples EV/EBITDA occurred within the sector of luxury commodities where the evaluation decreased from 11.1x to 8.0x. The companies from this sector could become victims of a potential crisis due to the fact that the consumers in a relatively easy way may (at least temporarily) refrain from buying these products (contrary to the essential products). Many lockdowns also hindered expenditure on goods that are associated with visits in exclusive salons rather than with online shopping.

Another factor can be seen in the emergence of new financial indicators for a company's evaluation.

Potential stock exchange investors began to assess the acquired assets taking into consideration risk assessment methods (sensitivity analysis and scenario analysis) or anticipated results at the operational level (EBIT, EBITDA, EBITDAC).

The technological companies survived the Covid crisis as gently as possible (recording a drop from 17.9x to 17.3x). The stability of this sector can result in higher expectations as to the rapid increase of digitalization due to sanitary restrictions as well as to social distance requirements. It can be observed that in all sectors (except food production), the multiples on GPW in March 2020 increasingly dropped. The major change was identified within the leisure and recreation sector where the drop amounted to over 13x (from 21x to 7.8x). The drop of EV/EBITDA from 12.3x to 6.3x has also been discovered in the clothing and cosmetic sectors and this was the result of the closing down of shopping centers and the necessity of incurring high fixed expenses along with relatively low margins generated prior to the outbreak of the Pandemic.

The perspective of the development of GPW in 2021 is rather optimistic. The latest values of the stock exchange index on GPW proves this vision. Index WIG closed on 6 September 2021 at the highest level in its history as it rose by 1.4% up to 72179,41 points. The WIG 20 index also closed trading with the highest level since February 2018 by an increase of 1.49% up to 2416,38 points. The same upward trends have also been noted for index mWI40 and sWIG80 being also at record levels.

In case of any further questions regarding this topic, please contact us at office@drlewandowski.eu