

Firstfarms A/S (FFARMS)



Pigs, Cows, Crops: A Trifecta of Returns

FirstFarms A/S (“FirstFarms” or “the Company”) is a Danish investment company in the agriculture sector primarily focused on milk, crops and pigs. The Company owns and operates farms in the Czech Republic, Slovakia, Hungary and Romania. FirstFarms sees refinement potential in continuous acquisitions and integration of smaller farms by utilising existing expertise within the Company to increase productivity and decrease costs by economy of scale, thereby increasing profit margins. The war in Ukraine has inflated commodity prices into the upper ends of their historical price range, benefiting FirstFarms. Analyst Group projects the inflated prices to impact the fiscal year 2023 positively. Applying the target EV/EBIT multiple of 12.6x to the 2023 estimated EBIT of DKK 114m, a potential share price of DKK 100.4 is motivated.

Outperforming Market Productivity

Capitalising on existing competence within FirstFarms and refining acquired juvenile farms in the portfolio has been a long-standing strategy for the Company to increase efficiency. As of 2022, the global average weaned piglets produced per sow amounted to 28 a year while FirstFarms Hungarian farms averaged 38, resulting in an estimated 2023 net profit margin of 9.0% compared to the peer average of 3.6%. By utilising and implementing the superior farming practice to the less mature farms in Slovakia, the Slovakian division is estimated to increase weaned piglets produced per sow with a CAGR of 5.2% from 2022-2025. Furthermore, milk produced per cow has increased with a CAGR of 4.1% from 2017-2021 company-wide due to improved farming practices. Analyst Group assumes this trend to continue at a CAGR of 1.4% from 2022-2025 as the animals are nearing their biological thresholds.

Construction of a New Stable in Hungary

FirstFarms are currently constructing a new stable with a capacity of 2 000 sows, adding to their existing 4 700. The stable is set to be operational in Q4-2023 and increase revenue generated from the pig segment by 14.6% from 2023 to 2024. The pig segment is estimated to constitute 36.6% of the revenue in 2023 and 44.7% of the revenue in 2024.

War in Ukraine Inflates Commodity Prices

As of 2022, 21% of FirstFarms revenue stemmed from wheat and rapeseed. Ukraine was the world’s seventh-largest wheat producer and sixth-largest rapeseed producer prior to the war, but due to the war disrupting the Ukraine supply chain, European wheat prices rose by 43.6% and rapeseed prices by 35.7% over two months. The price has reverted most of the increase but is assumed to remain historically high until Ukraine’s grain industry operates at pre-war levels.

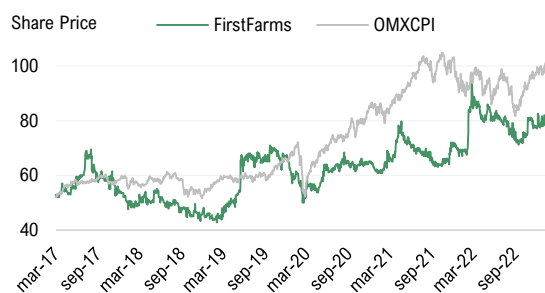
VALUATION RANGE

Bear	Base	Bull
DKK 64.6	DKK 100.4	DKK 154.8

KEY INFORMATION

Share Price (2023-03-30)	87.0
Shares Outstanding	9 460 277
Market Cap (DKKm)	823.0
Net cash(-)/debt(+) (DKKm)	455.8
Enterprise Value (DKKm)	1 278.8
List	Nasdaq Copenhagen A/S
Quarterly report 1 2023	2023-05-17

SHARE PRICE DEVELOPMENT



OWNERS (SOURCE: FIRSTFARMS)

Henrik Hougaard	21.8%
Bendt Wedell	14.0%
Olav W. Hansen	11.7%
Claus Ewers	2.1%
Anders H. Nørgaard	1.3%

Estimates (DKKm)	2022	2023E	2024E	2025E
Revenue	541	611	677	717
COGS	-233	-266	-299	-314
Gross Profit	308	346	378	403
Gross Margin	56.9%	56.6%	55.9%	56.2%
Operating Costs	-212	-232	-256	-283
EBITDA	147	168	183	188
EBITDA Margin	27.1%	27.5%	27.0%	26.2%
P/S	1.3x	1.3x	1.2x	1.1x
EV/S	2.2x	2.1x	1.9x	1.8x
EV/EBITDA	8.1x	7.6x	6.9x	6.8x
EV/EBIT	12.4x	11.2x	10.4x	10.6x

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ABOUT THE COMPANY

FirstFarms is a Danish venture capital company in agriculture and food products. The Company was listed in 2006 and operates in the agriculture and food sectors in Slovakia, the Czech Republic, Romania and Hungary. The Company's business segments include pig, milk, grain, and cattle. Through continuous acquisitions, the Company integrates smaller farms into FirstFarms farming network and cuts costs through synergies. Further profits are realised by applying superior farming practices and competence to newly acquired farms to improve yield and profit. FirstFarms are listed on the Nasdaq Copenhagen A/S since 2006.

CEO AND CHAIRMAN

CEO	Anders H. Nørgaard
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Chairman	Henrik Hougaard
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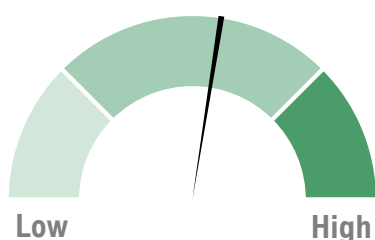
JUNIOR ANALYST

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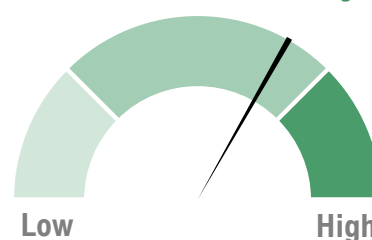
E-mail	Keller.Edstrand@analystgroup.se
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Value Drivers



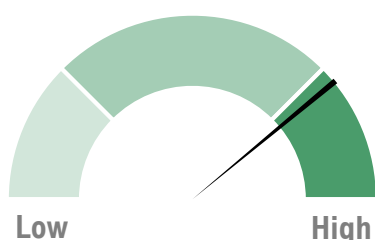
The ongoing construction of a new stable is set to increase total sales by an estimated 6.6% and continue to generate revenue long-term. FirstFarms acquisitions are seen as value drivers for FirstFarms. The effect of Ukraine's agriculture sector inevitably exporting at pre-war levels will impact commodity prices negatively through supply and demand, considered an adverse value driver for FirstFarms.

Historical Profitability



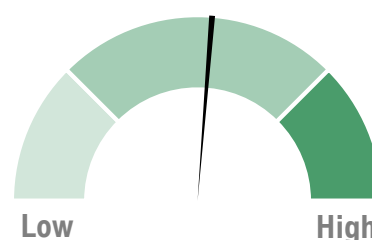
FirstFarms' impressive historical profitability is indicated by an EBIT margin of 17.7% 2022, six consecutive years of profitability and an annual EBIT CAGR of 41.2% from 2017 to 2022. Lacklustre scalability and unsatisfying FCF margin offset the score. However the rating are purely historical and not forward-looking.

Management & Board



Management and boards members ownership constitutes 39.5% of the Company. The CEO, Anders H. Nørgaard, is incentivised through ownership and bonuses. Nørgaard owns 1.3% of shares in the Company and obtains 33.3% of his salary in bonuses if EBITDA, Net profits and EPS goals are met. Analyst Group considers the management experienced, competent in the field, and highly incentivised.

Risk Profile



The risk acquainted with FirstFarms is primarily associated with the Company's reliance on commodity prices, which are out of FirstFarms' control. However, Analyst Group asses that more could be done to hedge the Company against the risk. Furthermore, negative free cash flow for two consecutive years increases the risk associated with FirstFarms.

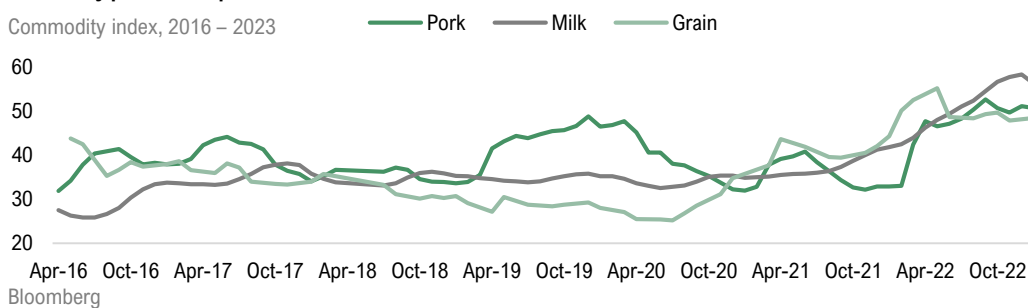
MARKET &
COMMODITY
OUTLOOK

High Commodity Prices for 2022 and 2023

The price of milk steadily increased during 2022 and peaked in December 2022 at an all-time high, up 44% from the previous year. EU reference prices for pigs are trending upwards for the first time since the African swine fever broke out in 2019. Crop prices are within their historically higher range due to Ukraine's agriculture market being obstructed by war. Operating in all the previously mentioned commodities, FirstFarms is set to capitalise on favourable market trends.

Commodity price development

Commodity index, 2016 – 2023



Acquisition and Refinement

FirstFarms have an acquisition strategy of buying smaller farms and integrating them into the Company's network. The integration allows for lower costs through economy of scale and, by applying existing farming knowledge, allows for more proficient farming in the acquired farms. FirstFarms assets constitute 35% of land as of Q4-2022, practically hedging themselves against inflation. The land included in acquisitions that are not considered integral to the business is sold off for a profit by improving the soil structure, thereby increasing the intrinsic value of the land. The Company finance their acquisitions through cash and raising debt keeping a net debt to EBITDA ratio of 2.7x as of 2022.

Construction of New Stable Enables Revenue Growth

The pig segment represents 32.1% of the Company's revenue as of 2022, where FirstFarms has 4 700 sows under management, producing an average of 35 weaned piglets per sow annually. The Company is currently constructing a new stable set to finish in Q4-2023 with a capacity of another 2 000 sows. The total number of piglets bred is estimated to increase by 43% from 2023-2024, mainly due to the construction of the new stable and a productivity increase. Analyst Group forecasts revenue from the pig segment to increase with a CAGR of 21.1% 2022-2025 to reach an estimated revenue of DKK 308m, 43% of the projected revenue for 2025.

Farming Competence Enables Margin Increase

Competent farming practices and adaptation have allowed FirstFarms to outperform competitors regarding productivity. The Company has consistently managed to increase production per animal in all segments. The productivity in pig production is set to grow with a CAGR of 5.2% for the Slovakian farms. The Hungary pig farms saw an annual increase in production by 4.7% from 2016-2021 evidence of the Company's refinement potential in acquisitions, and the Slovakian farms saw an increase of 1.5% annually from 2019-2021 expected to accelerate moving forward. FirstFarms is estimated to produce an average of 37 weaned piglets per sow in 2023, while the European average is 28 per sow. The Hungarian farms are nearing the maximum threshold the sows can reliably produce weaned piglets, while the Slovakian farms are in a more juvenile stage of maturity. The milk segment has seen a similar development where the amount produced per cow has increased with a CAGR of 4.2% from 2018-2022. The trend is estimated to continue with a CAGR of 2% from 2022-2025 for the milk sector, a slight decrease from the historical average as the animals are nearing their biological threshold.

Dependence of Exogenic Factors Poses a Risk

As previously mentioned, a large part of FirstFarms' revenue depends on the commodities prices over which FirstFarms doesn't control. Dependence on exogenic factors brings about uncertainty and risk but is mitigated by the Company's varied product pool. A substantial FX risk is mitigated by taking on debt in the local currency, practically functioning as a forward deal. However, the risk remains when extracting the local currency into Danish crowns for dividends. The risk of extreme weather events or diseases disrupting the Company's yield should be considered. Issuance of convertible bonds and the resulting dilution of the stock should be noted, if all current outstanding convertible bonds were to convert, the issued stock would represent 5% of total share capital as of 2022.

ACQUISITION
STRATEGYEXPANDING HERD
AND INCREASED
EFFICIENCY



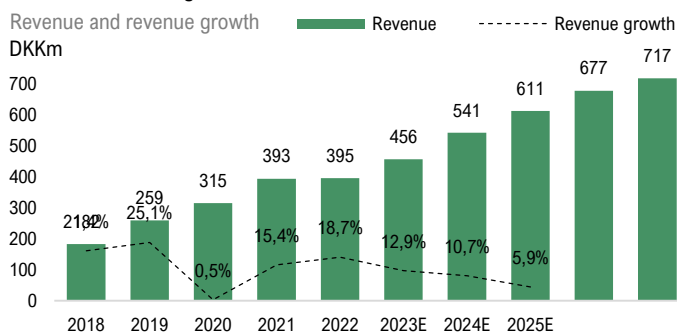
Financial Forecast

Revenue Projections 2022-2025

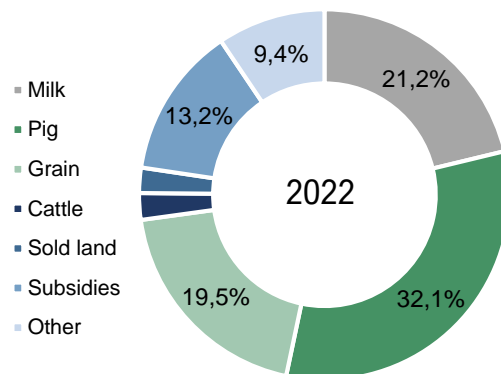
Multiple factors drive FirstFarms revenue increase: increased produce extraction per animal, construction of a new stable, inflated commodity prices and continuous acquisition strategy. The milk collected per cow has risen steadily from 9.5 tons a year in 2017 to 11.1 tons in 2022. This increase is estimated to continue but stagnate at 11.8 tons per year in 2025 due to biological thresholds being met. Milk prices have reached unprecedented levels, averaging DKK 3 440 per ton in 2022. Analyst Group projects the price to remain satisfactory and average DKK 3 300 per ton for 2023 and average DKK 3 200 per ton in 2024. The pig segment is estimated to benefit from the new stable being constructed and add an estimated DKK 42m for 2024, increasing the total revenue from the segment by 14.6%. Furthermore, Analyst Group projects revenue from grain to remain high for 2023 as it has been since 2022 due to the war in Ukraine and inflating wheat and rape seed prices. Inflated prices are presumed to remain until the conflict is resolved and Ukraine's agricultural sector is operational, the grain segment is estimated to accumulate DKK 131m in 2023. The acquisition strategy of buying and integrating smaller farms has resulted in land constituting 45.5% of the Company's assets as of 2022, hedging FirstFarms against inflation. The land included in acquisitions that are not considered integral to the business is sold for a profit by improving the soil structure, thereby increasing the intrinsic value of the land.

REVENUE ESTIMATED TO GROW AT 9.8% CAGR 2022-2025

Consistent revenue growth over time



Analyst Group's forecasts, the Company

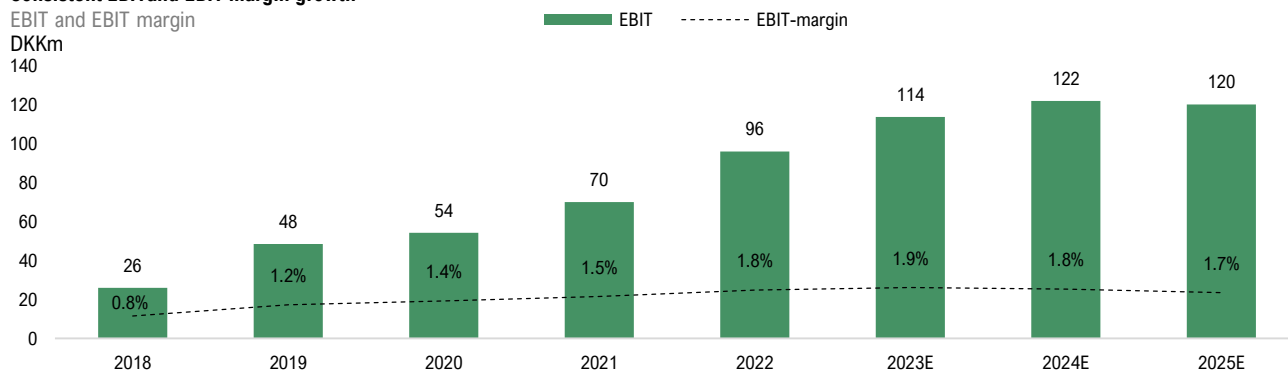


Increased Underlying Farming Proficiency

Good farming practice and constant adaptation has allowed FirstFarms to remain in the forefront of the industry regarding productivity. The Company has consistently increased extracted produce per animal in all segments. Increased proficiency is reflected in the EBIT margin, improving from 6.6% in 2017 to 17.7% in 2022. This trend is estimated to continue at a slower pace due to biological thresholds being met concerning what the Company can extract per animal. Commodity prices fluctuate and influence the EBIT margin, but proficient farming allows FirstFarms to maintain high EBIT margins over time, even if commodities trade at unfavourable levels. Analyst Group expects high milk and grain prices to continue positively impacting revenue and margins in 2023 but regress for 2024, explaining the decline in projected EBIT margin 2022-2025.

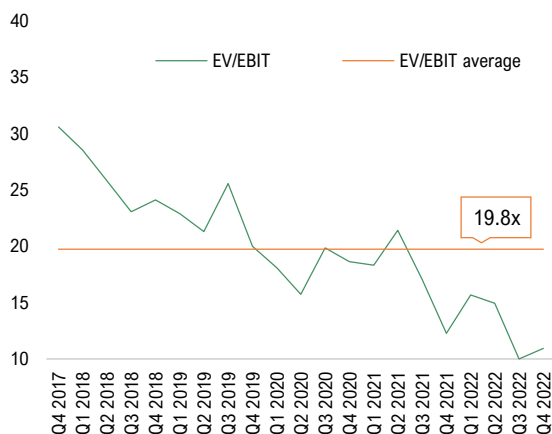
INCREASED PROFICIENCY BENEFITS EBIT MARGIN

Consistent EBIT and EBIT margin growth



Analyst Group's forecasts, the Company

Valuation



Source: Bloomberg

Peer table	Market Cap DKKm	Enterprise Value DKKm	Revenue CAGR 2017-2022	Net Profit margin 2023E	EV/EBIT 2023E	P/E 2023E
Bunge	100 062	135 580	7.5%	2.8%	7.6x	8.2x
Tyson Foods	142 531	196 826	5.3%	2.7%	12.8x	13.4x
Archer-Daniels-Midland	296 988	363 109	10.3%	3.7%	11.7x	11.6x
Fresh del Monte	9 893	15 367	1.8%	2.2%	15.3x	13.4x
Average	137 369	177 721	6.2%	2.9%	11.9x	11.6x
Median	121 297	166 203	6.4%	2.8%	12.3x	12.5x
FirstFarms	823	1 279	15.9%	11.1%	11.2x	12.0x

Valuation Base Scenario

DKK 100.4 PER SHARE IN A BASE SCENARIO

FirstFarms reached an all-time high result in 2022 regarding revenue, net profit and net profit margins. High commodity prices have set the Company up for a great 2023, and the announcement of constructing a new stable speaks for a fruitful future. The valuation of FirstFarms is based on a peer valuation with similar agriculture companies. The chosen companies all rely on a mixture of different produce ranging from fruits and juices to grains and livestock, each of the companies is profitable and has similar business models. A premium of 6% is motivated by the Company's expected net profit margin of 11.1% in 2023 compared to the peer average of 2.9% and historical consistency in outgrowing peers revenue-wise. The premium applied to the peer average 2023 EV/EBIT of 11.9x results in a target multiple EV/EBIT of 12.6x. The valuation is further supported by a historical valuation where FirstFarms have an average EV/EBIT of 19.8x, current EV/EBIT multiple being below that of the historical average is explained by general multiple contraction in the sector caused by inflated commodity prices. The target multiple is, however, purely based on the peer valuation and the historical valuation is only used to support the peer valuation. Applying the target EV/EBIT multiple of 12.6x to the 2023 estimated EBIT of DKK 114m implies a potential value per share of DKK 100.4 in a Base scenario.

DKK 154.8 PER SHARE IN A BULL SCENARIO

Bull scenario

The following are potential value drivers in a Bull scenario:

- EU market prices for grain and milk remain high throughout 2023 and start regressing during 2024. European market price for pork trends upwards in 2023 and 2024.
- The Company will acquire and construct various farms in 2023. The biological herd increase in size, and cultivated land expand notably, resulting in increased revenue.
- Fair weather allows for a fruitful harvest in 2023, which in turn increases revenue generated from crop by 10.4% from Base scenario.

By applying a target multiple of EV/EBIT 12.6x to the 2023 EBIT of DKK 155m implies a potential value per share of DKK 154.8 in a Bull scenario.

Bear scenario

The following are potential scenarios in a Bear scenario:

- The war in Ukraine comes to a halt, the Ukrainian agriculture sector normalizes, decreasing crop prices and consequently bringing down cattle and milk prices. Pig prices decline through 2023 and 2024.
- An unsatisfactory result for 2023 disrupts expansions, and zero acquisitions are made through 2023 and 2024.
- Drought in central Europe disrupts crop yield in 2023. Revenue generated from crops subsequently decrease by 41.6% in regards to the Base scenario.

By applying a target multiple of EV/EBIT 12.6x to the 2023 EBIT of DKK 87m implies a potential value per share of DKK 64.6 in a Bear scenario.

DKK 64.6 PER SHARE IN A BEAR SCENARIO

Appendix: Base Scenario

Base scenario, DKKm	2018	2019	2020	2021	2022	2023E	2024E	2025E
Revenue	249	328	313	369	418	492	553	581
Other operating income	66	65	83	87	123	119	124	136
Total income	315	393	395	456	541	611	677	717
Cost of sales	-189	-216	-202	-198	-233	-266	-299	-314
Gross profit	125	177	193	259	308	346	378	403
Gross margin	39.8%	45.1%	48.9%	56.7%	56.9%	56.6%	55.9%	56.2%
Other external costs	-17	-23	-25	-74	-81	-88	-97	-106
Staff costs	-50	-59	-68	-71	-80	-89	-99	-109
Depreciation	-32	-47	-46	-44	-51	-55	-61	-68
EBIT	26	48	54	70	96	114	122	120
EBIT margin	8.2%	12.3%	13.7%	15.3%	17.7%	18.6%	18.0%	16.7%
Financial income	0	2	1	2	7	3	3	3
Financial costs	-15	-22	-24	-26	-19	-24	-29	-35
EBT	12	29	31	46	84	93	96	89
Tax	-3	-7	-7	-11	-18	-25	-21	-19
Net Income	8	22	25	35	65	68	75	69
Net Income margin	2.6%	5.7%	6.3%	7.6%	12.1%	11.1%	11.1%	9.6%

Key Figures	2018	2019	2020	2021	2022	2023E	2024E	2025E
P/S	0.9x	1.2x	1.2x	1.2x	1.3x	1.3x	1.2x	1.1x
EV/EBIT	24.1x	21.4x	18.6x	12.3x	12.4x	11.2x	10.4x	10.6x
P/E	35.2x	21.8x	19.8x	16.2x	11.2x	12.0x	10.8x	11.8x

Appendix: Bull Scenario

Bull scenario, DKKm	2018	2019	2020	2021	2022	2023E	2024E	2025E
Revenue	249	328	313	369	418	556	655	647
Other operating income	66	65	83	87	123	124	129	141
Total income	315	393	395	456	541	681	784	787
Cost of sales	-189	-216	-202	-198	-233	-289	-340	-336
Gross profit	125	177	193	259	308	391	443	451
Gross margin	39.8%	45.1%	48.9%	56.7%	56.9%	57.5%	56.6%	57.3%
Other external costs	-17	-23	-25	-74	-81	-88	-88	-88
Staff costs	-50	-59	-68	-71	-80	-89	-99	-109
Depreciation	-32	-47	-46	-44	-51	-60	-66	-73
EBIT	26	48	54	70	96	155	190	181
EBIT margin	8.2%	12.3%	13.7%	15.3%	17.7%	22.7%	24.3%	22.9%
Financial income	0	2	1	2	7	2	2	2
Financial costs	-15	-22	-24	-26	-19	-24	-29	-35
EBT	12	29	31	46	84	133	164	148
Tax	-3	-7	-7	-11	-18	-34	-36	-33
Net Income	8	22	25	35	65	99	128	115
Net Income margin	2.6%	5.7%	6.3%	7.6%	12.1%	14.5%	16.3%	14.6%

Key Figures	2018	2019	2020	2021	2022	2023E	2024E	2025E
P/S	0.9x	1.2x	1.2x	1.2x	1.3x	1.2x	1.0x	1.0x
EV/EBIT	24.1x	21.4x	18.6x	12.3x	12.4x	8.2x	6.7x	7.0x
P/E	35.2x	21.8x	19.8x	16.2x	11.2x	8.3x	6.4x	7.1x

Appendix: Bear Scenario

Bear scenario, DKKm	2018	2019	2020	2021	2022	2023E	2024E	2025E
Revenue	249	328	313	369	418	398	447	481
Other operating income	66	65	83	87	123	112	99	101
Total income	315	393	395	456	541	510	545	582
Cost of sales	-189	-216	-202	-198	-233	-191	-214	-231
Gross profit	125	177	193	259	308	319	331	351
Gross margin	39.8%	45.1%	48.9%	56.7%	56.9%	62.6%	60.7%	60.3%
Other external costs	-17	-23	-25	-74	-81	-88	-97	-106
Staff costs	-50	-59	-68	-71	-80	-89	-99	-109
Depreciation	-32	-47	-46	-44	-51	-55	-61	-68
EBIT	26	48	54	70	96	87	74	68
EBIT margin	8.2%	12.3%	13.7%	15.3%	17.7%	17.0%	13.7%	11.7%
Financial income	0	2	1	2	7	3	3	3
Financial costs	-15	-22	-24	-26	-19	-24	-29	-35
EBT	12	29	31	46	84	66	49	36
Tax	-3	-7	-7	-11	-18	-19	-11	-8
Net Income	8	22	25	35	65	47	38	28
Net Income margin	2.6%	5.7%	6.3%	7.6%	12.1%	9.2%	7.0%	4.9%

Key Figures	2018	2019	2020	2021	2022	2023E	2024E	2025E
P/S	0.9x	1.2x	1.2x	1.2x	1.3x	1.6x	1.5x	1.4x
EV/EBIT	24.1x	21.4x	18.6x	12.3x	12.4x	14.7x	17.1x	18.7x
P/E	35.2x	21.8x	19.8x	16.2x	11.2x	17.4x	21.3x	28.7x

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Other

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

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