AUGA group AB (AUG1L LH)

Company Update

8th May 2020

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AUGA: Investment Thesis

Revised the valuation to account for COVID-19 impact and other factors

AUGA group AB (AUG1L LH; hereafter referred to as “Auga” or the “Group”) based in Lithuania, is one of the largest organic food companies in Europe, with plans to manage over 39,000 ha of arable land. The Group operates a unique vertically integrated business model, enabling it to control the full value chain, providing full guarantees to customers that its products may be traced.

The Group’s product range includes wheat, peas, beans, rapeseed, sugar beets, mushrooms, ready-to-eat soups, various types of flour and chicken products. With the exception of some mushrooms, all AUGA-branded products are presently certified as organic. The group follows all requirements attributable to organic farming, like strict limits restricting synthetic pesticides and fertilisers use, an absolute prohibition on the use of genetically modified organisms and adopting wide crop rotation practices.

After reviewing Auga’s 2019 full-year results, we have updated our view on the Group. However, this update comes at a time of extreme uncertainty caused by the COVID-19 pandemic that has ripped through the global economy. Only a few sectors have withstood the wrath of the coronavirus in the financial markets, but we believe that, within the Baltics, there are a select few companies that would profit from the coronavirus crisis and one such company is AUGA group.

The Group is poised to benefit from the need for longer shelf life and high nutritional valued foods. Auga has a product mix that is suitable to meet both of these requirements, without facing too much risk of COVID-19. It only faces the potential risk of labour force limitations and cross-border shutdowns if the crisis worsens. However, there are some signs that the infection rate curve may be flattening in Lithuania, which would reduce these two risks from being materialised.

Auga has a robust ESG policy, and it can be said that it is a leading company in the Baltics when it comes to having a clear and demonstrated ESG strategy. This is considered to be a strong qualitative characteristic of the Group and positions it as an interesting investment alternative, especially for those that emphasize sustainable investments and good ESG practices.

Besides having a strong environmental policy and ambitions to achieve five of the United Nations Sustainable Development Goals, the Group adopts closed-loop organic farming methods. It means that the inputs for the growing process are found in secondary products or the waste of other processes in the loop. For organic farming, the principle of the closed-loop farming method is especially important, as it is forbidden to use any chemical fertilisers or chemicals for plant protection. In organic farming, only natural organic materials can be used, and they are not easily obtained in the market. As a general rule, organic farmers face difficulties in getting enough natural nitrogen fertilisers.

This closed-loop model can be self-sustaining, provided that the quantities of livestock, birds, legumes, and other crops are well balanced within the loop. The closed-loop farming model permits the Group to offer its customers full traceability, as everything in the

Key Numbers (EURm)	2016	2017	2018	2019	2020*	2021*
Sales (EURm)	39.6	48.8	54.7	71.1	77.2	82.9
Sales growth (%)	(16.4)	23.1	12.2	29.9	8.6	7.4
Net profit (EURm)	2.2	4.9	(6.0)	(3.0)	2.2	5.7
EPS (EUR)	0.01	0.03	(0.03)	(0.01)	0.01	0.03
P/E (x)	42.3	20.5	n.m.	n.m.	31.8	12.4
Payout per share (EUR)#	-	-	-	-	-	-
Payout yield (%)	-	-	-	-	-	-
P/B (x)	1.3	1.3	0.9	0.9	0.8	0.7
EV/Sales (x)	3.1	3.0	2.5	2.4	2.0	1.7
EV/EBITDA (x)	12.1	10.7	32.6	10.1	6.9	5.7
EV/EBIT (x)	31.1	21.8	n.m.	152.9	17.2	11.6
ROE (%)	3.1	6.5	(7.0)	(3.3)	2.4	6.0

Source: Auga, LHV *2020E-2021E multiples are based on the share price (4th May 2020) of EUR 0.31 per share. # Payout per share include dividends and share capital reduction

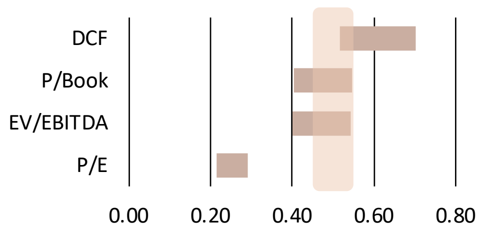
Company Profile	
Listing Market:	Baltic Main List
Bloomberg Ticker:	AUG1L LH
ISIN:	LT0000127466
Industry:	Consumer Goods
Sector:	Food & Beverage
No. of Employees:	1,193
Website:	http://www.auga.lt

Share Data, as of 4th May 2020	
Current Share Price (EUR):	0.31
Fair Value Range, EUR (FVR):	0.45-0.55
Upside, % (to mid-point of FVR):	61.29
52-week High/Low (EUR):	0.412/ 0.260
3m Avg. Daily Volume (th):	57.87
Market Cap (EURm):	70.5
Ordinary Shares (m):	227.4

Key Shareholders, as of 31st Dec 2019	
Baltic Champs Group, UAB	55.04%
EBRD	8.71%
ME Investicija UAB	8.39%
Žilvinas Marcinkevičius	7.00%

12-Month Price Performance

LHV Fair Value Range: EUR 0.45-0.55*



* As of 8th May 2020

Relative Valuation* (FY20E)

Particulars	EV/EBITDA	P/E	P/B
AUGA group	17.2	31.8	0.8
Peer Median	6.6	28.7	0.7

production process, from seed to packing, is controlled by itself. The complete traceability guarantee is essential in gaining the long-term trust of customers, as well as that of private label producers.

We have made revisions to our outlook for the Group to reflect not only the changes in the financial position since the last update (including Q4 2019 results and the issuance of the Green Bond during the final quarter of 2019) but also for the impact of the coronavirus.

While we believe that Auga is one company that could benefit from the pandemic, we are still cautious regarding the high level of uncertainty that has been brought on by the virus. Although we are presenting a revised set of forecasts, assuming a relatively healthy state of activities, there is an added level of risk attached to the estimates.

We have changed the DCF valuation method from FCFF to FCFE to appropriately adjust for the changes in financial forecasts caused by the adoption of IFRS 16. Despite the changed market conditions, we have maintained our previous fair value range for the Group of EUR 0.45-0.55 per share. This represents a 45.2-77.4% upside potential relative to the current share price of EUR 0.31 per share.

The Coronavirus Crisis

Several factors influence the financial performance of AUGA group, but the reality is that the coronavirus is currently one of the first thoughts on many people's minds across the world. The rate at which the virus has spread has led to strict lockdowns being imposed in multiples cities and countries. While generally essential shops are being kept open, there has been stockpiling of long-lasting foods. This stockpiling, mixed with labour concerns, has raised questions over food security.

According to the Trade Promotion Council of India, the demand for essential commodities such as rice, wheat, and pulses has more than doubled. At the same time, the demand for confectioneries, sweets, organic processed food, and spices also increased by 15-20% in March 2020. There has been a particular increase in the demand from the US, Europe, Australia, New Zealand, Israel, Palestine, and Egypt.

There has been added pressure on the world food supply on account of panic buying that has been driven by psychological fear that food will run out – creating somewhat of a self-fulfilled prophecy. Supermarkets have had to face the challenges of empty shelves, and the potential to increase food prices (especially as restaurants have had to limit their activities, adding more strain on the supermarkets).

The Centers for Disease Control and Prevention ("CDC") and experts from Johns Hopkins University have advised households to stock up food supplies for two weeks. This would imply that there is a growing need for long-lasting foods, such as dried, canned, or powdered foods.

Food Security

There are concerns by the Center for Strategic and International Studies ("CSIS") that the COVID-19 pandemic could adversely impact global food security both directly and indirectly. The Committee on World Food Security's High Level Panel of Experts on Food Security and Nutrition stated that it is not only impacting food supply, demand, and price, but it is decreasing the purchasing power, the capacity to produce and distribute food, and is intensifying care tasks. Already, according to the Food and Agriculture Organization of the United Nations ("FAO"), in February 2020 there was an annual 8.1% increase in food prices. However, it is uncertain whether this was directly correlated to the coronavirus pandemic.

More specifically, the FAO has warned that there could be an international food crisis, especially if the food supply chains cannot be upheld. These warnings are heightened by the risk of border closures, quarantines, market lockdowns, and supply chain disruptions. All of these could cut access to nutritious sources of food, especially in those countries that are hardest hit by the virus or that already suffer from food shortages.

For the moment, though, the FAO has tried to reassure nations that food disruptions have been minimal and markets have been stable. This is despite some logistical bottlenecks and signs of reduced production of high-value commodities such as fruits and vegetables. However, the longer the pandemic persists, the higher the risk of food insecurities.

The FAO stated that from April and May, there could be more pronounced food supply chain disruptions. According to the FAO:

"restrictions of movement, as well as basic aversion behaviour by workers, may impede farmers from farming and food processors - who handle the vast majority of agricultural products - from processing. Shortage of fertilizers, veterinary medicines and other input could affect agricultural production. Closures of restaurants and less frequent grocery shopping diminish demand for fresh produce and fisheries products, affecting producers and suppliers. Sectors in agriculture, fisheries and aquaculture are particularly affected by restrictions on tourism, closure of restaurants and café and school meals suspension."

Fortunately, for the time being, global cereal stocks are at comfortable levels, and the FAO indicates that the outlook for 2020 wheat and other major staple crops is positive.

The situation for fisheries and aquaculture is considered to be more complex, especially for wild-capture fisheries. This is due to the inability of fishing vessels to operate, as well as the logistical issues relating to restrictions in transportation, border closures, and lost demand from hotels, restaurants, and cafes ('HoReCa'). Similar logistical issues may be faced by the livestock sector.

The envisaged logistical challenges could also lead to an increase in levels of food loss and waste, especially with regards to the fresh food supply chains. Fresh fish and aquatic products are particularly perishable and need to be sold, processed, or stored as quickly as possible.

Food for Health

Households also had to cut back on their food and nutrition intake due to the increased difficulties encountered in affording and accessing food which increases the chances of virus infection due to weakening immunity systems.

According to CSIS, certain foods should be eaten during this period to help strengthen the body's immunity. While the food in itself may not be the cure to the coronavirus, improving immunity can help the body withstand infections and diseases as a natural defence and resistance to pathogens. This can be done by consuming foods with high levels of vitamin B6, vitamin C, vitamin E, magnesium, and zinc.

Additionally, according to Nielsen, the outbreak has sparked sharp growth in the organic food demand, especially in countries such as France. COVID-19 has changed consumers' purchasing habits by increasing their focus on healthier products and fresher products to accommodate for increased consumption at home. These are likely to further support the demand for organic foods.

Business Review

COVID-19 Implications for Auga

Auga can cater to some of these nutritional needs. It already produces long shelf-life products out of mushrooms, beetroot, and chickpeas. These three are particularly important since:

- **Mushrooms** – according to Boston University, these are high sources of vitamin D, which regulates the production of a protein that can kill infectious agents such as bacteria and viruses selectively. It also alters the activity and number of white blood cells, which can also reduce the spread of bacteria and viruses.

  Beetroot – beetroot has high levels of nitrates that are converted into nitric oxide in the body. Nitric oxide plays an important in allowing cells to signal between each other and has shown to have an inhibitory effect on some virus infections. Studies have shown that nitric oxide not only significantly inhibited the replication cycle of SARS CoV in a concentration-dependent manner, but it inhibits viral protein and RNA synthesis.

- **Chickpeas** – according to the Academy of Nutrition and Dietetics, chickpeas are high in protein, which is an essential nutrient made of amino acids that help grow and repair the body's tissues. Additionally, chickpeas offer high levels of zinc, which helps the immune system control and regulate immune responses.

Auga's Opinion on Coronavirus

According to a statement made by the Group, it is currently operating at its planned seasonal capacity. It has put measures in place to ensure the health and well-being of its employees, including shifting its office-based employees to remote working, while farm and production employees have been rearranged to minimise contact and the spread of the virus. In particular, it has stated the following about its segments:

- **Crop growing** – The Group has indicated that the virus is unlikely to significantly impact the crop growing segment, as all obligations are executed according to the existing agreements. It did warn, though, that there may be logistical risks, with rising transportation costs, and a potential labour shortage if the virus spreads too rapidly. However, the Group is not too concerned over the latter as they believe that they can fill the gap with temporary employment due to growing labour supply. The Group has also indicated that so far, the weather conditions have been favourable for the winter crops and the cultivation of the land has commenced for the spring crops.
- **Dairy** – Auga has stated that its milk production is running at its regular capacity and demand remains strong. The milk is being delivered to the local Baltic and Polish markets, particularly fresh milk products. There should not be any change in demand, with organic milk amounting to c.a. 90% of sales.
- **Mushroom growing** – The primary concern for the mushroom segment is that it is a labour-intensive operation. The Group is implementing safety measures to minimise contact between employees and setting up temporary employment options. However, there may still be a labour shortage if the spread of the virus becomes overbearing. There is also a risk that international borders are closed to goods, considering that 70-80% of production is exported. That said, the production is progressing normally and overall demand has not been hurt as the negative impact of the drop in demand from the HoReCa sector has been offset by an increase in the retail sales. This has a positive effect on profit margins, with increased demand for packaged mushrooms. Additionally, the HoReCa sector only accounts for less than 10% of mushroom sales and less than 2% of total sales.
- **Fast moving consumer goods** – As expected, the Group has stated that there is a growing demand for long shelf-life packaged products (e.g. dairy products and soups) in all its markets. This has been spurred on by consumer panic buying, which has supported sales, especially as they are long life and highly nutritious foods. The main concern rests with the supply chain of the raw materials that are not produced in-house.

ESG Policies Review

Auga has unambiguous environmental, social, and governance policies in place. The Group managed to successfully raise EUR 20m (a total of up to EUR 60m* can be raised under the programme) through the first tranche which was a Green Bond, at an annual interest rate of 6% (paid annually) with a five-year maturity. The offer was oversubscribed by 125%. The bonds started trading on the Nasdaq Vilnius Bond list on 20th December 2019.

The Green Bond was independently evaluated by the Center for International Climate Research ('CICERO'), which confirmed that the Group bonds were in line with the stated definition of green bonds within the International Capital Market Association Green Bond Principles and awarded the Group with a medium green rating.

Other factors proving that the Group has strong ESG policies include:

1. The Group's goal is to be engaged only in organic and environmentally sustainable farming and food production;
2. Its food products are grown and prepared by preserving and caring for the environment, using the most modern organic farming technology;
3. Auga is responsible for the entire value chain, including the growing and processing of raw materials to the supply of end-consumer products;
4. It produces organic products at a fair price, using the latest technology, economies of scale, and synergies between different branches of agriculture;
5. Auga is a socially responsible employer, providing competitive wages and attracting talent, providing fair labour conditions and protecting human rights.

The Group has stated that it is committed to sustainable farming and organic food production. Within these activities, it is committed to contributing to the achievement of five of the United Nations Sustainable Development Goals ('SDG') – climate action; life on land; decent work and economic growth; responsible consumption and production; and industry, innovation and infrastructure.

In particular, Auga has identified the following ways to meet the SDG:

- Climate action and life on land will be achieved through sustainable farming, the sustainable use of land, and adaptation to climate change challenges;
- Decent work and economic growth will be achieved through fair labour conditions, employee health and safety, investing in business communities, and development of the regional economy;
- Responsible consumption and production will be achieved through consumer well-being, product quality, and safety and protection of consumer rights; and
- Industry, innovation, and infrastructure will be achieved through investing in innovations to preserve natural resources, investing in sustainable farming technologies, and investing in sustainable energy.

The Group has also stated that it acknowledges that its business affects the natural environment. Based on Auga's environmental policy, it applies the principles of sustainable farming and takes into account the interests of all its stakeholders, including its shareholders, customers, partners, employees, and communities in which it operates. In terms of the environment, the key responsibilities are

* Not all tranches are necessarily going to be green bonds.

towards the responsible consumption of energy and resources, the use of climate change mitigation measures and ecology.

Auga assumes the responsibility for the environmental impact of its activities and undertakes to reduce the impact by:

- Operating in compliance with all mandatory requirements of environmental legislation;
- Cooperating with business partners, public authorities, and agencies on environmental issues;
- Monitoring the environmental impact – measuring the carbon footprint of the organisation and aiming to reduce it;
- Saving nature and energy resources by using renewable energy sources, and aiming to produce its own biogas that can be used for its organic farming activities;
- Reducing as much waste as possible by applying the principle ‘reduce, reuse, and recycle’; and
- Developing employee competence and a responsible approach to environmental protection.

The Group does not only want to comply with the minimum mandatory legislative requirements. It also aims to contribute to the development of good practice for organic farming and the food production chain, as well as being a role model for other enterprises in its industry.

Auga’s vision of sustainable organic agriculture includes three primary goals or strategies:

1. To apply min-till technology and use the required machinery for cultivating the land;
2. To run tractors and other vehicles on biogas produced from the organic waste collected from its integrated farms; and
3. To operate a closed-loop farming model, which effectively uses synergies among different brands of agriculture.

To achieve this, it actively invests in the application of min-till technologies, the R&D of industrial biogas production. It aims to attract additional investments for the implementation of this vision.

Sustainable Organic Food Architecture

To follow on with its ESG policies and aiming to fully integrate sustainability into its culture, the Group has developed a new operating strategy that it has coined the “Sustainable Organic Food Architecture” (‘SOFA’) that will enable it to deliver climate (carbon and equivalent) neutral organic food.

SOFA allows the Group to position itself with consumers, farmers, lenders, and shareholders to align with their sustainable-centric preferences with their consumption, work, and investment activities. It will allow the Group to create the opportunity for high quality, healthy food at no additional cost to nature. As such, Auga plans to reposition itself as an, asset-light, agtech company that adopts a self-sufficient circular model and allows the world to live more sustainably. In doing so, Auga plans to integrate responsible technology that:

- aims to increase animal welfare and productivity;
- aims to minimise the effects on the environment; and
- proves such a track record valid for every unit of organic produce throughout the value chain

Auga plans to meet the 2020s with an innovation agenda having the goal of becoming a CO_2 equivalent neutral player in organic food by 2030. To achieve this, the Group intends to:

- improve efficiency in existing business units to be able to align yields and costs structures between conventional and organic;
- design SOFA to create a multi-level innovation scheme to address the most pressing technological bottlenecks in the world of food production while retaining scale, quality, and yield productivity as it grows; and
- reduce CO_2 equivalent emissions to a minimum point through the value chain and neutralise the balance.

The Group is splitting the goals into short, medium, and long term strategies. It plans to achieve a twofold undertaking of increasing the efficiency of existing business units in the short-term (2020-2023) and constructing the SOFA in the medium-term (2020-2025). The Group’s strategic initiatives for efficiency include the following:

- Crop growing segment foresees the introduction of regenerative crop rotation plans with more expedient seed mechanisms and a higher level of grass cultivation and processing efficiency, drawing from the best practices generated at AUGA academy.
- Dairy segment embarks on an initiative to increase animal welfare via a customised animal care programme, defining the key components of everyday well-being from milking to feeding.
- Mushroom growing segment seeks to revisit the entire cycle of the mushroom cultivation blueprint with the introduction of technology in key labour-intensive areas, such as picking and packaging.
- Fast-moving consumer goods segment undertake a mission to consolidate its market positions with own and private label brands, not only in established but also new markets.

The SOFA that Auga plans to develop is a multi-level innovation scheme that addresses the most pressing technological bottlenecks in the world of farming. These include issues such as solving the cost to nature of the produce; namely, the ability to deliver climate-neutral

Sustainable for AUGA community			
Consumers	**Farmers**	**Private and Institutional Lenders**	**Shareholders**
Means eating while remaining aware that the most basic need is not inflicting damage on the planet but is helping to save it.	Means presenting farmers with an alternative standard of sustainability in agriculture.	Means empowering lenders to have the highest impact on the greening of the food value chain.	Means endowing shareholders with a threefold opportunity to multiply their investment, empower the future of the food value chain, and help save the planet.
Success for AUGA in 2025			
Ability to deliver consumer basket with the least cost to nature.	Functionality of the SOFA.	Resilience in business structure through long-term financing and impact-driven lenders.	Unique asset-light business model, able to demonstrate ROE ≥15%, multiply the Group value by 3x and retain growth dynamics in the periods to follow.

Source: Auga

food under the key conditions of an incremental increase in quality, efficiency, and yield productivity by 2030. This includes adapting three levels of technology into its SOFA blueprint (in addition to the existing closed-loop sustainable farming model), including:

- Biogas cycle infrastructure and vehicles to enable farm operations to run without fossil fuels, and tighter integration of the circular business model, whereby the secondary role of manure in the cycle will be utilised both for fertilisation, as well as for powering farm operations as biofuel.
- Specialised feed technology to reduce methane emissions from ruminants per animal unit and decrease the CO_2 equivalent emission rate per the corresponding group of products.
- Regenerative crop-rotation to substitute the share of cereal cultures with leguminous grasses that demonstrate carbon sequestration and nitrogen fixation capabilities, in an attempt to reduce the absolute rate of emissions and to become an integral part of livestock operations.

The Group is also working on implementing a practical set of standards for the consumer basket, which will be accompanied by a list of CO_2 equivalent emission reduction goals. By 2025, the Group is aiming to cut emissions from the use of fossil fuels on its farms by 40% (and by 50% in the consumption of fuels in its farming operations), methane emissions from enteric fermentation in livestock at least by 33% (and by 50% per tonne of cow's milk produced) and emissions from managed soil by 20% (and by 30% per cent per tonne of agricultural dry matter yield).

The aspect of enteric fermentation is particularly relevant, as it is part of the livestock's digestive process, of which methane is a by-product. The methane is then exhaled by the animal (particularly cattle, sheep, and goats). The level of emission per head of livestock can be reduced through improved management practices, including the type and amount of feed consumed. Therefore, by better feed management, the Group would be able to improve the enteric fermentation process and reduce the volume of methane exhaled by the livestock.

Outlook

Segment Forecasts

Crop growing

Crop growing covers wheat, legumes, rapeseed, barley, as well as several other forms, including grasses and corn for feed. Winter and summer wheat, legumes, and rapeseed are the primary revenue generators in this segment. Grain for cattle feed is grown from barley and triticale, while the green feed is grown from corn and a variety of perennial grasses.

During the 2018/19 season, c.a. 38,560 ha were cultivated, with the majority of the area (28,670 ha) having been seeded with cash crops. The Group seeds its winter crops, as they generally have a higher yield potential compared to summer alternatives. While Auga indicated that, in coming years, they do not intend to increase the area of cultivated land, it plans to increase its land under management to over 39,000 ha in 2020.

In 2018, the revenues of the crop growing segment increased significantly despite unfavourable weather conditions in summer 2018. The revenue from sold agricultural produce increased from EUR 17.5m in 2018 to EUR 29.5m in 2019. Compared to the other segments, the crop growing segment is highly seasonal and the most vulnerable to adverse weather conditions. This makes it particularly challenging to forecast the segment's revenues, the fair value of the harvest, and profitability.

During the 2018/19 season, Lithuania experienced record-breaking temperatures and unusually dry weather. Despite this, the Group's wheat and legume yields continued to improve and are edging closer to the non-organic Lithuanian yield levels. While the Group experienced severe summer conditions, it has stated that the weather conditions in the fall of 2019 were favourable for autumn sowing and other preparatory land works for the 2019/2020 season.

As a result, the Group managed to complete the seeding of winter crops, and the land preparation works on time. This included the sowing of c.a. 14.5k ha (15.6k ha in the 2018/2019 season) of winter crops, which represent around half of the total cash crops area to be planted in the season of 2019/2020.

So far, the condition of the winter crops is good, as the favourable 2019 autumn weather allowed for proper cultivation of the land and preparation for summer crop sowing in the spring 2020 season. As a result, the Group believes that it is well prepared for the 2019/2020 season and is positive about the harvest potential.

For the forecast period, we have taken a positive view with the assumption that Auga will steadily improve on its yields per hectare across the various cash crops. However, the cost of production remains a concern in terms of the segment's margins, and the segment is exposed to climatic risks and exogenous global price risks. As such, we have assumed a steady growth in revenues from EUR 29.5m in 2019 to EUR 32.4-37.5m over the 2020-2022 forecast period.

Crop growing segment	2017	2018	2019	2020E	2021E	2022E
Sales of agricultural produce, EURm						
Total revenue of sold agricultural produce	14.2	17.5	29.5	32.4	35.7	37.5
Total cost of sold agricultural produce	(13.8)	(17.4)	(30.4)	(30.8)	(32.1)	(33.7)
Total inventory write-off	(0.3)	(1.4)	(1.5)	(1.7)	(1.9)	(2.0)
Result of sales of agricultural produce	**(0.8)**	**(2.1)**	**(2.5)**	**(0.1)**	**1.7**	**1.8**
Harvest of agricultural produce						
Total cultivated land, 000ha	**33.1**	**38.5**	**38.6**	**39.8**	**39.8**	**39.8**
Wheat	6.5	8.9	11.5	11.4	11.4	11.4
Legumes	4.1	10.7	8.0	8.0	8.0	8.0
Other cash crops	8.1	9.0	9.1	10.5	10.5	10.5
Forage crops	8.2	9.0	9.0	9.0	9.0	9.0
Fallow	6.1	1.0	0.9	0.9	0.9	0.9
Average harvest yield, t/ha						
Wheat	4.1	2.8	4.2	4.7	4.8	4.8

Crop growing segment (...continued)	2017	2018	2019	2020E	2021E	2022E
Legumes	3.3	1.4	1.7	3.8	3.8	3.9
Other cash crops	5.0	5.1	8.2	8.2	8.3	8.4
Forage crops	6.1	4.9	6.1	6.1	6.2	6.2
Total harvest, 000t						
Wheat	26.8	25.1	48.4	53.6	54.1	54.6
Legumes	13.6	15.1	13.4	30.5	30.8	31.1
Other cash crops	40.4	45.6	75.2	86.4	87.2	88.1
Total fair value of harvest, EURm	**26.2**	**27.9**	**39.7**	**49.3**	**49.8**	**50.3**
Wheat	6.8	6.4	13.7	15.1	15.3	15.4
Legumes	5.1	5.6	4.8	10.9	11.0	11.1
Other cash crops	9.6	10.1	14.1	16.2	16.3	16.5
Forage crops	4.7	5.8	7.2	7.2	7.2	7.3
Implied price per tonne, EUR						
Wheat	254.4	256.0	282.2	282.2	282.2	282.2
Legumes	374.3	370.1	357.4	357.4	357.4	357.4
Other cash crops	236.4	221.3	187.3	187.3	187.3	187.3
Forage crops	95.3	130.4	130.6	130.6	130.6	130.6
Gain on revaluation of agricultural produce at point of harvest, EURm	**5.1**	**(3.4)**	**5.3**	**5.8**	**6.4**	**6.7**
Agricultural subsidies, EURm						
Total subsidies	8.2	9.1	6.5	8.6	8.6	8.6
Gross profit of crop growing, EURm	**12.4**	**3.5**	**9.2**	**14.4**	**16.7**	**17.1**

Source: Auga for historicals, LHV for estimates

Mushrooms

In terms of revenues, the mushroom growing segment is the most stable and biggest contributor to the top line (Baltic Champs UAB is the largest mushroom production and marketing company in the Baltic states and the fifth-biggest in Europe), accounting for 40.4% of revenues in 2019.

Overall, Auga sold 12,256t of mushrooms in 2019 (2018: 12,147t). While the total tonnes sold remained relatively stable in 2019 compared to 2018, the increase in revenues from EUR 23.9m in 2018 to EUR 26.3m in 2019 was driven by an increase in the average sales price of non-organic mushrooms, which still represented the vast majority of sales. The average price of mushrooms sold increased from EUR 1,966/t in 2018 to EUR 2,147/t in 2019.

The Group has indicated that it intends to retain its leading position across the Baltics, though there are no plans yet to increase its production capacity significantly. Instead, it is working on the partial robotisation of mushroom seedbed production, mushroom picking and packaging. This would allow the Group to substantially reduce its labour costs and increase the efficiency of the mushroom growing segment. Considering that labour costs contribute around 25% of the mushroom segment's cost of goods sold, this robotisation could result in significant cost savings.

Based on the increased demand for mushrooms and rising mushroom prices, it is expected that the revenues generated from the segment will increase from EUR 28.7m in 2019 to EUR 29.9-32.3m over 2020-2022 forecast period. However, this will be sensitive to the rate at which the mushrooms can be relabelled and sold under the organic label and thus receive organic mushroom prices.

Mushroom segment	2017	2018	2019	2020E	2021E	2022E
Total tonnage sold, 000't	**12.0**	**12.1**	**12.3**	**12.2**	**12.3**	**12.3**
Non-organic mushrooms	11.4	11.3	11.3	11.1	10.5	9.7
Organic mushrooms	0.7	0.9	0.9	1.2	1.8	2.6
Total revenues from mushroom sales EURm	**21.5**	**23.9**	**26.3**	**27.7**	**29.0**	**30.4**
Non-organic mushrooms	19.6	21.3	23.6	24.2	23.5	22.3
Organic mushrooms	1.9	2.6	2.7	3.5	5.4	8.1
Average price / kg						
Non-organic mushrooms	1.7	1.9	2.1	2.2	2.2	2.3
Organic mushrooms	2.9	2.9	2.9	2.9	3.0	3.1

Mushroom segment (...continued)	2017	2018	2019	2020E	2021E	2022E
Total cost of mushrooms sold, EURm	**(20.8)**	**(22.3)**	**(23.7)**	**(24.7)**	**(25.5)**	**(26.1)**
Non-organic mushrooms	(19.6)	(20.7)	(21.8)	(22.3)	(21.7)	(20.6)
Organic mushrooms	(1.1)	(1.6)	(1.9)	(2.4)	(3.7)	(5.5)
Total revenues from sale of mushroom seedbed, EURm	**2.9**	**2.6**	**2.4**	**2.2**	**2.0**	**1.9**
Total cost of sales of mushroom seedbed, EURm	**(2.7)**	**(2.4)**	**(2.5)**	**(2.2)**	**(2.1)**	**(1.9)**
Gross profit of mushroom growing segment, EURm	**0.9**	**1.7**	**2.5**	**3.0**	**3.5**	**4.3**

Source: Auga for historicals, LHV for estimates

Dairy

The dairy segment includes milk processing and cattle rearing, including the maintenance of a healthy and balanced herd. This segment's main revenues come from sales of milk – the Group does not rear cattle for beef, but due to natural changes in the herd, elderly and unproductive cattle are sold for meat. This segment's revenues are relatively stable throughout the year.

The Group's revenues from the dairy segment increased from EUR 9.0m in 2018 to EUR 10.1m in 2019. Auga managed to increase its sales volumes due to better milk yields per cow – an increase from 18.4kg/cow per day in 2018 to 19.7kg/cow per day in 2019. It also managed to increase the share of milk sold at organic production prices from c.a. 45.9% in 2018 to c.a. 73.8% in 2019, with the volume of organic milk sales nearly doubling (y-o-y) from 10,389t to 18,067t during the corresponding period.

Despite an increase in the cost of feed, the cost per kg of milk produced went down due to the relatively stronger increase in milk yields. This left the total cost of sales for the segment relatively stable at EUR 10.6m for 2019 (2018: EUR 10.3m).

The Group is in the process of certifying its organic milk production per the Chinese organic farming requirements (expected certification: H1 2020). These certificates will widen the potential to sell all produced milk at the organic price premium.

Auga has stated that it plans to hold the number of livestock stable, but to increase the share of milk sold with organic price premium during 2020. The introduction of bottled end-consumer products in Q2 2018 opened new opportunities and sales channels for the organic milk products both in the local and export markets.

The main driver of revenues in the dairy segment will be the improved milk yields per cow, and the continued shift towards the sale of organic milk, which sells at a higher price than non-organic milk. On account of these two factors, it is expected that the revenues generated from this segment will increase from EUR 10.1m in 2019 to EUR 11.3-12.6m over 2020-2022 forecast period. If the shift to organic milk sales is faster, or the price of milk sold increases more aggressively than estimated, there could be upside gains relative to the forecasts.

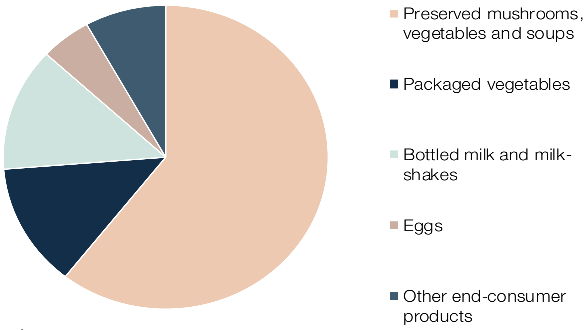
End-consumer packaged goods

The end-consumer packaged goods segment includes long shelf-life products such as canned and packaged vegetables and ready-to-eat soups. The majority of this segment's products are exported, with large customers including Costco Wholesale Canada Ltd (one of the world's largest retailers, operating more than 700 stores worldwide, of which nearly 500 are located in the US and over 100 in Canada). The Group is also in negotiations with other retailers in the US and other export markets. It is also building a stronger position in the Swedish market for private-label soups and other canned goods. Even so, this

Dairy segment	2017	2018	2019	2020E	2021E	2022E
Total tonnage sold, 000't	**23.9**	**25.2**	**25.2**	**26.8**	**27.8**	**28.9**
Non-organic milk	19.8	12.2	6.4	2.6	2.4	2.3
Organic milk	3.2	10.4	18.1	23.5	24.7	25.9
Cattle	0.8	0.8	0.7	0.7	0.7	0.6
Total revenue of dairy segment, EURm	**9.0**	**9.0**	**10.1**	**11.3**	**11.9**	**12.6**
Non-organic milk	6.9	3.9	2.1	0.8	0.8	0.8
Organic milk	1.3	4.2	7.4	9.8	10.6	11.4
Cattle	0.8	0.8	0.7	0.6	0.5	0.5
Average price, EUR/kg						
Non-organic milk	0.3	0.3	0.3	0.3	0.3	0.3
Organic milk	0.4	0.4	0.4	0.4	0.4	0.4
Cattle	1.0	1.1	1.0	0.9	0.8	0.7
Total cost of dairy segment, EURm	**(9.3)**	**(11.4)**	**(10.6)**	**(10.2)**	**(10.2)**	**(10.5)**
Milk	(7.6)	(9.4)	(9.9)	(9.6)	(9.7)	(10.0)
Cattle	(0.8)	(0.8)	(0.7)	(0.6)	(0.5)	(0.5)
Revaluation of biological assets, EURm	**(0.9)**	**(1.8)**	**(2.2)**	**(1.7)**	**(1.8)**	**(1.9)**
Total subsidies, EURm	**0.8**	**0.7**	**0.8**	**0.9**	**0.9**	**1.0**
Gross profit of dairy segment, EURm	**(0.4)**	**(2.4)**	**(1.9)**	**0.2**	**0.8**	**1.2**

Source: Auga for historicals, LHV for estimates

End-Consumer Goods Sales Revenue, 2019



Source: Auga

segment's contribution to gross profit currently remains marginal.

While this segment is still the smallest, sales generated from there increased from EUR 1.9m in 2018 to EUR 2.8m in 2019. This was supported by increased export volumes, with the Group now holding agreements with South Korea, the United Arab Emirates, Romania, Ukraine, Northern Macedonia, and Portugal. Further distribution development is mainly focused on the USA and Asian markets, where preserved products range gets most of the interest. This segment is likely to record strong growth in H1 2020 due to the COVID-19 shutdowns increasing demand for nutritious, long-life food products .

Looking ahead, as a percentage of sales, we expect operating expenses to stabilise around 12% during our forecast period.

R&D

The Group has indicated that it is engaged in several R&D activities that are aimed at creating value through innovative organic agriculture technologies and better end-user products. These activities include R&D into:

- Broiler poultry farms
- Laying hens poultry farms
- Adaptation of agricultural machinery to organic farming
- Biogas production
- Biogas cleaning
- New generation organic dairy farms
- Combined fodder factory
- Mushroom growing robotics technology development

These projects should contribute towards the improved operational efficiency of the Group and lead it further towards becoming a forefront runner in organic farming systems.

Profitability

End-consumer packaged goods segment	2017	2018	2019	2020E	2021E	2022E
Total revenue from end-consumer packaged goods, EURm	1.1	1.9	2.8	3.6	4.4	5.0
Total cost of sales of end-consumer packaged goods, EURm	(1.0)	(1.8)	(2.8)	(3.6)	(4.3)	(4.9)
Gross profit of end-consumer packaged goods, EURm	**0.1**	**0.1**	**0.0**	**0.1**	**0.1**	**0.1**

Source: Auga for historicals, LHV for estimates

Auga stated that it expects revenues from this segment to continue growing in 2020. It is becoming a strategically important segment, as it helps to diversify the current business lines and add value to existing products. With the expanding international markets, it is expected that the revenues generated from this segment will increase from EUR 2.8m in 2019 to EUR 3.6-5.0m over the 2020-2022 forecast period.

Subsidies

Like many other agricultural companies in the EU, the Group receives significant direct subsidies. In 2019, these subsidies totalled EUR 9.3m (2018: EUR 9.8m). The majority of these subsidies (EUR 8.5m) were attributable to the crop growing segment, and the balance of nearly EUR 0.8m was attributable to the dairy segment.

It should be noted, though, in 2019, the Group did not actually receive the full EUR 8.5m in crop growing subsidies, as it lost EUR 2.1m worth of subsidies. This was a one-off event as a result of the Group failing to grow and declare the perennial grass crops, as required by the Lithuanian Rural Deployment Program, due to the unfavourable weather conditions.

Operating expenses

The Group's operating expenses in FY 2019 were c.a. EUR 9.6m, which was a decline compared to EUR 10.4m recorded in 2018. This decline was due to certain items being recorded in 2018, including accrued expenses relating to the termination of the acquisition of shares of UAB Arginta Engineering, which had a negative impact of EUR 0.7m.

After eliminating this one-off effect, the Group's 2018 expenses would have equated to EUR 9.6m. Therefore, considering this, Auga's operating expenses remained at a similar level on a year-on-year basis.

The Group managed to reduce the net loss in 2019 to EUR 3.2m and, provided that it can continue improving its efficiency levels towards previous levels, it may be able to break even during 2020 with a profit of EUR 2.2m. However, this assumes that the Group can maintain a normal or increased level of operations during the pandemic period and that there are no disruptions in the supply chain.

If the Group can gradually increase its level of sales, improve its efficiency, and is not impacted by unusual weather patterns that can adversely affect the crop growing segment, we estimate a net profit EUR 2.2-7.4m during the 2020-2022 forecast period.

Valuation

AUGA Group has been valued based on two methodologies:

- **DCF** – the free cash flow to equity can be calculated as the tax-adjusted operating profit and making adjustments for working capital, investments, depreciation, and amortisation. This approach is adopted over the free cash flow to the firm to adjust for IFRS 16 impact.
- **Relative valuation** – it considers several peer group multiples for 2020 and 2021, and applies the peer group average multiples to our forecast for the Group to establish a fair value. The EV/EBITDA multiple includes the effect of IFRS 16.

We believe that it has been necessary to adjust our DCF and EV/EBITDA calculations, as the Group's financial results are impacted by (a) the application of a new method for the estimation of the value of the crops at the end of the reporting period, and (b) the introduction of changes in the Group's accounting policy relating to IFRS 16.

In particular, the Group stated that IFRS 16 had a significant impact on its EBITDA. The depreciation of right-of-use assets and inter-est expenses related to lease liabilities arising from the right-of-use-assets are now excluded from the calculation of EBITDA, whereas operating lease expenses were previously included in the calculation of EBITDA.

Additionally, it had a significant impact on the level of financial liabilities disclosed in the balance sheet. Due to the adoption of IFRS 16, the financial liabilities as at 31st December 2019 increased by 59%, whereas the exclusion of the accounting procedure leaves the financial liabilities as at 31st December 2019 slightly above the 2018 level.

DCF

The DCF valuation is based on the two-step DCF model, which includes the five-year projections for the Group's financial results to calculate the free cash flow to equity, followed by the terminal period. The DCF valuation method uses the following base assumptions:

- **Risk-free rate and market risk premium** – these are sourced from the "2017 Valuation Handbook - International Industry Cost of Capital" published by Duff & Phelps.
- **Beta** – the Duff & Phelps Vasicek adjusted unlevered beta of 0.55x for the agricultural sector is adjusted for the Group's debt-to-equity ratio to derive a levered beta of 0.74x.

  Country risk premium – a Lithuanian risk premium of 1.38% is sourced from the Damodaran's database.
- **Company-specific risk premium** – a company-specific risk premium of 3.12% is applied, which includes a 0.12% size premium.
- **Tax rate** – the general corporate income tax ('CIT') rate in Lithuania is 15% of company profits. However, if certain conditions are met, agricultural companies can apply reductions in CIT, putting it in the range of 0% to 5%. An average CIT of 2.5% is used in the DCF valuation.
- **Terminal value** – it is assumed that the terminal growth rate will be 2.5%.

DCF Assumptions:	
Risk free rate	2.5%
Market risk premium	5.1%
Country risk premium	1.4%
Levered Beta	0.73
Adjusted company risk premium (%)	3.1
Terminal growth rate (%)	2.5
Cost of equity (%)	10.7

Source: LHV

Based on these assumptions, the resulting DCF-based value for the Group's equity is c.a. EUR 138.6m, which equates to EUR 0.61 per share.

However, the DCF valuation is sensitive to changes in the main assumptions, which is demonstrated in the accompanying sensitivity table.

Relative valuation

The challenge in comparing Auga with other listed agricultural companies is that there are no listed peers that adopt a vertically integrated organic business model. To derive an indicative equity value range based on the market multiples of somewhat comparable listed companies, two groups of peers are put together:

- The first group of nine companies includes companies which grow and/or produce a wide range of agricultural products that are entirely organic and/or hormone-or antibiotic-free, GMO-free, or 'natural'.
- The second peer group of five companies includes companies that grow and/or produce agricultural products that are entirely organic and/or hormone-or antibiotic-free, GMO-free or 'natural', but specialise in producing a limited number of agricultural products, for example, organic milk products, nuts, tea and beverages, delicatessen, and various health products.

Additionally, it is acknowledged that most of the peers are significantly larger than Auga, with more significant global footprints, economies of scale, and established brand names in their home markets. However, Auga has its own qualities, such as robust growth characteristics, strong ESG considerations, and a well-established presence in its home market.

Three peer multiples, P/Book, P/E, and EV/EBITDA, are used to calculate the peer-implied fair value range, based on our forecasts for equity, net profit and EBITDA. These multiples are weighted with a 42.9% weight for 2020 and 57.1% weight for 2021.

Sensitivity of DCF Value to Changes in Assumptions (EUR)

		WACC						
		7.8%	8.8%	9.8%	10.8%	11.8%	12.8%	13.8%
Terminal growth rate	2.2%	0.59	0.59	0.59	0.59	0.59	0.59	0.59
	2.3%	0.60	0.60	0.60	0.60	0.60	0.60	0.60
	2.4%	0.60	0.60	0.60	0.60	0.60	0.60	0.60
	2.5%	0.61	0.61	0.61	0.61	0.61	0.61	0.61
	2.6%	0.62	0.62	0.62	0.62	0.62	0.62	0.62
	2.7%	0.62	0.62	0.62	0.62	0.62	0.62	0.62
	2.8%	0.63	0.63	0.63	0.63	0.63	0.63	0.63

Source: LHV

DCF Valuation, EURm	2020E	2021E	2022E	2023E	2024E	Terminal
Revenue	77.2	82.9	87.3	92.1	98.8	
EBIT*(1-t)	7.5	10.0	11.1	13.9	17.1	
D&A	13.1	12.3	11.7	11.2	10.8	
Changes in working capital	(7.0)	(0.9)	0.0	(1.6)	(1.3)	
Net capital expenditure	(9.2)	(9.8)	(10.4)	(10.9)	(11.7)	
FCFF	**4.5**	**11.6**	**12.4**	**12.5**	**14.9**	
Growth (%)	n.a.	157.7	7.1	1.1	19.0	

DCF Valuation, EURm (...continued)	2020E	2021E	2022E	2023E	2024E	Terminal
Interest*(1-t)	(5.6)	(5.0)	(4.6)	(4.2)	(3.9)	
Net borrowings	5.7	5.2	5.1	4.6	4.3	
FCFE	**4.6**	**11.8**	**12.9**	**12.9**	**15.3**	
PV of FCFE	**4.2**	**9.7**	**9.6**	**8.7**	**9.3**	**97.0**
Equity Value (in EUR mns)						**138.6**
Outstanding shares (in mns)						227.4
Fair value per share (in EUR)						**0.61**

Source: LHV

Company	Bloomberg ticker	Market Cap	EV/EBITDA (x)		P/E (x)		P/BV (x)	
		(EURm)	2020E	2021E	2020E	2021E	2020E	2021E
AUGA GROUP	**AUG1L LH Equity**	**70**	**6.6**	**5.4**	**28.7**	**11.2**	**0.7**	**0.7**
HAIN CELESTIAL GROUP INC	HAIN US Equity	2,481	16.1	14.2	36.0	27.7	1.7	1.7
FREEDOM FOODS GROUP LTD	FNP AU Equity	734	16.7	11.0	36.0	20.4	1.9	1.7
COSTA GROUP HOLDINGS LTD	CGC AU Equity	643	10.4	8.6	22.4	16.6	2.0	1.9
FRESH DEL MONTE PRODUCE INC	FDP US Equity	1,212	8.3	7.7	13.7	11.7	0.9	0.9
TOTAL PRODUCE PLC	TOT ID Equity	338	9.1	8.9	5.8	5.4	0.7	0.6
VILLAGE FARMS INTERNATIONAL	VFF CN Equity	147	5.8	2.6	10.1	3.4	0.9	0.7
THE NATIONAL AGRICULTURE DEV	NADEC AB Equity	457	7.4	7.2	14.7	13.5	1.2	1.1
SELECT HARVESTS LTD	SHV AU Equity	360	9.1	7.2	17.2	12.5	1.5	1.4
JOHN B. SANFILIPPO & SON INC	JBSS US Equity	934	n.a.	n.a.	21.8	24.7	n.a.	n.a.
ICHITAN GROUP PCL	ICHI TB Equity	143	n.a.	n.a.	12.8	10.0	0.9	0.9
Median (excluding outliers)			10.4	8.4	19.1	14.6	1.3	1.2
Average (excluding outliers)			9.1	8.2	15.9	13.0	1.2	1.1
Respective denominator for AUGA, EURm		**Net Debt**	**EBITDA**		**Net Profit**		**Book Value**	
			2020E	**2021E**	**2020E**	**2021E**	**2020E**	**2021E**
		(89.8)	21.9	24.0	2.2	5.7	91.9	97.6
Indicative share price			0.5	0.5	0.2	0.3	0.5	0.5
Weight (%)			43	57	43	57	43	57
Implied weighted share price			**0.47**		**0.25**		**0.48**	

Source: Bloomberg, LHV

Valuation Summary

In valuing AUGA group, we have used the weighted average of the values derived from the DCF and the three peer group multiples, applying different weights to each method. As the companies of the peer group are considerably larger than Auga, the DCF method is seen as more applicable and thus is given a weight of 50%. The P/Book, P/E, and EV/EBITDA each share a weight of 16.7%.

Based on these weights to the applicable values, we maintain a fair value range for Auga at EUR 0.45-0.55 per share. The share price as of 4th May 2020 was EUR 0.31 per share.

Weighted Value Per Share, EUR	Total weighted value	Weights (%)	Contribution to value
P/Book	0.48	16.7	0.08
P/E	0.25	16.7	0.04
EV/EBITDA	0.47	16.7	0.08
DCF	0.61	50.0	0.30
Total weighted value per unit			**0.51**

Source: LHV

Financial Tables

Income Statement, EURm	2017	2018	2019	2020E	2021E	2022E
Revenues	48.8	54.7	71.1	77.2	82.9	87.3
Cost of sales	(38.0)	(45.8)	(64.4)	(63.7)	(66.5)	(69.5)
Gain (loss) on changes in fair values of biological assets and on recognition at fair value of agricultural produce at point of harvest	4.2	(5.3)	3.1	4.1	4.6	4.8
Gross profit	**14.9**	**3.7**	**9.8**	**17.7**	**21.1**	**22.7**
Operating expenses	(8.6)	(10.4)	(9.6)	(9.6)	(10.0)	(10.4)
Write-offs of negative goodwill	-	-	-	-	-	-
Revaluation of investment property	-	-	-	-	-	-
Other income	0.4	2.8	0.7	0.7	0.7	0.7
Operating profit	**6.7**	**(3.9)**	**1.0**	**8.8**	**11.8**	**13.0**
Net financial cost	(1.9)	(2.3)	(5.0)	(6.6)	(5.9)	(5.4)
Other financial items	-	(0.2)	-	-	-	-
Profit (loss) before income tax	**4.8**	**(6.5)**	**(4.0)**	**2.3**	**5.8**	**7.6**
Income tax expense	0.2	0.5	0.8	(0.0)	(0.1)	(0.2)
Minority interest	(0.09)	0.02	(0.01)	(0.01)	(0.02)	(0.03)
Net profit / (loss) for the year: attributable to equity holders of the group	**4.9**	**(6.0)**	**(3.2)**	**2.2**	**5.7**	**7.4**

Source: Auga for historicals, LHV for estimates

Balance Sheet, EURm	2017	2018	2019	2020E	2021E	2022E
Assets						
Non-current assets						
Property, plant and equipment	85.2	92.9	128.1	114.8	104.4	96.2
Intangible assets	0.0	0.8	2.4	0.0	0.0	0.0
Long term receivables	3.5	5.6	5.7	5.7	5.7	5.7
Available for sale investments	0.3	0.4	0.4	0.4	0.4	0.4
Investments in subsidiaries	0.4	0.1	0.1	0.1	0.1	0.1
Deferred tax asset	0.9	1.4	1.1	1.1	1.1	1.1
Biological assets	8.0	9.1	9.4	9.4	9.4	9.4
Total non-current assets	**98.3**	**110.4**	**147.1**	**131.4**	**121.0**	**112.8**
Current assets						
Biological assets	10.1	14.4	16.0	17.7	17.9	18.1
Inventory	25.5	28.7	29.0	43.6	43.9	44.2
Trade receivables, advance payments and other receivables	10.8	14.6	13.3	30.3	32.8	34.6
Cash and cash equivalents	0.6	2.3	3.7	0.9	6.8	14.4
Assets held for sale	2.4	-	-	-	-	-
Total current assets	**49.4**	**60.0**	**62.0**	**92.5**	**101.3**	**111.3**
Total assets	**147.7**	**170.3**	**209.1**	**223.9**	**222.3**	**224.1**
Equity and liabilities						
Equity						
Capital and reserves						
Share capital	54.4	66.0	66.0	66.0	66.0	66.0
Share premium	0.7	6.7	6.7	6.7	6.7	6.7
Revaluation reserve	5.9	7.2	8.5	8.5	8.5	8.5
Legal reserve & other reserves	0.6	2.6	3.5	3.5	3.5	3.5

Balance Sheet, EURm (...continued)	2016	2017	2018	2019E	2020E	2021E
Currency exchange differences	(0.2)	-	-	-	-	-
Retained earnings / (accumulated deficit)	17.2	8.9	5.1	7.3	13.0	20.4
Equity attributable to equity holders of the parent	**78.6**	**91.4**	**89.7**	**91.9**	**97.6**	**105.0**
Non-controlling interest	0.4	0.4	0.4	0.4	0.3	0.3
Total equity	**79.0**	**91.7**	**90.1**	**92.3**	**98.0**	**105.3**
Liabilities						
Non-current liabilities						
Borrowings and green bonds	16.5	13.8	20.7	19.2	17.2	14.7
Lease liabilities related to other assets	6.0	7.9	5.3	4.6	3.6	2.6
Lease liabilities related to right-of-use assets	-	-	30.8	30.6	30.6	30.6
Deferred grant income	3.7	3.4	3.0	3.0	3.0	3.0
Deferred tax liability	0.7	0.9	1.5	1.5	1.5	1.5
Total non-current liabilities	**26.8**	**26.0**	**61.3**	**58.8**	**55.8**	**52.3**
Current liabilities						
Current portion of non-current borrowings	4.5	9.3	10.8	7.6	5.4	3.8
Lease liabilities related to other assets	3.0	3.6	2.9	5.0	5.0	5.0
Lease liabilities related to right-of-use assets	-	-	4.1	2.0	2.0	2.0
Current borrowings and green bonds	13.6	21.3	19.3	13.6	9.6	6.8
Trade payables	14.5	14.7	13.4	32.9	34.4	36.1
Other payables and current liabilities	7.2	5.3	4.7	11.6	12.1	12.7
Total current liabilities	**42.7**	**54.1**	**55.3**	**72.8**	**68.5**	**66.4**
Total liabilities	**69.5**	**80.2**	**116.6**	**131.6**	**124.4**	**118.7**
Total equity and liabilities	**148.5**	**171.9**	**206.7**	**223.9**	**222.3**	**224.1**

Source: Auga for historicals, LHV for estimates

Cash Flow Statement, EURm	2017	2018	2019	2020E	2021E	2022E
Net profit (loss) before income tax	**4.8**	**(6.5)**	**(4.0)**	**2.3**	**5.8**	**7.6**
Adjustments for non-cash expenses (income) items and other adjustments						
Total depreciation expense	6.8	7.5	12.8	13.1	12.3	11.7
Amortization expense	0.2	0.6	0.0	0.0	0.0	0.0
Other changes in ppe and intangibles	0.0	0.1	-	-	-	-
(Profit) loss on sales of non-current assets	(0.0)	(0.0)	0.0	-	-	-
Write-offs of inventory	1.1	1.6	1.9	-	-	-
Total net finance cost	1.9	1.8	4.4	6.6	5.9	5.4
Loss (gain) on changes in fair value of biological assets	(4.2)	5.3	(3.1)	-	-	-
Grants related to assets, recognized as income	(0.6)	(0.5)	(0.4)	-	-	-
Other items	-	(1.7)	2.5	-	-	-
Changes in working capital						
(Increase) decrease in biological assets	(6.6)	(10.6)	2.6	(1.7)	(0.2)	(0.2)
(Increase) decrease in trade receivables and prepayments	3.5	(2.5)	(1.5)	(16.9)	(2.5)	(1.8)
(Increase) decrease in inventory	(6.7)	(3.9)	(2.1)	(14.7)	(0.3)	(0.3)
(Decrease) increase in trade and other payables	5.9	(0.7)	(3.2)	26.3	2.0	2.3
Total change in working capital	**6.2**	**(9.7)**	**9.8**	**15.0**	**23.1**	**24.7**
Income tax paid	-	-	-	(0.0)	(0.1)	(0.2)
Interest received, gross	-	-	-	-	-	-
Interest paid, gross	(1.8)	(1.7)	(4.4)	(6.6)	(5.9)	(5.4)
Net cash flows from /(to) operating activities	**4.4**	**(11.5)**	**5.4**	**8.4**	**17.1**	**19.1**

Cash Flow Statement, EURm (...continued)	2016	2017	2018	2019E	2020E	2021E
Cash flows from /(to) investing activities						
Purchase of property, plant and equipment	(5.0)	(4.0)	(3.2)	0.1	(1.9)	(3.5)
Purchase of non-current intangible assets	(0.0)	(0.0)	-	0.0	0.0	0.0
Purchase of investments	(1.7)	(2.2)	-	-	-	-
Proceeds from sales of investment property, ppe	0.6	0.2	0.4	-	-	-
Proceeds from sales of investments	-	1.0	-	-	-	-
Grants related to assets, received from npa	0.4	0.3	0.9	-	-	-
Loans repaid (granted)	(0.9)	(1.3)	(0.4)	-	-	-
Net cash flows from/(to) investing activities	**(6.6)**	**(6.0)**	**(2.4)**	**0.1**	**(1.9)**	**(3.5)**
Cash flows from /(to) financing activities						
Proceeds from equity issuance	-	17.6	18.5	-	-	-
Loans repaid to banks and intercompanies	(5.9)	(18.5)	(11.9)	-	-	-
Borrowing received	-	21.2	6.2	(10.4)	(8.3)	(6.9)
Loans received from banks and intercompanies	12.1	-	-	-	-	-
Other financing activities	(1.5)	4.0	(6.4)	-	-	-
Other changes in equity	-	-	-	(0.0)	(0.0)	(0.0)
Finance lease obtained (repaid)	(3.5)	(5.1)	(8.0)	(1.0)	(1.0)	(1.0)
Net cash flows from/(to) financing activities	**1.2**	**19.2**	**(1.5)**	**(11.4)**	**(9.3)**	**(7.9)**
Net (decrease) / increase in cash and cash equivalents	**(1.0)**	**1.7**	**1.5**	**(2.9)**	**5.9**	**7.7**
Cash and cash equivalents at the beginning of the period	**1.7**	**0.6**	**2.3**	**3.7**	**0.9**	**6.8**
Cash and cash equivalents at the end of the period	**0.6**	**2.3**	**3.7**	**0.9**	**6.8**	**14.4**

Source: Auga for historicals, LHV for estimates

Key Ratios	2017	2018	2019	2020E	2021E	2022E
Key Financial Data						
Revenue	48.8	54.7	71.1	77.2	82.9	87.3
Gross profit	14.9	3.7	9.8	17.7	21.1	22.7
EBIT	6.7	(3.9)	1.0	8.8	11.8	13.0
Net profit to company s/h	4.9	(6.0)	(3.2)	2.2	5.7	7.4
Growth						
Revenue (%)	23.1	12.2	29.9	8.6	7.4	5.3
Gross profit (%)	38.5	(75.5)	168.8	79.8	19.0	7.7
EBITDA (%)	36.8	(69.8)	314.4	28.1	9.3	2.3
EBIT (%)	72.2	n.a.	n.a.	776.3	33.2	10.4
Pre-tax profit (%)	167.5	n.a.	n.a.	n.a	156.7	30.0
Net profit (%)	133.8	n.a.	n.a.	n.a	156.7	30.0
EPS (%)	133.8	n.a.	n.a.	n.a	156.7	30.0
Profitability						
Gross margin (%)	30.6	6.7	13.8	22.9	25.4	26.0
EBITDA margin (%)	28.0	7.5	24.1	28.4	28.9	28.1
EBIT margin (%)	13.7	(7.2)	1.4	11.4	14.2	14.9
PBT margin (%)	9.8	(11.8)	(5.6)	2.9	7.0	8.7
Net profit margin (%)	10.3	(10.9)	(4.5)	2.9	6.9	8.5
Return						
ROCE (%)	6.3	(3.0)	0.6	4.9	6.8	7.6
ROE (%)	6.5	(7.0)	(3.6)	2.4	6.0	7.3
ROA (%)	3.7	(3.7)	(1.7)	1.0	2.6	3.3

Key Ratios (...continued)	2017	2018	2019	2020E	2021E	2022E
Liquidity						
Current ratio (x)	1.2	1.1	1.1	1.3	1.5	1.7
Quick ratio (x)	0.3	0.3	0.3	0.4	0.6	0.7
Working Capital						
Debtor days	90.3	84.5	71.6	102.9	138.6	140.7
Inventory days	195.4	216.1	163.5	208.1	240.3	231.4
Creditor days	111.7	116.1	79.7	132.7	184.6	185.0
Cash conversion cycle (days)	174.0	184.5	155.4	178.3	194.4	187.1
Leverage						
Net gearing (x)	0.4	0.6	1.0	0.9	0.7	0.5
Debt/Equity ratio (x)	0.4	0.6	1.0	0.9	0.7	0.6
Operating (x)	3.1	(13.0)	(4.2)	90.3	4.5	2.0
Financial (x)	1.9	1.3	0.4	(0.2)	4.7	2.9
Combined (x)	5.8	(16.7)	(1.6)	(19.6)	21.3	5.7

Source: Auga for historicals, LHV for estimates

Key Definitions/Formulas	
ROE	Net profit divided by average equity book value
ROCE	EBIT divided by average capital employed
ROA	Net profit divided average total assets
EPS	Net profit attributable to shareholders divided by weighted average number of shares / units
BVPS	Equity book value divided by year end number of shares / units
Net debt per unit	Total financial debt less cash and cash equivalents divided by year end number of shares / units
P/E	Corresponding market capitalisation divided by net profit
P/BVPS	Corresponding share price divided by book value per share / unit
EV/Sales	Enterprise value divided by sales
EV/EBITDA	Enterprise value divided by EBITDA
EV/EBIT	Enterprise value divided by EBIT
Net gearing	Net financial debt divided by total equity
Debt/Equity	Total financial debt divided by total equity
Operating leverage	Y-o-Y growth in EBIT divided by y-o-y growth in revenue
Financial leverage	Y-o-Y growth in EPS divided by y-o-y growth in EBIT
Combined leverage	Operating leverage multiplied by financial leverage

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