

Initiation of coverage

ZINZINO AB

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CoB: Hans Jacobsson
www.zinzino.com

Bloomberg: ZZB:SS
Refinitiv Eikon: ZZB.ST

List: Nasdaq First North Sweden

Last: SEK 43.9 (Apr 8, 2022)
Market cap: SEK 1 481m

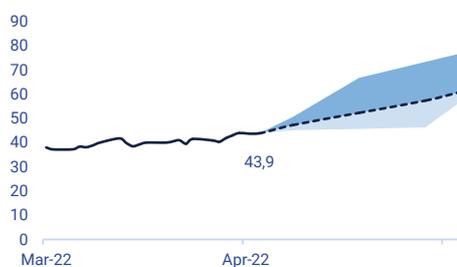
SHARE DEVELOPMENT



	12M	YTD	6M	1M
Development (%)	-45	-23	-27	18

Source: S&P Capital IQ

VALUATION INTERVAL



	BEAR	BAS	BULL
Value per share (SEK)	56.3	60.7	76.7
Up-/downside (%)	28	39	75

Source: S&P Capital IQ and Carlsquare estimates

CARLSQUARE EQUITY RESEARCH

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Both growth and margin expansion

Zinzino offers food supplements in over 100 markets worldwide through direct selling. Critical sales volumes have since long been reached. With a cost-effective expansion strategy and scalability, margins can improve further with continued growth. We estimate a fair value per share of SEK 60.7 for the next 6-12 months.

Earnings per share up 18x

Since founded in 2007, Zinzino (the company or the group) has grown into a global player in the food supplements industry. Today the company is active in over 100 markets. Zinzino sells its products mainly on subscriptions along with self-tests. With anonymised data from 100-thousands of tests, there is evidence of the products' efficacy. That, along with the company's method of distribution, direct selling, has been crucial to the company's strong performance: in Covid-weighted 2021, revenues of SEK 1 371 million were reported, corresponding to a growth of 20.4 per cent. Over the past four years, revenues have grown at an average annual rate of 26.2 per cent. In parallel, operating margins have increased from 1.2 per cent in 2018 to 8.5 per cent in 2021. Over the same period, earnings per share have increased by a factor close to 18.

Continued growth with improved profitability in the cards

Expansion into new geographies has been a critical driver of growth. The company is in Europe established in the most attractive markets, such as Germany, Italy, and Spain. However, we estimate that the market share is still barely one per cent. In other words, there is plenty of room for continued growth in Europe, especially as market conditions are now looking more "normal" after Covid. We expect the tragic war in Ukraine to hurt some European submarkets.

Since a couple of years back, the company has established itself in several countries in Asia. So far, this effort has been successful, and further expansion into new countries in Asia is expected to be an essential growth driver going forward. In recent months, development has been held back partly due to the reintroduction of restrictions in connection with Covid.

In the short term, the gross margin is likely to be squeezed with the rising cost of goods sold, freight, etcetera. Zinzino has made a price increase of six per cent on average, acting as a counterweight. Over time we see room for gross margin improvement compared to sector peers. With direct selling, geographic expansion becomes relatively cost-effective at reduced risk. We therefore believe the company can continue to grow the business in parallel with margin improvement.

Good potential upside in a share under pressure

We expect an average annual growth rate of 10.7 per cent in 2022-2025. Recently, an acquisition strengthened the skincare portfolio and the partner network. More potential acquisitions could improve the growth rate further. In our base case, the operating margin increase from 8.2 per cent in 2022 to 9.8 per cent in 2025 and 11.5 per cent in 2031. That is still slightly below larger health food companies. By combining a multiple valuation with a DCF valuation, a fair value per share of SEK 60.7 for the next 6-12 months is calculated. The stock has been under pressure and now trades an EV/EBIT multiple of 10.0x. That though despite an expected EBIT growth of 16.4 per cent through 2024. The multiple also represents an unjust discount to the peer group.

Key figures (SEKm)

	2019	2020	2021	2022P	2023P	2024P
Total revenue	771	1 139	1 371	1 507	1 756	1 938
Gross profit	232	349	428	463	550	609
EBITDA	34	109	138	143	181	205
EBIT	15	87	116	124	161	183
EBT	14	85	115	123	159	182
Earning per share	0.33	1.96	2.57	2.86	3.71	4.23
Growth, tot. revenue	33.5%	47.8%	20.4%	9.9%	16.6%	10.3%
EBITDA-margin	4.4%	9.5%	10.0%	9.5%	10.3%	10.6%
EBIT-margin	1.9%	7.6%	8.5%	8.2%	9.2%	9.4%
EV/Sales	1.6x	1.1x	0.9x	0.8x	0.7x	0.6x
EV/EBITDA (curr.)	36.9x	11.4x	9.0x	8.6x	6.8x	6.0x
EV/EBIT (curr.)	83.6x	14.3x	10.7x	10.0x	7.7x	6.8x
P/E (curr.)	134.0x	22.4x	17.1x	15.3x	11.8x	10.4x

Source: Company information and Carlsquare estimates

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Investment case

The food supplements and direct selling company, Zinzino has shown strong historical growth to improved profitability, supporting its business model and strategy. Europe has been the primary growth driver through expansion into new countries. Now Asia is next, where the market conditions can be considered even better than in Europe. That with a strong interest in both direct selling and health food. In our scenario, we expect a solid but slightly declining growth rate in Europe offset by a strong performance in Asia. With direct selling, the expansion costs can be kept low. That allows revenue growth and margin expansion to be enjoyed in parallel. We expect Zinzino to grow at an average annual rate of 7.1 per cent through 2031 while EBIT margins increase to 11.5 per cent. We estimate a fair value per share of SEK 60.7 for the next 6-12 months, corresponding to a great potential upside.

Growth and margin expansion create upside

Since its founding in 2007, Zinzino has grown into a global player in the food supplements industry. We see good prospects for Zinzino to continue to grow at a fast pace with improved profitability.

- **A proven growth strategy.** Over the past ten years, Zinzino has grown at an average annual rate of approximately 30 per cent. Direct selling (or network marketing) and an extended product offering with proven effect have been critical ingredients in the growth recipe. In parallel, the EBITDA margin has increased from 3.2 per cent in 2012 to 10.0 per cent in 2021, primarily explained by scalability. Competition is fierce with many similarly formulated products and health claims. However, the company's history demonstrates the strength of its product offering, business model and strategy.
- **Expansion in Asia is a key growth driver.** Over the past few years, expansion into new countries in Europe has been one of the primary growth drivers. Despite its billion-SEK turnover, Zinzino's market share is minimal, and thus there is still room for growth in existing markets. A couple of years ago, the first step was taken to replicate the expansion strategy in the Asia Pacific. So far, the effort has paid off with rapid growth. Overall, we see good prospects for continued growth against the backdrop of a large addressable market, not least as restrictions in the wake of the pandemic are eased, which otherwise hampered direct selling activities.
- **Upside to margins.** Zinzino is well behind its larger sector peers, such as Herbalife and USANA Health in terms of gross margin after distributor costs. We believe the gross margin can increase with a broadened product range, more of which are produced in-house. However, the main driver of the potential upside in profitability is the scalability of the business as group overheads are spread across higher revenues.
- **Higher growth and margin expansion justifies premium, not discount.** We expect Zinzino to grow at a CAGR, 2021-2025, of 10.7 per cent and 7.1 per cent over the entire estimated period to 2031. At the same time, we expect the operating margin to lift from 8.5 per cent in 2021 to 11.5 per cent in 2031. The stock is currently trading at an EV/EBIT multiple on our 2022 forecast of 10.0x. Our peer group, consisting of direct selling companies and companies that produce and sell health foods, trades at a median EV/EBIT multiple 2022 of 11.6x. Thus, the stock is currently trading at a discount. Our fair value of SEK 60.7 per share corresponds to an implied EV/EBIT multiple 2022 of 14.5x. We believe that Zinzino should instead trade at a premium, which is motivated by the expected growth rate 2022-2024, which for Zinzino is more than double the median of the peer group. Also, the margin is expected to continue to rise, and the EBIT result to grow by 16.4 per cent until 2024.

Assumptions and estimates

New growth initiatives will boost revenues

In 2022, we expect total revenues of SEK 1 507 million, corresponding to a growth of 9.9 per cent. The growth assumption is mainly based on the company gaining additional market share in the existing submarkets, Europe, North America and Asia, where also new submarkets are added. However, growth is held back by paused expansion plans in Europe (Ukraine and Russia). In 2023, growth picks up again, and CAGR, 2021-2025, is estimated to be 10.7 per cent. That is below the company's target of growing at an average annual rate of 20 per cent until 2025. However, we do not include any acquisitions in our estimates. Acquisitions are thus a trigger that can accelerate the growth rate. Over the entire forecast period, 2022-2031, our base case's average annual growth rate is 7.1 per cent.

Total revenue mainly includes revenue from sold products and freight, directly linked to the sale of products.

Total revenues (MSEK) and growth (%)



Source: Company information and Carlsquare estimates

Scalability yields margin expansion

In 2022, we expect a gross profit of SEK 463 million, corresponding to a margin of 30.7 per cent. Thus, despite recent price increases, we expect the gross margin to decline slightly compared to 2021. By the last estimated year, 2031, we expect the gross margin to have increased to 32.5 per cent, partly because of a change in product mix and a higher share of goods sold produced in-house. In 2021, Herbalife and USANA Health reported gross margins after distributor costs of 47.0 per cent and 37.9 per cent, respectively.

Gross result (MSEK) and margin (%)



Gross profit = total revenue reduced by the cost of goods sold and distribution costs. Source: Company information and Carlsquare estimates

EBITDA (SEKM) and margin (%)



Source: Company information and Carlsquare estimates

With cost-effective growth through direct selling, the company can enjoy a margin expansion parallel to high growth rates. In our scenario, the company makes an EBITDA result in 2022 of SEK 143 million, corresponding to an EBITDA margin of 9.5 per cent. A squeezed gross margin holds back the EBITDA margin. Over time, however, the EBITDA margin increases to 12.5 per cent by 2031. At the same time, the EBIT margin is 11.5 per cent. In 2021, Herbalife's EBIT margin was 12.7 per cent and USANA Health's 14.3 per cent.

The average EBITDA margin 2022-2025 in our scenario is 10.3 per cent. That is in line with the company's target of an average EBITDA margin above ten per cent.

Valuation

Upside given growth and margin expansion

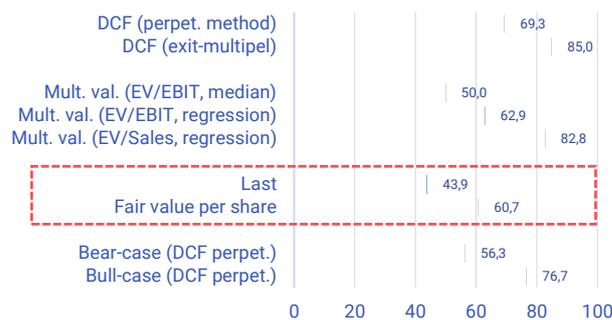
We have combined a DCF model with a multiple valuation model to calculate a fair value per share. Our DCF valuation results in a value per share between SEK 69.3-85.0 per share. Our multiple valuation on EV/EBIT 2022 results in SEK 50.0-62.9 value per share. Combining the lowest value in the DCF model with the values from the multiple valuation in an average, a fair value per share of SEK 60.7 is calculated for the next 6-12 months.

Fair value (SEK/share), base case

Multiple valuation (EV/EBIT, med. 2022)	50.0
Multiple valuation (EV/EBIT, reg. 2022)	62.9
DCF valuation	69.3
Fair value per share	60.7
Potential up-/down side	39%
Shares outstanding, fully financed, and diluted	33.7
Shareholder value	2 047
Cash (last rep. Q)	247
Debt (last rep. Q)	-5
PV cash from equity financing	0
EV	1 805

Source: Carlsquare estimates

Fair value range (SEK/share)



Source: Carlsquare estimates

Reasonability check valuation, base case

Our valuation corresponds to the implied multiples below.

Implied multiples, base case

	NTM	2021	2022	2023	2024
EV/Sales	1.2x	1.3x	1.2x	1.0x	0.9x
EV/EBITDA	12.6x	13.1x	12.6x	10.0x	8.8x
EV/EBIT	14.5x	15.6x	14.5x	11.2x	9.9x
P/E	21.2x	23.6x	21.2x	16.4x	14.4x

Source Carlsquare estimates

Our peer group of companies producing and selling health foods currently trade at a median 2022 EV/Sales multiple of 1.1x and a 2022 EV/EBIT multiple of 11.6x. Zinzino is presently trading at a discount (0.8x and 10.0x our 2022 forecasts).

Valuation within a range

In a more optimistic Bull case, we model with a CAGR, 2021-2031, of 8.1 per cent (base 7.1 per cent) and an EBIT margin 2031 of 13.0 per cent (base 11.5 per cent). In the Bull case, our DCF model yields a value per share of SEK 76.7. In a more defensive Bear case, we model a CAGR, 2021-2031, of 3.8 per cent and an EBIT margin of 8.7 per cent 2031. In the Bear case, a value per share is calculated to SEK 56.3 using our DCF model.

Risks and challenges

Plans for expansion in Europe are on hold

Ahead of 2022, the company intended to establish itself in the submarkets of Ukraine and Russia. However, the tragic war in Ukraine will most likely hold the company back from these expansion initiatives. We have taken this into account in our growth assumptions for 2022. We have also made provision for reduced activity in Poland and the Baltic states. The latter may be considered somewhat conservative. However, developments in Ukraine may have a more significant impact on Zinzino's growth than we currently anticipate.

Rising energy prices and shipping costs

The cost of goods sold has and may increase further as an effect of inflation driven by higher transport costs as well as energy costs, among other things. Delivery times have also lengthened, mainly due to scarce containers and queuing at crucial ports. That may hold back the company's ability to generate revenue and put more pressure on margins than what we expect.

The company has made an upwards price adjustment of six per cent on average – than should offset some of the rising costs. Nonetheless, overall, we expect the gross margin to fall in 2022. At the same time, we expect the gross margin to recover in 2023, but uncertainty is high. We believe clarity on this issue can be attained in the second half of 2022.

Covid and new waves of restrictions

Since March 2022, the number of registered Covid cases has increased sharply in China. That has resulted in the reintroduction of restrictions in the country. Similar developments in other submarkets where the company is active have held back growth in Asia in the first few months of 2022. Reenforced restrictions in geographies where the company is operating (or intends to start operations) is a risk that could hold back growth.

However, the company has managed to dodge the Covid pandemic well as partners have adapted their sales methods. At the same time, our case in terms of overall growth is based on the company's ability to operate under more "normal" conditions, without restrictions, and simultaneously benefit from advantages that the digitalisation that Covid forced on the direct selling industry. New restrictions in Europe and Asia may thus change the outlook.

Reduced demand for Covid

We believe that the Covid pandemic has positively impacted demand for the company's products. Now that the Covid pandemic is hopefully coming to an end with rising vaccine uptake, there is a risk that demand will fall back again.

Introduction to the company

Zinzino sells food supplements primarily. The best-selling product line, BalanceOil, is an oil intended to create balance in the body, fostering normal heart and brain function and immune system. With the help of self-testing and thus large amounts of data, there is evidence of the products' effectiveness. The products are sold directly to customers without retailers (D2C), such as pharmacies or grocery chains. The distribution method is direct selling/network marketing, which has played a vital role in the company's ability to grow at a fast pace parallel to improved profitability.

Zinzino, a growth company with profitability

Zinzino produces and sells primarily non-prescription based dietary supplements products. The business operated through two business segments:

- The first business segment, **Zinzino**, involves direct selling operations marketing the company's brands in 40 submarkets/countries worldwide. Another 60 countries are reached via the website.
- The second business segment, **Faun**, includes the production (for internal use and external sales) of health food products through the subsidiary Faun Pharma AS (Faun).

Two business segments



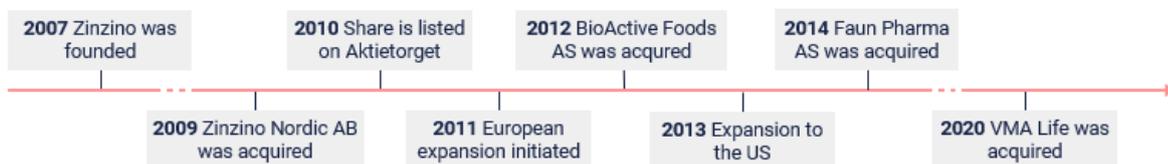
Source: Company information

History

Zinzino was founded in 2007 with its headquarter in Västra Frölunda, just south of Gothenburg. Today, the business model is the same as when the company started – to market and sell products directly to end customers via direct selling. Initially, the product range consisted exclusively of coffee machines, coffee, and accessories. In 2009, the direct selling company Zinzino Nordic AB was acquired, and in 2010 the share was listed on Spotlight Stock Market (at the time, Aktietorget).

In 2011, the group expanded its operations to Estonia and Lithuania. The same year, Dag Bergheim Pettersson joined and one year later, he was appointed CEO. In 2012, a minority stake in BioActive Foods AS (BioActive) was also acquired. Bio-Active Foods AS was at the time mainly involved in product development within the field of food supplements. The acquisition also marked the start of an increased focus on a health-oriented product range.

Historical timeline



Source: Company information

In 2013, the company expanded its business across the Atlantic after an office was opened in the US. The international expansion continued around Europe and Asia in the following years. The geographical expansion has been organic by new direct selling subsidiaries being set up and through the acquisition of local direct selling operations. Establish operations in new geographical markets remains a crucial component of the growth strategy.

In 2014, the company changed the marketplace for its shares to Nasdaq First North. In the same year, 85 per cent of the shares in the production company Faun were acquired, and all shares in BioActive were acquired. In April 2020, the direct selling company VMA Life was acquired, strengthening the company's position in the Asian market.

Local subsidiaries operate the direct selling activity

Today, the direct selling operations outside the Nordic region are conducted through 23 wholly-owned subsidiaries and several different VAT-registered entities geographically distributed in, or close to, markets where the company is operating. The Nordic direct selling business operated under Zinzino Nordic AB is 93 per cent owned by Zinzino AB. The product distribution business under Faun is 98.8 per cent owned. Against that background, an average of 5.8 per cent of the net profit in 2018-2021 has been allocated to minority interests.

Group structure



Source: Company information

Group-wide support and administrative functions, such as purchasing goods for the subsidiaries, are managed by Zinzino Operations AB. The costs of these operations are then allocated to the revenue-generating operations, Zinzino and Faun. See the picture above. Note, however, that the Group structure is under evaluation, and some changes may occur.

Strong growth and increased profits

The company has had an excellent historical performance with good growth and improved profitability.

Total revenue (SEKm) and growth (%)



Source: Company information

EBIT (SEKm) and EBIT-margin (%)



Source: Company information

International expansion has been a critical driver of growth averaging at 33.4 per cent per year, 2018 to 2021. The gross margin has improved from 29.6 per cent in

2017 to 31.2 per cent in 2021, and the operating margin from 0.1 per cent to 8.5 per cent over the same period. In other words, the company has managed to grow at a high rate in parallel with improved profitability.

Business segments Zinzino and Faun

Below is the development of revenues, growth, and operating profit margin for the Zinzino business segment before elimination.

Zinzino, total rev. (SEKm) and groth (%)



Before eliminations. Source: Company information

Zinzino, EBIT (SEKm), gross- and EBIT-margin (%)



Before eliminations. Source: Company information

Below is the development of revenues and growth and operating profit and margin for the Faun business segment before eliminations.

Faun, total revenue (SEKm) and growth (%)



Before eliminations. Source: Company information

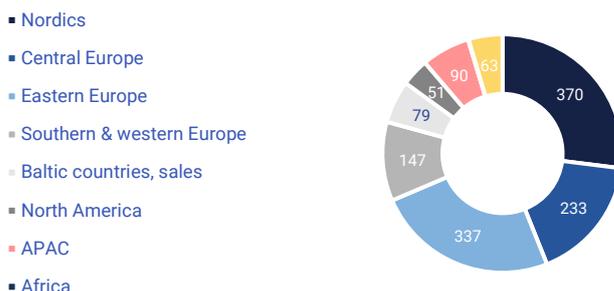
Faun, EBIT (SEKm), gross- and EBIT-margin (%)



Before eliminations. Source: Company information

Europe is the company's largest market, with a revenue contribution of approximately 85 per cent. Roughly four per cent of revenue comes from North America and about seven per cent from Asia, which is also the fastest-growing geographic market. Faun, whose external revenues amounted to SEK 63 million in 2021, contributed about five per cent of total revenues.

Geographical breakdown of total revenues (SEKm), 2021



Source: Company information

High growth targets

The company's goal is to grow by an average of 20 per cent per year 2022 to 2025. That to an EBITDA margin above ten per cent. For growth, the company needs to increase the number of customers. Today there are over 400,000 registered customers, and the goal is to have one million customers by 2025. The strategy for growth is based on:

- Taking additional market share in existing markets through the primary distribution method (direct selling), further developing the e-commerce solution, and expanding the product range in preventive health and skincare. Restrictions in the wake of Covid have eased, which should boost revenues as direct selling can return to more traditional sales methods.
- A geographical expansion through the establishment of direct selling operations in new markets. Acquisitions (probably of direct selling companies) are another strategy component. However, we do not model with possible acquisitions in our projections. (Successful) acquisitions are thus a trigger that can create additional upside.

Dividends

The dividend policy is to distribute 50 per cent of net profit, liquidity and solvency permitting. The proposed dividend based on the 2021 result is SEK 2.0 per share. That is up from SEK 1.25 distributed in 2021 based on the 2020 result.

Financial position

At the end of 2021, Zinzino had approximately SEK 236 million in cash. During the previous year, cash flow from operating activities amounted to about SEK 153 million, corresponding to roughly 11 per cent of total revenues. Cash flow from operations increased by 58 per cent compared to 2020.

The company currently has zero interest-bearing liabilities, excluding leases for right-of-use assets. The equity ratio (equity divided by total assets) at the end of 2021 was 25.1 per cent. The corresponding figure at the end of 2020 was approximately 19.6 per cent.

Shares and warrants

As of December 31, 2021, approximately 33.7 million shares were outstanding in 5.1 million Class A shares with one vote each and about 28.6 million Class B shares with 0.1 vote each.

The Company also has three warrant programs that may add up to a total of approximately 2.4 million new class B shares. Given full subscription, these could contribute a dilution of roughly seven per cent.

Shares and warrants (millions), terms and possible dilution (%)

	Number of TO (m)	Multiplier	Strike price (SEK)	Expiration
Program 1	0,43	1,0	18,0	2024-05-31
Program 2	0,96	1,0	45,0	2025-05-31
Program 3	1,00	1,0	140,0	2026-05-31
Possible new shares	2,40			
Current number of shares	33,70			
Possible dilution	7,1%			

Source: Company information

Share and valuation development

Below is the performance of the stock compared to the OMXSPI. As can be seen, the stock has out-performed strongly since the first day of trading. Like the stock market in general, the Zinzino share has had a rough start to 2022 and is down about 18 per cent since the beginning of the year.

Zinzino, share performance (Index, 2010-09-24 = 1,46)



Weekly chart. Source: S&P Capital IQ and Carlsquare

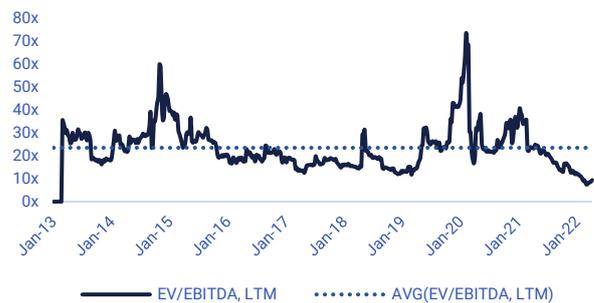
The following shows the development of the valuation in relation to revenues and earnings over a trailing twelve-month period. As can be seen, Zinzino is currently trading well below its historical averages in terms of the selected multiples.

EV/Sales, LTM and average



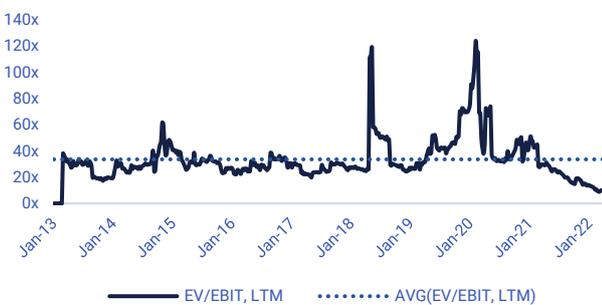
Weekly chart. LTM = Last twelve months. Source: S&P Capital IQ and Carlsquare

EV/EBITDA, LTM and average



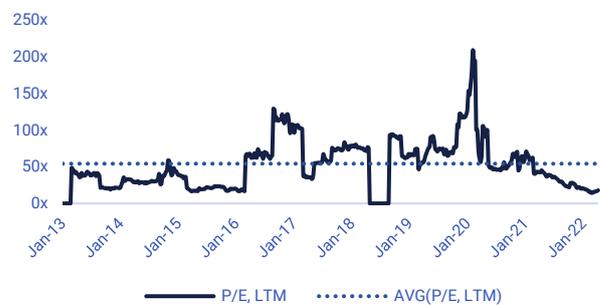
Weekly chart. LTM = Last twelve months. Source: S&P Capital IQ and Carlsquare

EV/EBIT, LTM and average level



Weekly chart. LTM = Last twelve months. Source: S&P Capital IQ and Carlsquare

P/E, LTM and average



Weekly chart. LTM = Last twelve months. Source: S&P Capital IQ and Carlsquare

Management, board, and ownership

A management team with proven capacity

Zinzino is led by people with varied experience from different organisations. CEO Dag Bergheim Pettersson is at the forefront, who joined the company in 2011. Dag has thus been active in developing Zinzino into what it is today. Product Manager Henrik Schultz, CFO Fredrik Nielsen, COO Jakob Spijker and Support Manager Katriin Laanep have also been part of the strong growth journey.

As mentioned earlier, the intention is to continue to grow at an average rate of 20 per cent per year 2022-2025. Given the management's ability to successfully develop the business, demonstrated by the solid historical growth to improved profitability, our confidence in the management team is high. Most of the management team's members also have a more or less significant stake in the share.

Management



Dag Bergheim Pettersson has been CEO since 2012 and holds a degree in engineering from the University of Oslo. Previously, Dag has held senior positions at Elgiganten and NetCom, among others. Dag currently has a shareholding equivalent to 3.95 per cent of the share capital.



Henrik Schultz joined in 2007 and is now Product Manager. He has extensive experience from leading positions, such as sales manager, marketing manager and CEO, for various international companies. Henrik is an economist and has a shareholding of approximately 0.2 per cent of the share capital.



Fredrik Nielsen is CFO, joined the company in 2009 and is responsible for IR-related tasks. Fredrik's previous experience includes the role of CFO at Gymnasium Sportcenter. The shareholding amounts to 0.14 per cent of the share capital. Fredrik also holds 15 000 warrants.



Jakob Spijker is COO Europe and joined Zinzino in 2012. Jakob has previous experience from positions focusing on logistics, transport and warehousing at Medi-atec Solutions, among others. The shareholding amounts to 0.04 per cent of the share capital. Jakob also holds 15 000 warrants.



Katriin Laanep is the company's support manager. Katriin joined Zinzino in 2012 and has a long track record in customer service and over ten years of experience in the direct sales industry.



Daniel Vennerstrand is a CTO with extensive experience in systems development work and software development management. Hans joined Zinzino in 2018 and was previously Head of Development at Intermail. The shareholding amounts to 0.1% of the share capital.



Henrik Hammargren is Head of Business Control. Henrik joined the company in 2018 and has previously worked as a controller in senior positions at Autoliv, Elanders and Resia, among others. Henrik has a shareholding equivalent to 0.1 per cent of the share capital.



Gabriele Helmer has been the company's CMO since 2019. Since 2001, Gabriele has held various marketing positions at international companies such as Lufthansa, Beiersdorf, General Mills and Specsavers. Gabriele has a shareholding equivalent to 0.01 per cent of the share capital.



Linda Johnsson is the company's Head of HR since the summer 2021. Linda has previous experience in strategic work in business development, leadership, HR and sustainability in various senior positions at companies such as Lionbridge, Entrematic, Latour Investment AB and Ligula Hospitality Group.

Source: Company information

Board with complementary competences

The board includes knowledge and experience from growth companies, international work in global organisations, and digital development and finance among others. Board member Pierre Mårtensson has also served as CEO of the Oriflame Group's operations in China. In other words, the board consists of people with varied backgrounds and experiences and thus complements each other well. Three out of five board members also have ownership of the shares.

Board of directors



Hans Jacobsson has been the company's Chairman since 2007 and CFO of Nowa communication with previous experience from roles as CEO of Rootfruit Scandinavia and Partner in CR&T Ventures. He has strong knowledge of M&A and holds shares corresponding to 0.97 per cent of the share capital.



Staffan Hillberg has been a member of the Board of Zinzino since 2007 and CEO of Wood & Hill Investment AB with previous experience from operational positions as CEO of several financial companies and product manager for Apple Computer Inc. in France and the US. Staffan has an ownership of 0.46 per cent of the share capital.



Pierre Mårtensson has been a board member of Zinzino since 2015 with extensive experience in international work in global companies, including Eniro Norway and the Oriflame Group, where he was Managing Director for the Chinese market. Pierre has ownership of 0.3 per cent of the share capital.



Ingela Nordenhav has been a board member since 2019 and was previously global marketing manager at Volvo Trucks, where she was responsible for the company's transformation journey in image and digitalization. Since 2021/2022 Ingela has been running her own consulting company.



Anna Frick has been a board member since 2021 with experience in communications and digital transformation. Anna also sits on the board of companies such as Fortnox AB, Leo Vegas AB (publ), Lohilo Foods AB (publ), Svea Ekonomi AB, Above Agency AB and the War Child Foundation.

Source: Company information

The largest owners

Hilde Sæle and Ørjan Sæle are the founders of Zinzino. Together with family, their ownership corresponds to approximately 47.3 per cent of the share capital and approximately 28.4 per cent of the voting rights. Peter Sørensen is, through a company, the second-largest shareholder with an ownership of about 25.3 per cent of the share capital and 11.5 per cent of the votes.

Product segment: Zinzino Health

As mentioned earlier, the Group operates under two business segments, Zinzino and Faun. Furthermore, the company divides its offering into four product segments; Zinzino Health, Zinzino Coffee, Faun and Event & other services.

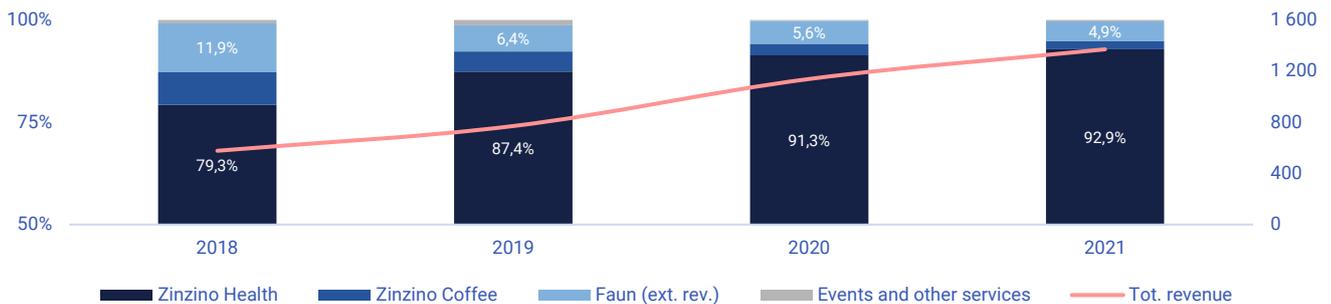
Business and product segments



Source: Company information

Below is a breakdown of revenue between the four product segments. As can be seen, Zinzino Health increased its share through strong growth while Zinzino Coffee's revenues have dropped, and Faun performed close to flat.

Revenue breakdown by four product segments



Source: Company information

Full focus on Zinzino Health driving growth

The Zinzino Health offer mainly consists of food supplement products, developed for preventive purposes. The products are grouped into categories based on health benefits; Balance, Skincare, Immune Supplement and Weight Control (and Accessories).

Zinzino Health, revenue development (SEKm) and growth (%)



Source: Company information

In 2021, SEK 1 198 million in revenues could be attributed to the product segment, Zinzino Health. That corresponds to solid growth of 22.1 per cent. Over the last three years, 2019-2021, the product area has grown on average by 41.5 per

cent per year. That compares to the group's average annual growth rate of 33.4 per cent over the same period.

Subscription products and price increase

Below is the entire product range alongside list prices as of March 2022. Products from the BalanceOil series are currently by far the most popular products.

Product range under Zinzino Health and list prices

Balance	Skincare	Weight control	Immune supplements
BalanceOil+, 300 ml	SEK 455	Skin Serum, 30 ml	SEK 818
BalanceOil, 100 ml	SEK 197	Skin Serum, 50 ml	SEK 1 019
BalanceOil+ Premium, 300 ml	SEK 709	ZinoBiotic+, 180g	SEK 355
BalanceOil+ AquaX	SEK 609	LeanShake, 16 x 30 g	SEK 655
BalanceOil+ Vegan, 300 ml	SEK 949	Energy bar, 4 x 40g	SEK 185
Essent+ Premium	SEK 609	Protein bar, 4 x 45g	SEK 185
BalanceTest	SEK 1 559/pcs		
R.E.V.O.O Olive Oil, 250 ml	SEK 995		
			Vitamin D Test
			ZinoShine+, 60 tablets
			ZinoGene+, 30 tablets
			Xtend+, 60 capsules
			Xtend, 60 tablets
			Viva+, 60 tablets
			Viva, 6 x 10 units
			Protect+, 60 capsules
			SEK 699
			SEK 155
			SEK 687
			SEK 496
			SEK 355
			SEK 325
			SEK 439
			SEK 509

March 7, 2022. Source: Company information

Part of the offer is sold on subscription. Four products in the BalanceOil series are available by subscription. When entering the subscription model, the customer pays monthly during the subscription period, which runs for six months. Refills of the product are received every two months. Below are products sold on subscription, list prices and discounts if the customers buying on subscription (premium). The products available on subscription at reduced prices are also among the most popular products, in addition to those belonging to the Balance series.

List prices and discounts with subscription (premium)

Product area	Product	List price SEK/pcs	Premium price new, SEK/pcs	Premium rabate	Price increase Feb. 2022
Balance	BalanceOil+ AquaX, 300 ml	609	429	30%	4,9%
Balance	BalanceOil+, 300 ml	455	319	30%	6,7%
Balance	Essent+ Premium	609	429	30%	4,9%
Balance	BalanceOil+ Vegan, 300 ml	949	669	30%	3,1%
Immune Supplements	Viva+, 60 kapslar	325	229	30%	9,6%
Immune Supplements	Xtend, 60 kapslar	355	249	30%	8,7%
Immune Supplements	Xtend+, 60 kapslar	496	349	30%	6,1%
Immune Supplements	Protect+ 60 kapslar	509	359	29%	2,9%
Weight control	ZinoGene+	687	469	32%	4,5%
Weight control	2 x LeanShake, 16 x 30 g	1 310	918	30%	2,2%
Weight control	ZinoBiotic+	355	249	30%	3,8%
Weight control	2 x Protein bar, 4 x 45g	370	260	30%	8,3%
Weight control	2 x Energy bar, 4 x 40g	370	260	30%	8,8%
	Average:	569	399	30%	6%
	Max:	1 310	918	32%	10%
	Min:	325	229	29%	2%

Source: Company information

If the subscription is not cancelled during the six-month period, the subscription will continue with a 30-day cancellation period. At the same time, the number of terminated subscriptions is likely to be relatively high due to the partner compensation structure. However, the subscription form is still advantageous as it creates some predictability in the revenue stream.

Price increase in February 2022

Considering the high inflation rate, including higher raw material costs and shipping costs, the company has implemented a price increase on 13 products. The price increase applies to new subscriptions and renewals. On average, the monthly prices for the 13 products have been increased by about six per cent. The pricing for the BalanceOil series on subscription has increased by five per cent on average.

Price increases are thus a factor that we expect to contribute to both growth and maintained/improved margins over time.

Balance series for the correct fat balance

As mentioned earlier, products belonging to the BalanceOil series are by far the most popular. The BalanceOil series comes in several different formulations and natural flavours. Common to the series is the intended health benefit; to help balance the body's levels of fatty acids. That, in turn, is intended to contribute to the normal function of the heart, brain, and immune system.

The Balance series has similar ingredients: eicosapentaenoic acid (EPA) and docosahexaenoic acid (DHA), oleic acid, polyphenols, and vitamin D3.

EPA and DHA are polyunsaturated fatty acids belonging to the Omega 3 family. The body cannot produce EPA and DHA in sufficient quantities. Therefore, both fatty acids need to come through diet and, in many cases, with supplementary food. For the Balance oils, EPA and DHA are present in the ingredient fish oil extracted from small fish species such as sardines, anchovies, and mackerel. Omega 3 comes from DHA and EPA-rich oil from the microalgae *Schizochytrium* sp for the vegan version of the Balance oil.

The oleic acid, which belongs to the Omega 9 family, and polyphenols are found in the extra-virgin olive oil extracted from cold-pressed olives typically grown in Spain. Vitamin D3 is extracted from lanolin, a fat obtained from natural sheep's wool.

Three (out of five) options under the Balance series

		
BalanceOil+ Premium, 300 With 4 times higher polyphenolic content than regular BalanceOil+	BalanceOil+, 300 ml High in Omega-3 (EPA + DHA), olive polyphenols and Vitamin D3.	BalanceOil+ Vegan Vegan Omega-3 from micro-algae, high in EPA, DHA, SDA + GLA. Olive...
Retail Price 709,00 kr Premier Price 499,00 kr (5,00 cr)	Retail Price 455,00 kr Premier Price 319,00 kr (4,00 cr)	Retail Price 949,00 kr Premier Price 669,00 kr (5,00 cr)
Get premier price	Get premier price	Get premier price

Source: Company information

Health claims confirmed by EU bodies

The health claims for the best-selling BalanceOil+ include:

- The daily dose containing 700 mg DHA contributes to normal brain function.
- The daily dose containing 20 µg of vitamin D3 contributes to a normal function immune system.
- BalanceOil+ helps maintain polyphenol levels that protect blood fats from oxidative stress (which contributes to the development of cardiovascular disease, for example).
- The daily dose containing 700 mg of DHA contributes to a healthy and normal eye function.
- The daily dose contains 20 µg of vitamin D3, contributing to normal bone structure, muscle function, teeth, and cell division.
- BalanceOil+ supports normal blood pressure and normal blood calcium levels.

The claimed health effects associated with each product are confirmed by the European Food Safety Authority (EFSA) in the light of current research. EFSA is an EU body whose functions include providing independent scientific advice. The claimed health effects are also in line with what is authorised to be communicated under EU Regulation (EC) No 1924/2006.

Proven health benefits and communication in line with EU guidelines are consistent across all the company's products under Zinzino Health.

Omega 6 and Omega 3 with the proper ratio

Omega 6 contributes to the functioning of cells in the body. Like Omega 3, Omega 6 is a family of polyunsaturated fatty acids, most of which are not produced sufficiently by the human body. As mentioned earlier, one of the company's health claims for the Balance series is that they help maintain optimal Omega 6/Omega 3 ratios in the body. According to the WHO, the target ratio of the two families of fatty acids should be 4:1 (ratio = 4) or below to prevent cardiovascular disease. According to the Nordic Nutrition Recommendations 2012 (NNR 2012), the recommendation is that the Omega 6/3 ratio should be 5:1 or less in the diet we consume.

The composition of today's typical meals contains large amounts of meat, dairy products and oils rich in Omega 6. The intake of Omega 3 found in fish such as salmon and herring and olive oil is all the less. That, in turn, leads to an imbalance. According to the 2012 report "Health Implications of High Dietary Omega-6 Polyunsaturated Fatty Acids", Patterson et al, the balance between Omega 6 and Omega 3 in large parts of the population are around 15:1 - well above what can be considered optimal.

Omega 6 and Omega 3 work together in the body. For example, a high ratio of Omega 6 to Omega 3 can lead to:

- A high ratio can negatively impact the body's inflammatory processes, thus leading to an impaired immune system. In other words, the body's reactions in fighting foreign organisms such as bacteria, viruses and infections may be affected.
- As mentioned earlier, according to the WHO, a high ratio may affect the risk of cardiovascular disease.

Self-testing demonstrates the capability of the Balance series

Zinzino has developed and sells BalanceTest as a complementary product to the dietary supplements in the Balance series. This dry blood test measures vitamin D levels or the Omega 6/3 ratio, among others. The tests thus enables the customer to follow the development of the effect of the dietary supplements.

Selftest, BalanceTest x2

Get a unique insight into your body's Omega 6:3 balance and see individualized "Before and After" BalanceTest results. This easy to complete dry blood test, provided by the independent laboratory VITAS, can be carried out quickly at home and help you to start your health protocol.

Retail Price
3.118,00 kr (9,00 cr)

Premier Price
 1.595,00 kr



Source: Company information

The test is quick and straightforward. It is carried out by using a lancet to prick the fingertip. A few drops of blood are then dripped from the prick onto a collection paper. The collection paper is sent for analysis to Vitas Analytical Services,

an independent GMP-certified laboratory in Norway. After about two weeks, an anonymised result is available on www.zinzinotest.com.

Customers are advised to take the first test before using the Balance product. That is so that the customer can see their input values. If the customer has an Omega 6/3 ratio of three or less in the first test, the company has a money-back guarantee for subscribers. However, results from over 620 000 BalanceTests show that 75 per cent of the test population who do not take Omega 3 supplements in the past have an average quota value of 15. The results also show that only five per cent of the test population in Europe have a quota value of three or better.

Customers are also advised to take a second test 120 days after starting to use the Balance product. Based on the previous tests conducted, the company can show that 95 per cent of the test population has a balance value close to 3:1. In other words, the tests also function as evidence for the BalanceOil series.

It should also be noted that the effect diminishes if the customer stops using the supplements. The balance between Omega 6 and Omega 3 has returned to what is justified by the dietary intake after 120 days. That is explained by the fact that the red blood cells live for 120 days on average. For this reason, the customer can be motivated to use/buy the company's products on a subscription basis.

Distribution power, perhaps the most essential ingredient

Self-test data, a competitive advantage

The nutrient composition of the BalanceOil series sets the company's offering apart from the mainstream. However, the formulation is not patented and cannot be kept secret. Thus, the product is easy to replicate. Competition is fierce with similar claimed effects from different products.

Like the company, the competition can also claim that their respective products have scientific evidence confirmed by government agencies. At the same time, however, few players can demonstrate the efficacy of their products through data as Zinzino can.

Historical growth speaks for itself

Perhaps the most important ingredient for success in the food supplement segment, in our view, is the ability to present, market and get the product to the end customer. That is something that the company has demonstrated the ability to do through its strong historical growth. It is our view it is also an advantage to be able to sign repeat customers who buy the company's products over more extended periods. Also, many partners sell to people close to them, such as family, friends, and acquaintances should create stickiness that is difficult to achieve through other distribution models.

Production and warehousing

In 2021, approximately eight per cent of products sold under the Zinzino business segment were produced in-house at Faun. The lion's share is thus produced externally. BalanceOil, as mentioned earlier, is the company's best-selling product by far. BalanceOil is produced by LYSI hf. in Iceland.

The company uses 3PL operators for warehousing and deliveries. Today, the main warehouse is located in Trollhättan. Additional warehousing and delivery is done from France, Poland, USA, Canada, Australia, Hong Kong, Malaysia and South Africa.

Acquisitions, another growth driver

As mentioned earlier, the company has made several acquisitions to develop its business and establish itself in new markets. Acquisitions are thus an essential part of the company's strategy.

On April 6, 2022, Zinzino announced the acquisitions of Enhazz Global AG and Enhazz IP AG. The acquisition gives the company access to a product portfolio consisting of natural skin care products and dietary supplements. As important is the access to a new partner network.

As stated in the press release, the acquired business had a turnover of EUR 3 million, corresponding to just over two per cent of Zinzino's total revenues in 2021. The acquisition is thus small, but we believe that there are clear sales synergies as new and existing partners gain access to a broader product range. The acquired business is currently not profitable.

The skincare portfolio consists of 13 products developed for women, six products designed for men and five unisex products with different characteristics and functionalities. The price range varies between EUR 8,6 and EUR 149,0. Compound packages consisting of complementary products are offered in the price range of EUR 171,1 and EUR 669,3.

Selection of package offers

Package Name	Description	Price (€)	VIP Points
PREMIUM	Premium Selection for Her bundle	669.38	400
BASIC	Basic Selection for Her bundle	319.81	200
BASIC	Basic Selection for Him bundle	296.01	200
SMALL	Small Selection for Her bundle	185.94	110

Source: Company information

Product segment: Faun and Zinzino Coffee

Faun Pharma increases its control over the value chain

The Norwegian subsidiary Faun Pharma A/S was founded in 2001 and operates the group's production activities focusing on dietary supplements. The subsidiary was acquired in 2014 to secure parts of production for sales under Zinzino Health. In-house production gives the company greater control, creating conditions for the company to set up efficient processes.

Faun, detaljbild



Source: Company information

External and internal sales with better profitability

Faun also acts as a contract manufacturer for external customers. Well-known brands such as Gymgrossisten and Life are among Faun's external customers. In 2021 the external sales was approximately SEK 63 million, corresponding to a growth of 4.5 per cent.

Totala intäkter (MSEK), extern + intern försäljning



Internal sales are eliminated in the consolidated financial statements. Source: Company information

In 2021, internal sales amounted to SEK 99 million, corresponding to 8.3 per cent of Zinzino Health's revenues. As product development (part of the growth strategy) is done in-house, it can be speculated that internal sales will continue to increase over time, which would be a strength. Today, Faun runs 1 to 2 shifts depending on demand. Because of this, the company can double production (by going up to 3-shift) without making any significant investments.

Faun reported an EBITDA result of just over SEK 16 million (before elimination scars), corresponding to a margin of 10.1%, an improvement of 0.9 percentage points compared to 2020. The improvement in profitability resulted from the efficiency measures that allowed Faun to increase revenues and thus enjoy scalability in the business. The EBITDA result grew by 18.7 per cent compared to internal and external revenues, which grew by 8.0 per cent, demonstrating scalability.

Zinzino Coffee

The product area, Zinzino Coffee, also known as Beverages, includes espresso machines, coffee, teas and accessories. The interesting thing about this business area is the possibility to sell subscriptions for six different coffee flavours. It is also on the coffee flavours that the margins are likely to be found. The product portfolio under Zinzino Coffee is also sold through direct selling.

Product range under Zinzino Coffee



MACHINES		COFFEE	ACCESSORIES
EK'Oh	>	Italian Espresso	Barista Kit
Latte Duo		Colombian Espresso	Descaling Kit
		Brazilian Espresso	Descaling Kit EK'Oh
CUPS & GLASSES		French Espresso	Cappuccino blender
Black & White Cups		Fairtrade Espresso	Latte blender
Zinzino Cups	>	Deca	BWT Water Filter
Espresso Cups			Americano Pod x2
Small Paper Cups			
Large Paper Cups			

Source: Company information

Activity in the product area is declining. That is due to the company's complete focus on Zinzino Heath and Faun. This is also reflected in the financial performance of Zinzino Coffee, which has been negative for the past years. Given the current strategy, we expect Zinzino Coffee's revenue contribution to the group to decline.

Revenue (SEKm) and growth (%)



Source: Company information

D2C and direct selling

Skipping retailers in the classic form

Zinzino is a D2C company. D2C (Direct to Customer) means that the company sells directly to the end customer without intermediaries. That means that retailers are excluded, such as pharmacies or health food stores. This also allows the company to control sales itself and have a better knowledge of the customer. There are also opportunities for the company to keep a larger share of the pie.

The number of D2C companies has grown rapidly, thanks largely to the rise of e-commerce, which reduces the need for brands to rely on physical stores and retailers. One example of a D2C company is Swedish e-retailer RevolutionRace, which has grown strongly to good profitability, partly because the retailer can be excluded. Zinzinos can also be seen as an e-retailer because all orders are placed online via the company's web store. However, marketing/sales are different as Zinzino uses direct selling with independent sellers.

E-commerce is included in the concept of D2C or direct trade but not direct selling as this involves a salesperson meeting the customer in, for example, the customer's home via so-called Home Parties or online.

Independent salespeople are working more digitally

Direct selling (not to be confused with the aforementioned direct trade) as a form of trade means that the brand's products are marketed and sold to the final customer with the help of independent salespeople (partners). Independent means that the company does not formally employ the partners. However, note that Zinzino assists its partners with specific administrative tasks, such as reporting to the Tax Agency or similar.

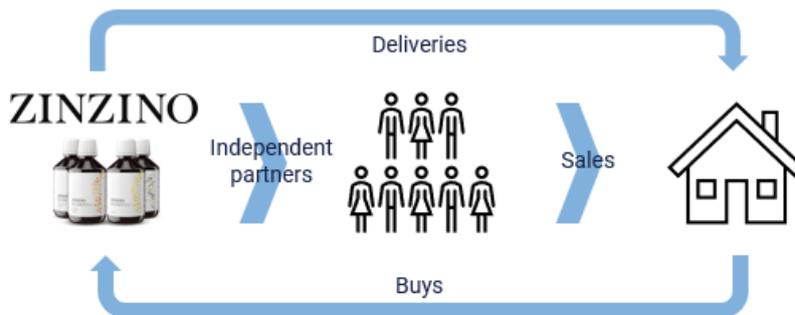
Examples of well-known direct selling companies with a range of product categories are Ori-flame, Tupperware and Vorwerk.

As the partners are not employees, the company cannot control the partners' working hours, holidays, etcetera. Instead of running an internal sales organisation more traditionally, Zinzino's sales success is linked to the ability to connect with the right partners, offer them an attractive product range, good incentives and good sales tools in the form of marketing material, coaching and other support.

Partners - the company's representatives

Zinzino's partners act as the company's representatives and have all customer contact during the initial sales process. However, partners never purchase inventory themselves (to be resold). Instead, partners refer customers to the company's online shop, where the actual purchase is made. The sale is traced back to the specific partner as the customer registers their partner contact in the online shop. All customers, regardless of how they came into contact with the company's products, must specify a partner when registering.

Direct selling model, Zinzino



Source: Carlsquare

Sales via (digital) events

Large parts of the company's partners sell to friends, acquaintances, and family. Many partners also organise larger sales events. Traditionally, these events have been held in physical form in conference rooms, cafes and homes and have thus involved face-to-face meetings. Restrictions in the wake of the pandemic have hurt the company's ability to grow as opportunities to conduct these more traditional sales events have been limited. However, the company has managed to grow at an impressive rate in 2020 and 2021 by approximately 48 per cent and around 20 per cent, respectively.

Zinzino has done well due to a successful shift of in-person meetings to the digital world in the form of Zoom events, for example. As restrictions are now eased, face-to-face meetings will return via traditional sales venues. However, these events will likely become more of a hybrid solution where face-to-face sales events are also streamed live. That allows for an increased number of participants at sales events and is a possibility.

Reimbursement to partners in cost of goods sold

Zinzino's partners receive a variable remuneration. This remuneration is mainly based on sales revenues attributable to the specific partner in question.

Direct selling is a form or method of selling. Multi Level Marketing is an organisational form of direct selling.

Furthermore, partners working with the company can recruit new partners. The recruiting salesperson is responsible for training the newly recruited salesperson. For this effort, the recruiting salesperson receives a share of the revenue generated by the recruited salesperson. This form of organisation is called Multi-Level Marketing (MLM) and thus allows driven partners to expand their own independent business. Therefore, where a partner is in the MLM structure is not a function of how long he has been a partner but how many new partners they have recruited.

The sales-based commission received by partners is around 50 per cent of the retail value on average. However, the remuneration varies to some extent between different markets and as mentioned earlier, the willingness/ability of the partner to recruit into the MLM organisation, etcetera.

Partner remuneration is allocated to the cost item "Goods for resale and other direct costs" in the income statement. This cost item also includes the cost of goods sold. In 2021, the company's gross margin landed at 31.2 per cent, above the 2018-2021 average of 30.9 per cent.

Gross profit (SEKm) and margin (%)



Source: Company information

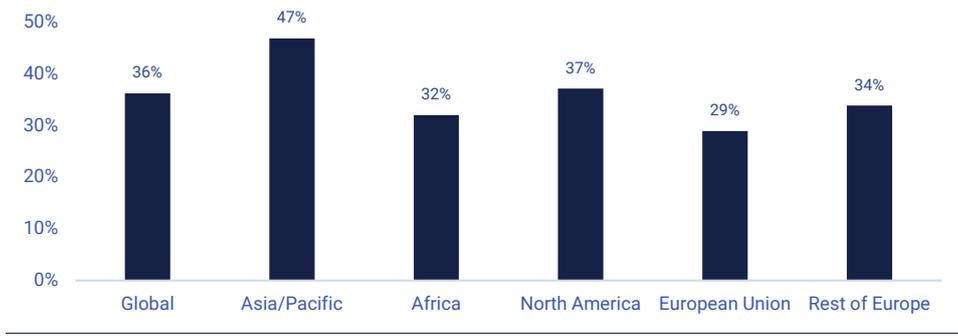
Wellness products suitable for direct selling

In our opinion, wellness-related products are well suited for direct selling. That is because customers are typically involved in product selection, and there is a lot

of information available. In other words, educational/informational events can add value for the end consumer and are also a good opportunity for sales.

For direct selling, wellness-related products, including dietary supplements, are the largest product category in terms of sales value on a global basis. Below is the value of products sold in the health-related category as a percentage of total direct selling value for the company's markets.

Wellness as a share of total direct selling value



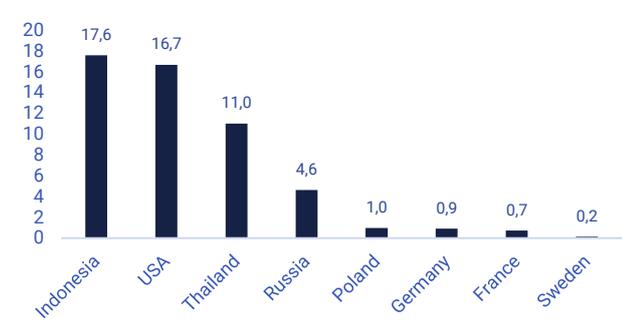
Data from 2020. Source: WFDSA

Direct selling larger outside Sweden

Globally, in USD terms, direct selling has the highest turnover in the United States, where the value (according to the WFDSA) of goods and services sold from direct selling amounted to approximately USD 40.1 billion in 2020. The United States is also the top country regarding the number of people working in direct selling. In 2020, the figure was around 16.7 million people, equivalent to 7.8 per cent of the working population.

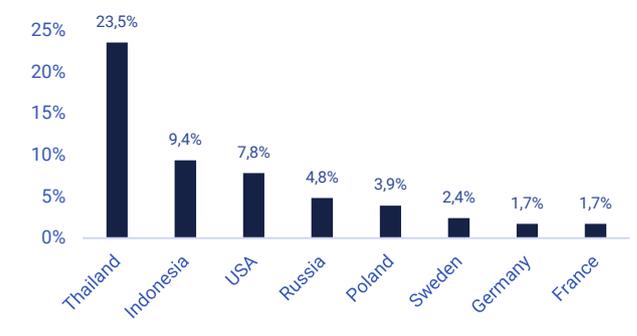
In Europe, direct selling generates the highest turnover value in Germany, around USD 18 billion. The country has around 0.9 million people working in direct selling. That compares to Sweden, where the value of direct selling was around USD 0.2 billion. The number of people working in direct selling is around 150 000 in Sweden. In other words, Sweden is, as usual, a relatively small market. Read more about direct selling and market in the market section.

Number of people involved in direct selling (millions)



Data from 2020. Source: WFDSA, The World Bank and Carlsquare

Share of work force involved in direct selling (%)



Data from 2020. Source: WFDSA, The World Bank and Carlsquare

Pros and cons of direct selling

As usual, there are both advantages and disadvantages to direct selling. Perhaps the main benefit, from the company's perspective, is in our opinion, the possibility of rapid expansion into new markets without significant investment (risk) in large sales organisations, premises, marketing campaigns, etcetera. That in turn is based on the fact that:

- The sellers are independent and thus do not incur any fixed costs (other than administration via the local direct selling company). Recruitment of new partners is relatively smooth as they tend to be part of the existing partners' network. The Multi-Level Marketing structure also facilitates rapid expansion.
- A second factor is that the partner does not have to make any investment itself to sell the company's products. Becoming a partner is thus relatively easy from the perspective of the independent seller.

The apparent disadvantage of direct selling is that the company cannot control its sales force to the same extent as an internal sales organisation. Instead, the tools available to the company are financial incentives and guidance. Further downside that we see is that:

- There is a risk of built-in contradictions to business development – i.e. that a conflict with partners may arise should the company wish to use other marketing and sales tools that bypass the partner network. That could include digital marketing to approach new potential customers directly. At the same time, it should be stressed that the company has no plans to drive buyers to its online store through any competing method other than direct selling.
- There are loopholes in the remuneration model that partners can exploit that does not align with the company's interest. For example, compensation for revenue from a newly registered customer is worth more than compensation for the same revenue from an existing customer. As a result, partners tend to re-register existing customers. That in turn leads to difficulties in monitoring customer behaviour.

Markets, competition and reference group

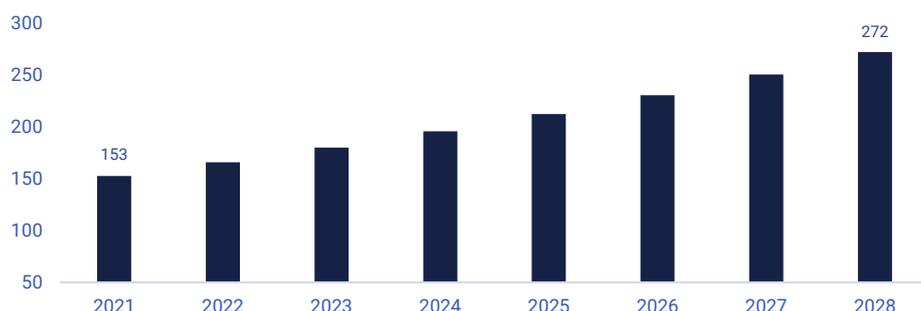
Asia-Pacific is estimated to be the largest market for dietary supplements, with a value of around USD 65 billion in 2021. The average annual growth rate is expected to be 6.5 per cent until 2026. Asia-Pacific is also the largest market in terms of direct selling. With the expansion initiatives taken towards this market in recent years, there are thus good prospects for this market to continue to be a strong driver of the company's growth. However, competition in the global market is fierce, with major players such as Orkla Care and Herbalife in market-leading positions.

A large market with room for growth

Zinzino's market is the global market. As mentioned earlier, the company has direct selling in about 40 submarkets/countries. Another 65 markets are reached via the website.

The food supplements market can be further divided into several different verticals based on types, such as vitamins, minerals, enzymes, fatty acids (Omega 3, etcetera), proteins and more. In a report published in 2021 by analyst firm Research and Markets, the global market for all types of dietary supplements was valued at USD 152.9 billion in 2021, with an estimated average annual growth rate of 8.6 per cent up to 2028.

Market value of food supplements (EUR bn), Europe



Source: Research and Markets

However, there is a difference between different research houses and their ground truth estimates. For example, PwC's 2018 report "Vitamins & Dietary Supplements Market trends - Overview" presents an estimated global market value for dietary supplements of around EUR 113 billion (around USD 125 billion, EUR/USD = 1.1) by 2023, which compares to Research and Markets' estimate of around USD 180 billion 2023. PwC also expects a lower annual growth rate in 2019-2023 of 4.4 per cent.

However, independent of source, one can conclude that Zinzino's market is large and expected to grow in the coming years at a relatively high rate.

Market drivers

We believe there are several factors driving demand and thus creating growth. The more prominent ones are specified below:

- Increased awareness of health problems associated with specific nutrient imbalances
- Advanced knowledge of dietary supplements and their health claims.
- Increased research and evidence on nutritional supplements in the area of preventive health.

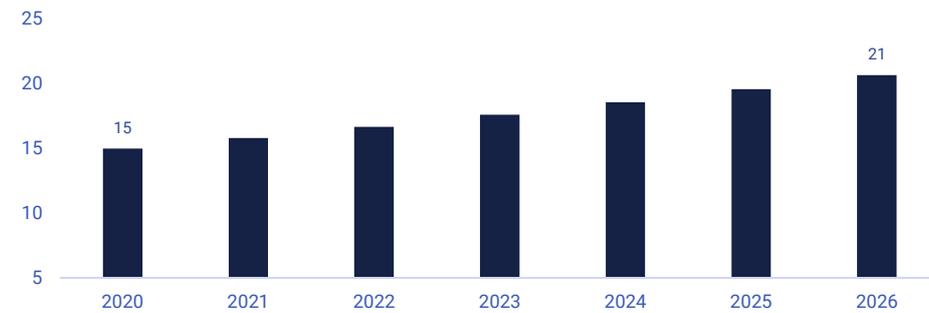
- Health and well-being trends.
- A growing middle class, an ageing population and effective marketing.
- New products and increased focus on quality raw materials but also sustainability driving up prices.
- Covid-19 is also a factor that has increased the demand for supplements such as immune boosters. However, it should be noted that now that the pandemic is (hopefully) abating, there is a risk that demand will decline in the current year.

Europe

Today, Europe is Zinzino's most important market in terms of revenue contribution (approximately 85 per cent or SEK 1,166 million, excluding Faun, in 2021).

In a 2021 report, Research and Markets estimated that the dietary supplements market in Europe was worth USD 15 billion in 2020 and that the market will grow by 5.5 per cent by 2026, which in turn means that Europe's share of the global market is (only) about ten per cent.

Market value food supplement (EURbn), Europe

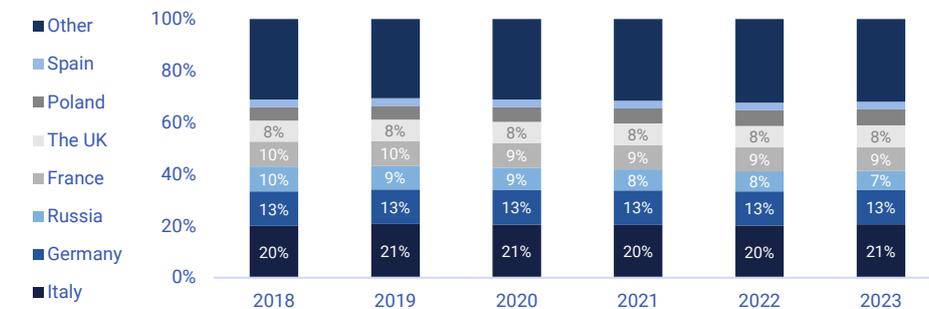


Source: Research and Markets

Italy and Germany, the largest markets in Europe

The company has direct selling operations in 17 European countries, including the five most populous countries (Germany, France, UK, Italy and Spain). Below are the seven largest markets for dietary supplements, according to the PwC report. These markets are expected to account for approximately 68 per cent of the total European market by the end of 2023.

Market value of dietary supplements (EURbn) for prominent markets in Europe



Source: PwC and Carlsquare

Zinzino has been active in Italy since 2018. PwC also lists Italy as the largest sub-market in Europe, partly due to its relatively large population and a high penetration rate for dietary supplements of 65 percent of the population. According to

PwC's report, Italy is expected to account for around 21% of the European market by 2023

Germany is the second-largest market in Europe, which according to PwC is expected to account for approximately 13 per cent of the European market in 2023. Germany is also a market in which the company has been active since 2016, which has also driven its historical growth.

Poland is expected to be one of the fastest-growing markets in Europe with an average annual growth rate in 2019-2023 of 8.1 per cent. The company has been active in Poland since 2014.

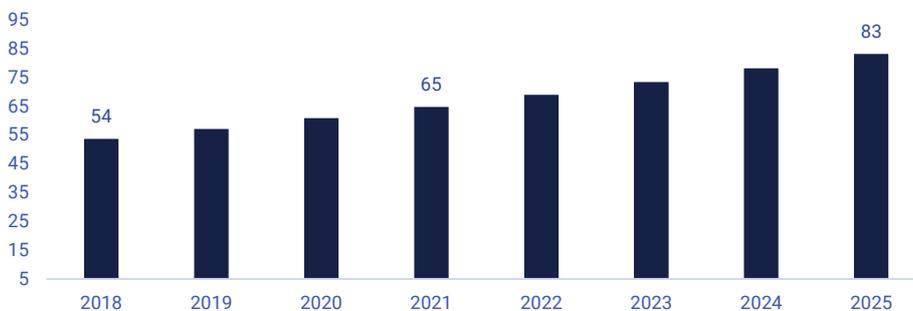
Asia and North America

Asia Pacific (APAC)

Zinzino has been active in the Asia-Pacific region (APAC) since 2019. In 2021, the region's revenue contribution amounted to around seven per cent (SEK 90 million), and the growth rate was as high as 162 per cent, albeit from relatively low levels.

A 2019 report by Grand View Research estimated the market value of health food in the Asia Pacific region at a whopping USD 107.5 billion. The average annual growth rate is assumed to be 6.5 per cent. However, Grand View Research's values include functional food (foods with proven health benefits). We roughly estimate that functional food represents about 50 per cent of the market value. After this adjustment, the Asia-Pacific market can be up-estimated to USD 83 billion by 2025. In other words, this market is about four times larger than the one in Europe.

Market value food supplements (EURbn), APAC



Source: Research and Markets and Carlsquare

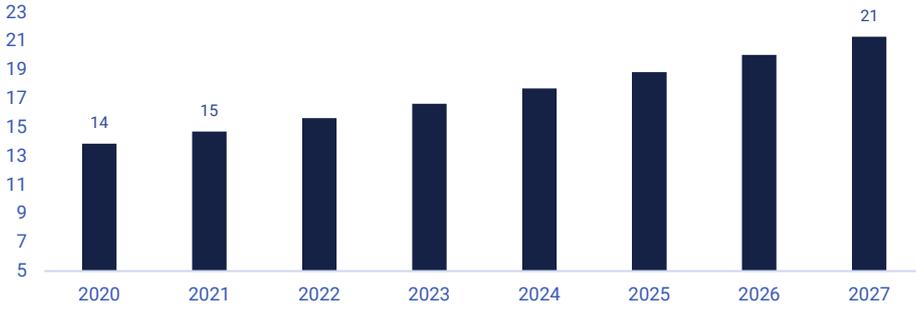
North America

Zinzino has been active in the North American market since 2013. In 2021, North America contributed approximately four per cent (SEK 51 million) of the group's total revenues. As usual, the North American market is large.

In an early 2022 report, Research and Markets estimate that the dietary supplement market in the US was worth about USD 13.9 billion in 2020 and is estimated to grow by 6.1 per cent in 2021 to USD 14.7 billion. The same report states that the US market is expected to grow at an average annual rate of 6.4 per cent through 2027, slightly faster than Europe. See graph on next page.

The US is the largest market, expected to account for as much as 95.5 per cent of the North American market in 2023, according to the PwC report.

Market value food supplements (EURbn), USA



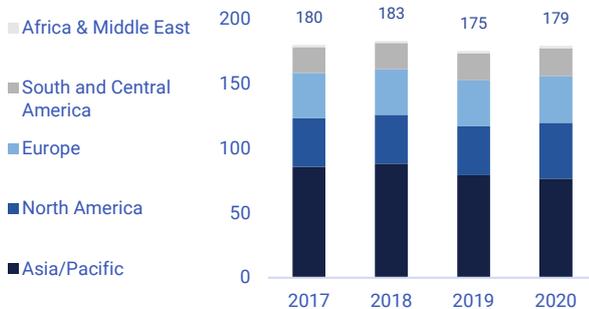
Source: Research and Markets

Again, however, the discrepancy between different analysis houses is large and can likely be explained by the types of products within the broad concept of dietary supplements that are included. According to the PwC report, the value amounted to EUR 26.0 billion in 2018, corresponding to a share of 28.5 per cent. By 2023, the North American market is expected to grow to EUR 30.9 billion (approximately USD 34 billion, EUR/USD = 1.1), representing a 27.4 per cent share of PwC's estimate of the global market in the same year.

Direct selling largest in Asia Pacific

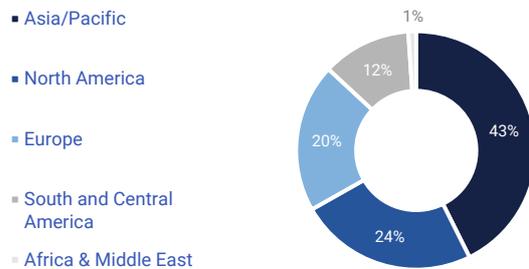
As is known, the company uses direct selling as a form of distribution. According to the World Federation of Direct Selling Associations (WFDSA), the total value of goods and services sold via direct selling amounted to USD 179.3 million in 2020. The graph below shows that the trend has remained almost unchanged since 2017.

Global value, direct selling (USDbn)



Numbers excluding VAT. Source: WFDSA

Breakdown of the global value of direct selling



Source: WFDSA

Asia and the Pacific is the largest geographic market for direct selling. In 2020, the value of goods and services sold via direct selling in this geographic market amounted to USD 76.5 billion, representing approximately 43 per cent of the global market.

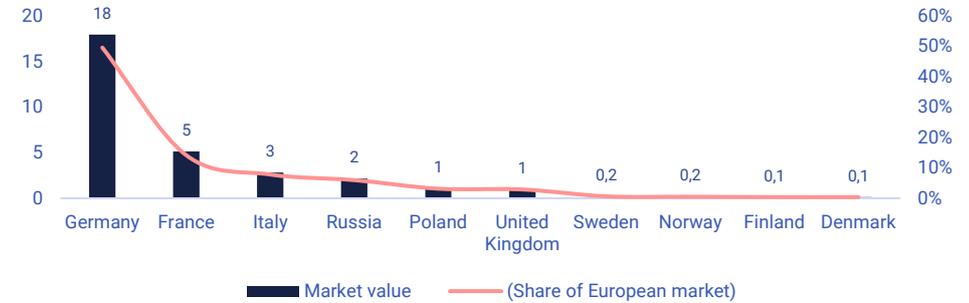
Given that Asia Pacific is estimated to be the largest market for direct selling as well as for dietary supplements, there is ample room for the company to continue to grow in this market.

Germany, perhaps Europe's most attractive market

In Europe, Germany is by far the largest market in terms of direct selling revenue, with a value of around USD 18 billion by 2020, representing a full 49.6 per cent of the European market. According to the WFDSA, the number of independent direct sellers in Germany is around 0.9 million.

The chart below includes the six largest markets in Europe for direct selling (from left to right, Germany to UK). Also included in the chart are the Nordic countries (excluding Iceland). Sweden ranks 16th in Europe, Norway 20th, Finland 22nd and Denmark 25th.

Value of direct selling in Europe (USDbn) and share of the European market (%)



Numbers excluding VAT. Source: WFDSA and World Bank

The order is adjusted if countries are ranked by direct selling revenue per capita. In other words, a large country with many inhabitants is not per se a valuable market. For example, the large gap between Poland and Sweden and Finland is closed. However, despite direct selling revenue adjusted per capita, Germany comes out on top for Europe.

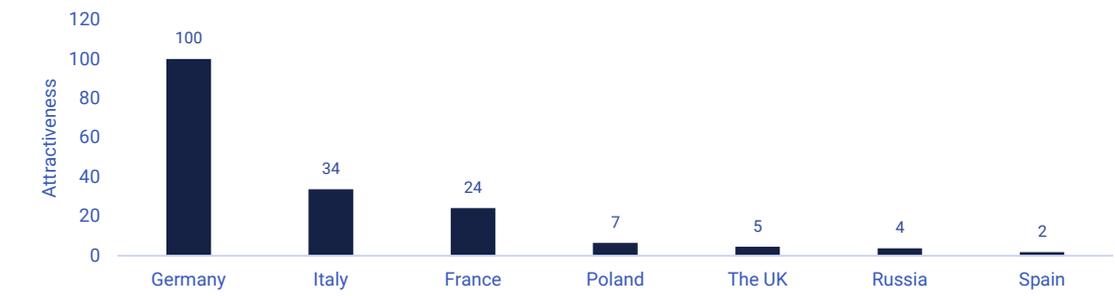
Direct selling per capita (USD)



Numbers excluding VAT. Source: WFDSA and World Bank

By weighing the estimated market value of dietary supplements with the value from direct selling per capita, countries can be ranked by "fit" to the business of Zinzino. See graph above. Not unexpectedly, given the discussion above, the conclusion can also be drawn from this analysis that the German market is clearly Europe's most attractive for Zinzino. Italy and France are second and third, following Germany.

Ranking the attractiveness of markets

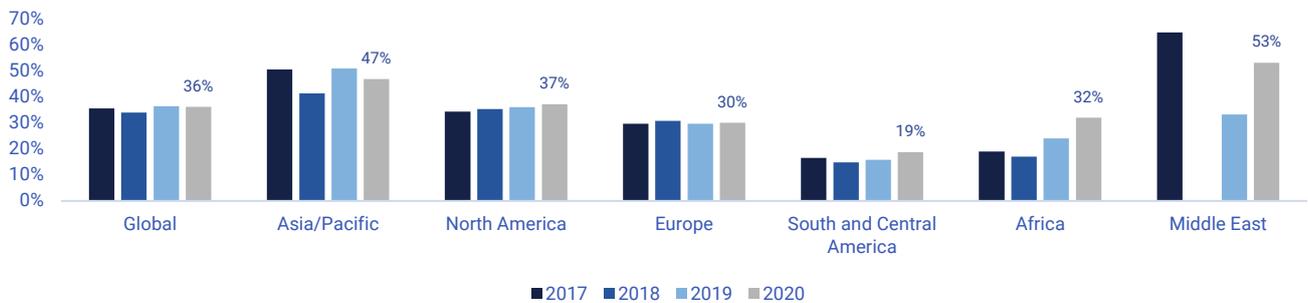


Numbers excluding VAT. Source: WFDSA and World Bank

Popular products for direct selling

Globally, "Wellness", which includes dietary supplements, is the largest direct selling category, accounting for 36.2 per cent in 2020, according to the WFDSA. In Asia and North America, the share from Wellness was higher at 46.8 per cent and 37.1 per cent, respectively. However, in Europe, the figure was slightly lower at 30.0 per cent.

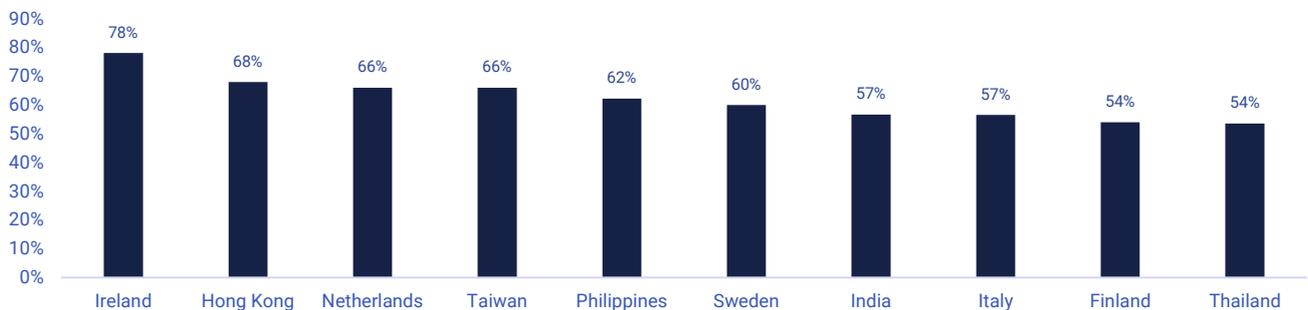
Product category Wellness as a share of total value of direct sales, geographical areas



Source: WFDSA

Below is a graph showing countries where the Wellness product category represents a large share of the value of direct selling. Here Ireland ranks high. Zinzino has been active in the Irish market since the beginning of February 2022. The Philippines is missing from the markets where Zinzino is not currently active.

Product category Wellness as a share of total value of direct sales, selected countries



Source: WFDSA

Much more to do in existing markets alone

Today, Zinzino separately reports its revenues from several geographic areas comprising 40 submarkets/countries (including the Faroe Islands):

- Four (five if including the Faroe Islands) countries in the Nordics
- 20 countries in the Other Europe (reported as Central, Eastern, Southern and Western Europe and the Baltics)
- Two countries in North America
- Seven countries in the Asia-Pacific
- One country in the Africa

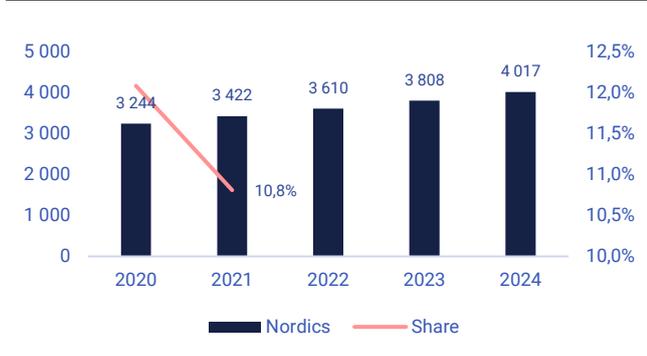
On the next page shows a rough estimate of the potential of the existing markets in terms of possible revenues. The value in 2020 for each market correspond to revenues from direct selling in the Wellness vertical based on data from the WFDSA. We have then applied an annual growth rate for the years 2021-2024, based on Research and Markets' expected growth rate 2021-2026 for dietary supplements for each area.

Wellness includes several verticals, such as functional foods and supplements, including vitamins and minerals as well as fish oil.

A market share can be roughly estimated by dividing the company's revenue from each existing market in 2020 and 2021 by the total value of the same market.

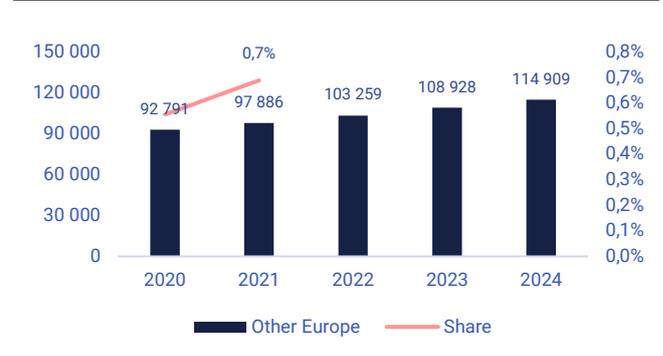
Using this method, it can be roughly estimated that Zinzino had a market share of 10.8 per cent of the Nordic market in 2021. See the chart below to the left. The right chart below shows that we roughly estimate Zinzino's market share of 0.7 per cent in the existing market Rest of Europe.

Market potential Nordic region (SEKm) and existing market share (%)



Source: Company information, WFDSA, Research and Markets, and Carlsquare

Market potential Other Europe (SEKm) and existing market share (%)



Source: Company information, WFDSA, Research and Markets, and Carlsquare

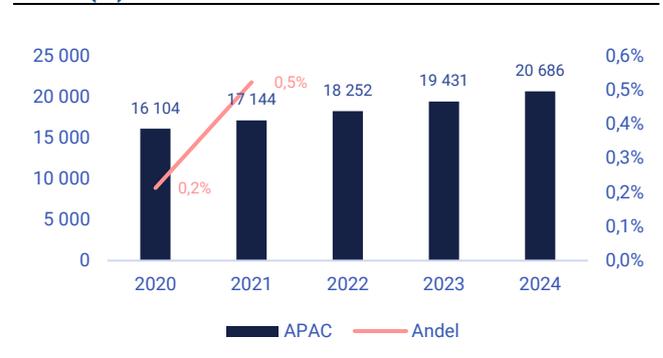
The left chart below shows our rough estimate of Zinzino's market share of 0.03% and 0.5% in the markets in Asia Pacific and North America, respectively. For the market of Africa, we have roughly estimated the market share at 0.05%.

Market potential North America (MSEK) and existing market share (%)



Source: Company information, WFDSA, Research and Markets, and Carlsquare

Market potential APAC (MSEK) and existing market share (%)



Source: Company information, WFDSA, Research and Markets, and Carlsquare

In other words, there is plenty of room for the company to grow its existing businesses in terms of market share. We believe this potential is greatest in Other Europe and in Asia Pacific, where the company has demonstrated a good ability to grow in recent years.

In addition to growing its existing businesses in existing markets, the company intends to establish itself in new countries. As new countries are added, the market potential also increases. Well worth noting is that Zinzino does not yet have direct selling operations in South and Central America.

Sector colleagues and reference group

Listed industry peers, health food

There are many different brands of supplements, and the competition is fierce. There is a marginal difference in formulations and health claims. Therefore, as mentioned earlier, distribution power is a feature that we consider to create a competitive advantage. At the same time, it is difficult to find listed industry peers engaged in the same activities as Zinzino. The closest are Herbalife and USANA Health. Therefore, we have included companies active in the development, production, and sale of health food products as well as direct selling in the reference group.

Orkla Care

Norwegian Orkla Care A/S (Orkla, ORK) offers through Orkla Care health and wellness products, including fish oils and vitamins and minerals (e.g. Active Care). However, Orkla has a more extensive portfolio of brands in food and snacks (e.g. Abba and OLW). Orkla sells mainly through retailers.

In 2021, Orkla Care generated revenues of NOK 18.8 billion, corresponding to a growth of 2.5 per cent and approximately 38 per cent of the Orkla Group's total revenues. In the same year, Orkla Care reported an adjusted EBIT result of NOK 2.5 billion, corresponding to a margin of 13.2 per cent.

Herbalife

US-based Herbalife Nutrition Ltd (Herbalife, HLF) offers health food products such as protein shakes, vitamins and minerals, and fish oils on the global market. Herbalife, like Zinzino, is a D2C company selling through its online store and via direct selling (independent partners).

In 2021, Herbalife generated revenues of USD 5.8 billion. In the same year, margin after cost of goods sold and payments to partner sellers landed at 47.0 per cent. That's well above Zinzino, which in 2021 stood at 31.2 per cent. Herbalife's 2021 operating margin landed at 12.7 per cent, compared to Zinzino's 2021 operating margin of 8.5 per cent.

Compared to Zinzino, Herbalife has a significantly higher proportion of goods sold that are produced in Herbalife's manufacturing facilities (estimated at >50 per cent, compared to Zinzino <10 per cent). That, together with size, is likely to be part of the explanation for the difference in margins.

USANA Health

USANA Health Sciences, Inc. (USANA Health, USNA) offers a portfolio of health food products, such as fish oils, protein bars, etc. Like Zinzino, the distribution model is based on direct selling in a global market. Thus, USANA Health and Herbalife are the companies in the reference group that are most similar to Zinzino.

In 2021, USANA Health reported net sales of USD 1.2 billion, representing a growth of 4.6 per cent. Margin after the cost of goods sold and payments to partner sellers landed at 37.9 per cent. The operating margin came in at a full 14.3 per cent.

Midsona

Swedish Midsona AB (Midson, MSONB) develops and sells health food products, including vitamins and minerals and fish oils, through retailers. Like Zinzino, Midsona also has a smaller contract manufacturing business.

In 2021, Midsona could report net sales of SEK 3.8 billion. The gross margin was approximately 26.9 per cent, and the operating margin 4.3 per cent

Karo Pharma

Swedish Karo Pharma AB (Karo Pharma, KARO) develops and sells a portfolio of "everyday health" products through retail outlets. The portfolio includes both prescription and non-prescription products. Karo Pharma mainly offers vitamins and minerals within the dietary supplement product category.

In 2021, Karo Pharma could report net sales of SEK 3.0 billion. The gross margin amounted to approximately 57.6 per cent, and the operating margin to 7.0 per cent

Listed industry peers, direct selling

Nu Skin

US-based Nu Skin Enterprises, Inc. (Nu Skin, NUS) is a direct selling company that primarily offers beauty and health food products, including vitamins and minerals as well as fish oils, to the global market.

In 2021, approximately 39 per cent came from the "Wellness" product area, which grew by approximately 15.2 per cent to approximately USD 1.1 billion. Margin after the cost of goods sold and payments to partners was 35 per cent in 2021. In the same year, an operating margin of 10.0 per cent was achieved.

Tupperware Brands Corporation

American Tupperware Brands Corporation (Tupperware, TUP) is possibly one of the more well-known brands in the peer group. Tupperware is a direct selling company that mainly offers tableware such as food boxes and cups. The product range is thus not in the same category as that offered by the company.

In 2021, Tupperware increased its revenue by three per cent to USD 1.6 billion. After cost of goods sold, the gross margin was 66.7 per cent. Margin after cost of goods sold and payments to partners is difficult to discern from the financial statements. However, the reported operating margin was 12,4 per cent.

Valuation, reference group

Below are valuation multiples as well as expected CAGR, 2021-2024 and average operating margin in 2022-2024 for the peer group compared to our fair value for Zinzino and current market pricing.

Valuation, reference group

	HQ	Mcap (SEKm)	CAGR, 2021-2024	μEBIT-marg., 2022-2024	EV/Sales		EV/EBITDA		EV/EBIT	
					NTM	2022	NTM	2022	NTM	2022
Midsona AB (publ)	SE	1 832	5%	6%	0,8x	0,8x	8,3x	8,3x	14,5x	14,5x
Orkla ASA	NO	88 802	5%	12%	1,8x	1,8x	11,2x	11,2x	15,2x	15,2x
Probi AB (publ)	SE	4 250	8%	20%	5,4x	5,4x	18,6x	18,6x	28,5x	28,5x
Aker BioMarine AS	NO	4 590	19%	9%	2,5x	2,5x	10,5x	10,5x	60,2x	60,2x
Herbalife Nutrition Ltd.	US	28 374	5%	13%	0,9x	0,9x	6,6x	6,6x	7,8x	7,8x
Nu Skin Enterprises, Inc.	US	23 365	4%	11%	1,0x	1,0x	6,8x	6,8x	8,8x	8,8x
USANA Health Sciences	US	14 688	-	14%	1,2x	1,2x	7,5x	7,5x	8,6x	8,6x
Tupperware Brands	US	8 356	3%	16%	0,9x	0,9x	5,3x	5,3x	6,4x	6,4x
Median		11 522	5%	12%	1,1x	1,1x	7,9x	7,9x	11,6x	11,6x
Average		21 782	7%	13%	1,8x	1,8x	9,4x	9,4x	18,7x	18,7x
ZZ B (curr.)	SE	1 478	12%	9%	0,8x	0,8x	8,6x	8,6x	10,0x	10,0x
ZZ B (CSQ)*	SE	1 478	12%	9%	1,2x	1,2x	12,6x	12,6x	14,5x	14,5x

*Carlsquare estimates. Source: S&P Capital IQ and Carlsquare estimates

Financial history and Carlsquare estimates

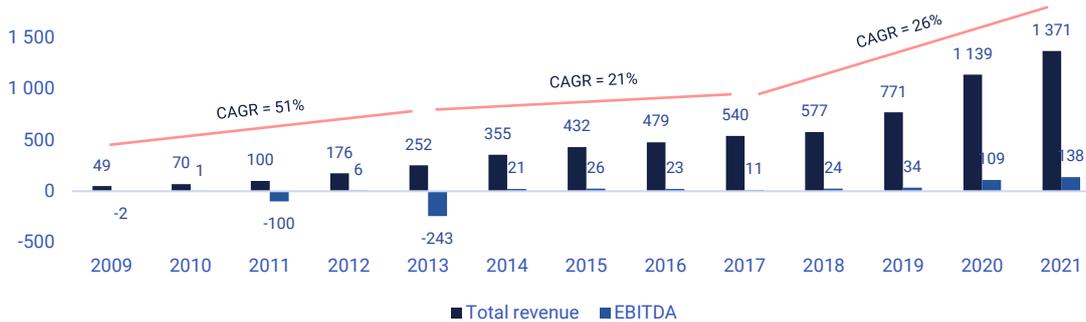
Zinzino has accelerated its average growth rate over the past four years through international expansion. In parallel, profitability has improved, demonstrating the strength of the company's business model. We expect the company's expansion into new submarkets/countries to continue to drive growth. Over the forecast period 2022-2031, we expect an average annual growth rate of 7.1 per cent. Given a slight improvement in the gross margin and scalability of the business, we expect the EBITDA margin to increase from 10.0 per cent in 2021 to 12.5 per cent in 2031.

Financial history

Increasing growth rate and improved profitability

Zinzino's net sales represent revenue from goods sold. The company charges for shipping. These are part of actual operations but are included in other revenues. In light of this, we focus on total revenue. Below is the historical development of total revenue since 2009. Increasing activity for Zinzino Health in Europe, Asia Pacific and North America has driven growth over the last three years. In parallel, the profitability has improved.

Total revenue (SEKm), CAGR (%) and EBITDA result (SEKm)



Source: Company information and Valu8

Scalability behind improved profitability

Profitability has been driven by the scalability of the business model and increased gross margin. The gross margin has risen from 29.6 per cent in 2017 to 31.2 per cent in 2021. Gross margin is impacted by two factors, actual mark-ups on goods sold and distributor reimbursement. We believe that both of these factors have improved (from the company's perspective), resulting in an improved gross margin.

Gross resultat (SEKm) and margin (%)



Source: Company information

EBITDA (SEKm) and margin (%)



Source: Company information

However, by far the most substantial contributor to the improved profitability is considered to be the scalability of the business. As mentioned earlier, total revenues in 2018-2021 have increased by an average of 26.2 per cent per year. The corresponding figure for total operating expenses, excluding cost of goods sold, is 18.1 per cent. That also demonstrates the scalability of Zinzino's operations.

EBIT (SEKm) and margin (%)



Source: Company information

Net result (SEKm) and margin (%)



Source: Company information

Improved profitability has increased dividends

Since 2018, more than 94 per cent of profit after tax has been attributable to shareholders of the parent company. In 2021, earnings per share amounted to SEK 2.57, corresponding to an increase of 31.1 per cent.

Dividends per share have increased by an average of 49.5 per cent per year in 2018-2021. The dividend in 2021, based on 2020 earnings, was SEK 1.25 (SEK 1.0 ordinary and SEK 0.25 extra). The proposed dividend in 2022, based on 2021 earnings, is SEK 2.0.

Earnings per share (SEK)



Source: Company information

Dividend per share (SEK)



Source: Company information

Seasonality

Given the strong growth, it is challenging to discern seasonal patterns from the company's historical figures. A large proportion of the company's revenue is from subscriptions. In a theoretical scenario with no subscriptions terminated, it can be assumed that new sales to new customers can create seasonal patterns. The majority of revenues come from Europe. It is therefore not unreasonable that new sales slow down during holiday periods around the turn of the year and summer.

Cash flow positive

In 2021, a cash flow from operating activities of SEK 153.5 million were reported, corresponding to 11.2 per cent of total revenues. The corresponding figure for 2020 was SEK 97.3 million and 8.5 per cent.

Assumptions and estimates

Major markets are assumed to drive growth

We expect Zinzino to report total revenues of SEK 1,507 million in 2022, corresponding to a growth rate of 9.9 per cent. The CAGR, 2021-2024, is estimated to reach 12.2 per cent. The CAGR, 2024-2027, is assumed to be 6.1 per cent and for 2027-2031 4.0 per cent. That is below the company's own target, to grow at an average of 20 per cent per year 2022-2025. To get to this growth rate, we believe potential acquisitions would have to be included in the estimates, which we have not done.

The company's target for 2022 is to achieve total revenues in excess of SEK 1,500 million.

Total revenue (SEKm) and growth (%)



Source: Company information and Carlsquare estimates

Asia and Europe lead the way

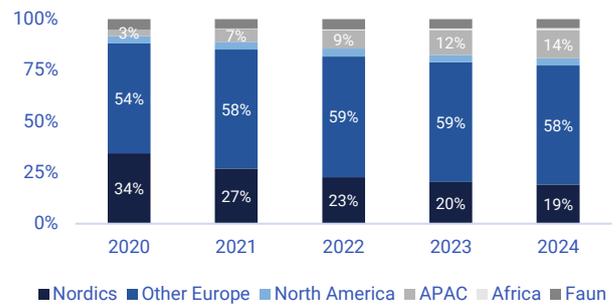
In line with history and the company's strategic focus, we believe that Zinzino Health is the product segment that will continue to grow. Below to the left is the assumed revenue breakdown between product segments 2022-2024.

Assumed revenue breakdown, product segment



Source: Company information and Carlsquare estimates

Assumed revenue breakdown, markets and Faun



Source: Company information and Carlsquare estimates

Europe has more to give

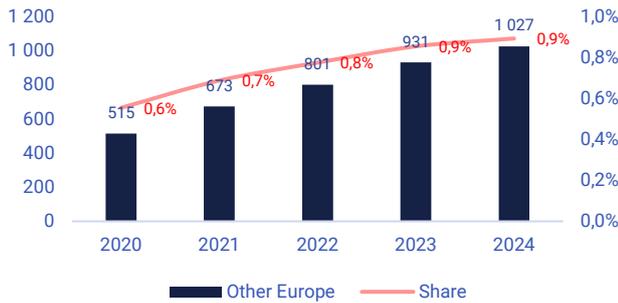
Historically, Other Europe (Europe excluding the Nordic countries but including the Baltic States) has been the market that has driven the company's growth. Going forward, we believe that the company can grow in Other Europe, but mainly by expanding existing operations (and possible acquisitions). That is because the company already operates in most countries/submarkets in Europe that can currently be considered attractive. In our scenario, revenue from this market is growing at a CAGR, 2021-2024, of 15.1 per cent.

In Other Europe, we have assumed that Central Europe, led by Germany, will continue to contribute with good growth. Revenue from Central Europe is expected a CAGR, 2021-2024 of a high 15.3 per cent. However, the fastest growing regions in Other Europe are Southern and Western Europe (CAGR 2021-2024, 15.8 per cent) with large markets such as Italy and Spain.

We are conservative and expect Eastern Europe, including Poland, to have a wait-and-see year in 2022 given the tragic war in neighbouring Ukraine. However, in our scenario, growth increases in subsequent years, and we model a CAGR, 2021-2024, of 9.9 per cent. In the past, the company has had plans to add new submarkets in the form of Ukraine and Russia. We do not expect this to be the case.

At the same time, we expect the Nordic region to continue losing ground even if the growth rate is assumed to turn positive in 2023. Over 2022-2024, the CAGR is assumed to be 0.1 per cent.

Revenue Other Europe (SEKm) and market share (%)



Source: Company information, WFDSA, Research and Markets, and Carlsquare estimates

Revenue Nordics (SEKm) and market share (%)



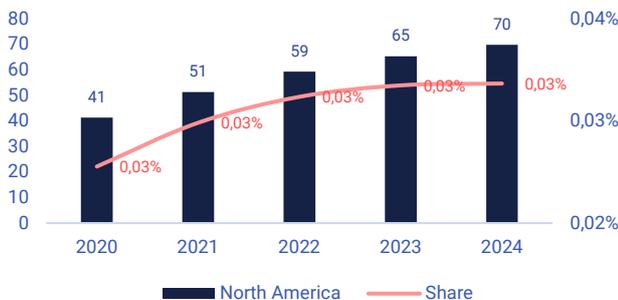
Source: Company information, WFDSA, Research and Markets, and Carlsquare estimates

More to do in Asia and the Pacific x 2

We believe that the Asia Pacific is a key growth driver for Zinzino, where direct selling of dietary supplements is well suited. There are several new and attractive submarkets/countries in this market for the company to establish itself. The latter is also considered to represent the most significant potential for growth in this market. However, it should not be forgotten that the existing operations in the region are still relatively new and therefore have room for further optimisation and strengthening. Therefore, we believe that the company has two paths to take in terms of organic growth in Asia Pacific. (More acquisitions could accelerate growth).

Asia Pacific is the fastest-growing geographic region in our scenario (excluding Africa) growing at a CAGR, 2021-2024, of a high 43.6 per cent. As shown in the right chart below, this rapid growth contributes to the company taking a larger market share. In our scenario, Asia Pacific increases its share of the company's total revenue from around seven per cent in 2021, to about 14 per cent in 2024.

Revenue North America (SEKm) and mrkt share (%)



Source: Company information, WFDSA, Research and Markets, and Carlsquare estimates

Revenue APAC (SEKm) and market share (%)



We expect the company to establish itself in several new submarkets in Asia. Market share does not consider establishing operations in new countries in Asia, which we have assumed in our scenario. Source: Company information, WFDSA, Research and Markets, and Carlsquare estimates

For the African market, we have assumed that revenue will increase from SEK 6.1 million in 2022 to SEK 19.4 million in 2024, with the market share increasing from 0.05 per cent in 2021 to 0.6 per cent in 2024. At present, we do not expect the company to expand its operations into new countries in the region. However, South America is well worth mentioning, where the company has no activity so far.

Scalability is expected to lift profitability over time

Improved gross margin

The assumed development of gross profit and margin is shown below. As mentioned earlier, we expect a dip in the gross margin in 2022 but a recovery already in 2023 when the full impact of the price increase will be in effect. By the end of 2031, we expect a gross margin of 32.5 per cent. However, this is clearly below both Heralife and UZANA Health. We believe that a potential change in the product mix could be an "event" that could raise the company's gross margin from our current estimates.

Gross result (SEKm) and margin (%)



Source: Company information and Carlsquare estimates

A lower share of other external and personnel costs = scalability

Below is Zinzino's cost breakdown. As can be seen, personnel costs have fallen back from 12.4 per cent of the total cost base in 2017, to 10.8 per cent in 2021. In parallel, external operating costs have fallen back from 15.2 per cent to 12.3 per cent. That in favour of Goods for resale and other direct costs, increasing its share. That also demonstrates the scalability of the business. In our scenario, the declining share of personnel and external operating costs continues.

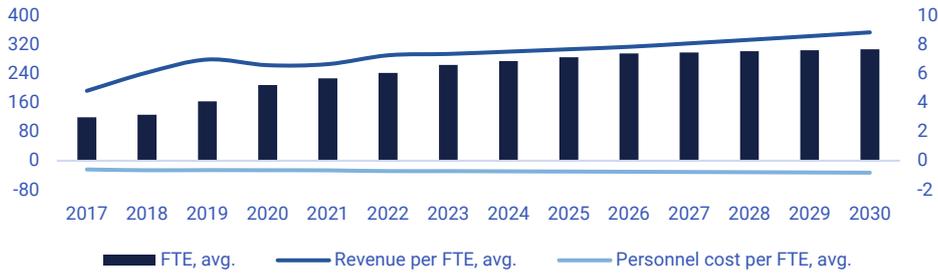
Breakdown of costs



Source: Company information and Carlsquare estimates

Further establishment in existing markets and expansion into new countries requires more people in Sweden, but especially locally in the company's markets. In our scenario, the number of employees increases by an average of just under ten people per year over the forecast period. We have assumed that the salary level is adjusted upwards by an average of two per cent per year.

Average FTE and revenue and personnel costs per FTE (SEKm)



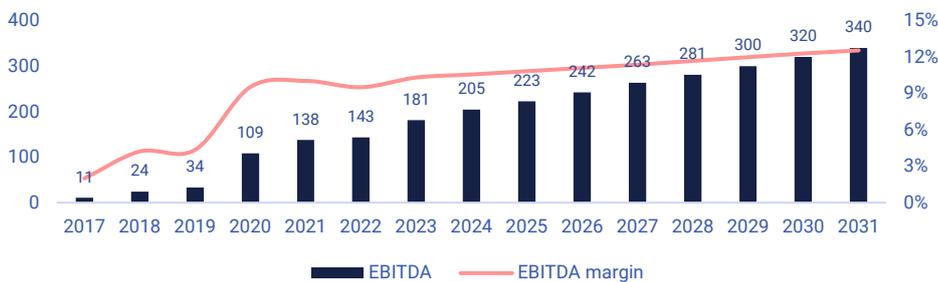
FTE = full-time employee equivalent. Source: Company information and Carlsquare estimates

EBITDA margin in line with the company's target

In our scenario, Zinzino will deliver an EBITDA result of SEK 143 million in 2022, corresponding to a margin of 9.5 per cent and a growth of 4.2 per cent. The margin is slightly down from 2021, which is justified because customers on subscriptions are not immediately affected by the implemented price increases.

However, over time, we expect gradually increasing profitability driven by a recovery and improvement in gross margin and scalability of the business. In 2022-2025, we expect an average EBITDA margin of 10.3 per cent, which is in line with the company's own target. By 2031, we expect the EBITDA margin to rise to 12.5 per cent.

EBITDA-result (SEKm) and margin (%)



Source: Company information and Carlsquare estimates

Operating result

In 2022, we expect an operating profit of SEK 124 million, corresponding to growth of 7.0 per cent and a margin of 8.2 per cent.

EBIT-result (SEKm) and margin (%)



Source: Company information and Carlsquare estimates

Continued profit growth

Assuming a tax rate of 20.6 per cent, we forecast a profit after tax attributable to the parent company of SEK 96 million in 2022.

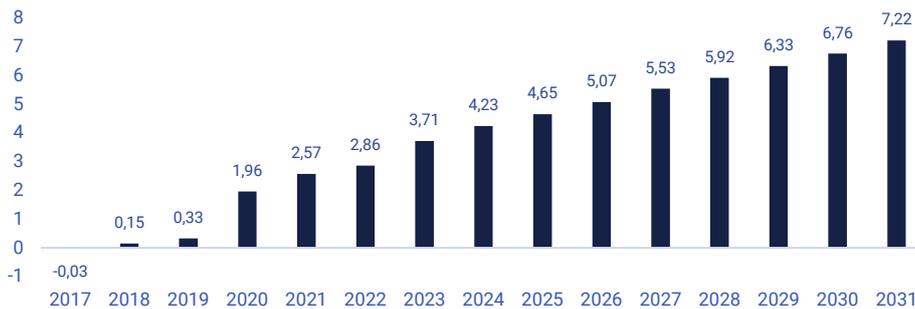
Profit after tax attributable to owners of the parent company (MSEK)



Source: Company information and Carlsquare estimates

Earnings per share in 2022 in our scenario amount to around SEK 2.86, corresponding to a growth of 11.3 per cent.

Earnings per share (SEK)



Source: Company information and Carlsquare estimates

Cash flow and dividends

Over the last three years, cash flow from operating activities has represented on average 9.7 per cent of total revenues. In our scenario, the corresponding figure for the forecasted period 2022-2031 is 9.6 per cent. Of the EBITDA result, the average is 85.9 per cent.

Cash flow from operating activities (SEKm)



Source: Company information and Carlsquare estimates

Cash flow (SEKm)



Source: Company information and Carlsquare estimates

Quarterly basis

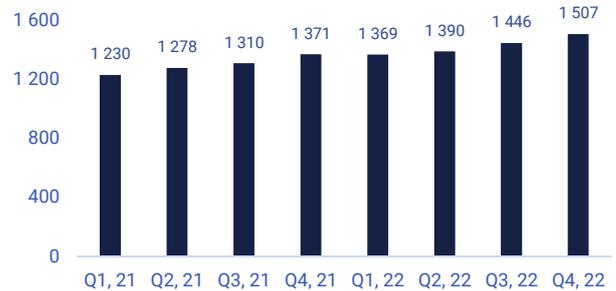
Preliminary sales figures reported for February and March 2022 have been tepid and held back by Asia-Pacific and the Baltic States. Based on that, we expect negative growth of just under one per cent in the first quarter of 2022. Growth is picking up in the second quarter after partners adjust their materials etcetera to the price increase. Improved conditions for direct selling following eased restrictions in Asia and elsewhere, where Covid case numbers have now turned down in most markets, is another factor in the assumption.

Total revenue (SEKm) and growth (%), quarterly



Source: Company information and Carlsquare estimates

Total revenues (SEKm), LTM



LTM = Last twelve months. Source: Company info and Carlsquare estimates

Despite the price increase implemented as of 1 February 2022, which averaged up to six per cent, we expect pressure on gross margin, mainly in the first and second quarters. That is because customers remaining on the first subscription period are affected with a maximum delay of six months. Only new sales and rolled contracts are affected immediately. A lower gross margin also holds back profitability further down the income statement.

Gross profit (SEKm) and margin (%), quarterly



Source: Company information and Carlsquare estimates

EBITDA (SEKm) and margin (%), quarterly



Source: Company information and Carlsquare estimates

Valuation

By combining a DCF valuation with a multiple valuation on an average, a fair value per share of SEK 60.7 is calculated. Our valuation corresponds to an EV/EBIT multiple 2022 of 14.5x. The companies in the reference group currently trade at an average EV/EBIT multiple 2022 of 11.6x. The premium is motivated by higher expected growth for Zinzino than the reference group in parallel with clear margin expansion.

Fair value within a range

Stock under pressure but with good upside

We have combined a DCF model with a multiple valuation model to calculate a fair value per share. Our DCF valuation results in a value per share of SEK 69.3-85.0 per share. Our multiple valuation on EV/EBIT 2022 results in a SEK 50.0-62.9 per share value.

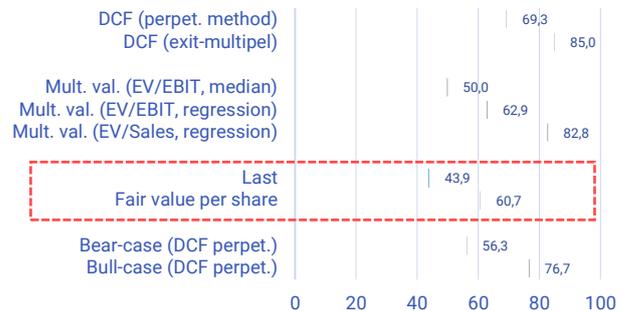
Combining the lowest value in the DCF model with the values from the multiple valuation (EV/EBIT) in an average, we calculate a fair value per share of SEK 60.7 for the next 6-12 months. In the base case, our fair value per share corresponds to a good potential upside to the last paid share price of 39 per cent. The growth case is based on further establishment in existing submarkets and expansion into new markets (organically). The profitability growth case is based on demonstrated scalability of the business model and a smaller gross margin upside.

Fair value (SEK/share), base case

Multiple valuation (EV/EBIT, med. 2022)	50.0
Multiple valuation (EV/EBIT, reg. 2022)	62.9
DCF valuation	69.3
Fair value per share	60.7
Potential up-/down side	39%
Shares outstanding, fully financed, and diluted	33.7
Shareholder value	2 047
Cash (last rep. Q)	247
Debt (last rep. Q)	-5
PV cash from equity financing	0
EV	1 805

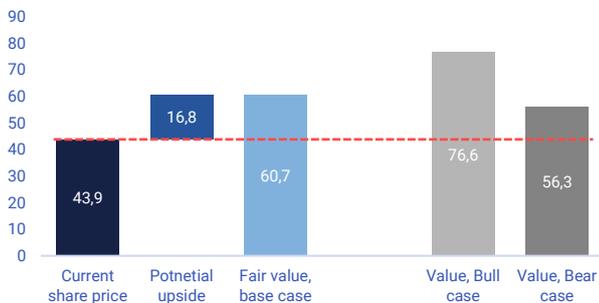
Source: Carlsquare estimates

Fair value range (SEK/share)



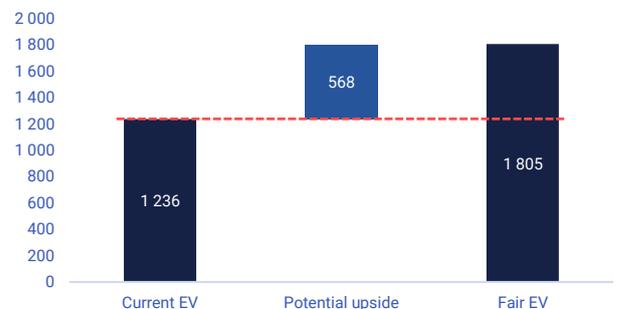
Source: Carlsquare estimates

Fair value per share (SEK), three scenarios



Source: Carlsquare estimates

Visualisation EV, base case (MSEK)



Source: Carlsquare estimates

A sanity check, base case

Our fair value in the base case corresponds to the implied multiples below. EV/Sales 2022 is 1.2x, EV/EBIT 2022 is 14.5x, and P/E 2022 is 21.2x. We expect EBIT growth to 2024 of 16.4 per cent and EPS growth of 18.1 per cent.

Implied multiples, base case

	NTM	2021	2022	2023	2024
EV/Sales	1.2x	1.3x	1.2x	1.0x	0.9x
EV/EBITDA	12.6x	13.1x	12.6x	10.0x	8.8x
EV/EBIT	14.5x	15.6x	14.5x	11.2x	9.9x
P/E	21.2x	23.6x	21.2x	16.4x	14.4x

Source: Carlsquare estimates

Our reference group of companies producing and selling health foods currently trade at a median of EV/Sales multiple 2022 of 1.1x and EV/EBIT multiple 2022 of 11.6x. Zinzino is presently trading at a discount (0.8x and 10.0x our 2022 forecasts).

DCF valuation

By discounting the assumed future cash flow to its present value in a DCF model with a discount rate of 11.8 per cent, a fair value of SEK 68.5 per share is calculated for the next 6-12 months.

DCF valuation, base case

DCF-valuation		Discount rate		Assumptions	
PV(UFCF)	1 052.1	Risk free rate	0.8%	CAGR, 2021-2031	7.1%
PV(TV)	1 043	Market risk premium	6.7%	EBITDA-margin, 2031	12.5%
Enterprise value	2 095	Size premium	2.5%	EBIT-margin, 2031	11.5%
Net debt (31-Dec)	242.2	Beta	1.2x	Tax rate	20.6%
Shareholder value	2 337	Req. return on equity	11.8%		
PV(equity financing proceeds)	0.0			Implied multiples	
Shareholder value, after financing	2337	Tax adjust. interest on debt	23.2%	EV/Sales, NTM	1.4x
Current shares outstanding	33.7	Leverage	0.0%	EV/Sales 2022	1.4x
New shares	0.0	WACC	11.8%	EV/EBITDA, NTM	14.6x
Shares outstanding after financing and dilution	33.7			EV/EBITDA 2022	14.6x
Value per share (before financing and dilution)	69.3	Company spec. premium	0.0%	EV/EBIT NTM	16.9x
Value per share (after financing and dilution)	69.3	Discount rate	11.8%	EV/EBIT, 2022	16.9x

Source: Carlsquare estimates

Below on the left is a sensitivity analysis with the variables discount rate and assumed growth rate for calculating the terminal value.

Sensitivity analysis (SEK/share)

	2.0%	3.0%	4.0%	5.0%
9.8%	82.6	89.1	97.9	110.2
10.8%	73.3	78.0	84.0	92.0
11.8%	65.9	69.3	73.6	79.2
12.8%	59.9	62.5	65.7	69.7
13.8%	55.0	57.0	59.4	62.3

Discount rate on the Y-axis and growth in perpetuity on the X-axis.
 Source: Carlsquare estimates

Sensitivity analysis with exit multiple (SEK/share)

	10.5x (10%)	11.6x (0%)	12.8x (10%)	14.0x (20%)
9.8%	85.5	90.4	95.3	100.2
10.8%	82.8	87.6	92.4	97.2
11.8%	80.3	85.0	89.7	94.3
12.8%	78.0	82.5	87.1	91.6
13.8%	75.7	80.1	84.6	89.0

Discount rate on the Y-axis and exit multiple on the X-axis. (XX%) = discount applied to the median EV/EBIT of the reference group.
 Source: Carlsquare estimates

On the right is a second sensitivity analysis for the valuation based on a DCF model with an exit multiple as the method to calculate the perpetuity value - an alternative perpetuity capitalization. For this method, we took the median EBIT multiple of the reference group, discounted the multiple by zero per cent and applied it to the assumed EBIT result in 2026. This value is then discounted to its present value and represents the perpetuity value in the DCF model. As can be seen, this model yields a motive-rated value per share of SEK 85.0.

Multiple valuation

Below are multiple valuations based on the peer group's median EV/EBIT 2022. As shown, a value per share calculated by this method is SEK 50.0.

Multiple valuation median EV/EBIT 2022, base case

	HQ	Mcap (SEKm)	CAGR, 2020-2023	μEBIT-marg., 2021-2023	EV/EBIT, 2022
Midsona AB (publ)	SE	1 832	5%	6%	14,5x
Orkla ASA	NO	88 802	5%	12%	15,2x
Probi AB (publ)	SE	4 250	8%	20%	28,5x
Aker BioMarine AS	NO	4 590	19%	9%	60,2x
Herbalife Nutrition Ltd.	US	28 374	5%	13%	7,8x
Nu Skin Enterprises, Inc.	US	23 365	4%	11%	8,8x
USANA Health Sciences, Inc.	US	14 688	-	14%	8,6x
Tupperware Brands Corporation	US	8 356	3%	16%	6,4x
Median		11 522	5%	12%	11,6x
Average		21 782	7%	13%	18,7x
Median					
Discount	0%				
Applied EV/EBIT multiple	11,6x				
Exp. EBIT 2022 (MSEK)	124				
Enterprise value	1 443				
Net debt (31-Dec)	242				
PV(Cash from equity financing)	0				
Shareholder value, after financing	1 685				
Current shares outstanding (m)	33,7				
New shares	0,0				
Shares outstanding after financing and dilution	33,7				
Value per share (before financing and dilution)	50,0				
Value per share (after financing and dilution)	50,0				

Source: S&P Capital IQ and Carlsquare estimates

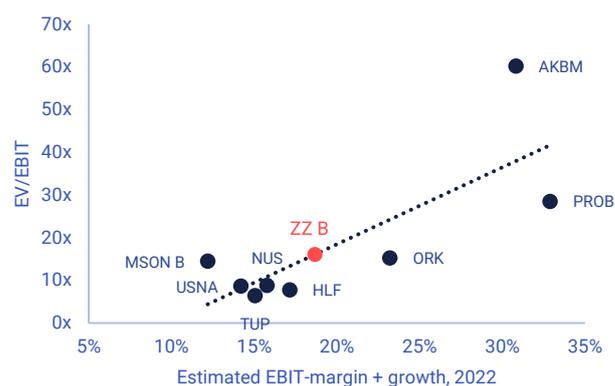
Below are multiple valuations based on a regression analysis with EV/EBIT multiple 2022 and expected growth plus EBIT margin 2022. A value per share calculated by this method is SEK 62.9.

Multiple valuation EV/EBIT 2022, regression

Slope	180,1
Intercept	-17,6
Rsqr	61%
Expected growth	9,9%
Expected EBIT margin	8,2%
Implied multiple	15,1x
Expected EBIT	124
EV	1 878
Net debt (31-Dec)	242
PV(Cash from equity financing)	0
Shareholder value, after financing	2 120
Shares outstanding after financing and dilution	33,7
Value per share (before financing and dilution)	62,9
Value per share (after financing and dilution)	62,9

Source: S&P Capital IQ and Carlsquare estimates

Implied valuation multiple from regression



Source: S&P Capital IQ and Carlsquare estimates

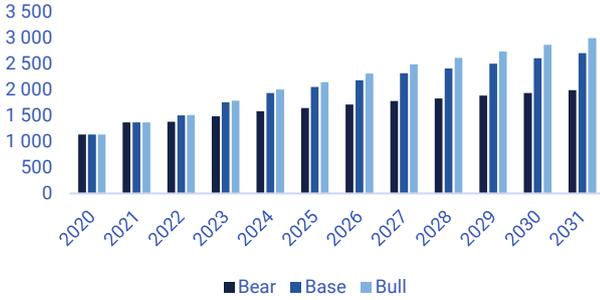
Valuation range

We have used our DCF (perpetual capitalisation) model in the bull and bear case but developed alternative growth and profitability curves. We model an average annual growth rate of 8.1% (7.1% in the base case) in the bull case. The EBIT margin is assumed to increase to 13.0 per cent (11.5 per cent in the base case) by 2031. With these assumptions, a value per share of SEK 76.7 is calculated.

For the bear scenario, we model an average annual growth rate of 3.8 per cent. The EBIT margin is assumed to increase to 8.7 per cent by 2031. With these assumptions, a value per share of SEK 56.3 is calculated.

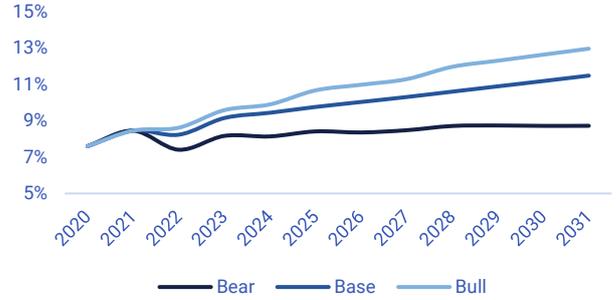
The assumed net sales and EBITDA margin development in the three scenarios is shown below.

Total revenues (SEKm), three scenarios



Source: Company information and Carlsquare estimates

EBIT-margin, three scenarios



Source: Company information and Carlsquare estimates

Risks and challenges

Like any business, Zinzino is exposed to risks and challenges. The main risk in the short to medium term is the uncertainty surrounding inflation and its impact on Zinzino's gross margin. War and Covid are additional risk factors.

War, inflation and Covid create uncertainty

Plans for expansion in Europe are on hold

Ahead of 2022, the company intended to establish itself in the submarkets of Ukraine and Russia. However, the tragic war in Ukraine will most likely hold the company back from these expansion initiatives. We have taken this into account in our growth assumptions for 2022. We have also made provision for reduced activity in Poland and the Baltic states. The latter may be considered somewhat conservative. However, developments in Ukraine may have a more significant impact on Zinzino's growth than we currently anticipate.

Rising energy prices and shipping costs

The cost of goods sold has and may increase further as an effect of inflation driven by higher transport costs as well as energy costs, among other things. Delivery times have also lengthened, mainly due to scarce containers and queuing at crucial ports. That may hold back the company's ability to generate revenue and put more pressure on margins than what we expect.

The company has made an upwards price adjustment of six per cent on average – than should offset some of the rising costs. Nonetheless, overall, we expect the gross margin to fall in 2022. At the same time, we expect the gross margin to recover in 2023, but uncertainty is high. We believe clarity on this issue can be attained in the second half of 2022.

Covid and new waves of restrictions

Since March 2022, the number of registered Covid cases has increased sharply in China. That has resulted in the reintroduction of restrictions in the country. Similar developments in other submarkets where the company is active have held back growth in Asia in the first few months of 2022. Reenforced restrictions in geographies where the company is operating (or intends to start operations) is a risk that could hold back growth.

However, the company has managed to dodge the Covid pandemic well as partners have adapted their sales methods. At the same time, our case in terms of overall growth is based on the company's ability to operate under more "normal" conditions, without restrictions, and simultaneously benefit from advantages that the digitalisation that Covid forced on the direct selling industry. New restrictions in Europe and Asia may thus change the outlook.

Reduced demand for Covid

We believe that the Covid pandemic has positively impacted demand for the company's products. Now that the Covid pandemic is hopefully coming to an end with rising vaccine uptake, there is a risk that demand will fall back again.

Key figures and accounts

Nyckeltal (SEK)

	2019	2020	2021	2022E	2023E	2024E	2025E
Per share							
EPS	-0.03	0.15	0.33	1.96	2.57	2.86	-0.03
DPS	0.70	0.70	1.25	2.00	2.00	2.25	0.70
BVPS	2.9	2.9	4.7	5.5	7.2	9.2	2.9
TBVPS	0.2	0.2	0.3	0.4	0.4	0.4	0.2
Valuation (curr.)							
P/E	134.0x	22.4x	17.1x	15.3x	11.8x	10.4x	134.0x
P/B	36.7x	15.6x	9.7x	8.1x	6.1x	4.8x	36.7x
EV/Sales	1.6x	1.1x	0.9x	0.8x	0.7x	0.6x	1.6x
EV/EBITDA	36.9x	11.4x	9.0x	8.6x	6.8x	6.0x	36.9x
EV/EBIT	83.6x	14.3x	10.7x	10.0x	7.7x	6.8x	83.6x
Other							
Dividend yield	1.6%	1.6%	2.9%	4.6%	4.6%	5.1%	1.6%
FCF yield	4.3%	5.9%	9.6%	7.4%	11.0%	10.7%	4.3%

Source: Company information and Carlsquare estimates

Income statement (SEKm), quarterly

	Q1, 21	Q2, 21	Q3, 21	Q4, 21	Q1, 22P	Q2, 22P	Q3, 22P	Q4, 22P
Total sales	333	322	314	401	331	344	369	462
Gross profit	101	105	107	114	97	104	118	144
EBITDA	32	28	35	21	29	23	34	39
EBIT	37	33	40	26	33	28	39	43
EBT	32	28	35	21	28	23	33	38
Net profit/loss	24	23	28	15	23	18	27	30
EPS (SEK)	0,69	0,66	0,80	0,43	0,66	0,53	0,78	0,89
Growth								
	Q1, 21	Q2, 21	Q3, 21	Q4, 21	Q1, 22E	Q2, 22E	Q3, 22E	Q4, 22E
Total sales	39.0%	17.5%	11.6%	15.3%	-0.5%	6.9%	17.9%	15.8%
Gross profit	20.9%	43.0%	32.4%	3.2%	-4.2%	-1.0%	9.6%	26.8%
EBITDA	41.9%	109.3%	40.1%	-29.4%	-10.5%	-16.7%	-4.3%	64.2%
EBIT	48.8%	153.3%	51.9%	-32.7%	-10.5%	-18.3%	-3.0%	84.9%
EBT	49.4%	155.6%	60.1%	-34.1%	-11.1%	-18.7%	-3.1%	86.3%
Net profit/loss	43.1%	168.9%	66.3%	-39.7%	-6.3%	-21.5%	-5.7%	109.2%
Margins								
	Q1, 21	Q2, 21	Q3, 21	Q4, 21	Q1, 22E	Q2, 22E	Q3, 22E	Q4, 22E
Gross margin	30.4%	32.6%	34.3%	28.3%	29.3%	30.2%	31.9%	31.2%
EBITDA margin	9.6%	8.8%	11.1%	5.2%	8.7%	6.7%	9.2%	8.3%
EBIT margin	11.2%	10.4%	12.9%	6.6%	10.1%	8.1%	10.5%	9.4%
EBT margin	9.6%	8.7%	11.0%	5.1%	8.6%	6.6%	9.1%	8.3%
Profit margin	7.2%	7.1%	9.0%	3.6%	6.8%	5.2%	7.2%	6.6%

Source: Company information and Carlsquare estimates

Income statement (MSEK)

	2017	2018	2019	2020	2021	2022P	2023P	2024P	2025P
Total revenue	540	577	771	1 139	1 371	1 507	1 756	1 938	2 056
COGS	-381	-394	-538	-790	-943	-1 044	-1 206	-1 329	-1 405
Gross profit	160	183	232	349	428	463	550	609	651
Other operating expenses	-149	-159	-199	-240	-290	-320	-369	-404	-428
EBITDA	11	24	34	109	138	143	181	205	223
Dep. and amort.	-10	-17	-19	-22	-22	-19	-20	-22	-22
EBIT	1	7	15	87	116	124	161	183	201
Net finances	0	-1	-1	-2	-1	-1	-1	-1	-1
EBT	1	6	14	85	115	123	159	182	199
Tax	-2	-1	-3	-19	-25	-25	-33	-37	-41
Net profit/loss	-1	5	11	66	90	97	127	144	158
EPS	-0,03	0,15	0,33	1,96	2,57	2,86	3,71	4,23	4,65
Shares, EoP	32,6	32,6	32,6	33,0	33,7	33,7	33,7	33,7	33,7
Shares, avg.	32,6	32,6	32,6	32,8	33,4	33,7	33,7	33,7	33,7

Growth	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E
Total revenue	-62.1%	8.0%	32.9%	51.2%	19.9%	10.2%	16.5%	10.3%	6.1%
Gross profit	-72.8%	14.8%	26.6%	50.0%	22.7%	8.3%	18.9%	10.6%	7.0%
EBITDA	-85.1%	125.3%	37.7%	223.7%	26.7%	4.2%	26.4%	13.0%	8.8%
EBIT	-97.3%	935.1%	109.7%	485.8%	33.9%	7.0%	29.5%	13.9%	9.7%
EBT	-84.8%	1086.3%	120.5%	512.2%	35.2%	6.8%	29.9%	14.0%	9.8%
Net profit/loss	-156.3%	595.7%	113.0%	487.2%	35.3%	8.7%	29.9%	14.0%	9.8%
EPS	722.2%	-542.6%	125.0%	499.3%	31.1%	11.3%	29.9%	14.0%	9.8%
Margins	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E
Gross profit	29.6%	31.8%	30.1%	30.6%	31.2%	30.7%	31.3%	31.4%	31.7%
EBITDA margin	2.0%	4.2%	4.4%	9.5%	10.0%	9.5%	10.3%	10.6%	10.8%
EBIT margin	0.1%	1.2%	1.9%	7.6%	8.5%	8.2%	9.2%	9.4%	9.8%
EBT margin	0.1%	1.1%	1.8%	7.5%	8.4%	8.1%	9.1%	9.4%	9.7%
Profit margin	-0.2%	0.9%	1.5%	5.8%	6.5%	6.5%	7.2%	7.4%	7.7%

Source: Company information and Carlsquare estimates

Balance sheet (SEKm)

	2019	2020	2021	2022P	2023P	2024P	2025P
Tot. intangible assets	50	56	64	71	80	89	100
Tot. tangible assets	6	7	11	13	14	14	16
Tot. other fixed assets	52	47	43	43	44	44	44
Total fixed assets	108	110	118	127	137	147	160
Inventories	89	127	159	177	204	215	229
Accounts Receivables	22	67	58	78	82	91	96
Other current assets	10	37	35	45	48	53	56
Cash	77	143	236	262	340	405	486
Total current assets	198	373	487	561	674	764	867
Total assets	307	483	605	688	812	911	1 027
Shareholder equity	40	95	152	182	241	309	392
Total equity	40	95	152	182	241	309	392
Debt to creditors	2	5	5	5	5	5	5
Lease liabilities	33	34	25	25	25	25	25
Other long-term liabilities	0	0	1	1	1	1	1
Tot. long-term liabilities	35	39	31	31	31	31	31
Tax liabilities	3	12	17	17	17	17	17
Lease liabilities	11	10	14	14	14	14	14
Accounts payable	36	55	44	62	64	72	76
Other liabilities	101	163	239	247	297	307	326
Accrued expenses and prepaid income	82	109	109	136	148	161	171
Tot. short-term debt	232	349	423	476	540	571	604
Total debt	266	389	453	507	571	602	635
Tot. equity and debt	307	483	605	688	812	911	1 027
Liquidity	2019	2020	2021	2022P	2023P	2024P	2025P
Current ratio	86%	107%	115%	118%	125%	134%	144%
Cash ratio	33%	41%	56%	55%	63%	71%	80%
Leverage	2019	2020	2021	2022P	2023P	2024P	2025P
Net debt(-)/Net cash(+)	75	138	231	257	335	400	481
Net debt/EBITDA	NM	NM	NM	NM	NM	NM	NM
Net debt/Equity	NM	NM	NM	NM	NM	NM	NM
Equity/Total Assets	13%	20%	25%	26%	30%	34%	38%
Efficiency	2019	2020	2021	2022E	2023E	2024E	2025E
ROA	Neg.	1.1%	1.9%	9.6%	11.1%	10.7%	12.3%
ROE	Neg.	7.9%	9.2%	39.8%	42.4%	35.4%	36.1%
ROIC	1.2%	5.0%	6.8%	33.8%	35.1%	29.8%	30.9%

Source: Company information and Carlsquare estimates

Cash flow (SEKm)

	2019	2020	2021	2022E	2023E	2024E	2025E
CF, operating activities b4 delta WC	34	105	110	117	147	166	180
Delta operating capital	38	-8	43	6	29	7	11
CF operating activities	71	97	153	122	176	173	191
CF investing activities	-7	-9	-12	-12	-13	-15	-16
CF financing activities	-33	-22	-49	-84	-84	-93	-95
Cash flow	31	66	93	26	78	65	81
Cash, BoP	45	77	143	236	262	340	405
Cash, EoP	77	143	236	262	340	405	486
Key ratios	2019	2020	2021	2022E	2023E	2024E	2025E
CF operating activities/Total revenue	9%	9%	11%	8%	10%	9%	9%
CF operating activities/EBITDA	213%	90%	112%	85%	97%	84%	86%

Source: Company information and Carlsquare estimates

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