

HKFoods

Company report

9/27/2024



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✓ Inderes corporate customer

This report is a summary translation of the report "Kannattavuuskäännö edistyy vahvasti" published on 9/26/2024 at 7:10 pm EEST

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Profitability turnaround making strong progress

The increase in the 2024 EBIT guidance shows that the efficiency investments made by the company are bearing fruit. Improved earnings levels could also help the company strengthen its balance sheet faster than we previously expected. Debt on the balance sheet is still high and we see the valuation of the stock as close to fair value given the rise in the share price. We therefore reiterate our Reduce recommendation with an increased target price of EUR 0.70 (was EUR 0.55).

Significantly improved earnings outlook for the current year

HKFoods issued a positive profit warning on Thursday September 26 at 2 pm EEST. According to the new guidance, the adjusted EBIT from continuing operations is estimated at 22-25 MEUR in 2024. According to the previous guidance, the adjusted EBIT from continuing operations was expected to improve from 2023 (11.6 MEUR). The new guidance thus provides a more precise range for the improvement of adjusted EBIT, which also exceeds our and the consensus' previous forecasts (between 17-18 MEUR). We estimate that the positive change in guidance reflects a successful Q3. The new guidance confirms the positive impact of the efficiency investments completed by the company at the beginning of the year on the earnings level. Other possible reasons for the positive development could be, for instance, commercial successes and the stabilization of consumer demand and the cost environment. We will have a more detailed picture of the earnings trend when the company reports its Q3 interim results on November 6.

Earnings growth could continue next year, but we believe that expectations need to be tempered

With the updated guidance, we increased our revenue forecast for 2024 by 1% and our adjusted EBIT forecast by as much as 32% to 23.2 MEUR. For 2025-26, our EBIT forecasts rose more modestly, by 6%. Our forecasts for 2025-26 include only a slight increase in earnings (EBIT: 23.5-24.6 MEUR). The efficiency investments that have been made and possible future measures could still provide further earnings growth in the coming years. In addition, a pickup in consumer demand as a result of falling interest rates could support the profitability of red meat sales in particular. On the other hand, possible Chinese restrictions on pork imports could partially limit the earnings improvement by a few million euros. It should also be remembered that HKFoods' performance has historically been volatile, so predicting a sustained higher level of performance requires evidence over a longer period of time.

Earnings growth strengthens balance sheet position, valuation close to fair value

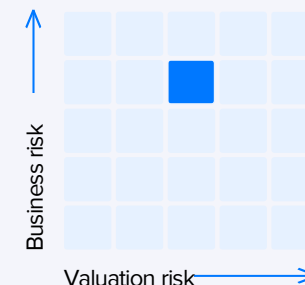
The higher-than-expected earnings level improves the prospects of strengthening HKFoods' balance sheet. Our forecasts still assume that the company will not redeem its hybrid loan until September 2026, but with the improved earnings level, an earlier redemption could become possible if the company is able to accumulate higher safety margins on the covenants related to the balance sheet debt. Our net debt/EBITDA ratio is projected to be 2.7x at the end of 2024, assuming that the divestment in Denmark takes place in Q4 as expected. In our view, the current valuation of the stock is quite close to fair value. The EV/EBIT ratio is around 10x based on our forecasts for the current year. If the current earnings level proves to be sustainable and the moderate earnings growth we forecast materializes, EV/EBIT would already fall to just below 9x in 2026. However, we do not find this valuation level attractive without a dividend yield, as the company's indebtedness and the historical volatility of the earnings level increase the risk of the investment. On the other hand, if the earnings level were to improve on a sustained basis, the value of the stock would increase significantly due to the company's highly leveraged balance sheet.

Recommendation

Reduce
(was Reduce)

EUR 0.70
(was EUR 0.55)

Share price:
0.72



Key figures

| | 2023 | 2024e | 2025e | 2026e |
|--------------------|--------|--------|--------|--------|
| Revenue | 1163.2 | 1019.2 | 1070.2 | 1091.6 |
| growth-% | -37% | -12% | 5% | 2% |
| EBIT adj. | 14.9 | 23.2 | 23.5 | 24.6 |
| EBIT-% adj. | 1.3 % | 2.3 % | 2.2 % | 2.3 % |
| Net Income | -19.5 | -1.0 | 4.9 | 8.5 |
| EPS (adj.) | -0.25 | -0.04 | 0.01 | 0.06 |

| | | | | |
|-------------------------|-------|-------|-------|-------|
| P/E (adj.) | neg. | neg. | 88.2 | 12.1 |
| P/B | 0.5 | 0.4 | 0.4 | 0.4 |
| Dividend yield-% | 0.0 % | 0.0 % | 0.0 % | 3.9 % |
| EV/EBIT (adj.) | 26.0 | 9.9 | 9.2 | 8.7 |
| EV/EBITDA | 7.3 | 4.3 | 3.8 | 3.6 |
| EV/S | 0.3 | 0.2 | 0.2 | 0.2 |

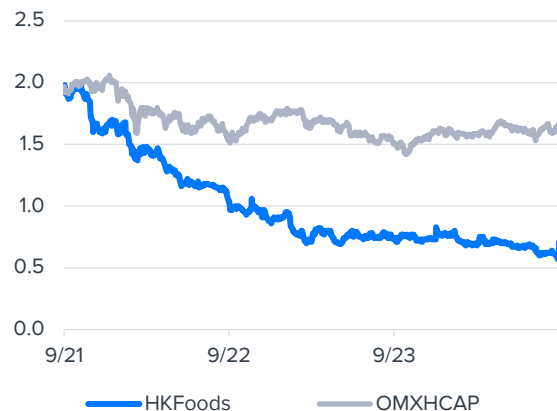
Source: Inderes

Guidance

(Upgraded)

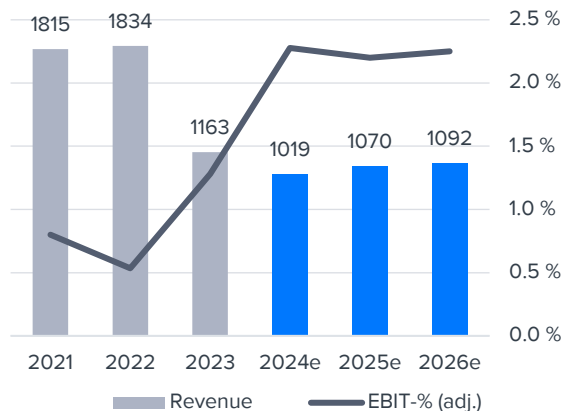
The comparable EBIT in 2024 is estimated to be 22-25 MEUR.

Share price



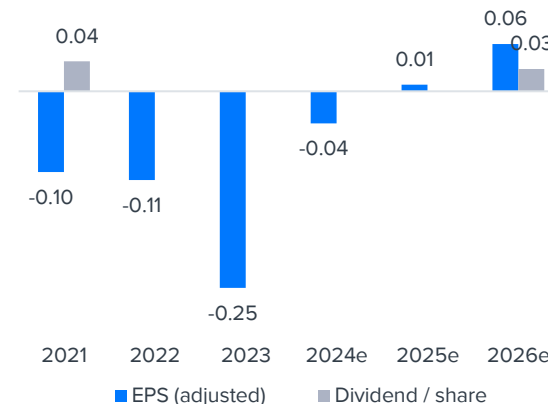
Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Strong commercial position in Finland through scale and well-known brands
- Investments in poultry and other growing segments such as ready meals
- Focus on Finland allows concentration of investments and strengthening of industrial efficiency
- Balance sheet strengthened through divestments



Risk factors

- Long-term decline in meat consumption
- Fierce competition in the food sector and strong bargaining power of retailers limit profitability
- Changes in consumer demand and cost environment may affect profitability
- Animal diseases may impact export licenses
- Debt levels remain high relative to earnings levels

| Valuation | 2024e | 2025e | 2026e |
|----------------------------|-------|-------|--------|
| Share price | 0.72 | 0.72 | 0.72 |
| Number of shares, millions | 89.9 | 89.9 | 89.9 |
| Market cap | 65 | 65 | 65 |
| EV | 230 | 218 | 213 |
| P/E (adj.) | neg. | 88.2 | 12.1 |
| P/E | neg. | 88.2 | 12.1 |
| P/B | 0.4 | 0.4 | 0.4 |
| P/S | 0.1 | 0.1 | 0.1 |
| EV/Sales | 0.2 | 0.2 | 0.2 |
| EV/EBITDA | 4.3 | 3.8 | 3.6 |
| EV/EBIT (adj.) | 9.9 | 9.2 | 8.7 |
| Payout ratio (%) | 0.0 % | 0.0 % | 29.9 % |
| Dividend yield-% | 0.0 % | 0.0 % | 3.9 % |

Source: Inderes

Result for the current year clearly better than expected

Second half of 2024 off to a strong start, supported by completion of efficiency investments

- HKFoods updated its guidance with a press release on Thursday September 26 at 2 pm EEST.
- According to the new guidance, adjusted EBIT is estimated at 22-25 MEUR in 2024. According to the previous guidance, adjusted EBIT was expected to improve from 2023 (11.6 MEUR). The new guidance thus provides a more precise range for the improvement of adjusted EBIT, which also exceeds our and the consensus' previous forecasts (our forecast was 17.6 MEUR and the consensus was in the same range).
- We expect the change in guidance to be driven by, for instance, profitability gains from investments to improve efficiency and a favorable development of the cost environment.
- During Q2, the company completed the automation investments in Rauma's poultry production and the efficiency investments in Forssa's packaging operations progressed as expected. According to the company, the measures will result in an annual efficiency improvement of approximately 6 MEUR, which was expected to become visible in the figures starting from Q3.
- We expect the cost environment to have developed positively with a good grain harvest. Feed prices have fallen during 2024, which has reduced the cost pressure for farmers. Producer meat prices have also fallen slightly (in September, beef and pork prices fell by 4-5% y/y), which is helping to reduce the upward pressure on processors' production costs.
- We also estimate that the recognition of revenue from the Polish bacon business as external revenue following the Swedish divestment will support HKFoods' earnings level from continuing operations by around 2 MEUR in 2024, but this is mainly an accounting effect.

EBIT forecasts for 2025-26 increased by 6%

- We raised our 2024 adjusted EBIT forecast for continuing operations to 23.2 MEUR (+32% change in forecast). This means that H2 adjusted EBIT would increase to 17.4 MEUR (H2'23: 9.5 MEUR).
- We raised our adjusted EBIT forecasts for 2025-26 by a more modest 6% and assume only a marginal improvement in adjusted EBIT in 2025.
- The 2025 result will be supported by, among other things, the efficiency investments completed around mid-2024 and Poland's accounting-technical earnings growth (2025 earnings impact of around 1 MEUR). An improvement in consumer demand could also support the result in a positive scenario, but we are not counting on a significant pick-up in demand for the time being.
- One reason for the caution in forecasting the 2025 result is the possible restrictions on pork imports imposed by China, which could have a negative impact of a few million euros on the result. In addition, HKFoods' performance has historically been uneven from year to year, which makes forecasting difficult as well.

| Estimate revisions | 2024e | | Change | 2025e | | Change | 2026e | | Change |
|--------------------|-------|-------|--------|-------|-------|--------|-------|------|--------|
| | Old | New | | Old | New | | Old | New | |
| MEUR / EUR | | | % | | | % | | | % |
| Revenue | 1004 | 1019 | 1% | 1055 | 1070 | 1% | 1076 | 1092 | 1% |
| EBITDA | 48.5 | 54.1 | 12% | 55.6 | 57.0 | 2% | 57.2 | 58.6 | 2% |
| EBIT (exc. NRIs) | 17.6 | 23.2 | 32% | 22.2 | 23.5 | 6% | 23.1 | 24.6 | 6% |
| EBIT | 16.1 | 21.7 | 35% | 22.2 | 23.5 | 6% | 23.1 | 24.6 | 6% |
| PTP | 0.9 | 6.5 | 650% | 10.5 | 11.8 | 13% | 13.2 | 14.6 | 11% |
| EPS (excl. NRIs) | -0.15 | -0.09 | 42% | -0.05 | -0.04 | 28% | 0.01 | 0.03 | 101% |
| DPS | 0.00 | 0.00 | | 0.00 | 0.00 | | 0.03 | 0.03 | 0% |

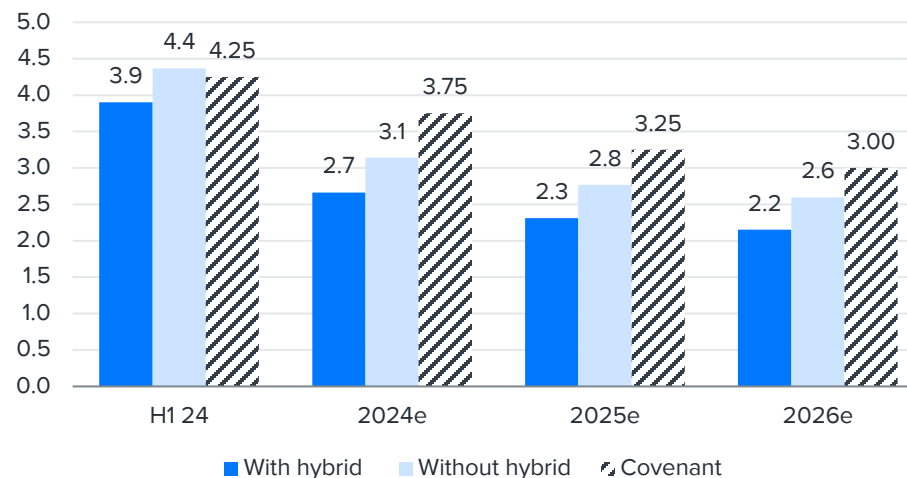
Source: Inderes

Improving profitability supports balance sheet strengthening

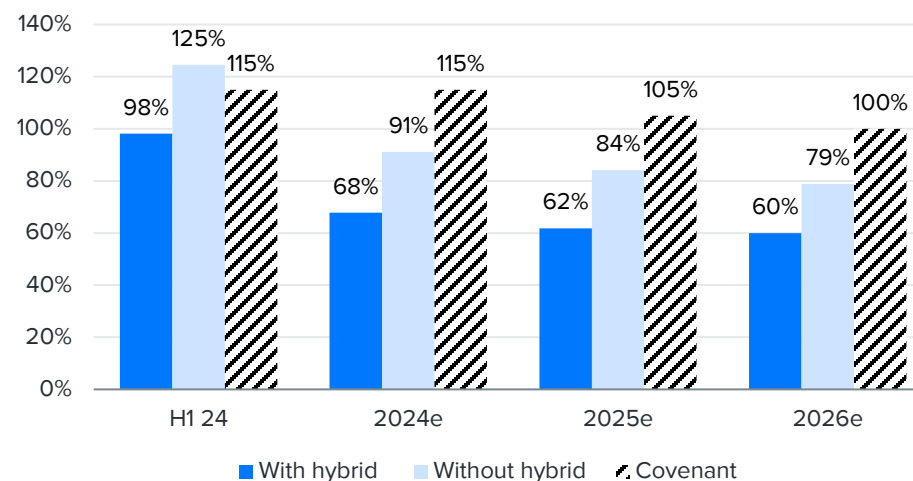
Hybrid redemption in 2025 not out of the question if strong performance continues

- Higher profitability will support HKFoods' cash flows and help reduce balance sheet debt more quickly.
- From a shareholder perspective, it would be important for the company to be able to pay off the hybrid loan of around 26 MEUR on its balance sheet in the next few years, as the 16% annual interest rate on the loan will impose a significant annual cost on the company that will be diverted from other equity strengthening or dividend payments.
- Our view has been that HKFoods' ability to repay the hybrid (without equity solutions) would only be possible in 2026 (the loan can be redeemed annually in September). However, stronger-than-expected profitability development could allow the hybrid to be redeemed already in 2025. This would require the company to significantly strengthen its balance sheet and build up a safety margin in relation to the covenant levels of its debt. Balance sheet indebtedness and working capital fluctuate seasonally throughout the year, so looking at year-end levels gives an overly positive picture of solvency.
- With our current projections, the net gearing ratio would have a safety margin of 21 percentage points and the net debt/EBITDA figure of almost 0.5 points in 2025. At these ratios, the hybrid bond could be successfully redeemed if the company continues to have strong visibility on the continuity of its elevated earnings levels.
- In our forecasts, we maintain the assumption that the hybrid will not be redeemed until the fall of 2026, but we see the probability of an earlier redemption increasing with the positive earnings warning.

Net debt/EBITDA



Net gearing



Source: Inderes

Changes in earnings level passed on to the share with a lever

Potential for a defensive dividend company

HKFoods' businesses have long-term potential for defensive and dividend-paying business, albeit with a moderate return on capital. The decline in red meat consumption will be slow and the consumption of poultry and further processed foods will increase, but in the long term, the market does not offer significant growth. Moderate growth can still be achieved, e.g., by investing in certain growth segments, like poultry and ready meals. The meat and food industries in general are competitive and capital-intensive industries where it is difficult to achieve a sustainable ROCE above the required return.

More evidence is needed on the profitability turnaround

Despite recent positive performance and ongoing efficiency measures, there is still some uncertainty about the sustainability of the earnings turnaround. The market's confidence the earnings turnaround requires evidence over a longer period of time. In history, HKFoods' profitability has been very low and varied between the years due, e.g., to changes in the cost environment and production challenges. HKFoods' industrial competitiveness has been weakish in history, which could change by concentrating investments and business focus on Finland, which is about to materialize in 2023-24.

Balance sheet position increases the risk level of the investment

The amount of debt in the balance sheet has been reduced by divestments, both in absolute terms and relative to EBITDA, but the financial position still cannot withstand major setbacks in profitability. The ratio of net debt to EBITDA at the end of 2024 is

lower than before but still highish in our forecasts at 2.7x. If the company would not be able to redeem the hybrid loan in 2025, this could mean that the expensive hybrid loan would continue to weigh on cash flow for the next few years (4 MEUR/year). High financial expenses consume a significant part of cash flows and make it more difficult to reduce the debt burden and return to sustainable dividend payments.

Valuation close to fair value – leverage allows large movements in both directions

HKFoods' earnings-based valuation multiples have recently decreased as, e.g., divestments have released hidden value from the balance sheet and, on the other hand, through improved profitability of the Finnish businesses. Adjusted EV/EBIT is now 10x with 2024 forecasts and 9x with 2025 forecasts. In our view, the current valuation level of the stock is close to fair value. Looking ahead to 2025-26, the valuation level still looks slightly more attractive, but in our view not enough to compensate for the elevated level of risk associated with high debt levels and historical volatility in profitability. In addition, the stock does not offer a dividend yield, which further limits the expected return.

If the result were to improve more than we expect in the coming years, we believe this would be strongly reflected in the share price through a high debt leverage. A strong opinion about positive earnings growth for the coming years could therefore be a good reason to swing to the buy side in this stock. However, we believe that our current forecasts are reasonably positive in the long term. In our view, more evidence of the sustainability of earnings growth is needed or the valuation should fall below current levels to make the risk/reward ratio attractive.

| Valuation | 2024e | 2025e | 2026e |
|----------------------------|-------|-------|--------|
| Share price | 0.72 | 0.72 | 0.72 |
| Number of shares, millions | 89.9 | 89.9 | 89.9 |
| Market cap | 65 | 65 | 65 |
| EV | 230 | 218 | 213 |
| P/E (adj.) | neg. | 88.2 | 12.1 |
| P/E | neg. | 88.2 | 12.1 |
| P/B | 0.4 | 0.4 | 0.4 |
| P/S | 0.1 | 0.1 | 0.1 |
| EV/Sales | 0.2 | 0.2 | 0.2 |
| EV/EBITDA | 4.3 | 3.8 | 3.6 |
| EV/EBIT (adj.) | 9.9 | 9.2 | 8.7 |
| Payout ratio (%) | 0.0 % | 0.0 % | 29.9 % |
| Dividend yield-% | 0.0 % | 0.0 % | 3.9 % |

Source: Inderes

Factors supporting the valuation of HKFoods:

- Positive development in profitability
- Gradual strengthening of the balance sheet
- Potential to become a stable dividend company

Factors negatively affecting HKFoods' valuation:

- Low return on capital in a competitive market
- Historical profitability challenges
- High indebtedness and financial expenses

Source: Inderes

Climate target and taxonomy

Food production is not covered by taxonomy

Food production is not covered by the EU taxonomy, i.e. it is not addressed in the EU taxonomy reference framework. For this reason, HKFoods does not report any taxonomy-eligible revenue or expenses. Although the company could report any energy efficiency investments as part of taxonomy-eligible capital expenditure, this has not been done so far.

As the taxonomy legislation is expected to change and evolve, we remain to see the potential impact on HKFoods. We do not expect any significant direct financial impact of the taxonomy in the short term.

Large majority of emissions come from primary production

The total greenhouse gas emissions (Scope 1 and Scope 2) of HKFoods' own operations in 2023 amounted to 26.1 thousand tons. Of this, 14.5 thousand tons were related to emissions from own operations (Scope 1) and 11.6 thousand tons were related to emissions from purchased electricity, steam and heat production and cooling (Scope 2). The lifecycle environmental impacts of the products are concentrated in the production of the main raw material, i.e. meat. Scope 3 emissions therefore play the most significant role in the overall picture (1,094 thousand tons in 2023).

Reducing emissions through the use of renewable energy and cooperation with producers

HKFoods has set itself science-based emission reduction targets and has had them approved by the Science Based Targets initiative (SBTi), which helps companies reduce their emissions in line with the Paris Agreement targets. HKFoods is committed to

reducing its Scope 1 and 2 emissions by 42% from 2022 levels by 2030.

According to HKFoods, achieving this target consists of dozens of measures. We believe that the key to reducing emissions is to invest in own production units to support the green transition and to replace fossil fuels with renewable energy.

For Scope 3 greenhouse gas emissions, HKFoods targets a 42% reduction in purchased goods and services, fuel and energy-related activities, upstream transportation and distribution, downstream transportation and distribution and investments. For emissions related to land use, forests and agriculture (FLAG), HKFoods is aiming for a slightly more moderate reduction of 30.3%. We estimate that FLAG emissions account for the majority of Scope 3 emissions, so working with primary producers is key to achieving emission reductions. We anticipate that reducing FLAG emissions will be more challenging than the other targeted emission reductions.

Emission reductions may result in some costs, either directly or indirectly through the supply chain, but we do not expect cost increases to cause rapid or unexpected changes in the company's cost environment.

Taxonomy eligibility 2023

| | |
|---------|-----|
| Revenue | 0 % |
| OPEX | 0 % |
| CAPEX | 0 % |

Taxonomy alignment 2023

| | |
|---------|-----|
| Revenue | 0 % |
| OPEX | 0 % |
| CAPEX | 0 % |

Climate

| | |
|-------------------------------------------------------------------|-------|
| Climate target | Kyllä |
| Target according to the Paris Agreement (1.5 °C warming scenario) | Kyllä |

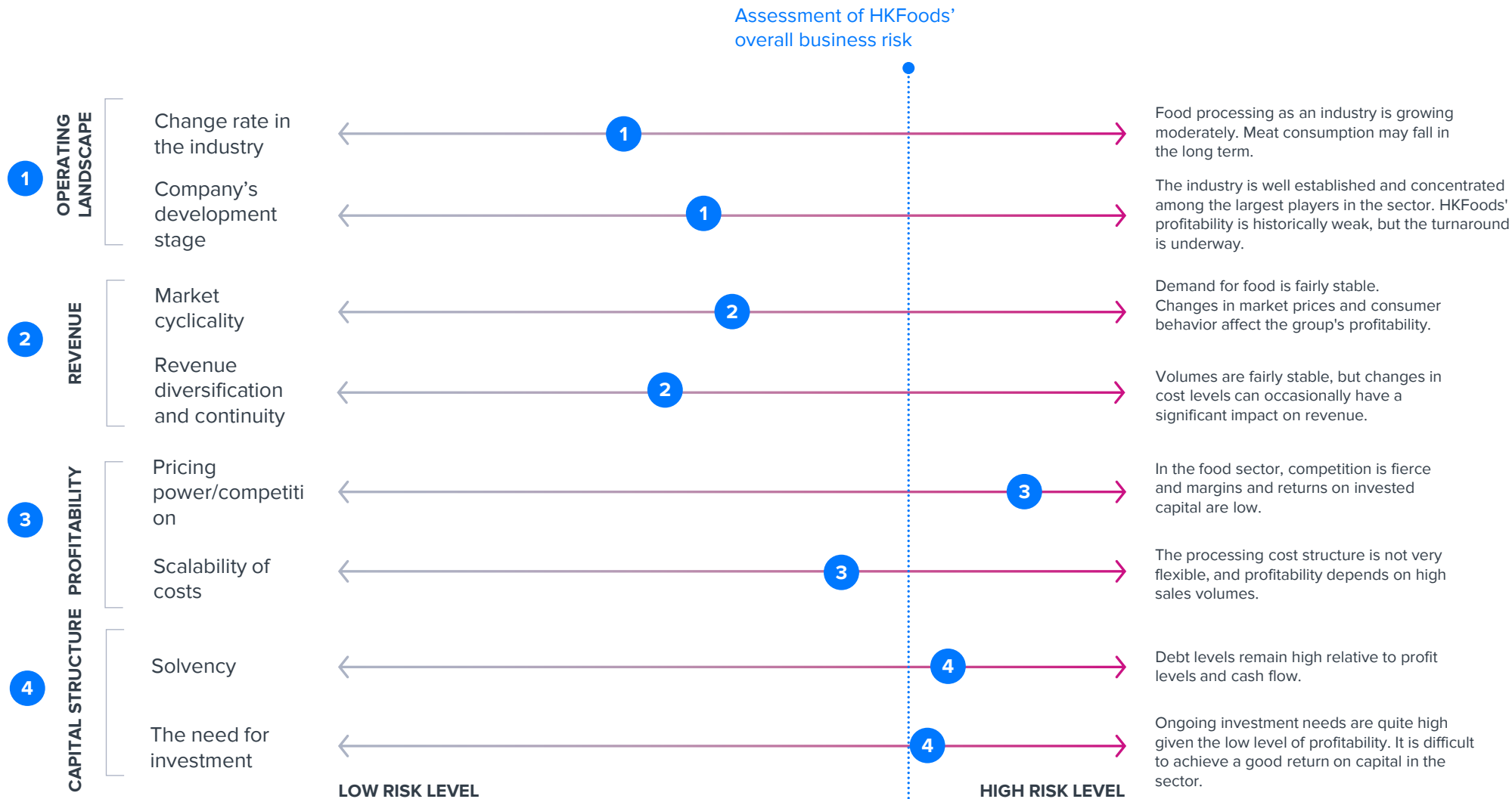
Detailed estimates

| MEUR | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024e | 2025e | 2026e |
|------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Revenue | 1715 | 1744 | 1781 | 1815 | 1834 | 1163 | 1019 | 1070 | 1092 |
| -growth | -5.1% | 1.7% | 2.1% | 1.9% | 1.0% | -36.6% | -12.4% | 5.0% | 2.0% |
| HKFoods Finland | 722 | 771 | 772 | 772 | 868 | 933 | 1019 | 1070 | 1092 |
| -growth | -2.7% | 6.7% | 0.2% | 0.0% | 12.4% | 7.5% | 9.2% | 5.0% | 2.0% |
| -of which organic growth | | | | | 12.4% | 6.5% | 5.0% | 3.0% | 2.0% |
| -of which growth related to the change in Polish reporting | | | | | | 0.9% | 4.2% | 2.0% | 0.0% |
| Gross profit | 55 | 74 | 117 | 110 | 97 | 79 | 75 | 78 | 79 |
| -% of revenue | 3.2% | 4.2% | 6.6% | 6.1% | 5.3% | 6.8% | 7.4% | 7.3% | 7.3% |
| Fixed costs (excl. depreciation) | -37 | -17 | -39 | -32 | -42 | -26 | -21 | -21 | -21 |
| EBITDA | 18 | 57 | 78 | 78 | 56 | 53 | 54 | 57 | 59 |
| -% of revenue | 1.0% | 3.3% | 4.4% | 4.3% | 3.0% | 4.5% | 5.3% | 5.3% | 5.4% |
| Depreciation and amortization | -67 | -80 | -57 | -60 | -46 | -35 | -32 | -33 | -34 |
| EBIT | -49 | -23 | 21 | 18 | 10 | 17 | 22 | 24 | 25 |
| -% of revenue | -2.9% | -1.3% | 1.2% | 1.0% | 0.6% | 1.5% | 2.1% | 2.2% | 2.3% |
| Adjusted EBIT | -48 | -2 | 17 | 15 | 10 | 15 | 23 | 24 | 25 |
| -% of revenue | -2.8% | -0.1% | 1.0% | 0.8% | 0.5% | 1.3% | 2.3% | 2.2% | 2.3% |
| HKFoods Finland | -37 | -2 | 6 | 9 | 4 | 21 | 31 | 31 | 32 |
| -% of revenue | -5.1% | -0.2% | 0.8% | 1.1% | 0.4% | 2.2% | 3.1% | 2.9% | 2.9% |
| Group administration | -14 | -12 | -13 | -12 | -12 | -9 | -8 | -7 | -7 |
| Net financing expenses | -10 | -12 | -11 | -15 | -16 | -28 | -17 | -13 | -12 |
| PTP | -59 | -35 | 12 | 7 | -1 | -9 | 7 | 12 | 15 |
| Taxes | 7 | -3 | -8 | -8 | -4 | -7 | -4 | -4 | -3 |
| Profit/loss for the period | -51 | -38 | 5 | -1 | -5 | -16 | 3 | 8 | 12 |
| Minority interest | -2 | -2 | -4 | -3 | -4 | -4 | -4 | -4 | -4 |
| Interest on hybrid loans | -1 | -2 | -2 | -2 | -2 | -2 | -4 | -4 | -3 |
| Shareholders' share of net profit | -54 | -42 | -1 | -7 | -11 | -22 | -5 | 0 | 5 |
| Total dividends paid for the year | 0 | 0 | 3 | 4 | 0 | 0 | 0 | 0 | 3 |
| Investments | 41 | 43 | 91 | 121 | 46 | 27 | 32 | 33 | 33 |
| Net debt | 289 | 276 | 300 | 315 | 347 | 278 | 144 | 132 | 152 |
| Net debt/EBITDA | | 4.8x | 3.8x | 4.0x | 5.8x | 3.2x | 2.7x | 2.3x | 2.6x |

Assumed hybrid redemption in 2026 will increase net debt

Source: Inderes

Risk profile of the business model



Investment profile

1.

Concentrating investment in Finland allows for greater efficiency

2.

Overall market growth is slow, but HKFoods invests in growing sub-segments

3.

Thin margins vulnerable to changes in business environment

4.

Balance sheet remains leveraged and financial charges are high relative to operating income

5.

Improving earnings outlook and divestments enable debt reduction

Potential



- Strong commercial position in Finland through scale and well-known brands
- Investments in poultry and other growing segments such as ready meals
- Focus on Finland allows concentration of investments and strengthening of industrial efficiency
- Sales of operations outside Finland enables debt reduction

Risks

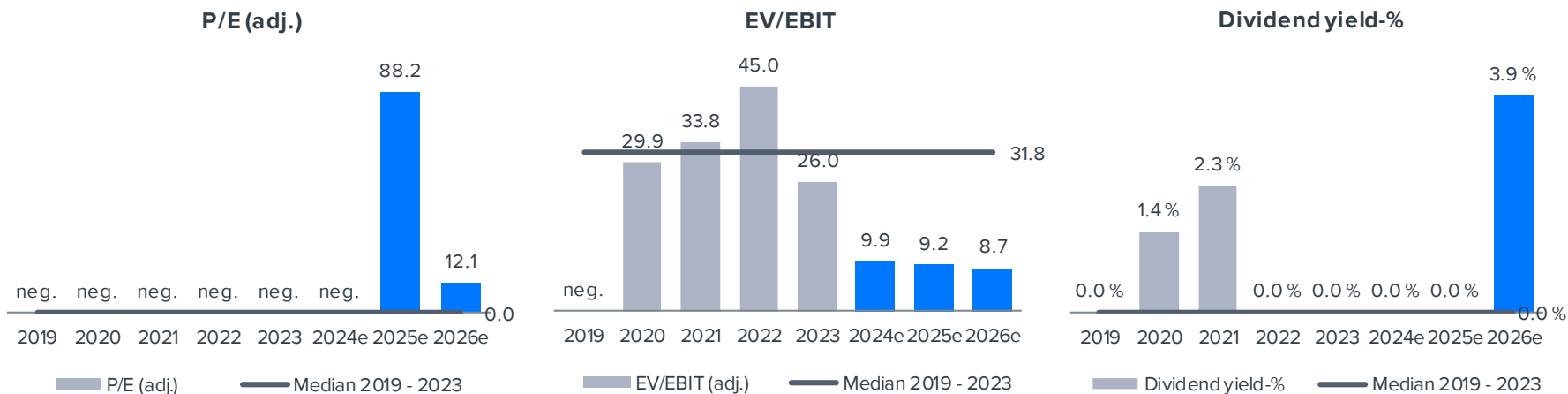


- Long-term decline in red meat consumption
- Fierce competition in the food sector and strong bargaining power of retailers limit profitability
- Changes in consumer demand and cost environment may affect profitability
- Animal diseases and geopolitics can affect export licenses
- Debt levels remain high relative to earnings levels
- A strong role for producers in the company's decision-making may involve trade-offs between the interests of investors and other stakeholders

Valuation table

| Valuation | 2019 | 2020 | 2021 | 2022 | 2023 | 2024e | 2025e | 2026e | 2027e |
|----------------------------|-------|---------|-------|-------|-------|--------------|--------------|---------------|---------------|
| Share price | 2.76 | 1.96 | 1.66 | 0.87 | 0.89 | 0.72 | 0.72 | 0.72 | 0.72 |
| Number of shares, millions | 99.0 | 97.0 | 97.1 | 97.3 | 97.4 | 89.9 | 89.9 | 89.9 | 89.9 |
| Market cap | 273 | 190 | 161 | 85 | 87 | 65 | 65 | 65 | 65 |
| EV | 529 | 508 | 490 | 441 | 387 | 230 | 218 | 213 | 204 |
| P/E (adj.) | neg. | neg. | neg. | neg. | neg. | neg. | 88.2 | 12.1 | 6.1 |
| P/E | neg. | neg. | neg. | neg. | neg. | neg. | 88.2 | 12.1 | 6.1 |
| P/B | 0.8 | 0.7 | 0.6 | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |
| P/S | 0.2 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| EV/Sales | 0.3 | 0.3 | 0.3 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 |
| EV/EBITDA | 9.3 | 6.5 | 6.3 | 7.9 | 7.3 | 4.3 | 3.8 | 3.6 | 3.4 |
| EV/EBIT (adj.) | neg. | 29.9 | 33.8 | 45.0 | 26.0 | 9.9 | 9.2 | 8.7 | 8.2 |
| Payout ratio (%) | 0.0 % | 249.7 % | neg. | 0.0 % | 0.0 % | 0.0 % | 0.0 % | 29.9 % | 31.5 % |
| Dividend yield-% | 0.0 % | 1.4 % | 2.3 % | 0.0 % | 0.0 % | 0.0 % | 0.0 % | 3.9 % | 5.2 % |

Source: Inderes



Peer group valuation

| Peer group valuation | Market cap | EV | EV/EBIT | | EV/EBITDA | | EV/S | | P/E | | Dividend yield-% | | P/B |
|--------------------------|------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|------------------|--------------|-------------|
| Company | MEUR | MEUR | 2024e | 2025e | 2024e | 2025e | 2024e | 2025e | 2024e | 2025e | 2024e | 2025e | 2024e |
| Atria | 287 | 604 | 10.2 | 9.7 | 5.0 | 4.8 | 0.3 | 0.3 | 9.1 | 8.0 | 6.5 | 6.9 | 0.7 |
| Apetit | 84 | 78 | 9.8 | 11.2 | 5.6 | 5.6 | 0.5 | 0.5 | 12.8 | 13.4 | 5.6 | 5.6 | 0.8 |
| Raisio | 345 | 295 | 12.4 | 10.8 | 8.9 | 7.9 | 1.3 | 1.2 | 16.6 | 16.6 | 6.5 | 6.5 | 1.3 |
| Hilton Foods | 942 | 1379 | 11.1 | 10.8 | 7.0 | 6.9 | 0.3 | 0.3 | 14.8 | 13.8 | 3.9 | 4.1 | 2.4 |
| Scandi Standard | 502 | 661 | 14.7 | 13.0 | 8.1 | 7.6 | 0.6 | 0.6 | 18.6 | 15.7 | 3.1 | 3.7 | 2.2 |
| Cranswick | 3007 | 3126 | 14.6 | 13.7 | 10.2 | 9.4 | 1.0 | 1.0 | 19.8 | 18.5 | 1.9 | 2.0 | 2.7 |
| Societe LDC | 2487 | 2018 | 5.5 | 5.8 | 3.3 | 3.5 | 0.3 | 0.3 | 8.8 | 9.1 | 2.2 | 2.3 | 1.2 |
| Bell Foods | 1763 | 2712 | 15.6 | 15.5 | 7.5 | 7.3 | 0.6 | 0.5 | 12.1 | 12.3 | 2.6 | 2.6 | 1.1 |
| Orior | 348 | 504 | 15.4 | 14.4 | 8.2 | 7.6 | 0.7 | 0.7 | 14.2 | 13.1 | 5.0 | 5.0 | 3.6 |
| Prima Meat Packers | 733 | 838 | | | 5.6 | 5.4 | 0.3 | 0.3 | 14.9 | 13.8 | 2.8 | 3.4 | 1.0 |
| NH Foods | 3416 | 4411 | | | 8.7 | 8.2 | 0.6 | 0.5 | 18.5 | 18.1 | 2.1 | 2.6 | 1.1 |
| HKFoods (Inderes) | 65 | 230 | 9.9 | 9.2 | 4.3 | 3.8 | 0.2 | 0.2 | -17.8 | 88.2 | 0.0 | 0.0 | 0.4 |
| Average | | | 12.1 | 11.7 | 7.1 | 6.7 | 0.6 | 0.6 | 14.6 | 13.8 | 3.8 | 4.1 | 1.6 |
| Median | | | 12.4 | 11.2 | 7.5 | 7.3 | 0.6 | 0.5 | 14.8 | 13.8 | 3.1 | 3.7 | 1.2 |
| Diff-% to median | | | -20% | -17% | -43% | -48% | -59% | -62% | -221% | 540% | -100% | -100% | -70% |

Source: Refinitiv / Inderes

Income statement

| Income statement | 2021 | 2022 | Q1'23 | Q2'23 | Q3'23 | Q4'23 | 2023 | Q1'24 | Q2'24 | Q3'24e | Q4'24e | 2024e | 2025e | 2026e | 2027e |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|--------------|--------------|--------------|-------------|-------------|
| Revenue | 1815 | 1834 | 279 | 293 | 289 | 302 | 1163 | 229 | 255 | 259 | 276 | 1019 | 1070 | 1092 | 1113 |
| Finland | 772 | 868 | 218 | 234 | 231 | 250 | 933 | 229 | 255 | 259 | 276 | 1019 | 1070 | 1092 | 1113 |
| Denmark | 173 | 220 | 61.4 | 59.1 | 57.5 | 52.2 | 230 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBITDA | 78.1 | 56.0 | 9.3 | 14.1 | 17.2 | 12.2 | 52.8 | 8.9 | 11.4 | 17.3 | 16.6 | 54.1 | 57.0 | 58.6 | 59.7 |
| Depreciation | -60.2 | -45.8 | -8.4 | -8.7 | -9.0 | -9.2 | -35.3 | -7.7 | -8.3 | -8.2 | -8.2 | -32.4 | -33.4 | -34.0 | -34.6 |
| EBIT (excl. NRI) | 14.5 | 9.8 | -0.8 | 5.2 | 7.7 | 2.8 | 14.9 | 1.4 | 4.4 | 9.1 | 8.4 | 23.2 | 23.5 | 24.6 | 25.1 |
| EBIT | 17.9 | 10.2 | 0.9 | 5.4 | 8.2 | 3.0 | 17.5 | 1.2 | 3.1 | 9.1 | 8.4 | 21.7 | 23.5 | 24.6 | 25.1 |
| Finland | 12.1 | 5.6 | 0.5 | 6.2 | 7.6 | 6.3 | 20.6 | 3.4 | 5.9 | 10.9 | 10.2 | 30.3 | 30.8 | 31.9 | 32.5 |
| Denmark | 0.0 | 1.4 | 1.2 | 1.1 | 1.1 | -0.1 | 3.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Group administration | 5.8 | 3.2 | -0.8 | -1.9 | -0.5 | -3.2 | -6.4 | -2.2 | -2.8 | -1.8 | -1.8 | -8.6 | -7.3 | -7.3 | -7.4 |
| Share of profits in assoc. compan. | 3.4 | 5.4 | 1.0 | 0.3 | 0.3 | -0.2 | 1.3 | 0.1 | 0.3 | 0.5 | 0.4 | 1.3 | 1.5 | 1.5 | 1.8 |
| Net financial items | -14.7 | -16.3 | -6.7 | -7.0 | -7.1 | -6.9 | -27.7 | -4.9 | -4.9 | -3.4 | -3.3 | -16.5 | -13.2 | -11.5 | -9.5 |
| PTP | 6.6 | -0.7 | -4.8 | -1.3 | 1.4 | -4.1 | -8.9 | -3.7 | -1.4 | 6.2 | 5.5 | 6.5 | 11.8 | 14.6 | 17.4 |
| Taxes | -7.8 | -4.0 | 0.0 | -2.0 | -1.3 | -3.3 | -6.6 | -0.1 | -0.2 | -1.6 | -2.1 | -4.0 | -3.4 | -2.6 | -3.1 |
| Minority interest | -3.2 | -3.7 | -0.4 | -1.1 | -0.9 | -1.6 | -4.0 | -0.1 | -0.5 | -0.5 | -2.4 | -3.5 | -3.5 | -3.5 | -3.5 |
| Nettotulos | -2.3 | -6.3 | -4.7 | -3.9 | -0.3 | -8.5 | -17.4 | -3.9 | -2.2 | 4.1 | 1.0 | -1.0 | 4.9 | 8.5 | 10.7 |
| Interest of hybrid loan | -2.1 | -2.1 | -0.5 | -0.5 | -0.5 | -0.5 | -2.1 | -1.0 | -1.0 | -1.0 | -1.0 | -4.2 | -4.2 | -3.1 | 0.0 |
| EPS (adj.) | -0.10 | -0.11 | -0.08 | -0.05 | -0.02 | -0.10 | -0.25 | -0.06 | -0.03 | 0.02 | -0.01 | -0.09 | -0.04 | 0.03 | 0.12 |
| EPS (rep.) | -0.05 | -0.09 | -0.05 | -0.05 | -0.01 | -0.09 | -0.20 | -0.05 | -0.04 | 0.03 | 0.00 | -0.06 | 0.01 | 0.06 | 0.12 |

| Key figures | 2021 | 2022 | Q1'23 | Q2'23 | Q3'23 | Q4'23 | 2023 | Q1'24 | Q2'24 | Q3'24e | Q4'24e | 2024e | 2025e | 2026e | 2027e |
|-------------------------------|--------|---------|--------|--------|--------|---------|---------|----------|---------|--------|---------|---------|-------|-------|-------|
| Revenue growth-% | 1.9 % | 1.0 % | 0.0 % | 0.0 % | 0.0 % | -83.5 % | -36.6 % | -18.1 % | -13.2 % | -10.1% | -8.4 % | -12.4 % | 5.0 % | 2.0 % | 2.0 % |
| Adjusted EBIT growth-% | | -32.4 % | | | | -71.4 % | 52.0 % | -275.0 % | -15.4 % | 17.6 % | 198.4 % | 55.8 % | 1.5 % | 4.3 % | 2.0 % |
| EBITDA-% | 4.3 % | 3.1 % | 3.3 % | 4.8 % | 6.0 % | 4.0 % | 4.5 % | 3.9 % | 4.5 % | 6.7 % | 6.0 % | 5.3 % | 5.3 % | 5.4 % | 5.4 % |
| Adjusted EBIT-% | 0.8 % | 0.5 % | -0.3 % | 1.8 % | 2.7 % | 0.9 % | 1.3 % | 0.6 % | 1.7 % | 3.5 % | 3.0 % | 2.3 % | 2.2 % | 2.3 % | 2.3 % |
| Net earnings-% | -0.2 % | -0.5 % | -1.9 % | -1.5 % | -0.3 % | -3.0 % | -1.7 % | -2.2 % | -1.3 % | 1.2 % | 0.0 % | -0.5 % | 0.1 % | 0.5 % | 1.0 % |

Source: Inderes

Balance sheet

| Assets | 2022 | 2023 | 2024e | 2025e | 2026e |
|----------------------------|------------|------------|------------|------------|------------|
| Non-current assets | 679 | 651 | 370 | 358 | 357 |
| Goodwill | 46.8 | 27.8 | 27.8 | 27.8 | 27.8 |
| Intangible assets | 67.0 | 16.2 | 16.2 | 16.2 | 16.2 |
| Tangible assets | 379 | 285 | 255 | 258 | 260 |
| Associated companies | 41.1 | 24.3 | 24.0 | 24.0 | 24.0 |
| Other investments | 102 | 246 | 0.0 | 0.0 | 0.0 |
| Other non-current assets | 12.2 | 26.2 | 21.2 | 7.7 | 4.2 |
| Deferred tax assets | 31.8 | 25.1 | 25.1 | 25.1 | 25.1 |
| Current assets | 297 | 201 | 188 | 165 | 169 |
| Inventories | 124 | 75.2 | 61.1 | 64.2 | 66.6 |
| Other current assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Receivables | 156 | 97.3 | 75.4 | 79.2 | 80.8 |
| Cash and equivalents | 17.2 | 28.7 | 51.0 | 21.4 | 21.8 |
| Balance sheet total | 976 | 852 | 557 | 523 | 526 |

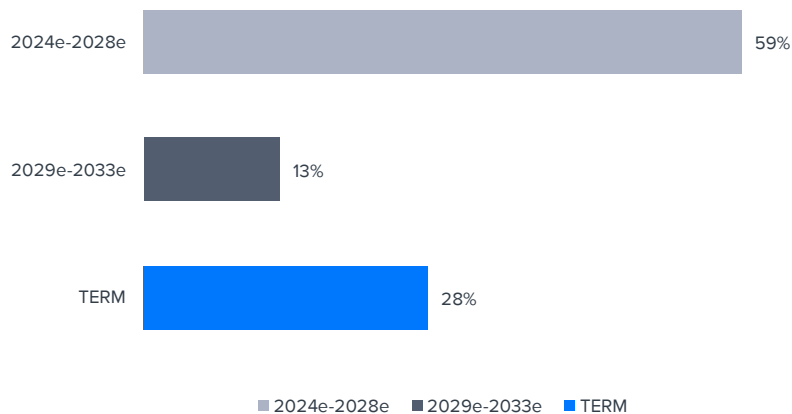
Source: Inderes

| Liabilities & equity | 2022 | 2023 | 2024e | 2025e | 2026e |
|--------------------------------|------------|------------|-------------|------------|------------|
| Equity | 286 | 238 | 212 | 213 | 193 |
| Share capital | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Retained earnings | 0.0 | 0.0 | -25.6 | -24.8 | -19.4 |
| Hybrid bonds | 25.9 | 25.9 | 25.9 | 25.9 | 0.0 |
| Revaluation reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other equity | 235 | 185 | 185 | 185 | 185 |
| Minorities | 24.6 | 26.9 | 26.9 | 26.9 | 26.9 |
| Non-current liabilities | 417 | 434 | 25.5 | 144 | 162 |
| Deferred tax liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Provisions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest bearing debt | 334 | 289 | 19.5 | 138 | 156 |
| Convertibles | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other long term liabilities | 82.7 | 145 | 6.0 | 6.0 | 6.0 |
| Current liabilities | 274 | 179 | 319 | 166 | 171 |
| Interest bearing debt | 30.6 | 17.9 | 176 | 15.3 | 17.4 |
| Payables | 243 | 162 | 144 | 151 | 154 |
| Other current liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Balance sheet total | 976 | 852 | 557 | 523 | 526 |

DCF calculation

| DCF model | 2023 | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e | 2030e | 2031e | 2032e | 2033e | TERM |
|-----------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|
| Revenue growth-% | -36.6 % | -12.4 % | 5.0 % | 2.0 % | 2.0 % | 2.0 % | 2.0 % | 2.0 % | 2.0 % | 2.0 % | 2.0 % | 2.0 % |
| EBIT-% | 1.5 % | 2.1 % | 2.2 % | 2.3 % | 2.3 % | 2.3 % | 2.3 % | 2.3 % | 2.3 % | 1.8 % | 1.8 % | 1.8 % |
| EBIT (operating profit) | 17.5 | 21.7 | 23.5 | 24.6 | 25.1 | 25.6 | 26.1 | 26.6 | 27.1 | 22.1 | 22.6 | |
| + Depreciation | 35.3 | 32.4 | 33.4 | 34.0 | 34.6 | 35.1 | 35.4 | 35.6 | 36.0 | 36.3 | 36.4 | |
| - Paid taxes | 0.1 | -4.0 | -3.4 | -2.6 | -3.1 | -3.5 | -3.7 | -3.8 | -4.3 | -3.4 | -3.5 | |
| - Tax, financial expenses | -5.5 | -3.3 | -2.6 | -2.3 | -1.9 | -1.6 | -1.6 | -1.5 | -1.1 | -1.1 | -1.0 | |
| + Tax, financial income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| - Change in working capital | 25.1 | 18.1 | 0.4 | -0.9 | -1.0 | -1.0 | -1.1 | -1.1 | -1.2 | 0.0 | 0.0 | |
| Operating cash flow | 72.5 | 64.9 | 51.3 | 52.7 | 53.7 | 54.6 | 55.2 | 55.8 | 56.5 | 54.0 | 54.5 | |
| + Change in other long-term liabilities | 62.6 | -139.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| - Gross CAPEX | -29.9 | 248 | -22.2 | -32.9 | -33.3 | -35.7 | -36.1 | -36.5 | -36.9 | -37.3 | -38.5 | |
| Free operating cash flow | 105 | 174 | 29.1 | 19.9 | 20.4 | 18.9 | 19.1 | 19.3 | 19.6 | 16.7 | 16.0 | |
| +/- Other | -6.9 | -26.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| FCFF | 98.3 | 147 | 29.1 | 19.9 | 20.4 | 18.9 | 19.1 | 19.3 | 19.6 | 16.7 | 16.0 | 230 |
| Discounted FCFF | | 144 | 26.1 | 16.3 | 15.4 | 13.0 | 12.1 | 11.2 | 10.4 | 8.1 | 7.1 | 102 |
| Sum of FCFF present value | | 366 | 222 | 196 | 180 | 164 | 151 | 139 | 128 | 118 | 110 | 102 |
| Enterprise value DCF | | 366 | | | | | | | | | | |
| - Interest bearing debt | | -332.8 | | | | | | | | | | |
| + Cash and cash equivalents | | 28.7 | | | | | | | | | | |
| - Minorities | | -9.4 | | | | | | | | | | |
| - Dividend/capital return | | 0.0 | | | | | | | | | | |
| Equity value DCF | | 67.1 | | | | | | | | | | |
| Equity value DCF per share | | 0.75 | | | | | | | | | | |

Cash flow distribution



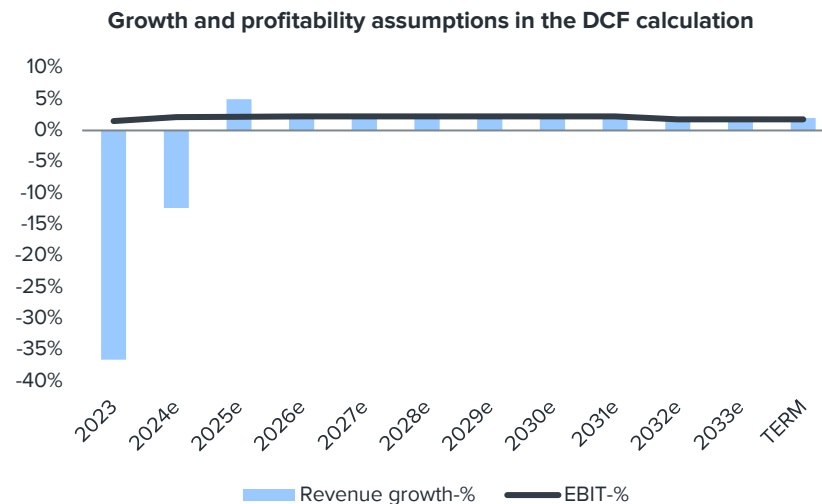
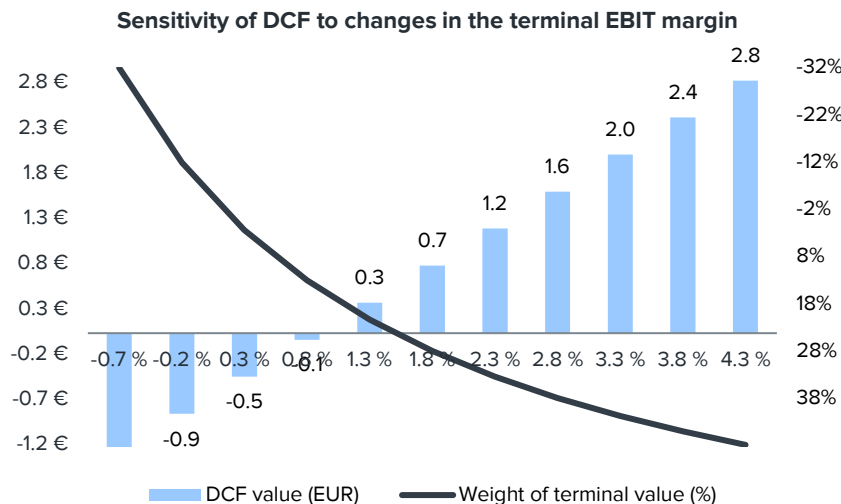
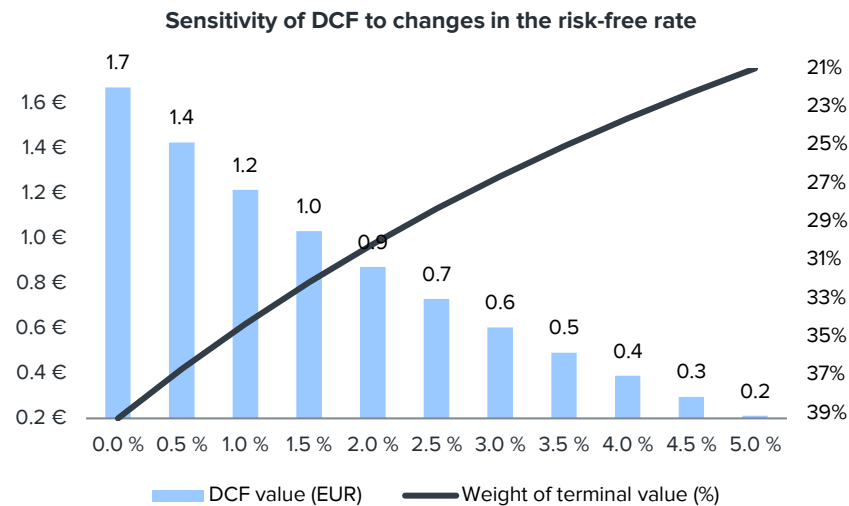
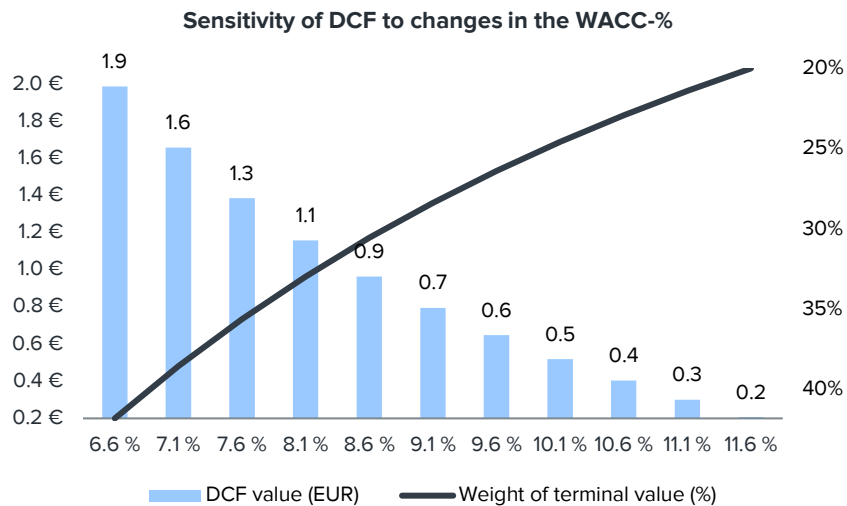
WACC

| | |
|------------------------------------------------|--------------|
| Tax-% (WACC) | 20.0 % |
| Target debt ratio (D/(D+E)) | 15.0 % |
| Cost of debt | 6.0 % |
| Equity Beta | 1.55 |
| Market risk premium | 4.75% |
| Liquidity premium | 0.00% |
| Risk free interest rate | 2.5 % |
| Cost of equity | 9.9 % |
| Weighted average cost of capital (WACC) | 9.1 % |

Source: Inderes

Purchase price payments have a downward impact on the CAPEX line for 2025-27

DCF sensitivity calculations and key assumptions in graphs



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

| Income statement | 2021 | 2022 | 2023 | 2024e | 2025e | Per share data | 2021 | 2022 | 2023 | 2024e | 2025e |
|---------------------------|--------|--------|--------|--------|--------|--------------------------|--------|---------|---------|--------|--------|
| Revenue | 1815.4 | 1833.8 | 1163.2 | 1019.2 | 1070.2 | EPS (reported) | -0.07 | -0.11 | -0.22 | -0.06 | 0.01 |
| EBITDA | 78.1 | 56.0 | 52.8 | 54.1 | 57.0 | EPS (adj.) | -0.10 | -0.11 | -0.25 | -0.04 | 0.01 |
| EBIT | 17.9 | 10.2 | 17.5 | 21.7 | 23.5 | OCF / share | 0.61 | 0.41 | 0.74 | 0.72 | 0.57 |
| PTP | 6.6 | -0.7 | -8.9 | 6.5 | 11.8 | FCF / share | -0.05 | -0.45 | 1.01 | 1.64 | 0.32 |
| Net Income | -4.4 | -69.5 | -26.4 | -21.4 | 4.9 | Book value / share | 3.17 | 2.68 | 2.17 | 2.06 | 2.07 |
| Extraordinary items | 3.4 | 0.4 | 2.6 | -1.5 | 0.0 | Dividend / share | 0.04 | 0.00 | 0.00 | 0.00 | 0.00 |
| Balance sheet | 2021 | 2022 | 2023 | 2024e | 2025e | Growth and profitability | 2021 | 2022 | 2023 | 2024e | 2025e |
| Balance sheet total | 985.6 | 976.0 | 851.7 | 557.2 | 523.2 | Revenue growth-% | 2% | 1% | -37% | -12% | 5% |
| Equity capital | 330.3 | 285.5 | 238.0 | 212.4 | 213.2 | EBITDA growth-% | 0% | -28% | -6% | 2% | 5% |
| Goodwill | 71.3 | 46.8 | 27.8 | 27.8 | 27.8 | EBIT (adj.) growth-% | -15% | -32% | 52% | 56% | 1% |
| Net debt | 314.7 | 347.3 | 278.2 | 144.1 | 131.7 | EPS (adj.) growth-% | 87% | 10% | 122% | -84% | -120% |
| Cash flow | 2021 | 2022 | 2023 | 2024e | 2025e | EBITDA-% | 4.3 % | 3.1 % | 4.5 % | 5.3 % | 5.3 % |
| EBITDA | 78.1 | 56.0 | 52.8 | 54.1 | 57.0 | EBIT (adj.)-% | 0.8 % | 0.5 % | 1.3 % | 2.3 % | 2.2 % |
| Change in working capital | -12.4 | -13.5 | 25.1 | 18.1 | 0.4 | EBIT-% | 1.0 % | 0.6 % | 1.5 % | 2.1 % | 2.2 % |
| Operating cash flow | 59.5 | 39.7 | 72.5 | 64.9 | 51.3 | ROE-% | -1.4 % | -3.0 % | -8.3 % | -0.5 % | 2.7 % |
| CAPEX | -58.5 | -41.1 | -29.9 | 248.2 | -22.2 | ROI-% | 3.2 % | 2.4 % | 3.2 % | 4.8 % | 6.5 % |
| Free cash flow | -4.5 | -43.3 | 98.3 | 147.4 | 29.1 | Equity ratio | 33.5 % | 29.3 % | 27.9 % | 38.1 % | 40.7 % |
| | | | | | | Gearing | 95.3 % | 121.6 % | 116.9 % | 67.8 % | 61.8 % |
| Valuation multiples | 2021 | 2022 | 2023 | 2024e | 2025e | | | | | | |
| EV/S | 0.3 | 0.2 | 0.3 | 0.2 | 0.2 | | | | | | |
| EV/EBITDA | 6.3 | 7.9 | 7.3 | 4.3 | 3.8 | | | | | | |
| EV/EBIT (adj.) | 33.8 | 45.0 | 26.0 | 9.9 | 9.2 | | | | | | |
| P/E (adj.) | neg. | neg. | neg. | neg. | 88.2 | | | | | | |
| P/B | 0.5 | 0.3 | 0.4 | 0.4 | 0.3 | | | | | | |
| Dividend-% | 2.3 % | 0.0 % | 0.0 % | 0.0 % | 0.0 % | | | | | | |

Source: Inderes

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| | |
|------------|----------------------------------------------------------------------------------------|
| Buy | The 12-month risk-adjusted expected shareholder return of the share is very attractive |
| Accumulate | The 12-month risk-adjusted expected shareholder return of the share is attractive |
| Reduce | The 12-month risk-adjusted expected shareholder return of the share is weak |
| Sell | The 12-month risk-adjusted expected shareholder return of the share is very weak |

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Recommendation history (>12 mo)

| Date | Recommendation | Target | Share price |
|-----------|----------------|--------|-------------|
| 6/1/2024 | Reduce | 0.65 € | 0.70 € |
| 8/8/2024 | Reduce | 0.55 € | 0.63 € |
| 9/26/2024 | Reduce | 0.70 € | 0.72 € |



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