LUND UNIVERSITY FINANCE SOCIETY EST 1991

Zinzino (ZZ B)

Sweden | Food and Beverage | MCAP SEK 1 228.4mn

14 June 2022

Target price:	SEK 62.1
Current price:	SEK 36.5
Upside:	**70.3 %**

Zinzino – Undervalued growth prospect with margin expansion

Zinzino is acting as a producer and reseller of dietary supplements. The Company uses a direct selling model that provides effective coverage of large geographical areas, including Europe, APAC, and North America, without the need for major investment in non-current assets. These regions make up Zinzino's target markets, which combined are expected to grow by an average of 6.3% in the following three years. Zinzino is estimated to beat this market growth by an average of 5.4 percentage points until 2024E-implying a revenue CAGR of 11.7% during the same period. The strong growth, which to a large extent is driven by taking market shares in Europe and expanding to new submarkets in APAC, combined with scalability due to decreasing OPEX in relation to total revenue, motivates a higher valuation. Based on a relative peer valuation, an EV/EBIT target multiple of 10.6x in 2023E is justified, implying an upside of 70.3% and a target price of SEK 62.1.

Key takeaways

- **Expanding to new submarkets implies strong growth**
  With a historical CAGR of 32.8% between 2018A-2021A, Zinzino's growth strategy has been proven efficient. The strategy, which aims to penetrate new markets/submarkets and take market shares in the existing submarkets, motivates the estimated revenue CAGR of 11.7% until 2024E. With a digital webshop available in over 100 countries, the global expansion has generated strong revenue growth and is estimated to continue on that path. A lot of the estimated growth is attributable to APAC, where the Company plans to expand rapidly by entering new submarkets. This motivates a revenue CAGR of 41.2% in APAC until 2024E due to entering new countries, which will be a catalyst for taking more market shares in the extensive targetable APAC market, which are valued at SEK 381bn.

- **The "direct to consumer" business model enables scalability**
  Zinzino's business model provides the means for a scalable business with decreased personnel costs and D&A expenses as a % of revenue. With an EBITDA margin of 3.8% and an EBIT margin of 1.7% in 2018A, the Company has effectively expanded its margins to an EBITDA margin of 10.0% and an EBIT margin of 8.5% in 2021A. The Company's ability to operate in several parts of the world without being forced to invest heavily in personnel and non-current assets is a significant reason why the margins will continue to expand. An EBITDA margin of 11.1% and an EBIT margin of 9.9% is estimated in 2024E.

- **Trading at a 41.3% discount to peers**
  The market is underestimating Zinzino's ability to enter new submarkets, grow in current submarkets, and increase its margins due to scalability. This results in a 41.3% discount compared to peers based on a projected EV/EBIT multiple of 6.3x in 2023E. The discount is motivated by the relatively short amount of time the Company has proven its ability to compete on the global stage. However, the growth prospect compensates for this, and the Company should be trading at the peer average 2023E EV/EBIT of 10.6x. The average peer EV/EBIT provides an upside of 70.3%, which implies a target price of SEK 62.1.

Analysts	
Sebastian Wester	Equity Analyst
Carl Viktor Wümer	Equity Analyst

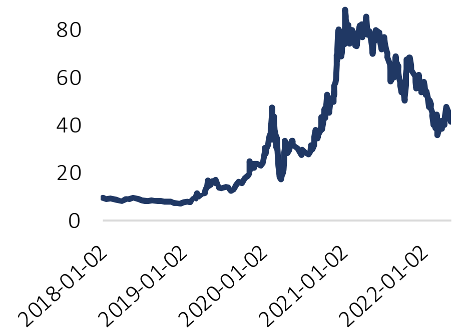
Market Data, SEK	
Exchange	First North Stockholm
Shares (mn)	33.7
MCAP (mn)	1 228.4
EV (mn)	1 055.7

Metrics & Drivers	21A	22E	23E
EV/EBIT	14.9x	7.9x	6.3x
EV/EBITDA	12.6x	6.9x	5.6x
EV/S	1.3x	0.7x	0.6x
P/E	22.2x	11.7x	9.3x

Forecast, SEKmn	21A	22E	23E
Total revenue	1 370.6	1 589.0	1 772.7
Rev. growth y/y	20.4%	15.9%	11.6%
Gross Profit	427.5	484.3	555.6
Gross Margin	31.2%	30.5%	31.3%
EBITDA	137.6	152.4	190.2
EBITDA Margin	10.0%	9.6%	10.7%
EBIT	116.0	133.3	168.9
EBIT Margin	8.5%	8.4%	9.5%

Major Shareholders	
Örjan Saele	28.4%
Peter Sörensen	11.5%

Price Development, SEK



Investment thesis

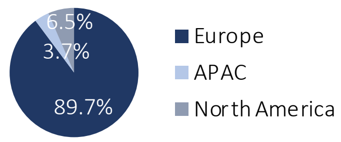
The entrance into new markets will create strong revenue growth

With a historical CAGR of 32.8% between 2018A-2021A, Zinzino aims to have a revenue growth of 20.0% annually. The Company has gained market share by entering new submarkets in more countries. This is a result of Zinzino's successful business model, selling direct to consumers as well as investing in swift and accessible e-commerce. The growth is not only attributable to the newly established submarkets but also to the current submarkets where the Company has focused on stimulating the distributor activity. In 2024E, the revenue in the APAC region is estimated to amount to SEK 252.7mn (SEK 89.7mn 2021A), which is possible through the Company's expansion to new submarkets such as India and Indonesia. With estimated revenue growth of 15.9% in 2022E, the Company is expected to gain market shares within its markets in 2022E. With newly established submarkets such as Ireland and Belgium (and soon Mexico), Zinzino can take advantage of the already established submarkets through collaborations between nearby countries where they have an operational distributors network.

Increasing margins due to decreasing personnel costs and D&A as a % of revenue

Zinzino is expected to scale its business slightly due to economies of scale. The margin expansion is partly attributable to an estimated decrease in D&A and personnel costs as a % of revenue. The D&A and personnel cost amount to 1.6% and 9.9% of revenue in 2021A. However, they are estimated to be pushed down to 1.2% respectively 9.5% of revenue in 2024E due to a low need for investments in non-current assets and a limited need to increase personnel costs correlated to revenue. The estimated decreased personnel costs to revenue are validated by the historical decrease from 12.3% of revenue in 2018A. As a result, the Company is expected to capitalize on its high-performing business model and reach an EBIT margin of 9.9% in 2024E.

Segment as a % of total revenue, 2021A



Source: The Company

Expected market growth will favor Zinzino's growth

Zinzino's target markets are expected to grow with a CAGR of 6.3% between 2021A-2024E, according to Statista. However, estimates for the markets differ between different sources. What can be said is that the markets are expected to grow at a much faster rate than the GDP at Zinzino's target markets. Despite the pandemic being nearly over, people worldwide are bringing more attention to their health which Zinzino will capitalize on.

Unique products allow the Company to differentiate itself

With Zinzino's improved research and test studies, which shows the effects of the Company's product, they will be able to position themselves as a prominent dietary supplement company. The products sold by Zinzino belong to different categories, such as immune supplements, weight control, and skincare. The most unique products, however, belong to the Balance Series. These products help the user increase their level of omega-3 and thus optimizing the immune and heart functions. The difference between Zinzino's products and the competition's products is that Zinzino's products not only increase omega-3 but also optimize the important omega-6:3-balance. In addition, using a blood test provided by Zinzino also makes it easier to locate individual imbalances and create a personalized plan to treat them.

A business model which relies on distributors creates uncertainty

Zinzino relies on its distributors since they are the ones attracting new distributors and selling the products. Less active distributors will harm the business since a large part of the revenue is driven by the distributors' activity, thus creating more pressure on e-commerce. Establishing relationships with resellers to compensate for less active distributors will be complicated and provide no guarantee to compensate for lost revenue from distributors. Less distributor activity has been seen in the Nordics, where the Company is actively working to stimulate its distributors with successful results. As long as the compensation for distributors is financially attractive, and Zinzino keeps working with its well-managed incentive program, the risk is viewed as low that the distributor's activity will go down rapidly without the Company being able to take countermeasures.

Overview of the Company

Zinzino, which was founded in 2007, is a ”direct-to-consumer” company that operates in 40 submarkets, and its e-commerce addresses over 100 countries. The Company focuses on developing, producing, and distributing high-quality dietary supplements. Zinzino has three segments, Health, Coffee, and Faun. With its Faun segment, Zinzino has the capability to develop and produce new products in-house as well as enable external purchasing. The primary segment, Health, stands for 87.4% of the Company’s revenue (2021A).

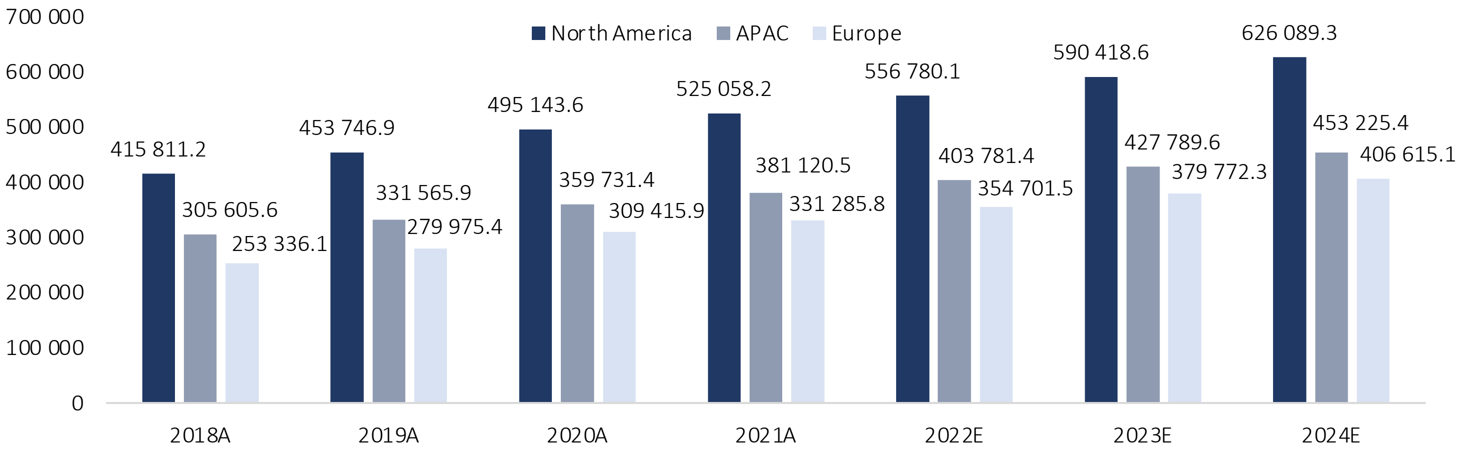
Focusing on worldwide establishment through acquisitions and on-demand delivery
Europe is the Company's primary market, which in 2021A constituted 89.7% of revenue. Apart from the European market, Zinzino operates in North America and APAC. Zinzino can establish itself in new submarkets relatively fast by acquiring local companies. The acquisitions enable the Company to access licenses necessary to operate and gain a local presence due to the vast distributor network. The latest acquisitions were Enhanzz IP AG and Enhanzz Global AG, which will increase Zinzino's customer base and product segments. Selling the products over their markets is made possible by the distributors. When orders are placed from customers to anyone in the distributor network, the product is sent from warehouses worldwide to the customer on-demand. This enables the Company to provide its products to its extensive target markets.

Overview of the market

Zinzino's target markets are estimated to grow with a CAGR of 6.3% between 2021A-2024E
The Company's target markets have grown with a CAGR of 8.3% between 2017A-2021A and are expected to grow with a CAGR of 6.3% 2021A-2024E, according to Statista. The market is estimated to grow by a CAGR of 6.0% in North America and by 5.9% in APAC. Zinzino's main market in Europe is estimated to grow with a CAGR of 7.1% until 2024E.

Positive market outlook boosted by e-commerce
The markets are driven by a health awareness trend partly connected to the covid-19 pandemic as well as overall interest in health and wellbeing. Furthermore, improved test studies regarding the effects of dietary supplements, such as the balance levels of omega-3 and 6, have legitimated the dietary supplement business. In the Nordics, the revenue conducted to "direct-to-consumer" represented 10.0% of total revenue in the region and e-commerce 28.0% in 2020A. The e-commerce penetration of conventional markets is overall strong in the global economy, and with Zinzino's developed e-commerce, the Company will be able to capitalize on the digital transition and increased health awareness.

Estimated size of the target markets 2018A-2024E
SEKmn



Source: Statista

Financial forecast breakdown

Future growth is largely driven by APAC and Europe

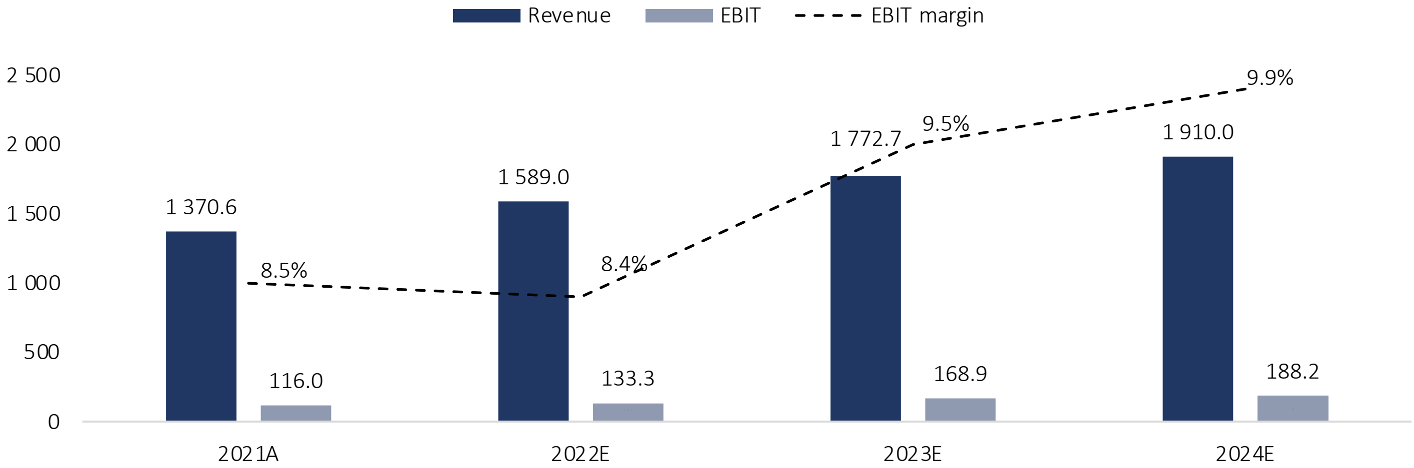
The projections for 2022E-2024E include a revenue CAGR of 11.7%, which is validated by Zinzino's ability to take more market shares in existing submarkets and expand into new ones. The driving regions of the growth are, to a large extent, Europe and APAC, which today make up 89.7% and 6.5% of the total revenue. By 2024E, it is expected that these regions will make up 80.2% respectively 13.2% of the total revenue. Furthermore, APAC is estimated to grow with a CAGR of 41.2%. The APAC market is meanwhile expected to grow annually by 5.9% until 2024E, which means that Zinzino is expected to beat the market growth during that period by 35.3 percentage points. The strong growth in APAC is primarily estimated because Zinzino will keep expanding beyond the few countries such as Australia and Singapore in APAC, where the Company is active today. Since Zinzino has taken more market shares in Europe (excluding the Nordics), that market is expected to increase with a CAGR of 11.6% until 2024E, which still indicates that Zinzino will beat the 7.1% regional growth by 4.5 percentage points.

Decline in the Nordics but stimulated growth in North America

Unlike the immature APAC market, the growth has stagnated in the mature Nordic market, which has meant that the revenue in this segment in 2021A was SEK 432.5mn, which is SEK 0.5mn less than in 2018A. A future yearly decline of 1.2% has been estimated until 2024E based on the negative trend in the Nordics as a result of less distributor activity. The expected growth in North America is, on the other hand, estimated to continue as a result of the Company beating the regional market growth of 8.4% by a crushing 27.9 percentage points due to an emphasis on attracting new customers by the distributors. As Zinzino keeps developing its distributor network in North America, a future beating of the North American market by 14.8 percentage points is motivated. This increases revenue from SEK 51.3mn in 2021A to SEK 90.5mn in 2024E in North America.

Estimated EBIT margin expansion to 9.9% in 2024E and revenue growth with a CAGR of 11.7% 2021A-2024E

SEKmn

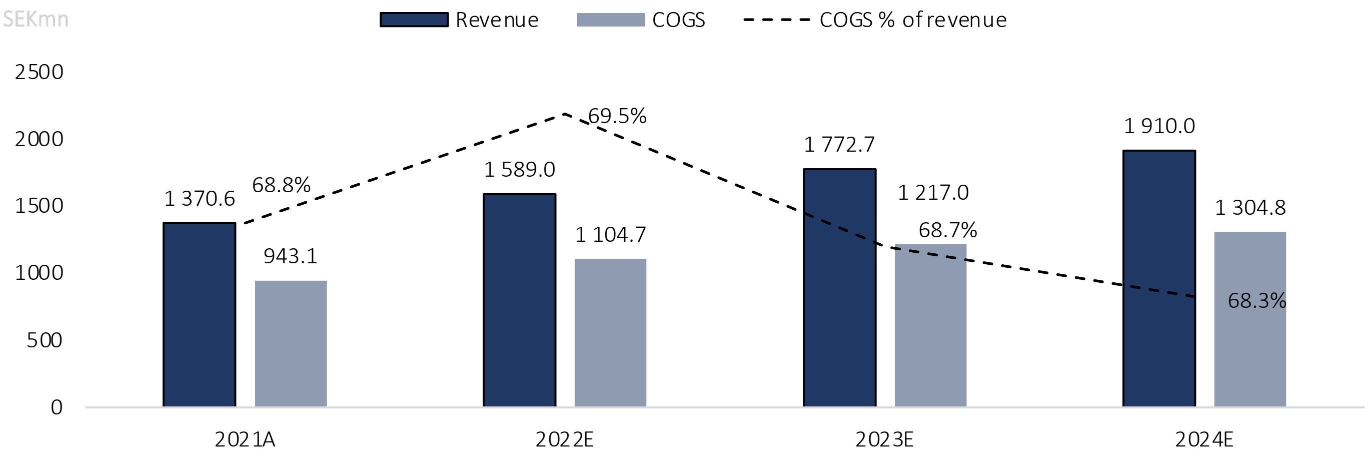


Source: Analyst estimates

COGS is estimated to increase from SEK 943.1mn 2021A to SEK 1 304.8mn 2024E

Zinzino's COGS is mainly made up of purchased goods and compensation to distributors. Both of these costs will naturally increase as revenue rises. The Company has, however, raised its prices by 5.0% during February 2022A to compensate for higher prices for COGS in relation to revenue due to inflation. From 2018A to 2021A, the gross margin has decreased from 32.7% to 31.2%. It is estimated that the gross margin will be pushed down even further to 30.5% in 2022E, which equals SEK 1 104.7mn before the price increase is in full effect in 2023E (a large part of the income is tied in 6-month subscriptions). In 2024E, the gross margin is expected to rise to 31.7% thanks to the price increase and due to Zinzino being able to lower commissions to distributors as the Company keeps growing.

Decreasing COGS as a % of revenue from 68.8% in 2021A to 68.3% in 2024E

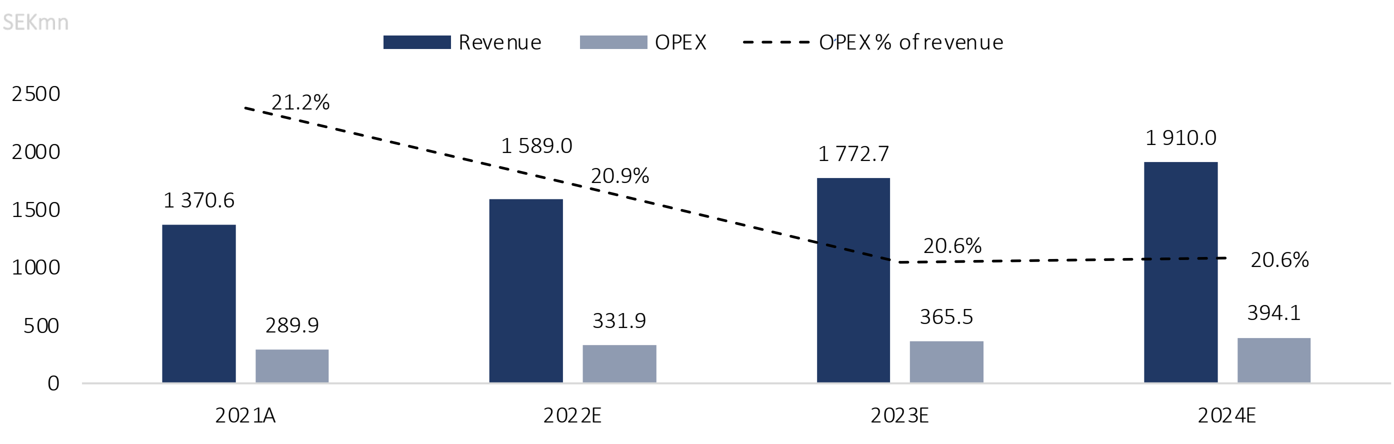


Source: Analyst estimates

Decreasing OPEX as a % of revenue provides great profitability

The personnel and external costs are projected to amount to SEK 394.1mn by 2024E, which amounts to 20.6% of revenue. This estimate can be compared to 2021A, when it amounted to 21.2% of revenue. The decrease is attributable to decreasing external and personnel costs as a % of revenue due to scalability. The scalability in the business has historically decreased the OPEX from 29.0% of revenue in 2018A. The decreasing OPEX is one of the reasons behind the estimated margin expansion, where the EBITDA margin is expected to increase from 10.0% to 11.1% between 2021A and 2024E. As a result, an EBITDA CAGR of 11.5% is estimated during the same period, with the EBITDA set to increase from SEK 137.6mn in 2021A to SEK 211.1mn in 2024E.

Decreasing OPEX as a % of revenue from 21.2% in 2021A to 20.6% in 2024E



Source: Analyst estimates

Little need for investments despite expansion keeps D&A at a low level

EBIT is also estimated to increase, but even steeper from SEK 116.0mn in 2021A to SEK 188.2mn in 2024E. As a result, the EBIT margin will increase from 8.5% in 2021A to 9.9% in 2024E. One reason for the margin expansion is a limited need for new investments in non-current assets compared to revenue. Even though the Company is expanding aggressively, the significant investments needed by the Company are made up of current assets, which to a high degree consist of inventory in order to be able to provide the products over large parts of the world. Because of this, the D&A is projected to amount to SEK 23.0mn in 2024E, which only corresponds to 1.2% of revenue, a decrease from the 1.6% of the revenue the D&A amounted to 2021A.

Valuation

Zinzino is estimated to be valued in line with peers

A peer valuation has been assembled where Zinzino is compared to four companies with similar business operations. The companies have been chosen because they have comparable market caps and margins compared to Zinzino today. Nature's Sunshine Products and Whole Earth Brands are also involved in the direct-selling business; however, they are based in North America. At the same time, Midsona and Raisio have operations surrounding the production and distribution of healthy food and dietary supplements in the Nordics. The target price will be derived from a future-looking EV/EBIT multiple in 2023E. An EV/EBIT multiple has been chosen since it considers the Company's capital structure. A significant variation in D&A also motivates the use of EBIT instead of EBITDA in the multiple.

	Market data		Valuation		Financial data	
Company name	Market Cap	Enterprise value	EV/EBIT 23E	EV/S 23E	EBIT margin 23E	Revenue CAGR 21-23E
	SEKmn	SEKmn	x	x	%	%
Raisio	3 513.1	2 978.9	13.0	1.1	8.7%	1.9%
Nature's Sunshine Products	2 264.8	1 859.0	6.7	0.4	6.0%	0.9%
Whole Earth Brands	2 819.6	7 048.3	10.5	1.2	11.8%	6.7%
Midsona	1 683.3	3 119.3	12.4	0.7	6.1%	5.0%
Average	**2 570.2**	**3 751.4**	**10.6**	**0.9**	**8.1%**	**3.6%**
Median	**2 542.2**	**3 049.1**	**11.4**	**0.9**	**7.4%**	**3.5%**
Zinzino	1 228.4	1 055.7	6.3	0.6	9.5%	13.7%
Discount(+)/Premium(-) to average			41.3%	27.0%	-17.0%	-278.4%
Discount(+)/Premium(-) to median			45.2%	31.8%	-29.0%	-296.7%

Sources: Analyst estimates, Bloomberg

Trading at a 41.3% discount compared to peers

Zinzino is currently trading at an EV/EBIT multiple of 10.1x. The estimated EV/EBIT multiple for 2023E is 6.3x, which is 41.3% lower than the average EV/EBIT multiple for peers. Two major differences are accounted for when setting the target multiple are the market cap and EBIT margin compared to peers. The market cap of Zinzino is currently at SEK 1 228.4mn compared to the peer average of SEK 2 570.2mn, while in 2023E, the estimated EBIT margin is 17.0% higher compared to the peer average. With the smaller market cap and estimated higher future EBIT margin taken into consideration, the 2023E target has been set at an EV/EBIT multiple in line with peers at 10.6x. The target EV/EBIT multiple indicate an upside of 70.3%.

Ongoing expansion and scalable business validate the upside

As personnel and external costs keep decreasing as a % of revenue, the EBIT margin will increase from 8.5% in 2021A to 9.5% in 2023E. Zinzino's estimated annual revenue growth of 13.7% until 2023E, which is motivated by extensive expansions in Europe and APAC, is also higher compared to the peer average of 3.6%. In Zinzino's target markets, which are estimated to grow annually by 6.3%, it is highlighted that smaller dietary supplement companies such as Zinzino's peers (SEK 3 513.1mn is the highest market cap) are estimated to have difficulties growing at the same pace as the market. Zinzino's estimated growth of 13.7% beats the market growth by 7.4 percentage points until 2023E, highlighting Zinzino's ability to grow rapidly as a small company, which motivates a higher valuation. This difference in CAGR for revenue until 2023E also underlines that Zinzino is a growth company while the peers are in a more mature phase, strengthening the thesis that Zinzino should not be trading at a 41.3% discount compared to peers. They should rather trade at a premium since they are a growth company. The valuation in line with peers is, however, more realistic. The margin expansion and growth motivate the 70.3% upside based on the EV/EBIT target multiple of 10.6x in 2023E.

Management and board

Dag Bergheim Pettersen, CEO

Pettersen has been CEO of Zinzino since 2012 and holds a master of Business Administration from the University of Oslo. Pettersen has comprehensive experience in strategic leadership and has previously held management positions at Elgiganten, Alcatel, and as senior vice president at TeliaSonera's subsidiary NetCom.

Ownership: 1 330 376 B shares (3.95% of capital) and 10 000 warrants

Hans Jacobsson, Chairman of the Board

Jacobsson has been a member of the board of directors since 2007 and has served as Chairman of the Board since 2009. Jacobsson has a Master of Business Administration and has vast experience in roles such as CEO of Rootfruit Scandinavia AB and investment manager in Investment AB Bure.

Ownership: 280 137 B shares (0.83% of capital)

Fredrik Nielsen, CFO

Nielsen is CFO at Zinzino and holds a Master of Business Administration. Nielsen has been employed at Zinzino since 2009. Past experience includes a role as CFO at Gymnasium Sportscenter AB.

Ownership: 58 000 B shares (0.17% of capital) and 10 000 warrants

Jakob Spijker, COO

Spijker has been with Zinzino since 2012, where he is working with business development and global logistics coordination. His background includes working with logistics in both the Netherlands and Sweden.

Ownership: 15 111 B shares (0.04% of capital) and 10 000 warrants

Gabriele Helmer, CMO

Helmer has been employed at Zinzino since 2019 and has previously been a board member. Apart from her role as CMO at Zinzino, she has held multiple marketing positions in companies such as Lufthansa, Specsavers, and General Mills; she also has experience in advertising.

Ownership: 36 000 B shares (0.11% of capital) and 10 000 warrants

Henrik Schultz, Product Manager

Schultz has been working with Zinzino since 2007 and most recently came from Libro Gruppen AB. Schultz holds a master of Business Administration and has previously in his career been working as CEO and sales & marketing chief.

Ownership: 74 490 B shares (0.22% of capital)

Appendix

Income Statement, SEKmn	2020A	2021A	2022E	2023E	2024E
Net revenue	1 074.4	1 288.6	1 471.0	1 641.0	1 768.2
Work performed for own account	0.5	1.5	2.9	3.2	3.5
Other operating income	63.7	80.5	115.1	128.4	138.4
Revenue	**1 138.6**	**1 370.6**	**1 589.0**	**1 772.7**	**1 910.0**
COGS	-790.1	-943.1	-1 104.7	-1 217.0	-1 304.8
Gross profit	**348.6**	**427.5**	**484.3**	**555.6**	**605.2**
Gross margin	*30.6%*	*31.2%*	*30.5%*	*31.3%*	*31.7%*
Other external costs	-134.9	-154.2	-185.5	-202.5	-213.4
Personnel costs	-105.1	-135.7	-146.4	-163.0	-180.7
EBITDA	**108.5**	**137.6**	**152.4**	**190.2**	**211.1**
EBITDA margin	*9.5%*	*10.0%*	*9.6%*	*10.7%*	*11.1%*
D&A	-22.0	-21.6	-19.1	-21.3	-23.0
EBIT	**86.6**	**116.0**	**133.3**	**168.9**	**188.2**
EBIT margin	*7.6%*	*8.5%*	*8.4%*	*9.5%*	*9.9%*
Net financial items	-1.6	-1.0	-1.4	-1.6	-1.7
EBT	**85.0**	**114.9**	**131.9**	**167.2**	**186.4**
EBT margin	*7.5%*	*8.4%*	*8.3%*	*9.4%*	*9.8%*
Tax expense	-18.7	-25.2	-27.2	-34.5	-38.4
Net income	**66.3**	**89.7**	**104.7**	**132.8**	**148.0**
Net margin	*5.8%*	*6.5%*	*6.6%*	*7.5%*	*7.7%*

Disclaimer

Disclaimer

These analyses, documents and any other information originating from LINC Research & Analysis (Henceforth "LINC R&A") are created for information purposes only, for general dissipation and are not intended to be advisory. The information in the analysis is based on sources, data and persons which LINC R&A believes to be reliable. LINC R&A can never guarantee the accuracy of the information. The forward-looking information found in this analysis are based on assumptions about the future, and are therefore uncertain by nature and using information found in the analysis should therefore be done with care. Furthermore, LINC R&A can never guarantee that the projections and forward-looking statements will be fulfilled to any extent. This means that any investment decisions based on information from LINC R&A, any employee or person related to LINC R&A are to be regarded to be made independently by the investor. These analyses, documents and any other information derived from LINC R&A is intended to be one of several tools involved in investment decisions regarding all forms of investments regardless of the type of investment involved. Investors are urged to supplement with additional relevant data and information, as well as consulting a financial adviser prior to any investment decision. LINC R&A disclaims all liability for any loss or damage of any kind that may be based on the use of analyzes, documents and any other information derived from LINC R&A.

Conflicts of interest and impartiality

To ensure LINC R&A's independence, LINC R&A has established compliance rules for analysts. In addition, all analysts have signed an agreement in which they are required to report any and all conflicts of interest. These terms have been designed to ensure that *COMMISSION DELEGATED REGULATION (EU) 2016/958 of 9 March 2016, supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest.*

Other

This analysis is copyright protected by law © BÖRSGRUPPEN VID LUNDS UNIVERSITET (1991-2022). Sharing, dissemination or equivalent action to a third party is permitted provided that the analysis is shared unchanged.