

## Golden Egg

**The Baltic egg production market is an oligopoly with high barriers to entry. APF Holdings (APF) has overcome the barriers, reached profitability, and become one of the four leading Baltic egg producers. The next step is to increase capacity to leverage on the fixed costs and expand margins.**

### Pushed through the barriers to entry

We estimate the break-even volume for a Baltic egg producer to be ~100m eggs/yr. and the investment needed to reach this volume to be EUR ~20m. These high entry barriers have resulted in four companies commanding over 60% of the Baltic market whereof is APF is one of them (profitably producing ~111m eggs/year).

### Next step is to expand to boost margins

The fixed costs nature of egg production means expanding production volumes could boost margins substantially. The planned IPO money could enable APF to increase its egg production by 65% to 184m eggs/yr. between 2022 and 2025 leading to an EBIT margin expansion to 17.1% in 2025 from 8.5% in 2022 (was 15.2% in H1/23). The expansion will entail only barn eggs which are in high demand as consumers shy away from cage eggs.

### Base case Fair value EUR 8.92 per share

Our Base case DCF Fair value is EUR 51m, equal to EUR 8.92/shr. This implies a 31% upside to the IPO offer price of EUR 6.81/shr. and a ~30% peer discount based on the EV/EBITDA multiple 2025E (year when the planned new capacity is live).

### Key figures (MEUR)\*

	2021	2022	2023E	2024E	2025E
Net sales	3.9	11.2	14.4	17.2	26.8
Net sales growth	-18.8%	185.1%	28.3%	19.5%	55.7%
EBITDA	-0.7	2.1	4.0	4.7	7.3
EBITDA margin	-18.3%	18.7%	27.8%	27.1%	27.1%
EBIT	0.7	1.0	2.3	2.9	4.6
EBIT margin	17.2%	8.5%	16.0%	16.6%	17.1%
EV/Sales	9.9	3.4	2.5	2.5	1.6
EV/EBITDA	nm	18.2	9.1	9.2	6.0
EV/EBIT	57.7	40.2	15.9	15.0	9.5
P/E adj.	nm	96.7	22.7	18.6	10.4
P/BV	25.1	12.7	3.5	2.9	2.3
EPS adj.	0.03	0.07	0.30	0.37	0.65
EPS growth adj.	na	144.7%	325.6%	22.3%	78.6%
Div. per share	0.00	0.00	0.00	0.00	0.00
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%

Source: Company data, Enlightenment Research estimates

\*All ratios based on IPO offer price of EUR 6.81/shr. and assumes successful IPO

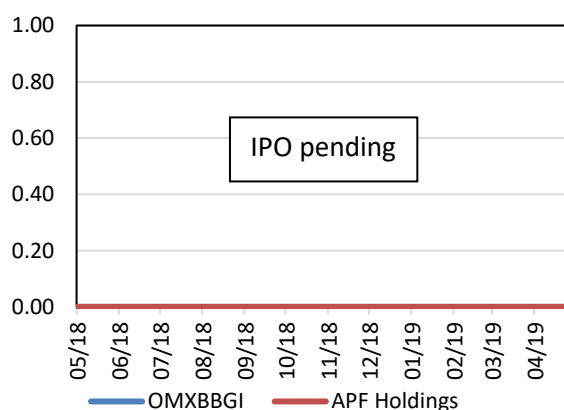
### Fair value range (EUR)

Bull (term. EBIT marg. 16%)	10.57
Base (term. EBIT marg. 14%)	8.92
Bear (term. EBIT marg. 12%)	7.27

### Key Data

Price (EUR)	6.81
Ticker	n.a.
Country	Latvia
Listed	Riga
Market Cap*	39
Net debt* (EURm)	-2.5
Shares* (m)	5.7
Free float*	18%

\*Assuming fully subscribed IPO at offer price



### Price range

52-week high	na
52-week low	na

### Analyst

ResearchTeam@enlightresearch.net

### Coverage frequency

On Demand

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## Key Investment Factors

### Successfully over the Barriers to Entry

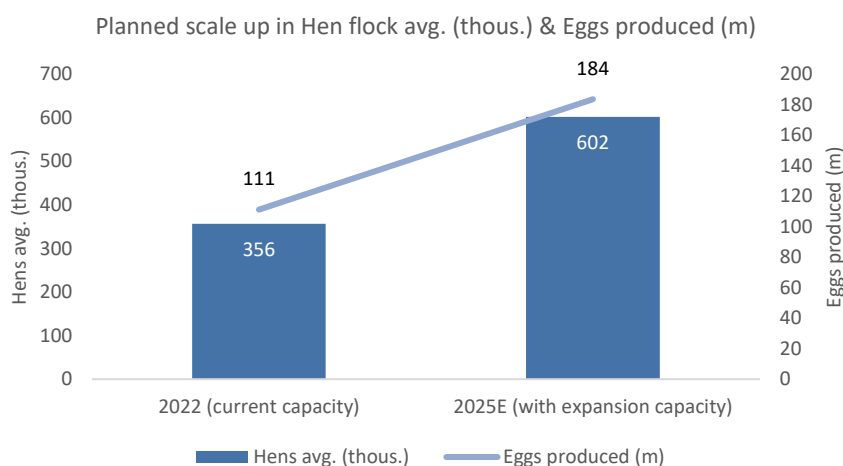
Egg production is a volume business with high barriers to entry. To reach APF’s current level, you would have to have EUR 20m to invest, then get veterinary and other permissions, buy ~360K hens, nurture them and make sure they do not get the avian flu. Finally, you would have to go to the major retail chains and convince them to buy your eggs – not easy. Since 2017, APF has invested over EUR 15m to reach the current annual production volume of around 111m eggs. In our view, this is the minimal volume needed for a large-scale Baltic egg producer to achieve profitability. To date, APF has built three modern hen houses and has an average flock of ~360K hens. In addition, there is one feed production plant and one sorting & storage facility. We believe it would be very hard for a new player to acquire the know-how as well as find a good location for an egg production facility in Latvia. There are no other Latvian industrial chicken egg producers within a radius of 100km of APF’s farm which minimizes the risk of avian flu and other diseases (closest one is in Estonia 50km away). To summarize, APF has overcome the barrier to entry for egg production and reached critical mass to pass the break-even point. The next step is to scale up to expand margins. This is what the planned EUR 7m (before fees) IPO money will be used for.

Barriers to Entry	Description
Investment	To build APF’s existing production capacity requires an investment of around EUR 20m.
Permissions	<p>Permit for A-category polluting activity</p> <ul style="list-style-type: none"> <li>Issued by the State Environmental Service who control the Environmental Assessment process including public hearings and respective adjustments</li> </ul> <p>Construction permits</p> <ul style="list-style-type: none"> <li>Issued by the Local Building Authority</li> </ul> <p>Latvian Food and Veterinary Service, is controlling the hens’ welfare standards and is issuing the following permissions:</p> <ul style="list-style-type: none"> <li>Approval for egg sorting and packaging company</li> <li>Approval for feed production facility</li> <li>Approval for eggs wholesale activities</li> <li>Certificate of registration of Veterinary controlled object, providing product marking number – confirming respective flock laying method used (cage/barn)</li> </ul> <p>Bureau Veritas (or similar international audit companies):</p> <ul style="list-style-type: none"> <li>FSSC 22000 FOOD SAFETY SYSTEM CERTIFICATION</li> <li>ISO 50001:2018 Energy Management System</li> </ul>
Sourcing	To find a supplier of 360K hens (APF’s current flock size) is not an easy task if you are small farmer starting from scratch
Know-how (learning curve)	To feed and take care of 360K hens requires experience and know-how that is built up over several years.
Economies of Scale	To reach break-even, a flock of at least 300K birds is needed for a large scale egg producer. It is very hard for a small producer to compete on price to large retail clients (supermarkets).
Marketing	The amount of time and money spent on sales & marketing towards retail chains and consumers is substantial.

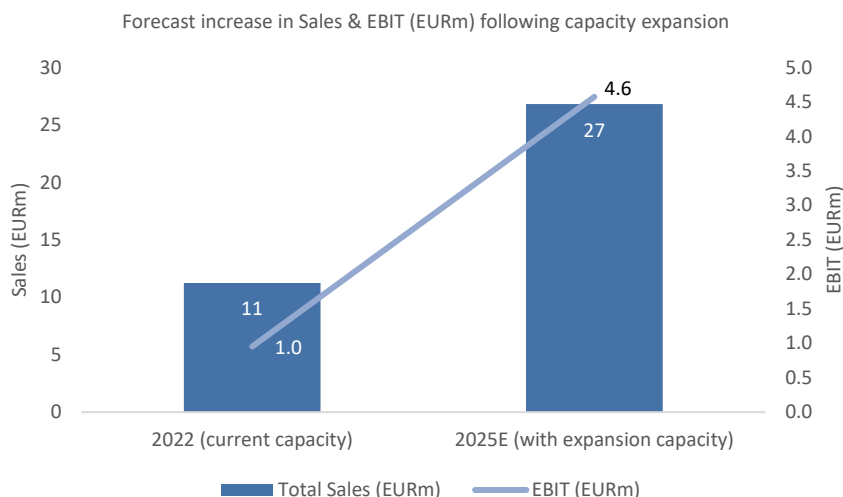
Source: Company (historic), Enlight Research (estimates)

### Further capacity increase boosts margins

After passing the barrier to entry, economies of scale have been reached i.e., further capacity increase should boost margins significantly. APF plans to increase its annual egg production capacity by approximately 65% from ~111m eggs to ~184m eggs (average flock increase from 356K to 602K hens). When the new flock is at full production capacity, which we expect to be in 2025, we estimate that Total Sales could reach EUR 27m, corresponding to a 139% increase compared to 2022 Total sales of EUR 11m. Between the same years, we forecast the EBIT to increase over 4x to EUR 4.6m from EUR 1.0m, which shows the leverage in the business model (see charts below).



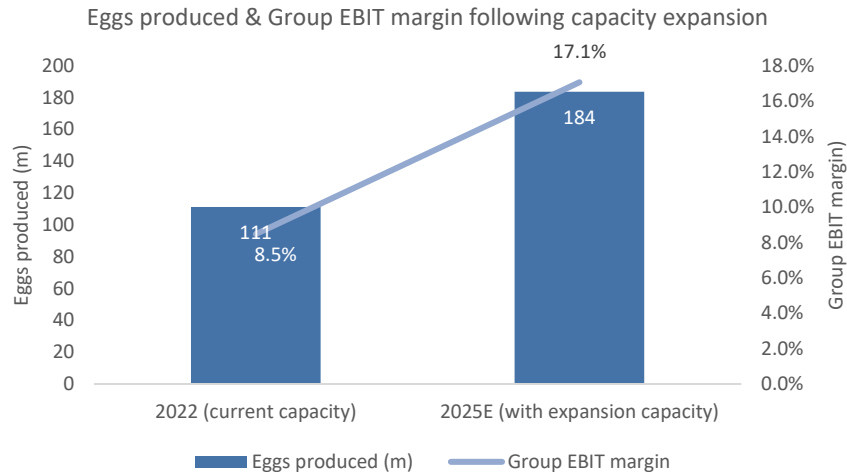
Source: Company (historic Hens avg.), Enlight Research (historic & estimated Eggs produced, estimated Hens avg.)



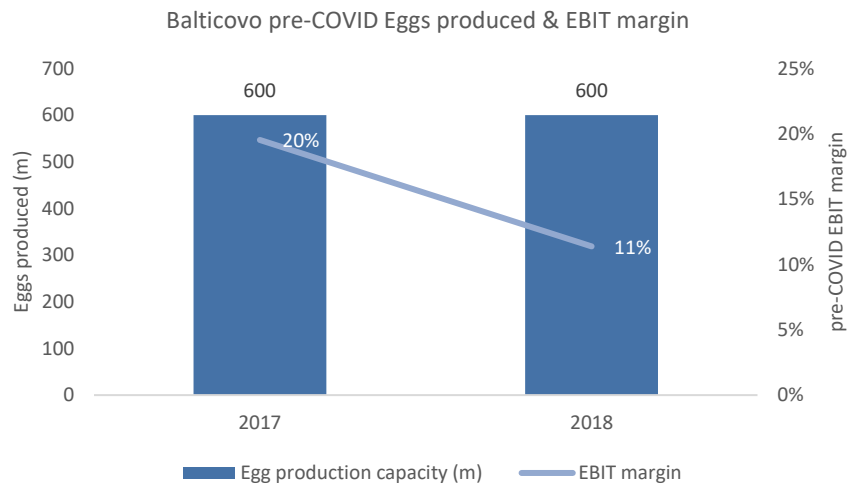
Source: Company (historic), Enlight Research (estimates)

We expect the new capacity to expand the EBIT margin from 8.5% in 2022 to 17.1% in 2025 (H1/23 reported EBIT margin was 15.2%). The main factors behind our estimated margin expansion are greater cost coverage of the fixed operating costs and increased ability to sign profitable long-term contracts with large retail chains. We forecast the Operating expenses to Sales ratio to decline to around 14% in the forecast period 2023-25E from 16-25% in 2021-22. Existing APF retail clients that could sign long-term contracts if larger volumes could be guaranteed are Rimi, LiDL, Maxima, Mego, Coop, Top!, and Citro. A good example of APF’s margin expansion potential is Balticovo whose average EBIT margin was 15.5% in 2017-18. Balticovo is

the largest Latvian and Northern European egg producer with an annual production capacity of ~600m eggs (APF is number two in Latvia with ~111m eggs). If successful, the planned expansion could increase APF's Latvian market share in retail channels to 33% from 20% (see Market section for market share calculations). In addition to increasing sales to existing clients, larger volumes would enable APF to enter the export market.



Source: Company (historic), Enlight Research (estimates)



Source: Balticovo annual reports

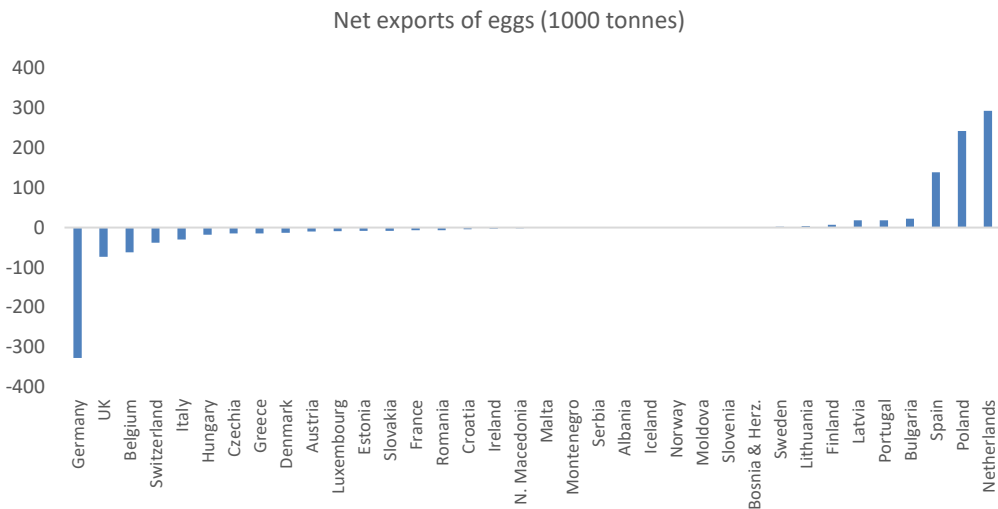
Examples of large existing retail clients



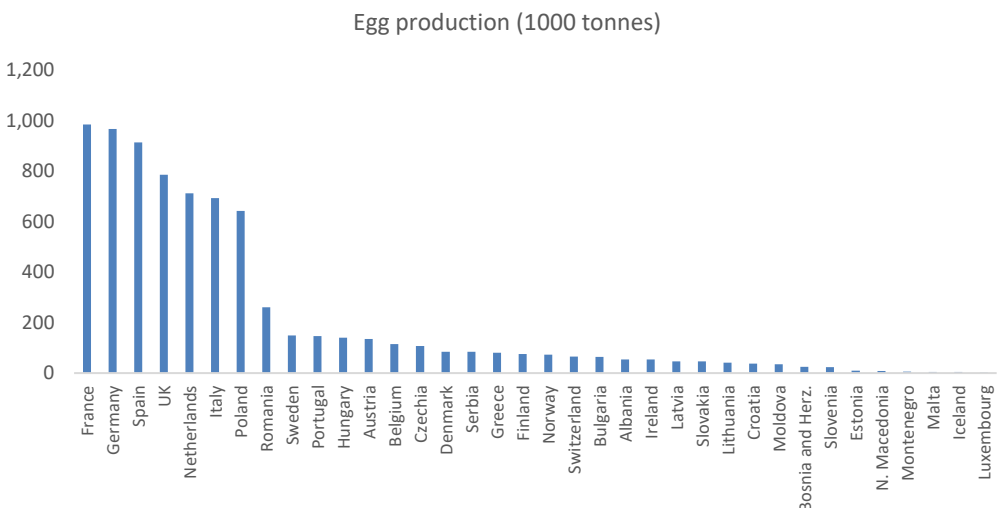
Source: Company

**Untapped export potential driven by demand for barn eggs**

There is a sizeable export market for eggs in Europe as 21 out of 36 countries produce less eggs than they supply. The largest deficit is in Germany with a deficit of 327K tons of eggs (despite being Europe’s second largest egg producer), followed by UK (73K) and Belgium (62K), according to fao.org 2020 statistics. Latvia is one of only ten European countries who produce more than they consume with a surplus 18K tons of eggs. Despite its relatively small export volume, Latvia is the fifth largest exporter in Europe, which shows the potential for export growth. Worth noting is that Estonia, which is a natural export market for Latvia both from a geographical and retail chain client perspective (most large food retailers are pan-Baltic), had a deficit of 8K tons of eggs in 2020. APF’s focus on barn as opposed to cage eggs means most of the additional capacity can be sold in Latvia and Estonia where the demand for barn eggs is high as consumers shy away from cage eggs due to animal care reasons. Alternatively, the eggs can be sold to other European countries with a large egg production deficit (Europe is a net importer of eggs).



Source: Food and Agriculture Organization of the United Nations (2020 statistics)

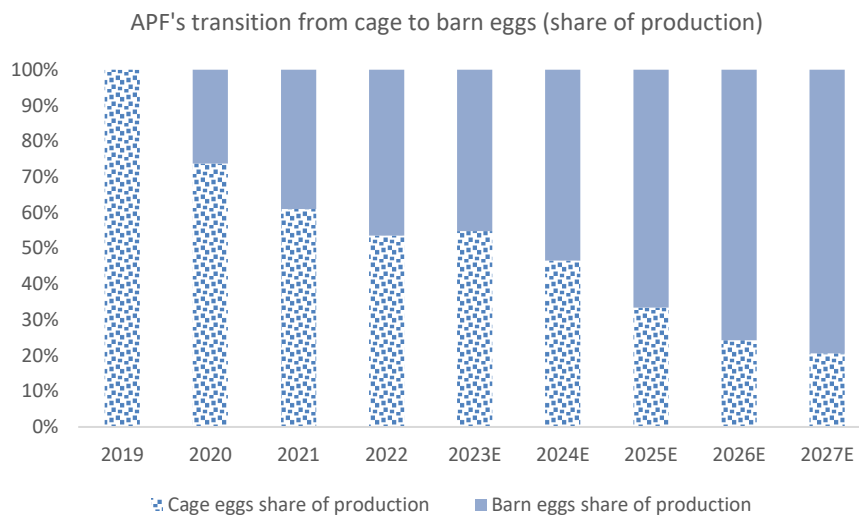


Source: Food and Agriculture Organization of the United Nations (2020 statistics)

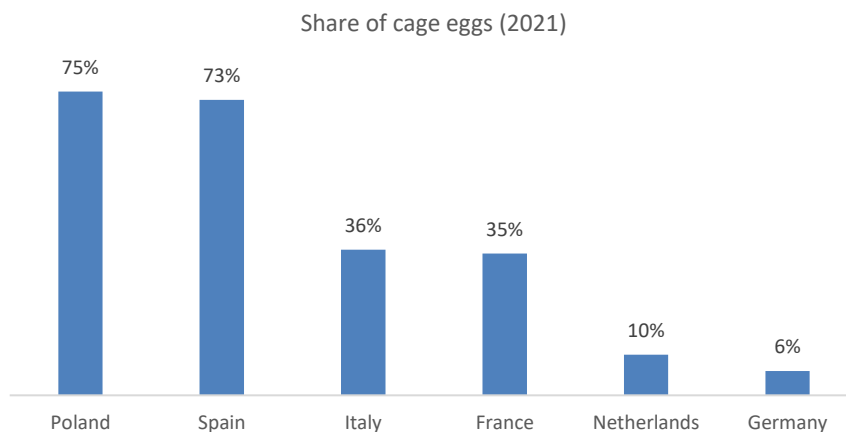
**Responsible egg production is a competitive advantage**

We believe APF’s focus on responsible egg production is a competitive advantage that will lead to increased sales and margins. The three main initiatives with regards to responsible production are:

**Transition from cage to barn eggs.** APF has made a significant transition from cage eggs to barn eggs (provide hens with more space and freedom to exhibit natural behaviours). This year, barn eggs is expected to make up almost half of produced eggs, which is a significant improvement from 2019 when no barn eggs were produced. The planned expansion entails only barn eggs, which should reduce the share of cage eggs to around 20% in around 3 years. Depending on EU regulation and support programs, the share of cage eggs could be eliminated totally in the coming years. We believe APF’s vision aligns with the growing consumer demand for more ethical and sustainable food choices. Worth noting is that APF’s high share of barn eggs is a competitive advantage in the European export market where the number two and three largest net exporters of Poland and Spain have a very high share of cage eggs (73-75% vs. the EU average of 55%). This is one of the main reasons we believe APF will increase its market share in exports markets.



Source: APF (estimates based on successful capacity expansion)

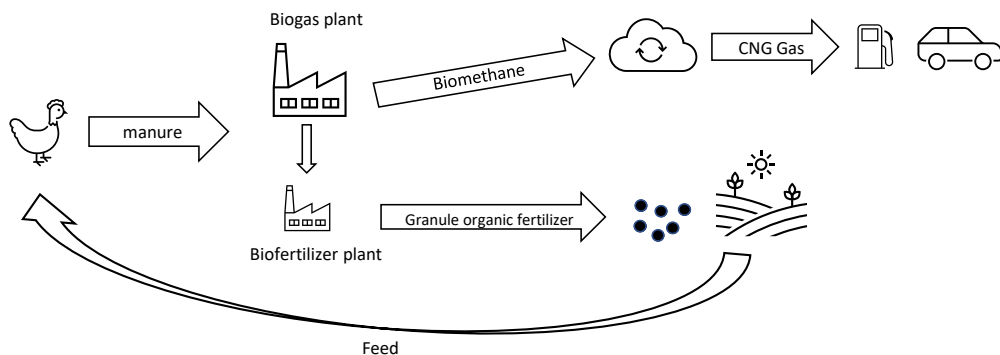


Source: IEC database / Peter van Horne presentation

**Construction of a biogas plant.** The envisioned biogas plant tackles two critical issues: waste management of manure and renewable energy generation. The plant produces bio-methane from poultry manure. The bio-methane can be sold as fuel for CNG vehicles or as gas into the grid. We do not include the value of a biogas plant in our valuation as it requires additional financing (not included in the planned IPO money). However, a successful biogas plant could increase APF's motivated value by EUR 10m or EUR 1.79 per share, in our view (see Valuation section page 10 for detailed calculation).

**Construction of a biofertilizer plant.** After completing the biogas plant, the next step would be a biofertilizer plant to produce organic fertilizer pellets. Organic fertilizer pellets provide several advantages over liquid fertilizers commonly used in the agricultural industry. Some examples are superior nutrient retention and slow release of properties, ensuring that crops receive a consistent supply of nutrients over an extended period. This results in improved soil health, enhanced plant growth, and higher crop yields. The plan to build a biogas/fertilizer plant demonstrates APF's commitment to sustainable agriculture. There is already a "proof of concept" of a poultry manure biofertilizer plant as the leading egg producer in Latvia and Northern Europe, Balticovo, has already built a successful biofertilizer plant that produce organic fertilizer pellets (see [eggenergy.eu](http://eggenergy.eu)). In 2022, Egg Energy posted revenues of EUR 3.9m with a Net profit of EUR 0.9m.

**Using manure to produce biomethane and organic fertilizer granules**



Source: Enlight Research



## Valuation

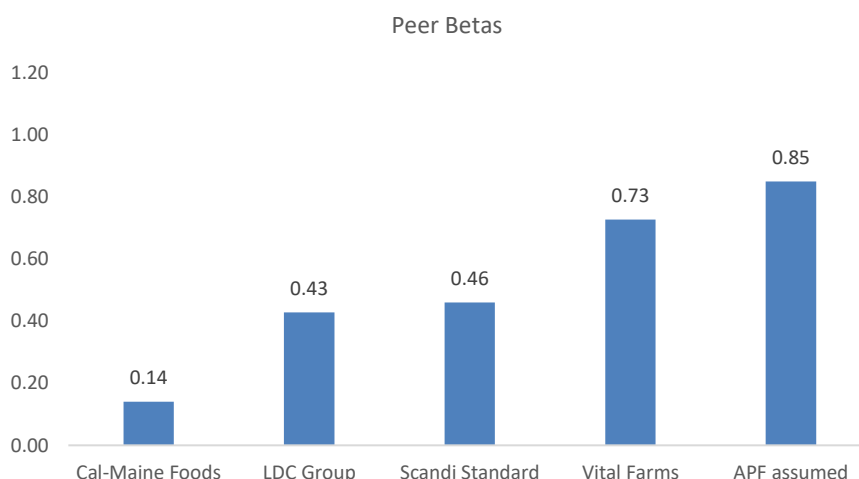
### DCF Valuation

Given the upcoming planned capacity expansion (+50%), we believe a DCF valuation is best suited to value APF to capture the cash flow when the new capacity is live in 2025 and beyond. Our Base case DCF Fair value is EUR 8.92 per share. This assumes a WACC of 7.2% and a terminal EBIT margin of 14.0%. Important assumptions on our DCF valuation are:

- The beta of egg producers and food producers is below 1 e.g., the egg producers Cal-Maine Foods has a beta of 0.14 and Vital Farms has 0.73. Hence, our assumed APF beta is 0.85, which brings down the WACC.
- The assumed average mid-term (2023-27) sales growth rate of 23.8% is boosted by the planned +50% capacity expansion. Our terminal growth rate is 3.0%.
- The assumed Base case mid-term EBIT margin of 16.7% and terminal EBIT margin of 14.0% (Base case) can be compared to the reported H1/23 margin of 15.2%.
- The only difference between our Bear and Bull cases vs. the Base case is the assumed terminal EBIT margin which is two percentage points lower/higher in the Bear/Bull case.

DCF Valuation Scenarios	Bear	Base	Bull
WACC	7.2%	7.2%	7.2%
Avg. sales growth 2023-27	23.8%	23.8%	23.8%
Terminal sales growth	3.0%	3.0%	3.0%
Avg. EBIT margin 2023-27	16.7%	16.7%	16.7%
Terminal EBIT margin	12.0%	14.0%	16.0%
Fair Value per share (EUR)	7.27	8.92	10.57
Upside/Downside	7%	31%	55%
Share price (EUR)	6.81	6.81	6.81

Source: Enlight Research



Source: Investing.com, Enlight Research (APF)

Sensitivity parameters	Current	Step	Test values & Results										
<b>Equity beta</b>	0.85	0.10	0.35	0.45	0.55	0.65	0.75	<b>0.85</b>	0.95	1.05	1.15	1.25	1.35
<i>Fair value (DCF)</i>	8.92		14.36	12.90	11.67	10.62	9.71	<b>8.92</b>	8.23	7.61	7.07	6.57	6.13
<b>Target debt ratio*</b>	45.0 %	5.0 %	20%	25%	30%	35%	40%	<b>45%</b>	50%	55%	60%	65%	70%
<i>Fair value (DCF)</i>	8.92		5.99	6.45	6.96	7.54	8.18	<b>8.92</b>	9.77	10.75	11.90	13.27	14.92
<b>Risk-free interest rate</b>	3.5 %	0.5 %	1.0 %	1.5 %	2.0 %	2.5 %	3.0 %	<b>3.5 %</b>	4.0 %	4.5 %	5.0 %	5.5 %	6.0 %
<i>Fair value (DCF)</i>	8.92		14.80	13.19	11.85	10.72	9.76	<b>8.92</b>	8.19	7.55	6.98	6.48	6.02

Source: Enlight Research \*Debt/(Debt + Equity)

Our Base case DCF Fair value per share of EUR 8.92 corresponds to a company equity valuation of EUR 51m (market cap). We can back-check this valuation to the peer group by adding our estimated 2025 Net debt of EUR 4.5m to our Base case equity valuation of EUR 51m, which indicates an EV of EUR 56m. Given our 2025 EBITDA forecast of EUR 7.3m, the implied 2025E EV/EBITDA multiple is 7.7x, which represents a 12% discount to the peer group average of 8.7x i.e., our DCF Base case Fair value does not result in an EV/EBITDA multiple that is out of line with the peers. On the contrary, our Base case Fair value indicates a discount of 12% to peers in 2025 when the planned capacity expansion is completed. The IPO offer price of EUR 6.81 per share indicates an even bigger discount of 31% based on 2025 estimated EV/EBITDA. See below for peer valuation.

#### Implied 2025 EV/EBITDA discount at Base case Fair value

Base case DCF Fair value per share (EUR)	8.92
Base case DCF Fair value, company (EURm)	51
2025 est. Net debt (EURm)	4.5
2025 est. EV (EURm)	56
2025 est. EBITDA (EURm)	7.3
2025 est. EV/EBITDA	7.7
2025 est. peers avg. EV/EBITDA multiple (x)	8.7
APF assumed peer discount to Enlight Base case	12%
APF assumed peer discount to IPO offer price	31%

Source: Enlight Research, MarketScreener (peer average calculation for non-Baltic listed companies)

#### Peer valuation

Our peer group consists of three sub-groups – egg producers, dairy producers, and Baltic food producers. We focus on the 2025 EV/EBITDA multiple as this is when the planned capacity will be operational (this is what the IPO money will be used for). The 2025E EV/EBITDA for the egg producers is 8.5x. Based on the IPO price of EUR 6.81 per share, APF's 2025E EV/EBITDA is 6.0x implying a discount of 30%. Based on all the peers' 2025E EV/EBITDA multiple of 8.7x, the implied IPO price discount is 31% i.e., very similar to the egg producer peers discount. Worth noting is that the egg producer peers are two large US companies so a full comparison might not be fully relevant. However, we believe the Baltic dairy and food producers are relevant and the implied discount is very much the same as for the egg producers. See below for description of egg producer peers and peer tables.

**Vital farms** is a US listed egg producer with focus on free-range premium eggs from small farms. In addition to having its own farm, the eggs are sourced from over 300 free range egg farms. Based on this year, Vital farms is trading at a 2023E EV/EBITDA of 11.2x, which is expected to come down to 6.8x by 2025 i.e., analysts expect a rapid EBITDA growth.

**Cal-Maine Foods** is the largest egg producer in the United States. Cal-Maine Foods operates multiple subsidiaries across the United States and produces a variety of eggs, which can be divided to 'conventional' and 'specialty' eggs (sustainable eggs). Ninety two percent of Cal-Maine's eggs come from company-owned facilities with the remainder from third-party farms. The company plans to enlarge its cage-free egg production to enhance its animal welfare focus. The company's low EV/EBITDA 2023 multiple of 1.5x is due to outsized earnings as it was not hit by the avian flu (we regard this as not relevant and exclude it from the peer table). We believe the 2025 estimated (based on consensus) EV/EBITDA multiple of 10.2x as more relevant.

#### Egg producers

Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2022	EV/EBITDA 2023E	EV/EBITDA 2024E	EV/EBITDA 2025E
Vital Farms	VITL	USD	11.16	456	438	27.0	11.2	8.9	6.8
Cal-Maine Foods	CALM	USD	47.50	2,327	1,679	8.1	nm	12.0	10.2
<b>Average</b>						<b>17.6</b>	<b>11.2</b>	<b>10.4</b>	<b>8.5</b>

#### Dairy producers

Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2022	EV/EBITDA 2023E	EV/EBITDA 2024E	EV/EBITDA 2025E
Vilkyskiu Pienine	VLP	EUR	4.59	55	77	3.9	6.8	8.4	8.3
Zemaitijos Pienas	ZMP	EUR	1.72	71	99	9.3	7.8	8.0	7.9
EMMI AG	EMMN	CHF	836.50	4,454	4,890	12.9	12.1	11.4	11.0
Glanbia Plc	GL9	EUR	15.18	3,959	4,308	10.4	9.5	9.3	9.0
<b>Average</b>						<b>9.1</b>	<b>9.0</b>	<b>9.3</b>	<b>9.0</b>

#### Baltic food producers

Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2022	EV/EBITDA 2023E	EV/EBITDA 2024E	EV/EBITDA 2025E
Linas Agro	LNA	EUR	1.21	195	509	7.6	7.2	6.8	6.4
Auga	AUG	EUR	0.33	76	172	8.8	8.9	11.4	10.1
<b>Average</b>						<b>8.2</b>	<b>8.0</b>	<b>9.1</b>	<b>8.2</b>
<b>Average all segments</b>						<b>11.0</b>	<b>9.1</b>	<b>9.5</b>	<b>8.7</b>

APF Holdings	TBA	EUR	6.81	39.0	36.6	18.2	9.1	9.2	6.0
Premium(+)/Discount(-) to Egg producers							-19%	-12%	-30%
Premium(+)/Discount(-) to All peers							0%	-3%	-31%

Source: MarketScreener (consensus Vital Farms, Cal-Maine Foods, EMMI AG, Glanbia Plc), Enlight Research (Vilkyskiu Pienine, Zemaitijos Pienas, Linas Agro, Auga). Prices from 5 October 2023.

#### Potential value of future biomethane and biofertilizer plants

Our motivated Fair value do not include any value for the biomethane and the biofertilizer plants as the first revenues are planned beyond our explicit forecast period i.e., after 2025. Also, the money planned to be raised in the ongoing IPO does not include the needed investments to construct the plants (estimated at EUR 17m). Nevertheless, we have done a calculation of what the plants could be worth if implemented successfully. Based on APF's own forecast, the expected EBITDA in the third year of operation is EUR 3.9m. We assume an EV/EBITDA multiple of 4.0x which indicate an EV of EUR 15.5m. Deducting our forecast Net debt after 3 years in operations of EUR 5.2m, leaves us with an equity value of EUR 10.3m or EUR 1.79 per share.

## Forecast

### Sales forecast

Our Sales forecast is based on the average number of hens (flock size) during a period multiplied by the eggs produced per hen to get the total eggs produced. For example, in 2025, we forecast an average flock size of 602K hens and an average egg production per hen of 305 for a total of 184m eggs produced. We then take the total eggs produced and multiply by the estimated egg price to get the egg sales. In 2025, we forecast a price per egg of EUR 0.14, resulting in total egg sales of EUR 25.7m.

Egg Sales	H1/23	H2/23E	2022	2023E	2024E	2025E
Hens (avg. in period)	363,700	371,000	356,400	371,000	421,000	602,000
chg% y-on-y	1.3%	4.1%	58.3%	4.1%	13.5%	43.0%
Eggs produced (m)	51	56	111	108	126	184
chg% y-on-y	3.0%	-8.0%	93.0%	-3.1%	17.2%	45.4%
Eggs produced per hen	141	152	312	291	300	305
Egg price (EUR)	0.13	0.13	0.10	0.13	0.13	0.14
chg% y-on-y	31.2%	29.2%	47.1%	32.7%	0.0%	7.7%
<b>Total Egg Sales (EURm)</b>	<b>6.8</b>	<b>7.2</b>	<b>11.0</b>	<b>14.0</b>	<b>16.4</b>	<b>25.7</b>
chg% y-on-y	37.8%	18.9%	186.5%	27.4%	17.2%	56.6%

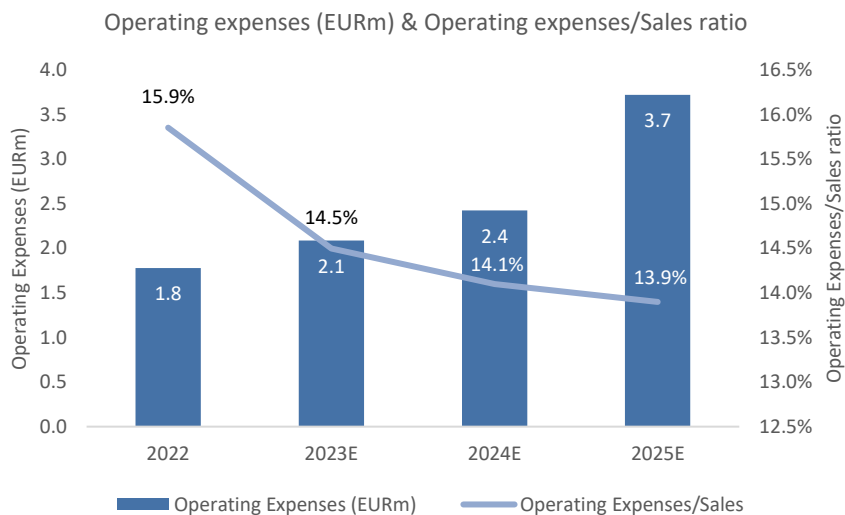
Source: Company (historical), Enlight Research (estimates)

### Group forecast

Our estimated Total Egg Sales feeds into the Total Egg Sales line in our Group income statement. The strong Total Income growth in 2024 (+20%) and 2025 (+56%) is mainly due to the capacity expansion. The economy of scale is visible through the Operating expenses to Sales ratio which is forecast to decline from 15.9% in 2022 to 13.9% in 2025. During the same period, the Operating margin is expected to improve from 8.5% to 17.1%, which is supported by the H1/23 actual Operating margin of 15.2%.

Income Statement (EURm)	H1/23	H2/23E	2022	2023E	2024E	2025E
Total Egg Sales	6.8	7.2	11.0	14.0	16.4	25.7
Other Sales	0.2	0.2	0.2	0.4	0.8	1.1
<b>Total income</b>	<b>7.0</b>	<b>7.4</b>	<b>11.2</b>	<b>14.4</b>	<b>17.2</b>	<b>26.8</b>
Cost of Goods Sold	-4.8	-5.3	-9.1	-10.1	-12.1	-18.6
<b>Gross profit</b>	<b>2.2</b>	<b>2.1</b>	<b>2.1</b>	<b>4.3</b>	<b>5.2</b>	<b>8.2</b>
Distribution expenses	-0.5	-0.5	-0.9	-1.0	-1.1	-1.6
Administrative expenses	-0.7	-0.4	-0.9	-1.1	-1.4	-2.1
Other income	0.1	0.1	0.7	0.2	0.2	0.2
Other expenses	-0.1	0.0	-0.1	-0.1	-0.1	-0.1
<b>Operating profit</b>	<b>1.1</b>	<b>1.2</b>	<b>1.0</b>	<b>2.3</b>	<b>2.9</b>	<b>4.6</b>
Financial net	-0.2	-0.3	-0.6	-0.5	-0.7	-0.6
<b>Pre-tax profit</b>	<b>0.8</b>	<b>1.0</b>	<b>0.3</b>	<b>1.8</b>	<b>2.2</b>	<b>3.9</b>
Income tax	0.0	0.0	0.0	-0.1	-0.1	-0.2
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>0.8</b>	<b>0.9</b>	<b>0.3</b>	<b>1.7</b>	<b>2.1</b>	<b>3.8</b>
Depreciation & amortization	0.8	0.9	1.1	1.7	1.8	2.7
<b>EBITDA actual/estimated</b>	<b>1.8</b>	<b>2.2</b>	<b>2.1</b>	<b>4.0</b>	<b>4.7</b>	<b>7.3</b>
<b>Sales growth</b>	<b>H1/23</b>	<b>H2/23E</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Sales sequential	na	6.2%	na	na	na	na
Sales y-on-y	39.5%	23.3%	185.1%	28.3%	19.5%	55.7%
<b>Margins</b>	<b>H1/23</b>	<b>H2/23E</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
Gross margin	31.3%	28.0%	18.7%	29.6%	30.0%	30.5%
EBITDA margin	26.1%	29.3%	18.7%	27.8%	27.1%	27.1%
Operating profit margin	15.2%	16.6%	8.5%	16.0%	16.6%	17.1%
Pre-tax profit margin	11.7%	12.8%	3.0%	12.3%	12.7%	14.7%
Net profit margin	11.5%	12.3%	3.0%	11.9%	12.2%	14.0%

Source: Company (historical), Enlight Research (estimates)

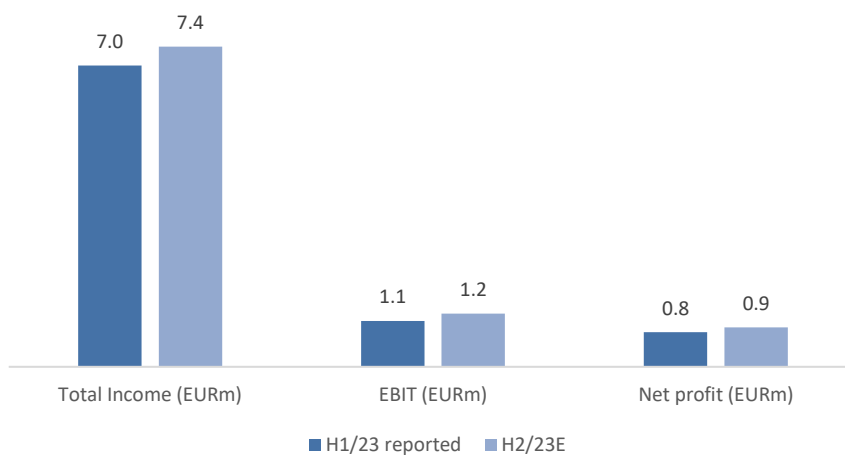


Source: Company (historical), Enlight Research (estimates)

**The Half-Year 2023 report**

We believe the recently closed H1/23 financials support our full-year 2023 forecast. In H1/23, the Total Income was EUR 7.0m with an EBIT margin of 15.2%. To reach our full-year 2023 estimated Total Income of EUR 14.4m, the H2/23 Total Income needs to be EUR 7.4m vs. EUR 7.0m in H1/23 corresponding to a 6.2% sequential increase. To reach our full-year 2023 estimated Net profit of EUR 1.7m, the H2/23 Net profit needs to be EUR 0.9m vs. EUR 0.8m in H1/23 corresponding to a 14.2% increase.

H1/23 reported and H2/23 estimate



Source: Company (historical), Enlight Research (estimates)

## Company description

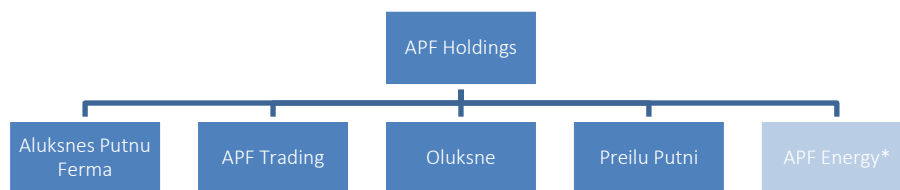
### History

The origins of APF dates to 1961 when the Alūksne collective poultry farm was established. In 2016, the farm was heading towards bankruptcy until the current main shareholder Juri Adamovics took over the company. In 2017, Mr. Adamovics established APF Holdings and has since then invested over EUR 15m to modernize and expand the production facilities. Today, APF is the second largest egg producer in Latvia and the third largest in the Baltics.

### Organizational structure

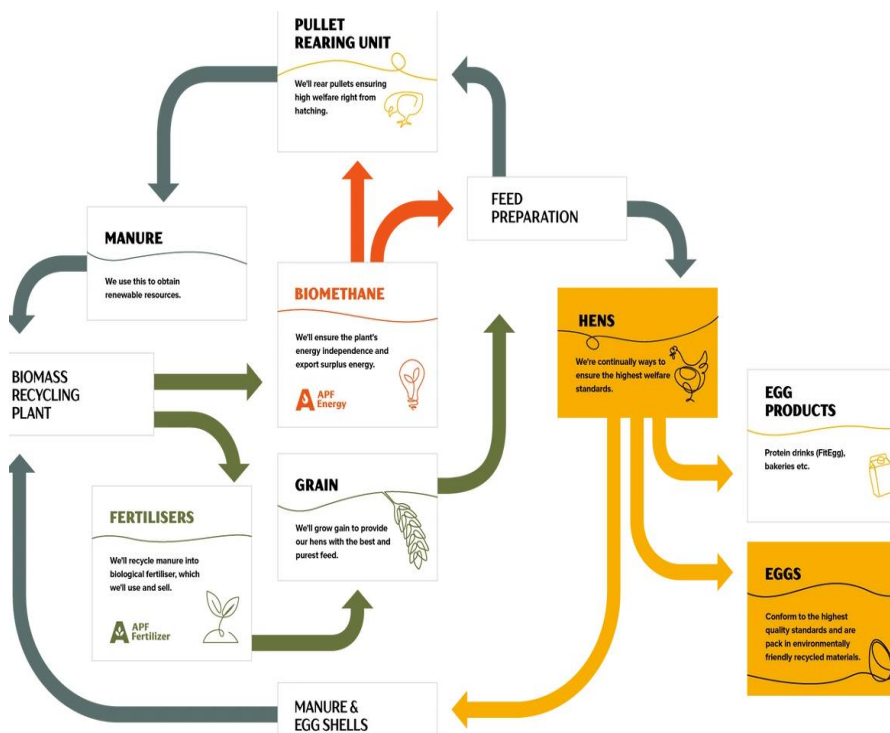
APF Holdings owns 100% of five subsidiaries. SIA Aluksnes Putnu Ferma is the main subsidiary that owns all production assets and real estate. SIA APF Trading conducts wholesale trade of eggs and is responsible for key customers (retail chains). SIA Oluksne is the operator of the production facilities and employs all personnel. Oluksne is also the brand name for the company’s category 2 (barn eggs) and Premium eggs. SIA Preilu Putni is a chick breeding company (currently working on launching operations). SIA APF Energy is a newly formed entity responsible for the development of a poultry manure biomass recycling plant, a biomethane and a biofertilizer plant. SIA APF Energy is a vital part of APF Holdings’ circular economy vision.

#### APF Holdings fully owned subsidiaries



Source: Company \*Entity that develops and will operate the biogas/biofertilizer plant

#### APF Holdings circular economy vision



Source: Company

**Supervisory and Management structure**

APF Holdings has a Supervisory Board (Council) and a Management Board. Currently, the Supervisory Board has four members, and the Management Board has three members. The Supervisory Board elects the Chairman of the Management Board and sets the long-term strategy and goals for APF Holdings. The Management Board implements the strategy and is responsible for the daily operations.

**Uldis Iltners** (Chairman of the Supervisory Board) is entrepreneur, co-founder of MADARA Cosmetics. He has more than 20 years of successful experience in the beauty industry, managing one of the most modern production facilities in Northern Europe - AS "Madara Cosmetics" and his experience in strategic management will be a powerful prime mover for APF development story.

**Eva Berlaus** (Deputy Chairman Member of the Supervisory Board) is Country Managing Partner of Latvia office at Sorainen and leads the Corporate and M&A practice group in Latvia. Eva's extensive legal experience will strengthen the supervision of corporate legal issues within APF.

**Miguel Jordao** (Member of the Supervisory Board) has wide experience in investment banking, financial services, having held diverse roles across this industry. Since 2017 Miguel Jordao is CFA (Chartered Financial Analyst Institute) charter holder. Miguel have been involved in setting up APF's strategic processes.

**Aleksandrs Adamovičs** (Member of the Supervisory Board) is professor and leading researcher at Latvian University of Biosciences and Technologies, Faculty of Agriculture. He has strong professional experience in agro biotechnology, which is very valuable in the development of APF's technological processes.

**Jurijs Adamovičs** (Chairman of the Management Board) is the founder and main shareholder of APF Holdings. He has more than 20 years of experience in financial services, asset management, M&A, business development and company restructuring. Jurijs holds a master's degree in finance from the London Business School.

**Hermanis Dvigijs** (Management Board Member) manages the daily operations of APF Holdings' subsidiaries where he is also the Chairman of the Board. He has many years' experience in banking and asset management. Mr. Dvigijs holds a master's degree in business management from Daugavpils University.

**Mihails Keziks** (Management Board Member) is an experienced manager in the financial industry, who before assuming the duties of APF Holdings' Financial Director was a project director and portfolio manager in financial institutions such as Reverta and Nort Group. Mr. Kezik holds a master's degree in finance and banking from SGH Warsaw School of Economics.

### Product offer

APF Holdings' main operation is egg production and egg sales. The company also sells egg products such as e.g., protein drinks. The egg offer consists of Free-range eggs (category 1) that are bought from third party firms, own produced Barn eggs (category 2), and own produced Cage eggs (category 3). APF Holdings does not offer Organic eggs (category 0).

<p><b>3</b></p> <p><b>CAGE-LAID</b> <i>eggs</i></p> <p>Eggs are laid by hens living in cages with access to feed, water, and security. These hens are kept in cages that correspond to the minimum cage size per bird according to European Union regulations. This type of egg farming effectively protects the hens from disease and predators.</p>	<p><b>2</b></p> <p><b>BARN-LAID</b> <i>eggs</i></p> <p>Eggs are laid by hens that roam freely in a barn and have unlimited access to quality feed and clean water. Each hen has sufficient space to rest and hover from perch to perch.</p>	<p><b>1</b></p> <p><b>FREE-RANGE</b> <i>eggs</i></p> <p>Eggs are laid by hens that have a safe living environment in the barn house but also have accessibility to the great outdoors. Together with the traditional chicken feed, these hens enjoy the pasture's natural flora and insects.</p>	<p><b>0</b></p> <p><b>ORGANIC</b> <i>eggs</i></p> <p>The hens that lay organic eggs enjoy the same living conditions as the free-range laying hens roaming around the barn and open-air, but in addition, are fed organic feed.</p>
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Source: Company

### Main shareholders

There is only one share class with equal voting power and right to dividends. The largest Pre-IPO shareholder is SIA "J.A. Investment Holdings" (78.30%), a legal entity controlled by Jurijs Adamovics "Jurijs Adamovičs" (Chairman of the Management Board) who also own 10.85% directly. The third largest owner is Omni Industries B.V. (9.04%), a legal entity whose beneficial owner is Ellert Naaktgeboren-Eichhorn. The fourth (Uldis Iltners) and fifth (Miguel Jordao) largest owners are members of the Supervisory Board.

Pre-IPO		
Shareholder	No. shares (m)	% of votes & capital
SIA "J.A. Investment Holdings"	3.680	78.30%
Jurijs Adamovičs	0.510	10.85%
Omni Industries B.V.	0.425	9.04%
Uldis Iltners	0.075	1.60%
Miguel Jordao	0.010	0.21%
<b>Total</b>	<b>4.700</b>	<b>100.00%</b>
Post-IPO*		
Shareholder	No. shares (m)	% of votes & capital
SIA "J.A. Investment Holdings"	3.680	64.25%
Jurijs Adamovičs	0.510	8.90%
Omni Industries B.V.	0.425	7.42%
Uldis Iltners	0.075	1.31%
Miguel Jordao	0.010	0.17%
New IPO shareholders	1.028	17.95%
<b>Total</b>	<b>5.728</b>	<b>100.00%</b>

Source: Company (Pre-IPO), Enlight Research (Post-IPO)

\*Following fully subscribed IPO

### Dividend policy

The approved dividend policy stipulates that after the year 2025 when the planned expansion is completed, up to 50% of the net profits can be distributed in dividends. Hence, in the medium-term (until 2025), APF Holdings should be regarded as a growth investment rather than a dividend investment.

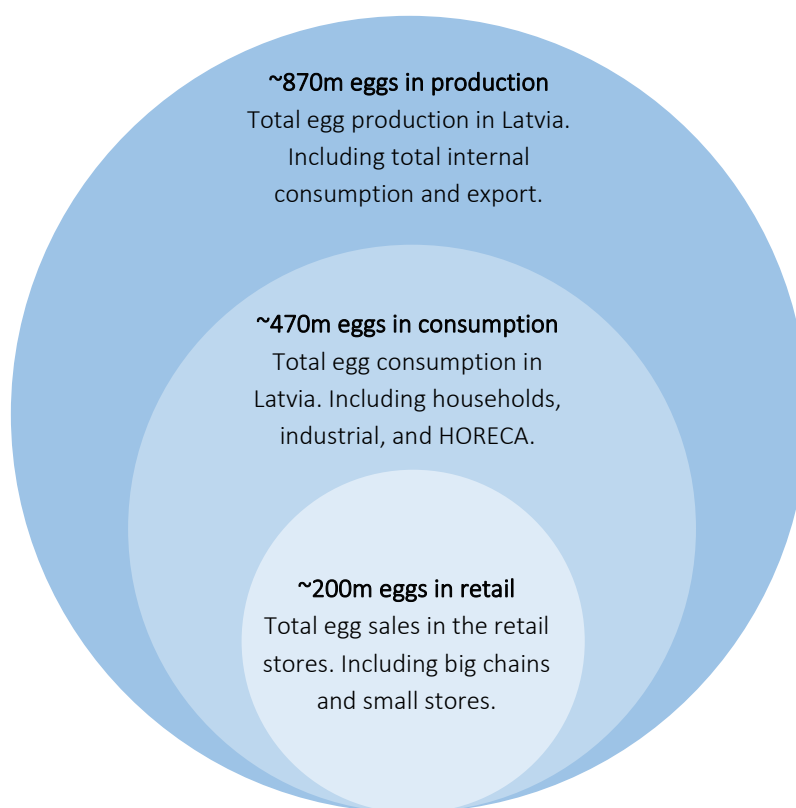


## Market overview

### Latvia market

We categorize the Latvian egg market into three segments: egg production, egg consumption, and retail stores egg sales. According to the Latvian Statistics Centre, the Latvian 2022 egg production amounted to 870m eggs while the egg consumption amounted to 470m eggs. Based on Nielsen research, we estimate the 2022 Latvian eggs retail market to 200m eggs. APF Holdings produced 111m eggs in 2022 which corresponds to 13% production market share. We estimate that 60% or 67m eggs (111m eggs produced x 60% = 67m eggs) were consumed in Latvia which indicates 14% market share in terms of eggs consumed in Latvia. Around 40 million of all APF Holdings' produced eggs were sold in retail stores under APF's brands or as private label indicating 20% retail channel market share in Latvia. Based on the Baltic region's demographics, we foresee the egg market size to stay at current level until 2025. Consequently, APF's expected capacity increase will increase the market share mainly by taking share from competitors. In 2025, we forecast APF Holdings to have increased its production market share to 21% (13%), its consumption market share to 23% (14%), and its retail channel market share to 33% (20%).

### 2022-2025 total addressable eggs market in Latvia



Sources: Latvian Statistics Center, Nielsen Latvian Consumer Eggs Report

APF market share in Latvia	2022 in Eggs (m)	2022 Mkt. Share in %	2025E in Eggs (m)	2025E Mkt. Share in %
Egg production	111	13%	184	21%
Eggs sold for consumption in Latvia	67	14%	110	23%
Eggs sold to Retail channels	40	20%	66	33%

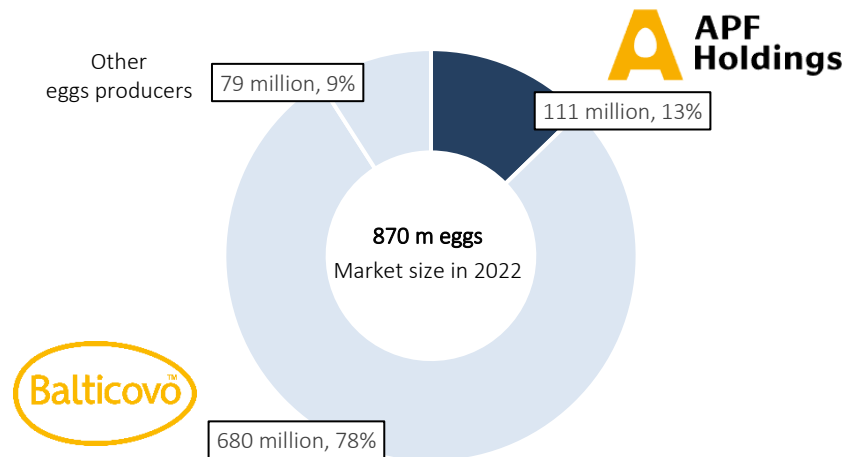
Sources: Company, Enlight Research (estimates), Latvian Statistics Center, Nielsen Latvian Consumer Eggs Report



**Latvian egg market oligopoly**

The Latvian egg market is dominated by two companies: Balticovo and APF Holdings. Balticovo's annual egg production is 680m eggs according to its sustainability report. This implies a 78% market share of the Latvian eggs production market in 2022. APF Holdings is in second place with 111 million eggs corresponding to a 13% market share, while the remaining 9% (79 million eggs) are likely covered by smaller individual farms. The Latvian egg production market is an oligopoly with high barriers to entry.

**2022 Latvian eggs production market by producer**

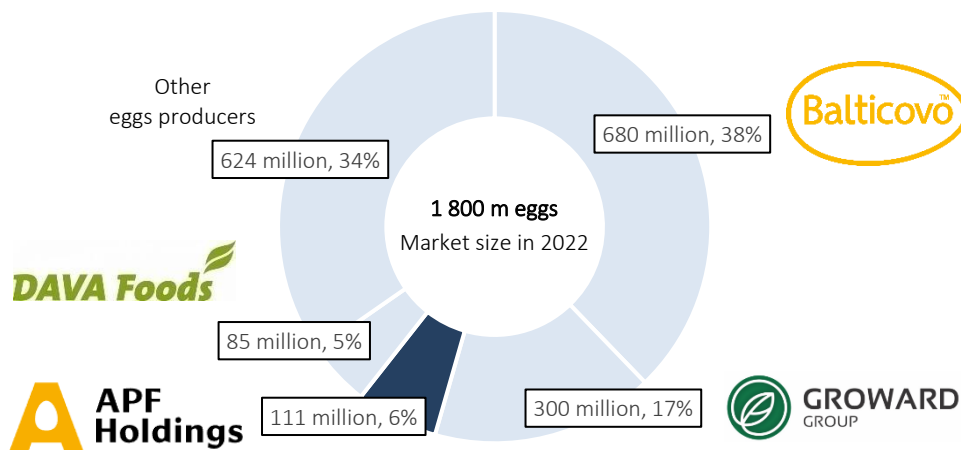


Sources: Latvian Statistics Center, Balticovo, APF Holdings

**Baltic egg market**

Based on Latvian, Lithuanian, and Estonian Statistics Centers, the Baltic countries produced approximately 1 800 million eggs in 2022. We estimate that APF Holdings is the third biggest egg producer in the Baltics with a 6% (111m eggs) market share, behind only Latvia’s Balticovo with 38% market share (680m eggs) and Lithuania’s Groward Group with 17% market share (300m eggs). Therefore, we believe APF Holdings is well positioned to increase its market share if production could be increased (as it would improve its position in an oligopolistic market).

**2022 Baltics eggs production market by producer**



Sources: companies’ websites, national statistics portals, and Enlight Research estimations

## Risk factors

Below are the risk factors we find the most relevant given the current environment. For additional risk factors, we recommend reading the IPO listing document.

### Volatility in input prices

APF's financial performance may be influenced by the price fluctuations of inputs, especially feed and energy.

### Livestock disease

A severe animal disease could affect APF's production volume and hence our estimates negatively.

### Interest rates

We expect the company to carry a net debt. Hence, a significant increase in interest rates could affect profits negatively.

### Expansion risk

Our estimates assume a successful egg production capacity expansion. There is no guarantee that the expansion will succeed.

### COVID-19

We do not assume a resumption of COVID restrictions. A resumption of COVID restrictions could burden the HORECA sector. Furthermore, it could hamper the production capacity, due to COVID-19 related illnesses among personnel.

### Russia – Ukraine war

The company has no sales to Russia or Ukraine. The risk that Ukrainian egg producers will start to sell eggs in APF's core markets is minimal as the price of eggs is higher in most other European countries.

<b>Income Statement</b>	2021	2022	2023E	2024E	2025E
Net sales	3.9	11.2	14.4	17.2	26.8
Total operating costs	-4.7	-9.1	-10.4	-12.5	-19.5
<b>EBITDA</b>	<b>-0.7</b>	<b>2.1</b>	<b>4.0</b>	<b>4.7</b>	<b>7.3</b>
Depreciation & Amort.	-0.8	-1.7	-1.7	-1.8	-2.7
One-off EBIT items	2.2	0.5	0.0	0.0	0.0
<b>EBIT</b>	<b>0.7</b>	<b>1.0</b>	<b>2.3</b>	<b>2.9</b>	<b>4.6</b>
Financial net	-0.5	-0.6	-0.5	-0.7	-0.6
<b>Pre-tax profit</b>	<b>0.1</b>	<b>0.3</b>	<b>1.8</b>	<b>2.2</b>	<b>3.9</b>
Taxes	0.0	0.0	-0.1	-0.1	-0.2
Minority interest	0.0	0.0	0.0	0.0	0.0
Other items	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>0.1</b>	<b>0.3</b>	<b>1.7</b>	<b>2.1</b>	<b>3.8</b>

<b>Balance Sheet</b>	2021	2022	2023E	2024E	2025E
Cash and cash equivalent	0	0	6	3	3
Receivables	0	1	1	2	3
Inventories	2	2	2	3	4
Other current assets	0	0	0	0	0
<b>Current assets</b>	<b>2</b>	<b>3</b>	<b>10</b>	<b>8</b>	<b>10</b>
Tangible assets	11	10	9	19	19
Goodwill & intangible assets	0	0	0	0	0
Lease & Investment properties	0	0	0	0	0
Investments	0	0	0	0	0
Associated companies	0	0	0	0	0
Other non-current assets	0	0	0	0	0
<b>Total fixed assets</b>	<b>11</b>	<b>10</b>	<b>9</b>	<b>19</b>	<b>19</b>
<b>Total Assets</b>	<b>13</b>	<b>13</b>	<b>19</b>	<b>27</b>	<b>29</b>
Non-interest bearing current liabilities	1	1	1	2	2
Short-term debt	0	3	1	2	2
Other current liabilities	1	1	0	2	0
<b>Total current liabilities</b>	<b>2</b>	<b>4</b>	<b>2</b>	<b>6</b>	<b>4</b>
Long-term debt	7	4	3	5	5
Convertibles & Lease liab.	0	0	0	0	0
Deferred tax liabilities	0	0	0	0	0
Provisions	0	0	0	0	0
Other long-term liabilities	3	3	3	2	2
<b>Total long-term liab.</b>	<b>10</b>	<b>6</b>	<b>5</b>	<b>7</b>	<b>7</b>
<b>Total Liabilities</b>	<b>12</b>	<b>11</b>	<b>7</b>	<b>13</b>	<b>12</b>
Minority interest (BS)	0	0	0	0	0
Shareholders' equity	1	3	11	13	17
<b>Total liabilities and equity</b>	<b>13</b>	<b>13</b>	<b>19</b>	<b>27</b>	<b>29</b>

<b>DCF valuation</b>	<b>Cash flow, mEUR</b>		
WACC (%)	7.19 %	NPV FCF (2023-2025)	-3
Assumptions 2023-2029 (%)		NPV FCF (2026-2032)	14
Sales CAGR	15.11 %	NPV FCF (2033-)	46
Avg. EBIT margin	16.66 %	Non-operating assets	0
Fair value per share (EUR)	8.92	Interest-bearing debt	-6
Share price (EUR)	6.81	Fair value estimate	51

<b>Free Cash Flow</b>	2021	2022	2023E	2024E	2025E
Operating profit	0.7	1.0	2.3	2.9	4.6
Depreciation & Amort.	0.8	1.2	1.7	1.8	2.7
Working capital chg.	-0.8	-0.4	-1.5	1.4	-3.9
Other Operating CF items	-2.8	-1.1	-0.1	-0.1	-0.2
<b>Operating Cash Flow</b>	<b>-2.1</b>	<b>0.7</b>	<b>2.5</b>	<b>5.9</b>	<b>3.1</b>
Net investments	-2.9	-0.7	-0.2	-11.5	-3.0
Other items	0.0	0.0	0.0	0.0	-0.1
<b>Free Cash Flow</b>	<b>-5.0</b>	<b>0.0</b>	<b>2.3</b>	<b>-5.8</b>	<b>0.0</b>

<b>Capital structure</b>	2021	2022	2023E	2024E	2025E
Equity ratio	10.0%	19.2%	60.8%	50.2%	59.6%
Debt / Equity ratio	563.2%	250.9%	29.4%	55.4%	42.3%
Gearing %	562.0%	248.3%	-21.8%	29.6%	26.6%
Net debt/EBITDA	-9.9	3.0	-0.6	0.8	0.6

<b>Profitability</b>	2021	2022	2023E	2024E	2025E
ROE	8.5%*	17.4%*	24.9%	17.1%	24.6%
FCF yield	-8.7%	1.8%	5.8%	-14.8%	0.0%
EBITDA margin	-18.3%	18.7%	27.8%	27.1%	27.1%
EBIT margin	17.2%	8.5%	16.0%	16.6%	17.1%
PTP margin	3.5%	3.0%	12.3%	12.7%	14.7%
Net margin	3.4%	3.0%	11.9%	12.2%	14.0%

<b>Valuation</b>	2021	2022	2023E	2024E	2025E
P/E	nm	96.7	22.7	18.6	10.4
P/E, adjusted	nm	96.7	22.7	18.6	10.4
P/Sales	8.1	2.9	2.7	2.3	1.5
EV/Sales	9.9	3.4	2.5	2.5	1.6
EV/EBITDA	nm	18.2	9.1	9.2	6.0
EV/EBIT	57.7	40.2	15.9	15.0	9.5
P/BV	25.1	12.7	3.5	2.9	2.3
P/BV tangible	25.3	12.8	3.5	2.9	2.3

<b>Per share ratios</b>	2021	2022	2023E	2024E	2025E
EPS	0.03	0.07	0.30	0.37	0.65
EPS, adjusted	0.03	0.07	0.30	0.37	0.65
Operating CF/share	-0.33	0.35	0.43	1.04	0.55
Free Cash Flow/share	-0.59	0.12	0.39	-1.01	0.00
BV/share	0.27	0.54	1.96	2.33	2.99
Tangible BV/share	0.27	0.54	1.96	2.33	2.99
Div. per share	0.00	0.00	0.00	0.00	0.00
Div. payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%

<b>Shareholders**</b>	<b>Capital</b>	<b>Votes</b>
SIA "J.A. Investment Holdings"	25.062	64.25 %
Jurijs Adamovičs	3.472	8.90 %
Omni Industries B.V.	2.894	7.42 %
Uldis Iltners	0.511	1.31 %
Miguel Jordao	0.066	0.17 %
New IPO shareholders	7.000	17.95%

<b>Key people</b>	
CEO	Herman Dowgie
CFO	Mihails Keziks
IR	Zane Jansone
Chairman	Jurijs Adamovics

\*ROE calculated with adjusted Equity for shareholder loans

\*\*Assume fully subscribed IPO at IPO price (Share ownership calculation assume only new shareholders subscribe)

<b>P/E</b> $\frac{\text{Price per share}}{\text{Earnings per share}}$	<b>EPS</b> $\frac{\text{Profit before extraordinary items and taxes – income taxes + minority interest}}{\text{Number of shares}}$
<b>P/Sales</b> $\frac{\text{Market cap}}{\text{Sales}}$	<b>DPS</b> Dividend for financial period per share
<b>P/BV</b> $\frac{\text{Price per share}}{\text{Shareholders' equity + taxed provisions per share}}$	<b>CEPS</b> $\frac{\text{Gross cash flow from operations}}{\text{Number of shares}}$
<b>P/CF</b> $\frac{\text{Price per share}}{\text{Operating cash flow per share}}$	<b>EV/Share</b> $\frac{\text{Enterprise value}}{\text{Number of shares}}$
<b>EV (Enterprise value)</b> Market cap + Net debt + Minority interest at market value – share of associated companies at market value	<b>Sales/Share</b> $\frac{\text{Sales}}{\text{Number of shares}}$
<b>Net debt</b> Interest-bearing debt – financial assets	<b>EBITDA/Share</b> $\frac{\text{Earnings before interest, tax, depreciation and amortization}}{\text{Number of shares}}$
<b>EV/Sales</b> $\frac{\text{Enterprise value}}{\text{Sales}}$	<b>EBIT/Share</b> $\frac{\text{Operating profit}}{\text{Number of shares}}$
<b>EV/EBITDA</b> $\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	<b>EAFI/Share</b> $\frac{\text{Pre-tax profit}}{\text{Number of shares}}$
<b>EV/EBIT</b> $\frac{\text{Enterprise value}}{\text{Operating profit}}$	<b>Capital employed/Share</b> $\frac{\text{Total assets – non-interest-bearing debt}}{\text{Number of shares}}$
<b>Div yield, %</b> $\frac{\text{Dividend per share}}{\text{Price per share}}$	<b>Total assets</b> Balance sheet total
<b>Payout ratio, %</b> $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes – income taxes + minority interest}}$	<b>Interest coverage (x)</b> $\frac{\text{Operating profit}}{\text{Financial items}}$
<b>Net cash/Share</b> $\frac{\text{Financial assets – interest-bearing debt}}{\text{Number of shares}}$	<b>Asset turnover (x)</b> $\frac{\text{Turnover}}{\text{Balance sheet total (average)}}$
<b>ROA, %</b> $\frac{\text{Operating profit + financial income + extraordinary items}}{\text{Balance sheet total – interest-free short-term debt – long-term advances received and accounts payable (average)}}$	<b>Debt/Equity, %</b> $\frac{\text{Interest-bearing debt}}{\text{Shareholders' equity + minority interest + taxed provisions}}$
<b>ROCE, %</b> $\frac{\text{Profit before extraordinary items + interest expenses + other financial costs}}{\text{Balance sheet total – non-interest-bearing debt (average)}}$	<b>Equity ratio, %</b> $\frac{\text{Shareholders' equity + minority interest + taxed provisions}}{\text{Total assets – interest-free loans}}$
<b>ROE, %</b> $\frac{\text{Profit before extraordinary items – income taxes}}{\text{Shareholders' equity + minority interest + taxed provisions (average)}}$	<b>CAGR, %</b> Cumulative annual growth rate = Average growth rate per year

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Contact information

[ResearchTeam@EnlightResearch.net](mailto:ResearchTeam@EnlightResearch.net)