

EQUITY RESEARCH REPORT



BRDR. HARTMANN

A Package Filled with a Turnaround

2022-11-04

Analyst: Arvid Johansson

Brdr. Hartmann ("Hartmann" or "the Company") is a Danish egg packaging manufacturer, with more than 100 years of experience in the packaging business. Starting off as a local Danish enterprise, the Company has since established itself as a global leader. Hartmann's earnings have historically been volatile and last year, the Company ran into profitability problems ending with a negative EPS of DKK -2.5 in Q4-21. Analyst Group estimates that the Company is ready to do a turnaround, as the profitability is estimated to return in 2022 and increase further in 2023 reaching an EPS of DKK 20. We base our valuation of 2023 on a forward P/E multiple of 15x, which on a EPS of DKK 20 corresponds to a net present value per share of DKK 263.

• ESG Trends set to Launch Market Tailwind

Brdr. Hartmann operates in the egg packaging market in Europe, Americas and Asia. The egg consumption has historically been stable, meaning a fairly stable market for the packaging business.¹ A market tailwind is now anticipated to launch stemming from ESG trends, where an increased awareness of plastic's environmental damage is expected to increase the penetration rate of paper packaging companies, as it is a sustainable substitute to plastic. Hartmann's presence in markets where plastic packaging shares an equal part of the market as paper offers growth opportunity. The global market for egg packaging made of paper is estimated to grow at a CAGR of 5.8% 2022-2029 and Analyst Group estimates Hartmann to grow revenue at a CAGR of 11.4% 2021-2023, reaching DKK 3 402.6m.²

• Estimated EPS growth of 37.2% CAGR

The Company has an energy-intensive production where recycled paper is the main material used. As the input costs increased sharply last year, the Company faced difficult circumstances to remain profitable and reported a loss per share of -2.5 DKK in Q4-21. The stock is currently trading at 11.9x 2023 EPS and Analyst Group does not find the true profitability reflected in the depressed valuation, as the EPS is estimated to grow at a CAGR of 37.2% between 2021-2023.

• Ambitious Goals Hard To Achieve in Near-term

Hartmann has announced that the Company under normal circumstances should be able to maintain an EBIT margin of at least 10%, while also reporting a more optimistic goal of an EBIT margin exceeding 14%. The Company's sustainable product offering, and leading market position increases the probability of realizing the long-term ambitions, although Analyst Group finds it unrealistic within the forecasted period due to the macro economic situation with high inflation and volatile input costs.

SHARE PRICE | DKK 230.5

VALUATION INTERVAL

BEAR
DKK 181.2

BASE
DKK 263.0

BULL
DKK 349.5

BRDR. HARTMANN				
Share Price (2022-11-03)				230.5
Number of Shares Outstanding				7 015 090
Market Cap (DKKm)				1 659.6
Net cash(-)/debt(+) (DKKm)				991.5
Enterprise Value (DKKm)				2 651.1
W.52 Price Intervall (DKK)				201.5-395.7
List		Mid Cap Copenhagen		
DEVELOPMENT				
1 Week				-1.5%
1 Month				+4.3%
3 Months				-20.8%
Since IPO				-15.8%
MAIN SHAREHOLDERS (2021-03-31)				
Thornico Holding A/S				68.6%
Lannebo Funds AB				5.0%
CEO AND CHAIRMAN OF THE BOARD				
CEO		Torben Rosenkrantz-Theil		
Chairman of the Board		Jan Klarskov Henriksen		
FINANCIAL CALENDAR				
Quarterly Report Third Quarter 2022				2022-11-15
ESTIMATES (BASE), DKKM	2020	2021	2022E	2023E
Revenue	2 567.4	2 744.0	3 184.8	3 402.6
Gross profit	1 698.3	1 612.5	1 713.9	1 872.9
Gross margin	66.1%	58.8%	53.8%	55.0%
EBIT	424.1	114.0	158.0	228.9
EBIT margin	16.5%	4.2%	5.0%	6.7%
EPS (DKK)	39.0	10.6	12.5	20.0
EV/S	1.7x	1.1x	0.8x	0.8x
EV/EBITDA	7.8x	10.6x	8.0x	6.4x
EV/EBIT	10.3x	25.5x	16.8x	11.6x
P/E	13.6x	26.5x	19.0x	11.9x

¹Statista

²Future Market Insights

INVESTMENT THESIS

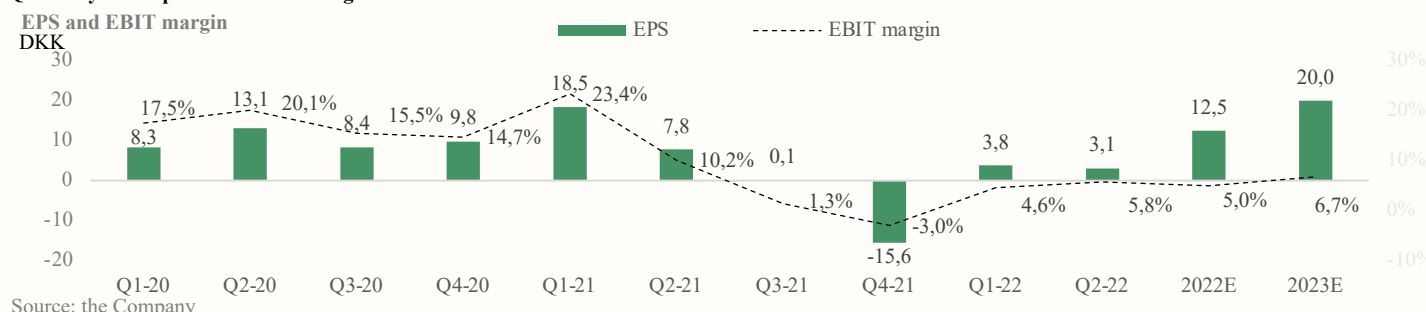
Turnaround Opportunity

IMPROVED
MARGINS
INDICATES
A TURN-
AROUND

Brdr. Hartmann was one of the companies largely favored during the pandemic and saw a substantial increase in demand due to consumers spending less on restaurants and more on packaged food from retailers. This resulted in EPS reaching a new all-time high of DKK 39, corresponding to a growth of 33%. Supply chain issues and inflationary price increases on paper and energy then stressed the Company's profitability, leading to a decline in earnings of -72.8% in 2021, with the Company's largest quarterly loss ever in Q4-21.

The Company's price increases comes with a certain time lag, which was one of the major reasons for the reported loss in Q4-21. Hartmann has, throughout 2022, been successful with increasing prices to offset the higher input costs, resulting in an EBIT margin of 4.6% in Q1-22 and 5.8% in Q2-22. Analyst Group expects Hartmann to perform a turnaround due to continuously successful price increases to offset the higher input costs and improving profitability. The turnaround thesis is supported by 1) that eggs is an inelastic staple as observed through previous recessions, while the egg producers are dependent on having egg packaging to sell eggs; 2) ESG trends of paper substituting plastic, creating a growth opportunity; and 3) egg packaging's low price/volume ratio, implying poor transportation possibilities and thus, limiting competition from distant low price competitor. Thus, Hartmann has a strong bargaining power to raise prices against its customers and Analyst Group estimates EPS to grow at 37.3% CAGR between 2021-2023.

Quarterly development of EBIT margin and EPS.



Significant Higher Selling Prices Bodes for Growth

ESTIMATED
MARKET
GROWTH OF
5.8% CAGR

Hartmann's egg packaging made of recycled paper is an attractive product offer as the egg packaging market is estimated to witness a tailwind stemming from substituting plastic for paper. The egg packaging market is expected to grow at a CAGR of 5.8% between 2022-2029, reaching a value of USDbn 10.3.³ The sustainability trend is a crucial factor for long-term growth, although Analyst Group estimates that Hartmann will overperform this growth in the short-term as price increases have been unexpectedly high. The Company has increased the prices of its products by ~18% YTD, with a slight increase in sales volumes. Egg consumption has historically been insensitive to economic fluctuations and only took a ~3% decrease during the global financial crisis, explaining the stable volumes observed now.⁴ The increased selling prices on top of the stable volumes implies an estimated revenue growth of 11.4% CAGR 2021-2023, amounting to DKK 3 406.2m in 2023.

The Dependence of Exogenic Factors is a Risk

The risk associated with future revenue is considered low since egg consumption has been stable throughout history. The major risk is associated with profitability since the Company is dependent of paper and energy prices which in turn are factors the Company has limited control of. Hedging through futures has not been done, meaning that increased commodity prices will impact profitability directly. The successful price increases that have returned the profitability and ECB's forecasted inflation strengthen Analyst Group's conviction of future profitability.

HIGHLIGHTS

- 1 Strengthened margins indicate a turnaround
- 2 Eggs inelasticity creates stable revenues
- 3 Market tailwind stemming from ESG trends
- 4 Poor transportation possibilities creates local monopolies
- 5 Estimated to grow faster than market growth

FINANCIAL FORECAST

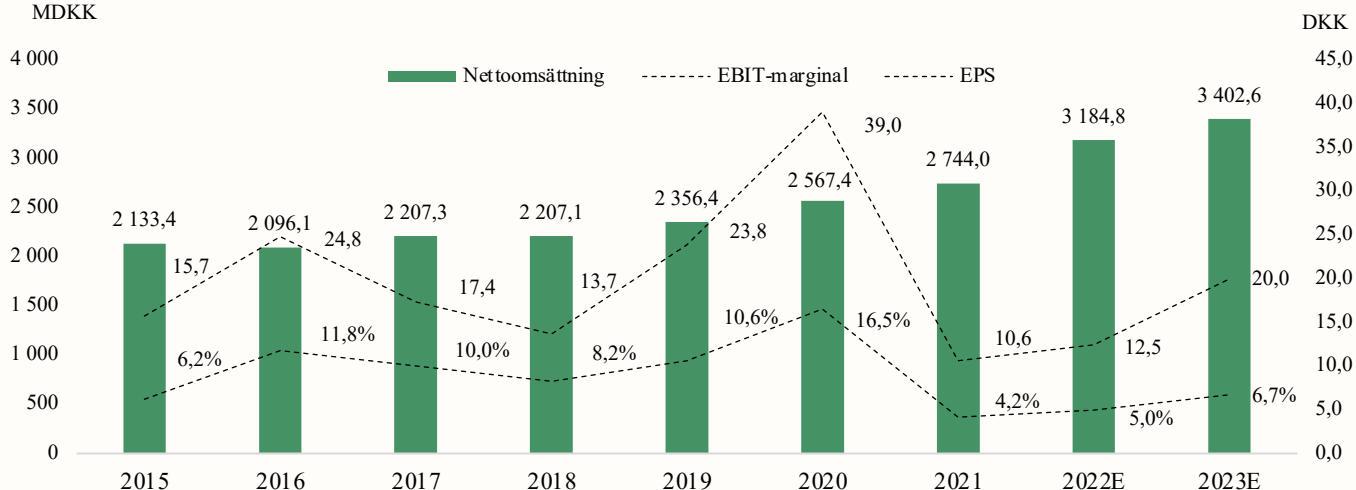
**REVENUE
ESTIMATED
TO GROW AT
11.4% CAGR
2021-2023**

Stable Sales Volumes and Raised Selling Prices Bodes for Revenue Growth

Hartmann operates in a stable and geographically diversified market which imply further estimated stable sales volumes, where stability stems from the stable egg consumption. The revenue growth is in the short-term estimated to be higher than historically because of the price increases being unusually high. Hartmann has presented a revenue for H1-22 ~18% higher than adj. H1-21, partly due to price increases previously performed affecting the revenue. The prices of egg packaging in Sweden had increased ~25% by mid June according to one of the major egg producers, which further supports the thesis of a short-term abnormal growth. Thus, Analyst Group estimates the revenue of 2022 to increase by 16.1% and reach DKK 3 184.4m, in the guided interval of DKK 3 100m-3 300m. As the Company has initiated a divestment of the Russian unit, Analyst Group has subtracted DKK 94.2m, 100% of the estimated revenue contribution, from the Russian segment. The revenue of 2023 is estimated to grow 6.8%, which is in between historical growth and the expected market growth, and reach DKK 3 402.7m, corresponding to a CAGR of 11.4% between 2021-2023.

Earnings are estimated to grow at a CAGR of 37.3%.

Revenue, EPS and EBIT margin
MDKK



Analyst Group's estimates

Estimated Gross Margin Lower than Historically due to Persistently Higher Cost of Sales

High energy and recycled paper prices drove inflationary pressure on production costs in 2021 increasing the cost of sales with ~30% in H1-22, with undisclosed figures for each commodity's share. For the full year of 2022, the cost of sales is estimated to increase by an equal of 30%. For 2023, ECB estimates inflation of 3.5%, and the volume of egg and dairy sales is estimated to increase by 1.7%. Analyst Group estimates the cost of sales to grow 4% in 2023 since the energy intensive production are likely to be more affected by the inflationary pressure. The forecasted revenue and cost of sales translates into a gross margin of 55% and gross profit of DKKm 1 872.9 in 2023.

The EBIT margin has a 10-year average of 9.1%, and according to the Company, the business should under normal circumstances be able to achieve an EBIT margin above 10%. The Company has a rather ambitious long-term goal of a 14% EBIT margin, which Analyst Group finds unachievable in the forecasted period because of the persistently high energy costs and energy intensive production. In 2022, management has guided the EBIT margin in the interval of 2-7%, a realistic interval accordingly to Analyst Group as we estimate it at 5%. The operational expenditures, depreciation, and amortization are estimated to remain at historical levels of sales, except for the personnel costs in 2023 that are expected to increase by 3.5% in line with inflation, implying an EBIT margin of 6.7% in 2023. With net financials of -1.4% of sales and a tax rate of 22%, the net income in 2023 is estimated at DKKm 140.2. With 7 015 090 of shares outstanding, the net income equates to an EPS of DKK 20.

**ESTIMATED
EPS OF DKK 20
IN 2023**

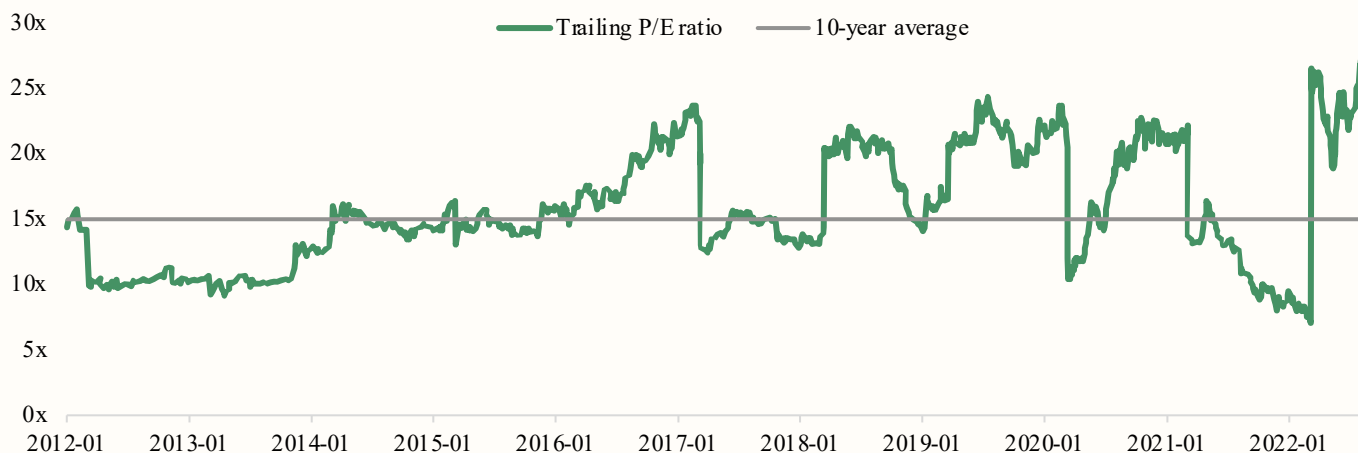
VALUATION

STRONG POSITION FOR FUTURE GROWTH

Earnings Estimated to Increase, but the Peak is yet to be Reached

Hartmann has historically been valued at a P/E multiple of 11.9x peak earnings and 16.8x trough earnings, with a 10-year average of 15x earnings. The EPS for the forecasted period is estimated to drastically increase, but not to be classified as peak earnings as we estimate the margins to be lower than historical averages. The forecasted EBIT margin of 6.7% in 2023 is lower than the 10% EBIT margin the Company has pronounced as its “business-as-usual margin”, further supporting a valuation above the peak multiple as profitability could increase further. Analyst Group does not estimate the Company to reach its business-as-usual margins within the forecasted period, and not the ambitious EBIT margin of 14%. However, the Company’s leading market position puts it in a prominent position to capitalize on the structural ESG trends where paper acts as a substitute for plastic and it is important for the long-run thesis. Although it goes beyond our forecasted period, it makes Analyst Group confident that our earnings of 2023 is not to be classified as peak earnings. Long-term growth with an EBIT margin between 10-14% would result in a continued high EPS growth, further motivating a target multiple at a premium to the peak multiple.

Historical valuation.



Source: Börsdata & the Company

Target Multiple in line with the 10-year Average

Hartmann is currently trading at 11.5x 2023 EPS, corresponding to a discount of 23.3% to the 10-year average. The current market situation, as well as the turnaround situation with a TTM negative EPS, makes it difficult to find a similar case when looking at the Company’s history. Since it is unreasonable to classify our estimated EPS as peak earnings, it is incorrect to base our target multiple of previous valuations in different positions of the business cycle. Analyst Group argues that Brdr. Hartmann should be valued at P/E multiple of 15x, in line with the 10-year average, since it takes account for the variation of the business cycle.

TARGET P/E MULTIPLE OF 15x

Peak/trough multiples	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
EBIT margin	7.4%	7.0%	9.7%	6.2%	11.8%	10.0%	8.2%	10.6%	16.5%	4.2%
EPS (DKK)	13.2	12.2	17.0	15.7	24.8	17.4	13.7	23.8	39.0	10.6
P/E	8.6x	13.8x	10.2x	17.1x	13.7x	18.4x	17.9x	10.0x	13.6x	26.5x
Average peak multiple	11.9x									
Average trough multiple	16.8x									
10-year average	15.0x									

Source: Börsdata & the Company

VALUATION

PEERS VALUED IN THE RANGE OF 11.5-30.7x EARNINGS

Comparable Companies

The Company's unique situation makes it unfair to base the target multiple on a peer valuation. However, we do find it meaningful to put our target multiple in relation to a selection of comparable companies to present what multiples the market use to value these companies at. The selected peers have a 10-year average P/E multiple of 17.9x and is currently trading at 9.7x 2023 consensus earnings from the sell-side. Our valuation of Brdr. Hartmann puts the stock in between the peers trailing 10-year average and their forward-looking P/E ratio. Analyst Group finds the target multiple of 15x suitable and mean that it could be motivated from two different perspectives. On one hand, Hartmann should be valued at a premium to the peer's forward P/E ratio since our estimated EPS growth rate (CAGR) of 37.3% 2021-2023 is superior to the average sell-side consensus of 17.2% for the comparable companies. On the other hand, Hartmann should be valued at a discount to the peer's 10-year average, as this turnaround case is forward looking and considered riskier than the history. Although our valuation is not based on comparable companies, it supports the target multiple.

Comparable companies	Market data			Financials		Valuation	
	Market cap	Enterprise value	EBIT margin	ROIC	EPS CAGR	EV/EBIT	P/E
Company name	DKKm	DKKm	LTM	Trailing 3-year average	2021-2023E	Trailing 10-year average	
Huhtamäki	26 782	39 570	8.3%	6.9%	12.6%	20.0x	17.4x
Sonoco Products	43 230	66 605	8.6%	1.0%	22.6%	15.4x	19.9x
Core Molding Technologies	741	987	3.6%	4.4%	n/a	3.9x	11.5x
Myers Industries	4 735	5 593	7.7%	12.8%	39.2%	27.3x	30.7x
O-I Glass Inc.	14 951	43 433	12.2%	3.7%	-5.7%	23.0x	13.9x
Average	18 088	31 238	8.1%	5.8%	17.2%	17.9x	18.7x
Median	14 951	39 570	8.3%	4.4%	17.6%	20.0x	17.4x
Brdr. Hartmann	1 610	2 602	Neg.	6.6%	37.3%	14.0x	15.0x

Source: Bloomberg, Börsdata & Analyst Group's estimates

Target Price Reflecting both the Risk and Reward

DKK 263 PER SHARE IN A BASE SCENARIO

In conclusion, Analyst Group finds Brdr. Hartmann's trailing 10-year average P/E multiple of 15x the most adequate target multiple as it reflects the idiosyncratic risk as well as the growth potential. The target P/E multiple of 15x applied on the estimated EPS of 2023, corresponds to a share price of DKK 300 in 2023. The estimated share price, discounted at 6.8% (WACC) as a time value adjustment, implies a motivated share price of DKK 263.

DKK 349.5 PER SHARE IN A BULL SCENARIO

DKK 181.2 PER SHARE IN A BEAR SCENARIO

Bull scenario

The following is a selection of potential value drivers from a Bull scenario:

- Hartmann delivers higher revenue growth due to higher sale volumes reaching a revenue of DKK 3 534.3m in 2023, corresponding to a CAGR of 13.5% 2021-2023.
- The Company enhances its profitability and reaches an EBIT margin of 10% in 2023, in line with the "business as usual"-margin.

A peak multiple of 11.9x applied on 2023 EPS of DKK 33.5 implies a value per share of DKK 398.7 in 2023. The target price of 2023 discounted at 6.8% (WACC) corresponds to a NPV of DKK 349.5.

Bear scenario

The following is a selection of potential value drivers from a Bear scenario:

- The Company grows its revenue at a lower pace of 9% CAGR 2021-2023 due to lower sales volumes, amounting to DKK 3 236m in 2023.
- The EBIT maintains at 5% in 2023, in line with the current level.
- An impairment of DKK -116m is accounted for in 2022 due to a failed divestment of the Russian business unit.

Applying a trough multiple of 16.8x on 2023 EPS of DKK 12.3 imply a share price of DKK 206.6, which discounted at 6.8% (WACC) corresponds to a NPV of DKK 181.2 per share.

APPENDIX: BASE SCENARIO

Base scenario (MDKK)	2020	2021	2022E	2023E
Revenue	2 567.4	2 744.0	3 184.8	3 402.6
Cost of sales	-869.1	-1 131.5	-1 471.0	-1 529.8
Gross profit	1 698.3	1 612.5	1 713.9	1 872.9
Gross margin	66.1%	58.8%	53.8%	55.0%
Other external costs	-288.4	-290.2	-354.9	-379.2
Personnel costs	-591.0	-636.2	-650.3	-673.1
Depreciation and amortization	-135.0	-159.7	-175.2	-187.2
Other operating expenses	-259.8	-412.4	-375.4	-404.4
EBIT	424.1	114.0	158.0	228.9
EBIT margin	16.5%	4.2%	5.0%	6.7%
Financial income	13.9	37.8	25.1	26.8
Financial expenses	-79.0	-46.5	-71.1	-76.0
EBT	359.0	105.3	112.0	179.7
EBT margin	14.0%	3.8%	3.5%	5.3%
Tax	-85.1	-30.9	-24.6	-39.5
Net income	273.9	74.4	87.4	140.2
Net income margin	10.7%	2.7%	2.7%	4.1%
EPS (DKK)	39.0	10.6	12.5	20.0

APPENDIX: BULL SCENARIO

Bull scenario (DKKm)	2020	2021	2022E	2023E
Revenue	2 567.4	2 744.0	3 300.0	3 534.3
Cost of sales	-869.1	-1 131.5	-1 478.9	-1 504.0
Gross profit	1 698.3	1 612.5	1 821.1	2 030.3
Gross margin	66.1%	58.8%	55.2%	57.4%
Other external costs	-288.4	-290.2	-367.8	-402.2
Personnel costs	-591.0	-636.2	-650.3	-673.1
Depreciation and amortization	-135.0	-159.7	-181.5	-190.0
Other operating expenses	-259.8	-412.4	-389.0	-412.2
EBIT	424.1	114.0	232.5	352.8
EBIT margin	16.5%	4.2%	7.0%	10.0%
Financial income	13.9	37.8	26.0	27.9
Financial expenses	-79.0	-46.5	-73.7	-78.9
EBT	359.0	105.3	184.8	301.7
EBT margin	14.0%	3.8%	5.6%	8.5%
Tax	-85.1	-30.9	-40.7	-66.4
Net income	273.9	74.4	144.2	235.3
Net income margin	10.7%	2.7%	4.4%	6.7%
EPS (DKK)	39.0	10.6	20.5	33.5

APPENDIX: BEAR SCENARIO

Bear scenario (DKKm)	2020	2021	2022E	2023E
Revenue	2 567.4	2 744.0	3 100.0	3 263.0
Cost of sales	-869.1	-1 131.5	-1 485.1	-1 510.3
Gross profit	1 698.3	1 612.5	1 614.9	1 752.7
Gross margin	66.1%	58.8%	52.1%	53.7%
Other external costs	-288.4	-290.2	-345.5	-359.6
Personnel costs	-591.0	-636.2	-650.3	-673.1
Depreciation and amortization	-135.0	-159.7	-170.5	-175.4
Other operating expenses	-259.8	-412.4	-365.4	-380.5
Impairment	0.0	0.0	-116.0	0.0
EBIT	424.1	114.0	-32.9	164.0
EBIT margin	16.5%	4.2%	-1.1%	5.0%
Financial income	13.9	37.8	24.4	25.7
Financial expenses	-79.0	-46.5	-69.2	-72.9
EBT	359.0	105.3	-77.6	116.9
EBT margin	14.0%	3.8%	-2.5%	3.6%
Tax	-85.1	-30.9	0.0	-25.7
Net income	273.9	74.4	-77.6	91.2
Net income margin	10.7%	2.7%	-2.5%	2.8%
EPS (DKK)	39.0	10.6	-11.1	13.0

APPENDIX: VALUATION

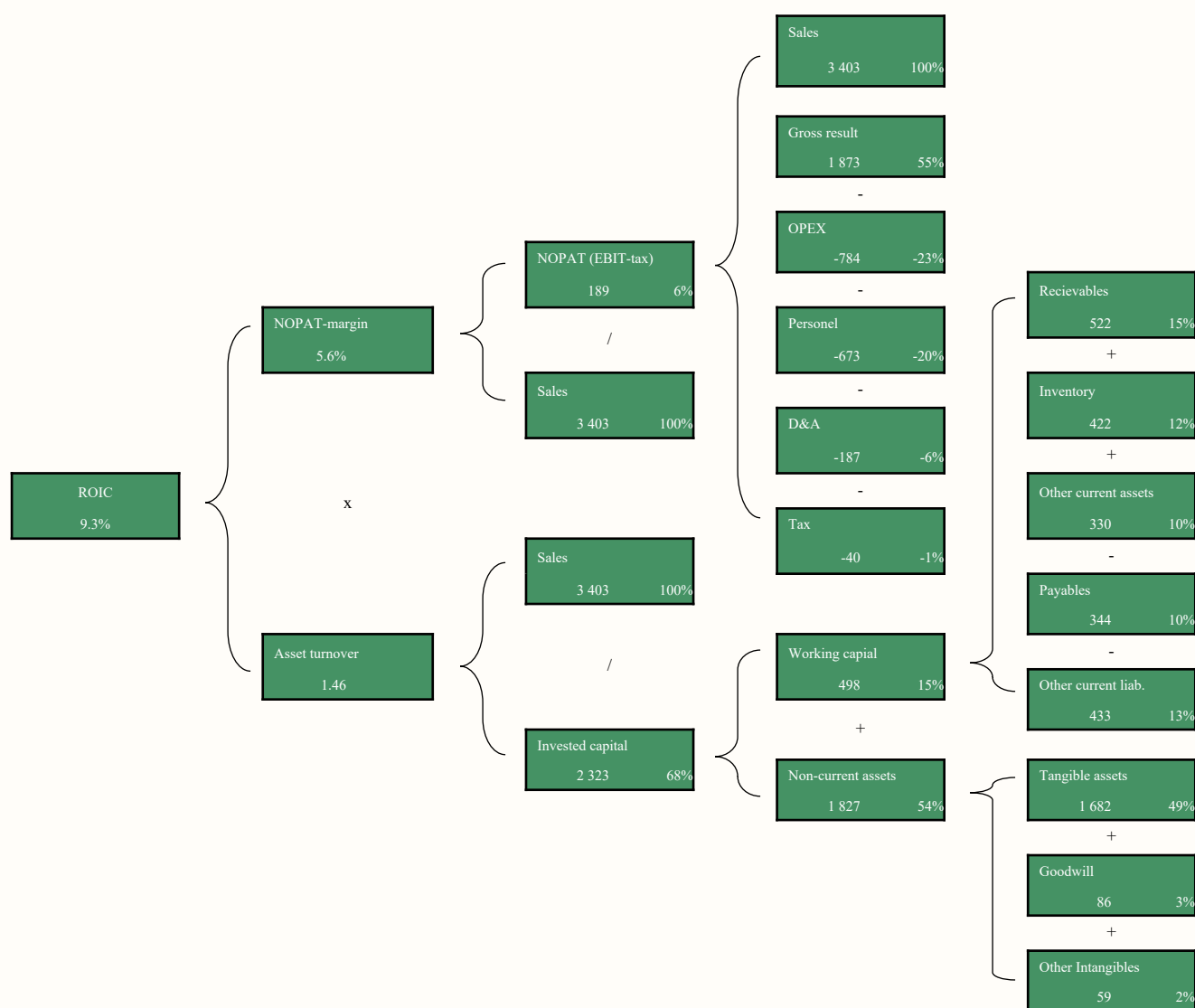
Comparable companies	Market data			Financials		Valuation	
	Market cap	Enterprise value	EBIT margin	ROIC	EPS CAGR	EV/EBIT	P/E
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Sonoco Products	43 230	66 605	8.6%	1.0%	22.6%	15.4x	19.9x
Core Molding Technologies	741	987	3.6%	4.4%	n/a	3.9x	11.5x
Myers Industries	4 735	5 593	7.7%	12.8%	39.2%	27.3x	30.7x
O-I Glass Inc.	14 951	43 433	12.2%	3.7%	Neg.	23.0x	13.9x
Average	18 088	31 238	8.1%	5.8%	17.2%	17.9x	18.7x
Median	14 951	39 570	8.3%	4.4%	17.6%	20.0x	17.4x
Brdr. Hartmann	1 610	2 602	Neg.	6.6%	37.3%	14.0x	15.0x

Source: Bloomberg, Börsgdata & the Company

Valuation and Ratios	2020	2021	2022E	2023E
Shares outstanding (m)	7.02	7.02	7.02	7.02
Fully diluted shares (m)	6.92	6.92	6.92	6.92
EPS (DKK)	39.0	10.6	12.5	20.0
Dividend per share (DKK)	0.0	0.0	0.0	0.0
Valuation				
EV/sales	1.7x	1.1x	0.8x	0.8x
EV/EBITDA	6.8x	10.6x	0.8x	6.4x
EV/EBIT	7.2x	25.5x	16.8x	11.6x
P/E	13.6x	26.5x	19.0x	11.9x
Dividend yield	0.0%	0.0%	0.0%	0.0%
FCF yield	0.3%	-3.0%	-2.2%	4.0%
Investment ratios				
Capex/sales	0.1x	0.1x	0.1x	0.1x
Capex/depreciation	1.2x	1.8x	1.3x	1.3x
Balance sheet ratios				
Sales/invested capital	1.5x	1.4x	1.4x	1.5x
Net debt/EBITDA	1.1x	3.4x	3.0x	2.4x

Source: Börsgdata & the Company

APPENDIX: ROIC 2023E



Invested capital (DKKm)	2020	2021	2022E	2023E
Accounts receivables	347.8	396.2	488.9	522.3
Inventory	256.7	299.9	406.2	413.1
Other current assets	346.0	295.5	321.2	329.6
Accounts payables	209.6	306.7	330.9	336.5
Other current liabilities	380.7	403.5	424.9	432.1
Net working capital	360.2	281.4	460.4	496.4
Tangible assets	1 184.9	1 491.8	1 608.2	1 681.7
Goodwill	90.7	108.4	85.7	85.7
Other intangible assets	37.2	61.6	59.1	59.1
Non-current assets	1 312.8	1 661.8	1 753.0	1 826.5
Invested capital	1 673.0	1 943.2	2 213.3	2 322.9

Source: the Company

DISCLAIMER

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Bull and bear

The recommendations in the form of bull alternatively Bear aims to provide a comprehensive picture of Analyst Group's opinion. The recommendations are developed through rigorous processes consisting of qualitative research and the weighing and discussion with other qualified analysts.

Definition Bull

Bull is a metaphor for an optimistic view of the future. It indicates a belief in improvement.

Definition Bear

Bear is a metaphor for a pessimistic view set on the future. It indicates a belief deterioration.

Other

This analysis is an independent analysis. This means Analyst Group has not received payment for doing the analysis. The Principal, Brdr. Hartmann (furthermore “the Company”) has had no opportunity to influence the

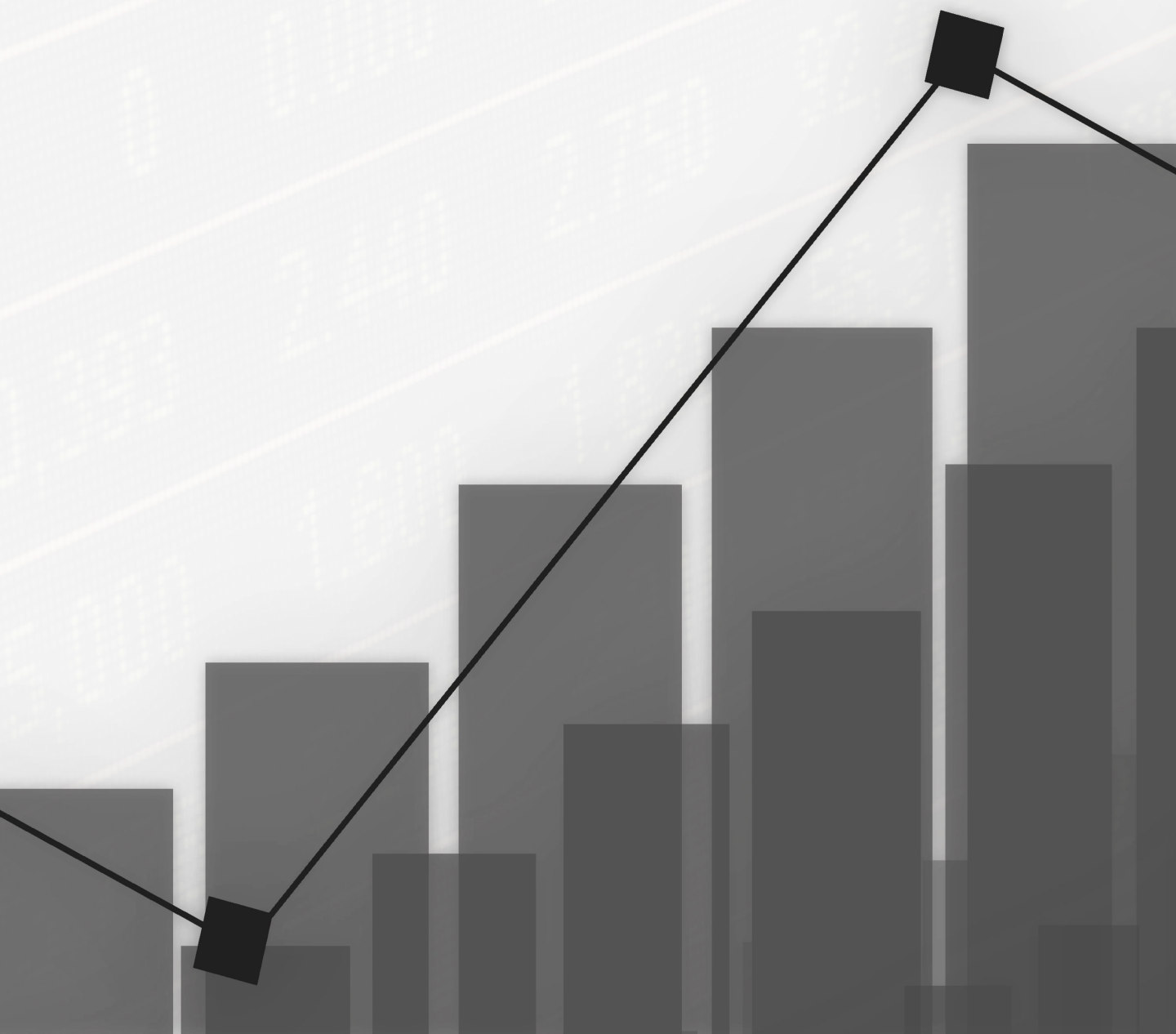
parts where Analyst Group has had opinions about the Company's future valuation or anything that could constitute an objective assessment.

The parts that the company has been able to influence are the parts that are purely factual and objective.

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