Research update: Q2 2022

ZINZINO AB

Zinzino is a global player in the sale and production of health foods. Today, the company is active in over 100 markets. The company has historically grown rapidly to improved profitability. A key component of its success has been its direct selling distribution method.

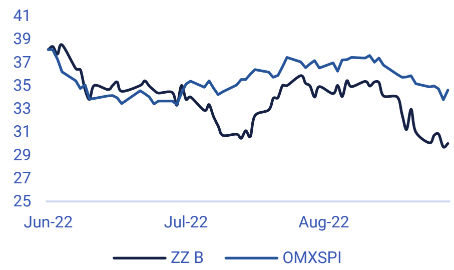
CEO: Dag Pettersen
CoB: Hans Jacobsson
www.zinzino.com

Bloomberg: ZZB:SS
Reuters Eikon: ZZB.ST

List: Nasdaq First North

Last: SEK 30,0
Market cap: SEK 1 011m

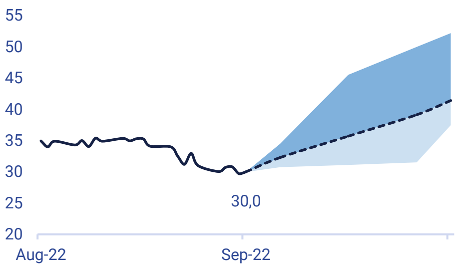
SHARE DEVELOPMENT



	12M	YTD	6M	1M
Development (%)	-53	-47	-17	-14

Source: S&P Capital IQ

VALUATION INTERVAL



	BEAR	BAS	BULL
Share price	37.5	41.4	52.2
Up-/downside (%)	25	38	74

Source: S&P Capital IQ and Carlsquare estimates

CARLSQUARE EQUITY RESEARCH

Markus Augustsson
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A lukewarm quarter with glimmers of light

Zinzino delivered another lukewarm quarter with a good gross margin but an EBITDA result below our expectations. However, there are valuable bright spots, such as strong growth in the important Central European market. Furthermore, preliminary sales figures for July show a solid start to the third quarter. We have adjusted our revenue and profitability forecasts downwards and calculated a fair value per share of SEK 41.4 (52.8).

Tepid growth and profitability below our estimate

In the second quarter of 2022, the Zinzino Group reported total revenues of SEK 329 million. Thus, the past quarter was again lukewarm with a growth of 2.2 per cent - in line with our forecasts. It is encouraging that Central Europe continues to grow at a rapid pace. Furthermore, synergies from the acquisitions of the Enhanzz companies have started to be realised. It is, therefore, not unreasonable to begin speculating about further acquisitions to strengthen positions in existing markets.

The gross margin for the quarter was 32.0 per cent compared to our forecast of 30.0 per cent. That shows that the price increase has had a good impact. While more subscriptions will undergo a price increase, some uncertainty around the gross margin still remains as inventory is turned over. Reported EBITDA came in at SEK 20.1 million, corresponding to a margin of 6.1 per cent. That was well below our forecast of SEK 25.4 million or 7.8 per cent. Higher external operating costs explain the lion's share of the variance.

The lowered target for 2022, but the long-term case remains

The company has downward revised its targets for the year. With current growth initiatives, the cost base has naturally come up. In addition, inflation has affected costs, while growth has not been achieved as intended. That is true in, e.g. the Baltics, among others, but also in Asia, where restrictions have (and continue to) hamper development.

Preliminary sales figures, however, show solid growth figures in July of ten per cent. The figures show that critical Central Europe continues to grow at a high rate of above 20 per cent. There are also signs that the Nordic region may turn around and eventually show growth again. The APAC region again showed strong growth above 50 per cent. It should also not be forgotten that with the current strategy (to grow by entering new markets), the company has had a strong historical performance with growth and improved profitability. The long-term case, in our view, remains intact while inflation and Covid constraints look to be diminishing.

Low valuation to recurring revenues

We have downwards adjusted our revenue forecasts in the short term, but remain confident that high growth rates will return. We have also lowered our profitability estimate for 2022 relatively significantly. We are lowering the long-term EBITDA margin to 10.3 percent from the previous 12.0 percent. In a base case scenario, a fair value per share of SEK 41.4 (52.8) is calculated for the next 6-12 months.

Key figures (SEKm)

	2019	2020	2021	2022E	2023E	2024E
Total revenue	771	1 139	1 371	1 430	1 625	1 816
Gross profit	232	349	428	435	505	566
EBITDA	34	109	138	89	129	149
EBIT	15	87	116	66	107	126
EBT	14	85	115	64	105	124
Earnings per share	0.33	1.96	2.57	1.46	2.41	2.84
Growth, tot. revenue	33.5%	47.8%	20.4%	4.3%	13.6%	11.8%
EBITDA-margin	4.4%	9.5%	10.0%	6.2%	7.9%	8.2%
EBIT-margin	1.9%	7.6%	8.5%	4.6%	6.6%	6.9%
EV/Sales	1.0x	2.1x	1.3x	0.6x	0.5x	0.5x
EV/EBITDA	22.5x	22.5x	13.0x	10.0x	6.9x	5.9x
EV/EBIT	51.0x	28.2x	15.4x	13.5x	8.3x	7.1x
P/E	70.9x	38.8x	22.2x	20.5x	12.5x	10.6x

Source: Company information and Carlsquare estimates

Follow-up and comments

Zinzino reported another quarter of tepid growth of just over two per cent. The Nordic region continues to underperform, while the key growth drivers, Central Europe, North America and APAC, are performing well. Gross margin came in above expectations, while profitability further down the income statement was disappointing. At the same time, management has negatively revised this year's revenue and EBITDA margin targets. However, preliminary figures for July show growth of over ten per cent, which is an excellent start to the current quarter.

Weak profitability, but there are bright spots

Below is the outcome for the second quarter of 2022 compared to our estimate. In summary, revenues were in line with expectations, gross profit was slightly above, while external operating costs create negative variances in profitability further down the income statement.

Actuals vs estimates, Q2 2022 (SEKm)

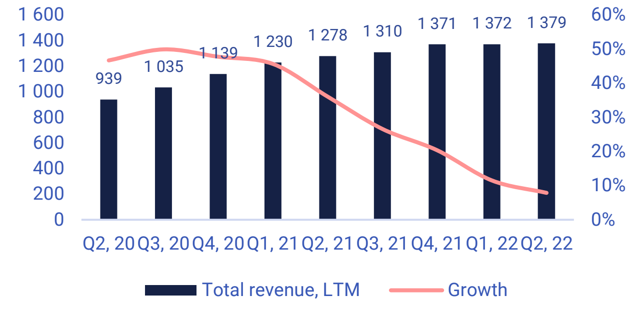
	Kv2 22P	Kv2 22U	Kv2 21U	Avvikelse (%)	Tillväxt (%)
Total revenue	327	329	322	1%	2%
Gross profit	97,8	105,5	105,1	8%	0%
Gross profit margin	30,0%	32,0%	32,6%		
EBITDA	25,4	20,1	33,4	-21%	-40%
EBITDA margin	7,8%	6,1%	10,4%		
EBIT	20,6	13,6	28,2	-34%	-52%
EBIT margin	6,3%	4,1%	8,8%		
EBT	20,4	13,3	28,0	-35%	-53%
EPS (SEK)	0,46	0,30	0,66	-53%	-55%

Source: Company information and Carlsquare estimates

Total revenue has grown at a CAGR, 2017-2021 of26.2 per cent.

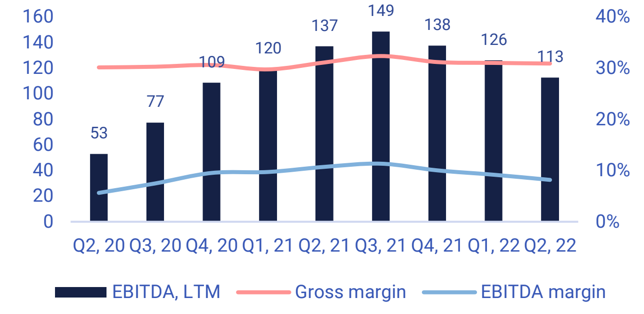
Rolling 12 months show how growth continues to slow down. At the same time, the EBITDA margin is falling back despite a sustained gross margin. With current growth initiatives, the cost base has naturally come up. Costs have been inflated by inflation, while growth has not been achieved as intended. That is true for e.g. the Baltics, among others, but also in APAC, where restrictions have (and continue) to hamper development. At the same time, the company's current strategy, to grow by entering new markets, has had a good history of growth with improved profitability. The long-term case remains intact, while inflation and Covid restrictions appear to be easing.

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



LTM = last twelve months. Source: Company information and Carlsquare

EBITDA result (SEKm) and margins (%), LTM



LTM = last twelve months. Source: Company information and Carlsquare

Tepid growth despite price increases

Despite a more significant impact of the company's 6.5 per cent average price increase implemented in February 2022, Zinzino reported total revenues of SEK 329 million, corresponding to a growth of 2.2 per cent. Total revenues were in line with our forecast of SEK 327 million.

Growth helped by price increases.

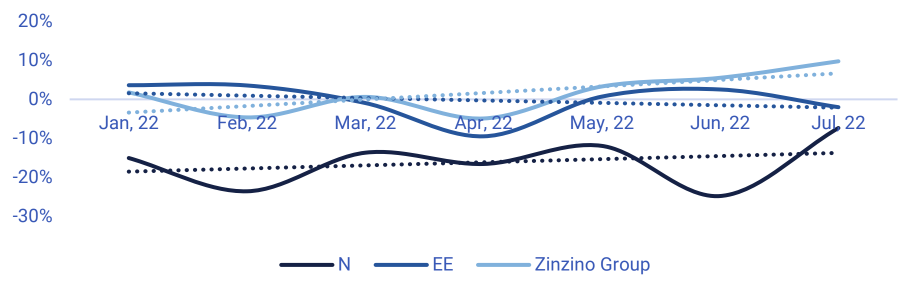
The giants weigh heavily, but there are glimmers of light

Growth was held back by a weak performance in the company's two largest markets, Eastern Europe (EE) and the Nordics (N), where revenues fell by 3.4 and 18.2 per cent, respectively. The development in the Eastern European market was dampened by low sales figures in the sizeable Hungarian market.

In the past quarter, the revenue contribution from the Nordics was around 23.0 per cent. The corresponding figure for Eastern Europe was 23.3 per cent.

To increase activity in the Nordic region, the company hosted an event at the end of June/July 2022 with almost 2,000 sales partners. That may also have contributed to the preliminary growth figures for the Nordics in July climbing slightly, albeit still in negative territory. It will be interesting to see if the Nordics can continue to climb to show positive growth in the third or fourth quarter of this year, though we do not expect this to happen at this stage.

Sales growth on an annual basis (based on preliminary sales figures)

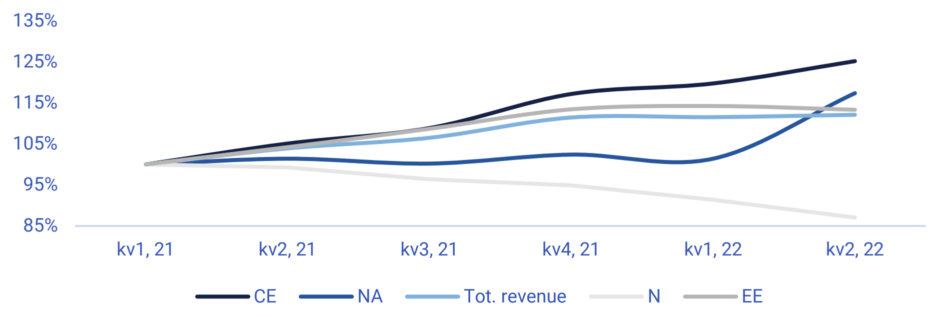


Source: Company information and Carlsquare

Central Europe goes strong with Germany, and synergies

There are also other valuable, bright spots. Central Europe (CE) grew by 20.0 per cent in the past quarter. In the report, it is also stated that sales synergies have been realised following the acquisitions of the Enhanzz companies. There is speculation as to whether the acquisitions of the Enhanzz companies were the start of an intensification of M&A activity to strengthen positions in existing markets.

Development revenues, LTM (Index = 100%, Q1 2021)



LTM = last twelve months. Source: Company information and Carlsquare

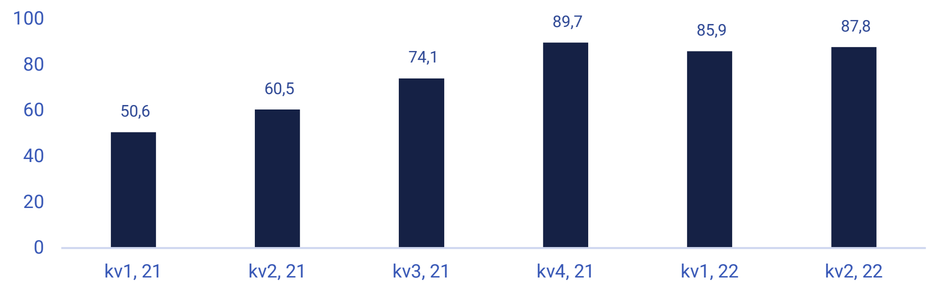
The chart above shows the growth acceleration in North America – the company's fifth largest market, contributing about 5.6 per cent of revenues in the past quarter. The increased growth is explained in part by synergies generated by partners in the Philippines building new customer bases in the North America region in a very short period of time through personal contacts. This in turn means that the rate of growth may slow down in the coming quarters. At the same time, it should be noted that North America grew by 58% in July according to preliminary sales figures.

APAC shows positive growth again - essential for the case

Sales in the APAC region have been strong until the fourth quarter of 2021. In the first quarter of 2022, a negative growth of 18.8 per cent was reported. The reason is somewhat unclear to us but can be partly explained by strict restrictions following new waves of Covid. However, in the second quarter of 2022, APAC reported a positive growth of 11.9 per cent. According to preliminary sales figures for July, revenues grew by 52 per cent, which bodes well for the current quarter. It is important for the case that APAC's growth accelerates.

Good start to the third quarter of 2022 for APAC.

APAC revenue development (SEKm), LTM



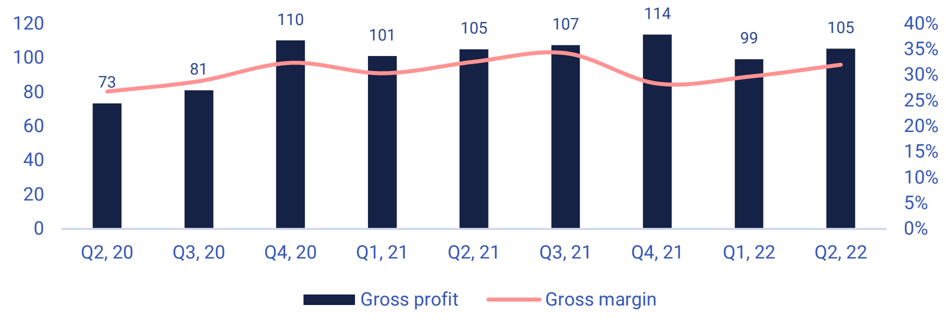
LTM = last twelve months. Source: Company information and Carlsquare

Solid gross margin for Zinzino after price increases

The group's gross profit landed at just over SEK 105 million, corresponding to a margin of 32.0 per cent. Our forecast was for SEK 98 million or 30.0 per cent.

Strong gross margin for the Zinzino business segment, again price increases are believed to have a hand in it.

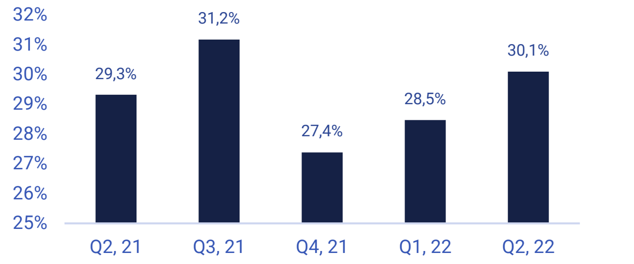
Gross profit (SEKm) and gross margin (%)



Source: Company information and Carlsquare

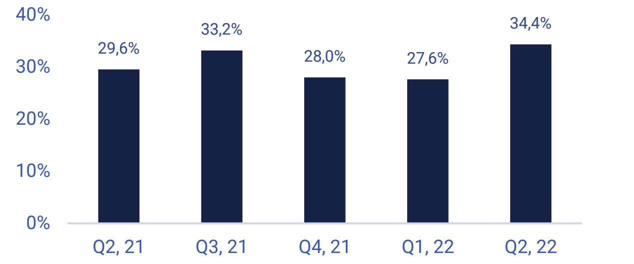
The largest business segment by far, Zinzino, increased its gross margin for the second consecutive quarter, relative to the same quarter last year by 0.8 percentage points. That indicates that the price increase had a good impact. The gross margin of the much smaller Faun business segment increased by 4.8 percentage points compared to the same quarter last year.

Gross marginal development (%), Zinzino



Source: Company information and Carlsquare

Gross margin developemt (%), Faun



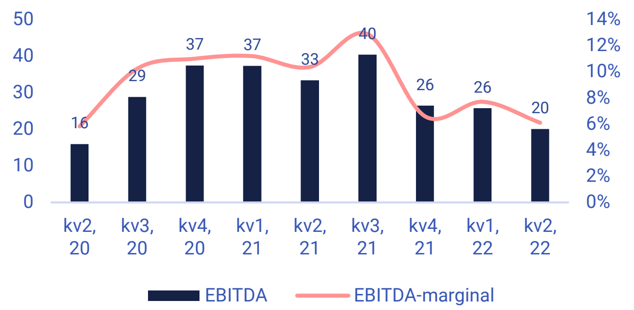
Source: Company information and Carlsquare

Given the more significant impact of the implementation of raised prices by Zinzino Health, it is reasonable to expect that a larger part of the inflated cost of goods sold can be covered, and the segment can thus maintain its gross margin. However, there is a risk that the cost of goods sold will increase further in the coming quarters with inventory turnover. At the same time, it should be noted that not all subscriptions have yet undergone the impact of raised prices.

EBITDA margin under pressure

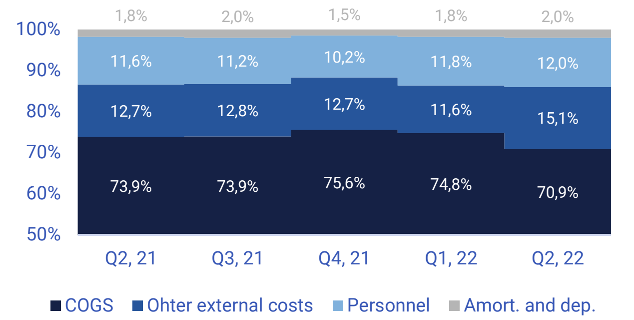
Reported EBITDA came in at around SEK 20 million, down by almost 40 per cent. Our forecast was around SEK 25 million. The deviation is mainly explained by higher external operating costs than expected. The reported EBITDA margin was 6.1 per cent, which is also the company's target for the full year.

EBITDA (SEKm) and margin (%)



Source: Company information and Carlsquare

Kostnadsfördelning



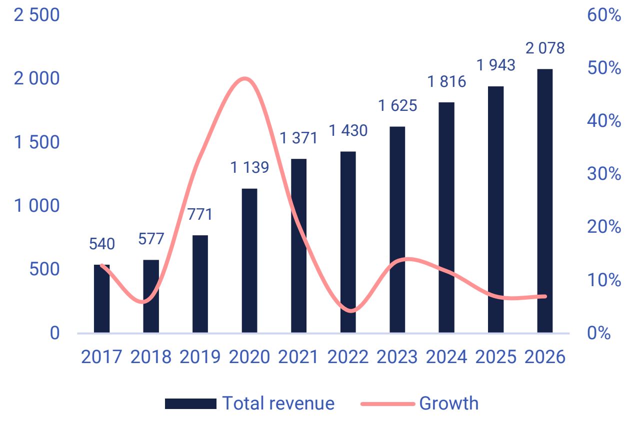
Source: Company information and Carlsquare

Cash flow and cash on hand

Cash flow from operating activities amounted to SEK 20.5 million during the quarter, corresponding to a good 102 percent of the EBITDA result. Free cash flow amounted to SEK 2.1 million and was held back by the acquisitions of the Enhanzz companies. Cash and cash equivalents at the end of the quarter amounted to just over SEK 151 million.

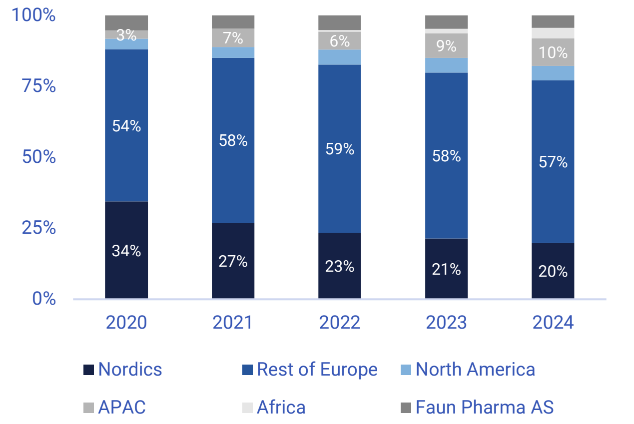
Equity story in six charts

Historical growth demonstrates business model and strateg



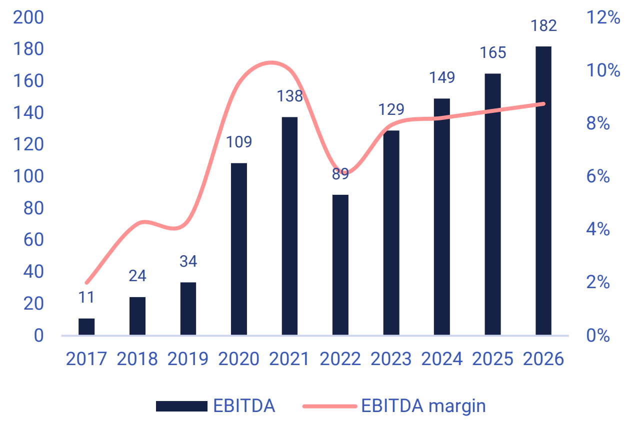
SEKm. Source: Company information and Carlsquare estimates

Asia expected to be a prominent growth driver



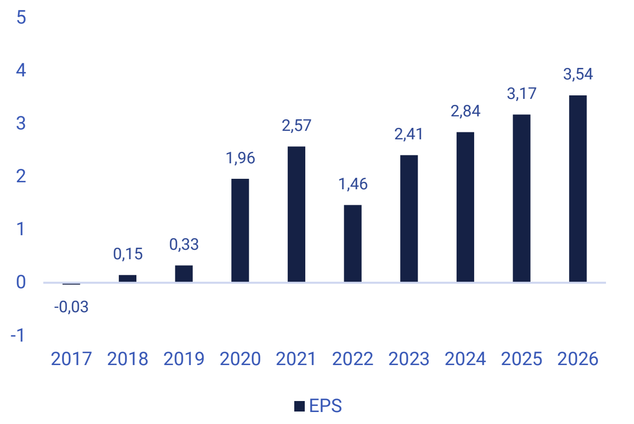
SEKm. Source: Company information and Carlsquare estimates

Set-up for growth and margin expansion in parallel



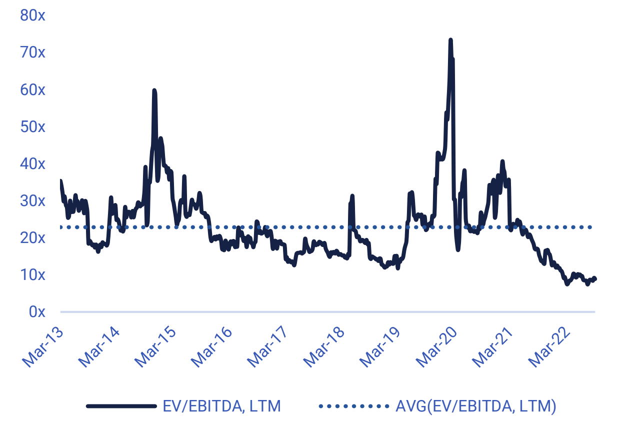
SEKm. Source: Company information and Carlsquare estimates

Profit growth in the cards



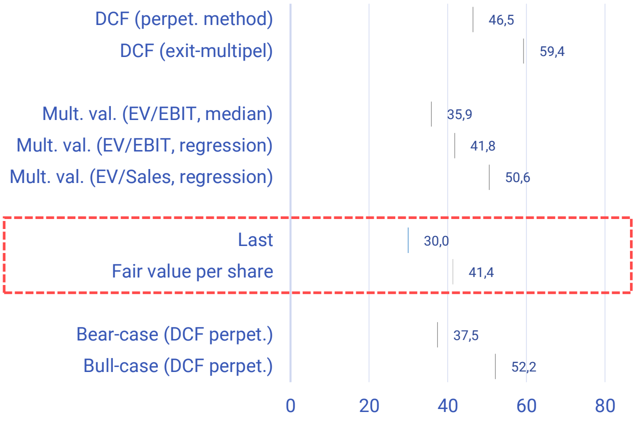
EPS in SEK. Source: Company information and Carlsquare estimates

At a historically low valuation



LTM = last twelve months. Source: S&P Capital IQ

Fair value per share within an interval



Source: Company information and Carlsquare

Investment case, estimates and valuation

Zinzino has demonstrated strong historical growth to improved profitability. That reflects the strength of the business model, strategy and offering. Historically, Europe has been the main growth driver. Now APAC is next, where the conditions can be considered even better with a strong interest in both direct sales and health. With a cost-effective sales model, we believe that Zinzino can eventually return to showing revenue growth and margin expansion in parallel. In a base case scenario, a fair value per share of SEK 41.4 (52.8) is calculated for the next 6-12 months.

Growth and margin expansion create upside

Since its foundation in 2007, Zinzino has grown into a global player in selling and producing food supplements. We continue to see good prospects for Zinzino to continue to grow in the global market at a fast pace to an increasing profit.

- **A proven growth strategy.** Over the past ten years, Zinzino has grown at an average annual rate of approximately 30 per cent. Efficient and rapid expansion through direct selling and an expanded product offering have been crucial ingredients in the recipe. In parallel to strong growth, the EBITDA margin has increased from 3.2 per cent in 2012, to 10.0 per cent in 2021. The scalability of the business largely explains that. Competition is fierce, with many products with similar formulations and health claims. However, the company's history demonstrates the strength of its offering, business model and growth strategy.
- **Expansion in APAC, a key growth driver.** Over the past few years, expansion into new European countries has been the main growth driver. Despite the billion-SEK turnover, market share in existing markets is minimal, and there is thus room for growth. The acquisition of Enhanzz in Germany has started to provide sales synergies. The first steps have also been taken to replicate the expansion strategy in Asia and the Pacific. So far, the APAC initiative has borne fruit, and more markets will be opened. Overall, we see continued good growth prospects, not least as restrictions in the wake of the pandemic are eased.
- **Upside in margins.** Regarding gross margin after partner costs, Zinzino is well behind its larger sector peers, such as Herbalife and Usana Health. We believe gross margins can increase with a broadened product offering, more of which is produced in-house. However, the business's main driver of the potential upside in profitability is scalability as common group costs are spread across higher revenues.
- **Historically low valuation levels and undeserved discount.** Today, Zinzino is trading at a 12-month rolling EV/EBIT multiple of 9.9x. That's a historically low level compared to the average of 32.6x since March 2013. Combining two multiple valuation models with a DCF valuation, we calculate a fair value per share of SEK 41.4 (52.8) for the next 6-12 months. That represents an excellent potential upside of 38 per cent compared to the last paid. Our valuation corresponds to an EV/EBIT multiple of 14.2x our estimate for the next twelve months (NTM). Zinzino is currently trading at an EV/EBIT multiple of 9.9x our NTM. That is an undeserved discount compared to our reference group whose median value is 12.1x.

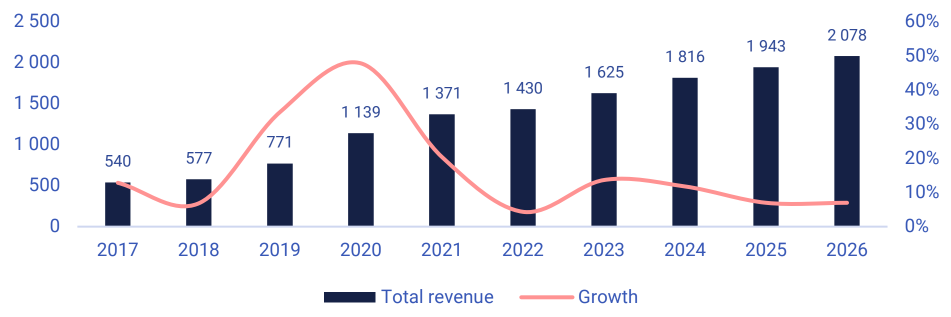
Assumptions and estimates

New growth initiatives will boost revenues

In 2022, we expect growth of 4.3 per cent and total revenues of SEK 1 430 million. That is a slight downward revision from the previous SEK 1 490 million. Growth is expected to be hampered by weak development in the Nordic and Baltic countries. In 2023, we have assumed that growth will pick up again, and the CAGR, 2021-2026 will be 8.7 per cent. We include acquisitions in our forecasts. Such acquisitions are thus a trigger that can accelerate the growth rate.

Over the entire forecast period, 2022-2031, we expect an average annual growth rate of 7,4 per cent. The company's target over the period 2022-2025 is to grow at an average rate of at least ten per cent.

Total revenues (SEKm) and growth (%)



Source: Company information and Carlsquare estimates

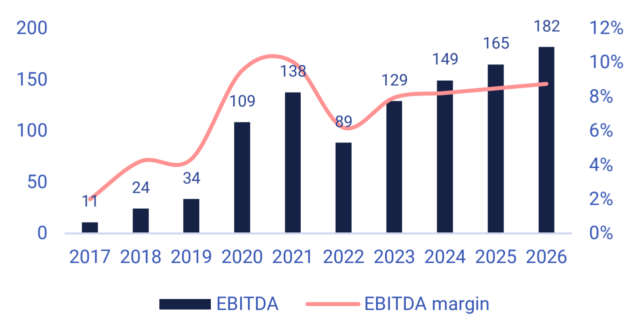
Scalability yields margin expansion

In 2022, we expect gross profit of SEK 428 million (457), corresponding to a margin of 30.4 percent. By the final year of the forecast period, 2031, we expect the gross margin to increase to 32.2 per cent, partly as a result of a change in product mix and a higher proportion of goods sold produced in-house. In 2021, Herbalife and USANA Health reported gross margins after distributor costs of 47.0 percent and 37.9 percent, respectively.

Gross profit (SEKm) and margin (%)

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

EBITDA (SEKm) and margin (%)



Source: Company information and Carlsquare estimates

With cost-effective growth through direct selling, scalability can be enjoyed despite a relatively high growth rate. In our scenario, the company makes an EBITDA result in 2022 of SEK 89 million (131), corresponding to an EBITDA margin of 6.2 per cent. That is a downward revision from the previous 8.8 per cent. Over time, the EBITDA margin increases to 10.3 per cent by the end of 2031 – a downwards revision from the previous assumption of 12.0 per cent.

The company's EBITDA margin target for 2022 is six per cent. By 2025, the target is to increase to and average above nine per cent.

Fair value within a range

Pressured stock with good upside

We have combined a DCF model with two multiple valuation models to calculate a fair value per share. Our DCF valuation results in a value per share of SEK 46.4-59.7 per share. Our multiple valuation on EV/EBIT NTM results in a value per share between SEK 36.2-42.1 per share.

In the base case, a fair value of SEK 41.1 per share is calculated for the next 6-12 months.

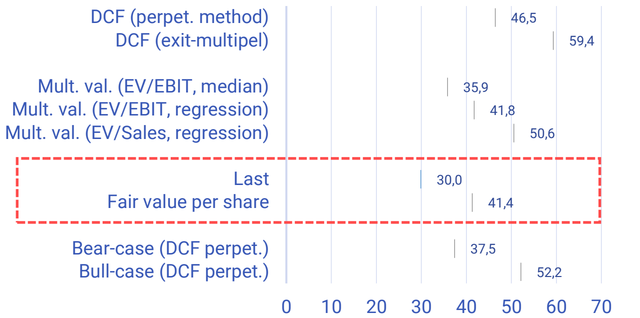
Combining the lowest value in the DCF model with the values from the multiple valuations (EV/EBIT, regression and median) to an average, we calculate a fair value per share of SEK 41.6 (52.8) for the next 6-12 months. That is a downward revision and is mainly explained by lower revenue and profitability forecasts and a higher risk-free rate.

Fair value per share (SEK), base case

Multiple valuation (EV/EBIT, median NTM)	35.9
Multiple valuation (EV/EBIT, regress. NTM)	41.8
DCF valuation	46.5
Fair value per share	**41.4**
Potential up-/downside	38%
Shares outstanding, fully financed, and diluted (M)	33.7
Shareholder value	**1 396**
Cash (last rep. Q)	151
Debt (last rep. Q)	-26
PV cash from equity financing	0
EV	**1 270**

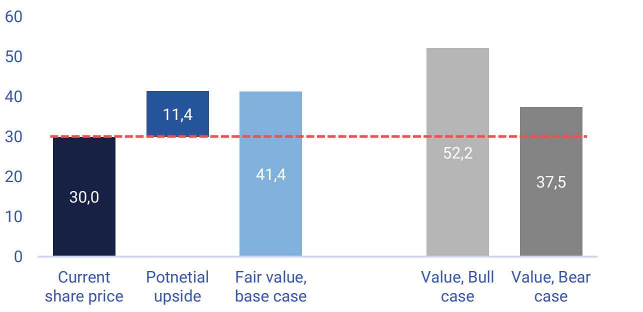
Source: Carlsquare estimates

Fair value within a range (SEK)



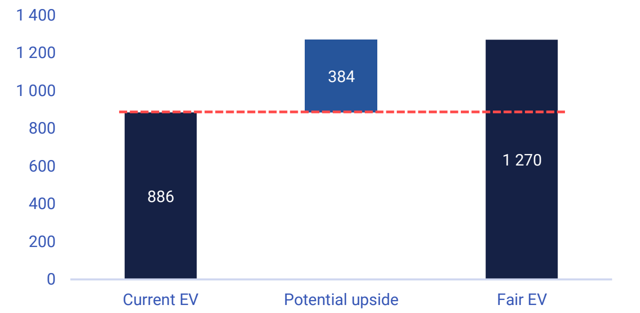
Source: Carlsquare estimates

Fair value per share (SEK), three scenarios



Source: Carlsquare estimate

Visualiering EV, bascenario (MSEK)



Source: Carlsquare estimate

A sanity check, base case

Our fair value in the base case corresponds to the multiples below.

Impied valuation multiples, base case

	NTM	2021	2022	2023	2024
EV/Sales	0.8x	1.3x	0.9x	0.8x	0.7x
EV/EBITDA	11.4x	13.0x	14.3x	9.8x	8.5x
EV/EBIT	14.2x	15.4x	19.3x	11.9x	10.1x
P/E	20.5x	22.2x	28.3x	17.2x	14.6x

Source: Carlsquare estimates

Our reference group of companies producing and selling food supplements, health foods and alike currently trade at a median EV/Sales multiple NTM of 0.9x and an EV/EBIT multiple 2022 of 12.1x.

DCF valuation

By discounting the assumed future cash flow to its present value in a DCF model with a discount rate of 13.0 percent (12.7), a value of SEK 46.5 per share is calculated.

DCF valuation, base case

DCF-valuation		Discount rate		Assumptions	
PV(UFCF)	722	Risk free rate	1.8%	CAGR, 2021-2031	7.4%
PV(TV)	720	Market risk premium	6.7%	EBITDA margin, 2031	10.3%
Enterprise value	**1 442**	Size premium	2.6%	EBIT margin, 2031	9.2%
Net cash, last Q	125	Beta	1.2x	Tax rate	20.6%
Shareholder value	**1 567**	Req. return on equity	13.0%		
PV(equity financing proceeds)	0			Implied multiples	
Shareholder value, after financing	**1567**	Tax adjust. Int. on debt	2.4%	EV/Sales, NTM	0.9x
Current shares outstanding	33.7	Leverage	0.0%	EV/Sales 2022	1.0x
New shares	0,0	WACC	13.0%	EV/EBITDA, NTM	12.9x
Shares outstanding after financing and dilution	33.7			EV/EBITDA 2022	16.3x
Value per share (before financing and dilution)	46.5	Comp. spec. premium	0.0%	EV/EBIT NTM	16.1x
Value per share (after financing and dilution)	**46.5**	**Discount rate**	**13.0%**	EV/EBIT, 2022	21.9x

Source: Carlsquare estimates

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

Sensitivity analysis (SEK/share), base case

	2.0%	**3.0%**	**4.0%**	**5.0%**
11.0%	54.9	58.7	63.5	70.0
12.0%	49.0	51.8	55.4	59.9
13.0%	44.3	**46.4**	49.0	52.3
14.0%	40.4	42.0	44.0	46.4
15.0%	37.1	38.4	39.9	41.8

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

Sensitivity analysis with an exit-multiple (SEK/share)

	11.0x (-10%)	**12.2x (0%)**	**13.4x (10%)**	**14.6x (20%)**
11.0%	59.3	62.9	66.4	70.0
12.0%	57.6	61.1	64.6	68.1
13.0%	55.9	**59.4**	62.8	66.2
14.0%	54.4	57.8	61.1	64.5
15.0%	52.9	56.2	59.5	62.8

Discount rate on Y-axis and growth perpetuity on X-axis.
(XX%) = applied rebate on reference group's median value for EV/EBIT.
Source: Carlsquare estimates

On the right is a second sensitivity analysis of the valuation based on a DCF model with an exit multiple as the method to calculate the perpetual value - an alternative to perpetual capitalisation. 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 2024. 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 59.4.

Multiple valuation

Below are multiple valuations based on the median EV/EBIT NTM of the reference group. As shown, a value per share calculated by this method is SEK 35.9.

Multiple valuation, base case

	HQ	Mcap (SEKm)	CAGR, 2020-2023	µEBIT-marg., 2021-2023	EV/EBIT, 2022
Midsona AB (publ)	SE	1 604	4%	5%	17.8x
Orkla ASA	NO	89 372	7%	12%	15.3x
Probi AB (publ)	SE	2 820	5%	16%	24.0x
Aker BioMarine AS	NO	5 294	24%	10%	47.1x
Herbalife Nutrition Ltd.	US	26 830	5%	11%	8.9x
Nu Skin Enterprises, Inc.	US	21 711	4%	10%	9.0x
USANA Health Sciences, Inc.	US	12 970	-	11%	8.4x
Tupperware Brands Corporation	US	5 244	4%	13%	5.8x
Median		**9 132**	**5%**	**11%**	**12.1x**
Average		20 731	8%	11%	17.0x

Median	
Discount	0%
Applied EV/EBIT multiple	**12.1x**
Exp. EBIT NTM (MSEK)	90
Enterprise value	**1 085**
Net cash, last Q	125
PV(Cash from equity financing)	0
Shareholder value, after financing	**1 210**
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)	35.9
Value per share (after financing and dilution)	**35.9**

Source: S&P Capital IQ and Carlsquare estimates

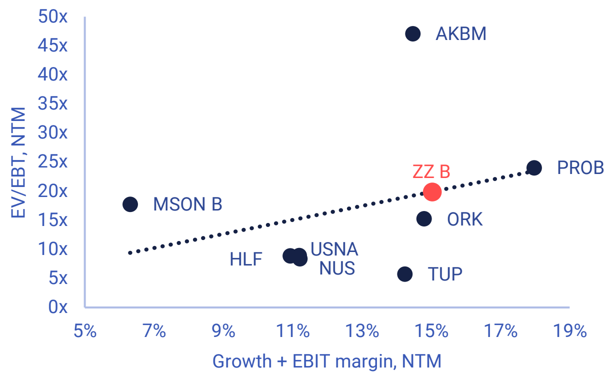
Below is the multiple valuation based on a regression analysis with EV/EBIT multiple NTM and expected growth plus EBIT margin NTM. As shown, a value per share calculated by this method is SEK 41.8.

Multiple valuation EV/EBIT NTM, regression

Slope	120.5
Intercept	1.8
Rsq	10%
Expected growth	10.4%
Expected EBIT margin	5.9%
Implied multiple	**14.3x**
Expeced EBIT	90
EV	1 285
Net cash, last Q	125
PV(Cash from equity financing)	0
Shareholder value, after financing	1 410
Shares outstanding after financing and dilution	33.7
Value per share (before financing and dilution)	41.8
Value per share (after financing and dilution)	**41.8**

Source: S&P Capital IQ and Carlsquare estimates

Implied EBIT multiple, regression



Source: S&P Capital IQ and Carlsquare estimates

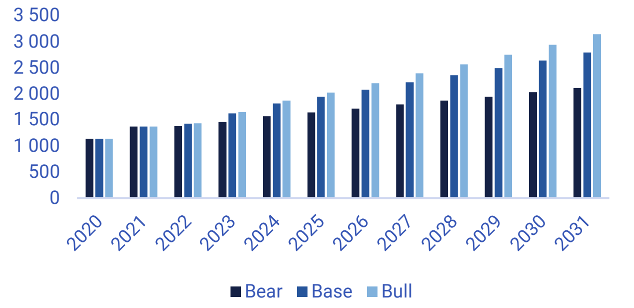
Valuation range

In the Bull and Bear scenarios, we have used our DCF model (perpetual cap.) but developed alternative growth and profitability curves. In the Bull scenario, we model with an average annual growth rate, 2022-2031, of 8.7 percent (7.4 percent in the base scenario). The EBIT margin is assumed to increase to 10.4 percent (9.2 percent in the base scenario) by 2031. With these assumptions, a value per share of SEK 52.2 is calculated.

For the Bear scenario, we model an average annual growth rate of 4.4 percent. The EBIT margin is assumed to increase to 8.3 percent by 2031. With these assumptions, a value per share of SEK 37.5 is calculated.

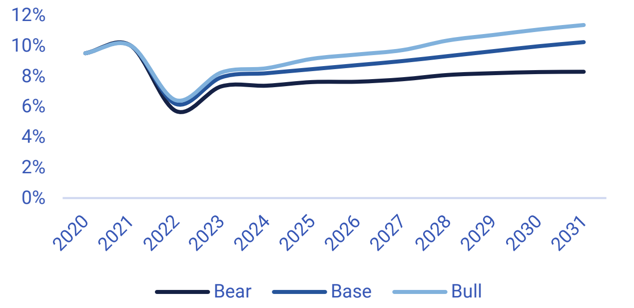
The assumed development of net sales and EBIT margin in the three scenarios is shown below.

Total revenue (SEKm), three scenarios



Source: Company information and Carlsquare estimates

EBIT margin, three scenarios



Source: Company information and Carlsquare estimates

Inflation, war and Covid create uncertainty

Ahead of 2022, the company intended to establish itself in the submarkets of Ukraine and Russia. However, the tragic war in Ukraine has caused these expansion initiatives to be cancelled. We have also made provision for reduced activity in neighbouring countries. An even more negative development in Ukraine may impact Zinzino's growth more than we currently anticipate.

The cost of goods sold has and may increase further as a result of inflation, driven by, among other things, higher transport and energy costs. Delivery times have also lengthened, mainly due to queuing at key ports, including in Europe. That could hold back the company's ability to generate revenue but also put more pressure on margins than we had anticipated.

The company has made a price adjustment, which should offset some of the rising costs. Nevertheless, overall we expect gross profit to be negatively impacted by inflation. At the same time, we believe that the cost picture could come down for example, for transport and energy in 2023, but the uncertainty is high. We believe that some clarity on the issue can be achieved in the second half of 2022.

In the beginning of 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 months of 2022. Similar developments in other geographic countries and regions where the company is active (or intends to become active) are 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. The growth in 2020 and 2021 demonstrates this. At the same time, in terms of overall growth, our case is based on the company's ability to operate in more normal conditions without restrictions and benefit from the digitalisation that Covid forced on the direct selling industry. New restrictions in Europe and Asia could thus change the outlook.

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 a rising vacancy rate, there is some risk that demand will fall back again.

Metrics and financials

Key metrics

	2019	2020	2021	2022E	2023E	2024E	2025E
Per share							
EPS	-0,03	0,15	0,33	1,96	2,57	1,46	2,41
DPS	0,7	0,7	1,3	2,0	2,0	2,3	2,3
BVPS	1,2	2,9	4,7	4,2	4,6	5,3	6,3
TBVPS	0,2	0,2	0,3	0,4	0,4	0,4	0,5
Valuation (curr.)	2019	2020	2021	2022E	2023E	2024E	2025E
P/E	70,9x	38,8x	22,2x	20,5x	12,5x	10,6x	9,5x
P/B	25,1x	10,7x	6,7x	7,2x	6,5x	5,7x	4,8x
EV/Sales	1,0x	2,1x	1,3x	0,6x	0,5x	0,5x	0,5x
EV/EBITDA	22,5x	22,5x	13,0x	10,0x	6,9x	5,9x	5,4x
EV/EBIT	51,0x	28,2x	15,4x	13,5x	8,3x	7,1x	6,3x
Other	2019	2020	2021	2022E	2023E	2024E	2025E
Dividend yield	2,3%	2,3%	4,2%	6,7%	6,7%	7,5%	7,5%
FCF yield	6,4%	8,7%	14,0%	1,5%	11,1%	10,9%	12,2%

Source: Company information and Carlsquare

Income statement (SEKm), quarterly

	Q1, 21	Q2, 21	Q3, 21	Q4, 21	Q1, 22E	Q2, 22E	Q3, 22E	Q4, 22E
Total sales	333	322	314	401	334	329	341	425
Gross profit	101	105	107	114	99	105	103	127
EBITDA	37	33	40	26	26	20	20	22
EBIT	32	28	35	21	20	14	15	17
EBT	32	28	35	21	20	13	15	16
Net profit/loss	24	23	28	15	16	10	12	13
EPS (SEK)	0,69	0,66	0,80	0,43	0,45	0,30	0,34	0,38
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%	-0,1%	2,0%	8,5%	6,2%
Gross profit	20,9%	43,0%	32,4%	3,2%	-1,9%	0,4%	-3,7%	11,5%
EBITDA	41,9%	109,3%	40,1%	-29,4%	-31,0%	-39,8%	-49,4%	-15,9%
EBIT	48,8%	153,3%	51,9%	-32,7%	-37,1%	-51,7%	-56,7%	-19,2%
EBT	49,4%	155,6%	60,1%	-34,1%	-37,5%	-52,6%	-57,4%	-19,7%
Net profit/loss	43,1%	168,9%	66,3%	-39,7%	-34,0%	-55,6%	-58,5%	-9,8%
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%	29,7%	32,0%	30,3%	29,8%
EBITDA margin	11,2%	10,4%	12,9%	6,6%	7,7%	6,1%	6,0%	5,2%
EBIT margin	9,6%	8,8%	11,1%	5,2%	6,0%	4,1%	4,4%	4,0%
EBT margin	9,6%	8,7%	11,0%	5,1%	6,0%	4,0%	4,3%	3,9%
Profit margin	7,2%	7,1%	9,0%	3,6%	4,7%	3,1%	3,4%	3,1%

Source: Company information and Carlsquare

Income statement (SEKm)

	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Total revenue	**577**	**771**	**1 139**	**1 371**	**1 430**	**1 625**	**1 816**	**1 943**	**2 078**
COGS	-394	-538	-790	-943	-995	-1 120	-1 250	-1 333	-1 421
Gross profit	**183**	**232**	**349**	**428**	**435**	**505**	**566**	**610**	**658**
Other operating expenses	-159	-199	-240	-290	-347	-376	-417	-445	-476
EBITDA	**24**	**34**	**109**	**138**	**89**	**129**	**149**	**165**	**182**
Dep. and amort.	-17	-19	-22	-22	-23	-22	-24	-25	-26
EBIT	**7**	**15**	**87**	**116**	**66**	**107**	**126**	**140**	**156**
Net finances	-1	-1	-2	-1	-1	-1	-1	-1	-1
EBT	**6**	**14**	**85**	**115**	**64**	**105**	**124**	**138**	**154**
Tax	-1	-3	-19	-25	-14	-22	-26	-29	-32
Net profit/loss	**5**	**11**	**66**	**90**	**51**	**84**	**98**	**110**	**123**
EPS	**0.15**	**0.33**	**1.96**	**2.57**	**1.46**	**2.41**	**2.84**	**3.17**	**3.54**
Shares, EoP	32.6	32.6	33.0	33.7	33.7	33.7	33.7	33.7	33.7
Shares, avg.	32.6	32.6	32.8	33.4	33.7	33.7	33.7	33.7	33.7

Growth	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Total revenue	8.0%	32.9%	51.2%	19.9%	4.2%	13.7%	11.8%	7.0%	7.0%
Gross profit	14.8%	26.6%	50.0%	22.7%	1.8%	16.0%	12.1%	7.8%	7.8%
EBITDA	125.3%	37.7%	223.7%	26.7%	-35.6%	45.8%	15.6%	10.4%	10.3%
EBIT	935.1%	109.7%	485.8%	33.9%	-43.3%	62.3%	17.7%	11.5%	11.3%
EBT	1086.3%	120.5%	512.2%	35.2%	-44.0%	63.3%	17.9%	11.6%	11.4%
Net profit/loss	595.7%	113.0%	487.2%	35.3%	-43.3%	64.3%	17.9%	11.6%	11.4%
EPS	-542.6%	125.0%	499.3%	31.1%	-43.1%	64.7%	17.9%	11.6%	11.4%
Margins	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**
Gross profit	31.8%	30.1%	30.6%	31.2%	30.4%	31.1%	31.2%	31.4%	31.6%
EBITDA margin	4.2%	4.4%	9.5%	10.0%	6.2%	7.9%	8.2%	8.5%	8.8%
EBIT margin	1.2%	1.9%	7.6%	8.5%	4.6%	6.6%	6.9%	7.2%	7.5%
EBT margin	1.1%	1.8%	7.5%	8.4%	4.5%	6.5%	6.8%	7.1%	7.4%
Profit margin	0.9%	1.5%	5.8%	6.5%	3.6%	5.1%	5.4%	5.7%	5.9%

Source: Company information and Carlsquare

Balance sheet (SEKm)

	2020	2021	2022E	2023E	2024E	2025E	2026E
Tot. intangible assets	56	64	118	132	147	163	181
Tot. tangible assets	7	11	13	14	14	15	16
Tot. other fixed assets	47	43	53	55	57	60	62
Total fixed assets	110	118	184	201	218	238	259
Inventories	127	159	162	187	202	216	231
Accounts Receivables	67	58	72	75	85	91	98
Other current assets	37	35	41	44	50	53	57
Cash	143	236	170	196	210	236	275
Total current assets	373	487	445	502	547	597	661
Total assets	**483**	**605**	**629**	**703**	**766**	**835**	**920**
Shareholder equity	95	152	140	156	178	212	259
Total equity	**95**	**152**	**140**	**156**	**178**	**212**	**259**
Debt to creditors	5	5	26	26	26	26	26
Lease liabilities	34	25	29	29	29	29	29
Other long-term liabilities	0	1	3	3	3	3	3
Tot. long-term liabilities	39	31	58	58	58	58	58
Tax liabilities	12	17	4	4	4	4	4
Lease liabilities	10	14	18	18	18	18	18
Accounts payable	55	44	57	59	67	72	77
Other liabilities	163	239	227	272	288	308	330
Accrued expenses and prepaid income	109	109	125	136	151	161	173
Tot. short-term debt	349	423	431	489	529	564	602
Total debt	**389**	**453**	**489**	**547**	**587**	**623**	**661**
Tot. equity and debt	**483**	**605**	**629**	**703**	**766**	**835**	**920**

Liquidity	2020	2021	2022E	2023E	2024E	2025E	2026E
Current ratio	107%	115%	103%	103%	103%	106%	110%
Cash ratio	41%	56%	39%	40%	40%	42%	46%
Leverage	2020	2021	2022E	2023E	2024E	2025E	2026E
Net debt(-)/Net cash(+)	138	231	144	169	184	210	249
Net debt/EBITDA	NM	NM	NM	NM	NM	NM	NM
Net debt/Equity	NM	NM	NM	NM	NM	NM	NM
Equity/Total Assets	20%	25%	22%	22%	23%	25%	28%
Efficiency	2020	2021	2022E	2023E	2024E	2025E	2026E
ROA	1%	2%	11%	13%	7%	10%	11%
ROE	8%	9%	46%	61%	30%	43%	42%
ROIC	6%	8%	41%	51%	25%	35%	35%

Source: Company information and Carlsquare

Cash flow (SEKm)

	2020	2021	2022P	2023P	2024P	2025P	2026P
CF, operating activities b4 delta WC	105	110	61	106	122	135	149
Delta operating capital	-8	43	-12	26	10	12	13
CF operationg activities	97	153	49	132	132	147	161
CF investing activites	-9	-12	-33	-20	-22	-23	-25
CF financing activities	-22	-49	-81	-86	-95	-97	-97
Cash flow	66	93	-66	26	15	26	39
Cash, BoP	77	143	236	170	196	210	236
Cash, EoP	143	236	170	196	210	236	275

Key ratios	2020	2021	2022E	2023E	2024E	2025E	2026E
CF operationg activities/Total revenue	9%	11%	3%	8%	7%	8%	8%
CF operationg activities/EBITDA	90%	112%	55%	102%	89%	89%	89%

Source: Company information and Carlsquare

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