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Private Equity Challenge: Project Tundra – Valuation

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Abstract

Project Tundra investigates the LBO of Husqvarna Group, a renowned manufacturer of outdoor equipment and construction tools. The company is positioned to benefit from high growth as a result of its fundamental focus on robotics and autonomous solutions. The LBO encompasses a strategic shift from the phase-out of petrol products, in combination with changing market dynamics, to meet a new customer demand related to sustainability and environmentally friendly solutions. The projections in this report suggest the LBO of Husqvarna to yield a Multiple on Invested Capital of 3.1x and an IRR of 25.1% over a five-year holding period.

Keywords: Private Equity, Leveraged Buyout, LBO, Value Creation, Investment Committee Paper, Private Equity Challenge, Husqvarna, Industrials, Project Tundra, Valuation

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Section I – Group Analysis

1.1 Company Overview

Husqvarna Group is a Swedish manufacturer and world-leading provider of innovative outdoor power products and equipment for forestry, gardening, and light construction. Founded in 1689 as a firearms manufacturer, it is one of the oldest continuously running companies in the world. The company is headquartered in Stockholm, Sweden, and its products are available in more than 100 countries. It is dedicated to innovation and sustainability and has reduced its carbon emissions by 40% since 2015. Husqvarna has over 14,000 employees worldwide, more than 3,350 patents, and net sales amounting to SEK 54.0bn (EUR 4.6bn) in 2022.

Husqvarna Group is subsequently organized into three divisions, Forest & Garden (F&G), Gardena, and Construction, and two core brands, Husqvarna and Gardena. F&G specializes in products for residential and commercial forestry, tree care, and landscaping. Contributing with almost 60% to total net sales, F&G is the largest division. Its core brand, Husqvarna, is the world's leading producer of robotic lawn mowers. With over 25,000 independent dealers worldwide, the brand ensures broad accessibility. The product portfolio extends to regional brands like Zenoah in Japan and RedMax in North America. Gardena is recognized as Europe's leading watering brand and is represented in over 80 countries, providing an extensive product range from watering systems to lawn mowers and garden tools. The division is a key player in the residential home and garden industry and includes brands like Orbit and Flymo. It represents roughly 25% of total net sales and is the second largest division. Husqvarna's third division, Construction, serves professionals in the light construction and natural stone processing industries. With a focus on innovation, the division offers a wide range of equipment, diamond tools, and services. Sales occur through various channels, including construction dealers, retailers, rental companies, and direct sales. Brands like

Diamonds Tool Supply, HTC, and Heger are integral parts of this division, providing essential support for professionals working with hard materials like concrete and stone. Overall, the group sells its products worldwide through dealers (~40%), retailers (~50%), and direct customers (~10%). Husqvarna's sales, predominantly from forest and garden products, follow a seasonal pattern with peak demand during spring and summer, mainly in the second quarter. While forestry product demand rises in the second half of the year, the sales of construction equipment remain stable and evenly distributed. The company's business model revolves around robust R&D activities, driving innovation in response to customer demands. As the global leader in robotic lawn mowers, the company's strategic R&D investments, averaging 4% since 2019, surpasses industry peers', positioning it to capitalize on market opportunities and maintain competitiveness. M&A has also played a pivotal role, contributing significantly to the company's net sales growth, with half of the overall growth in 2022. With a commitment to transitioning to battery-powered products, Husqvarna aims to increase its share of electrified products from 38% in 2021 to 67% by 2026, reflecting a proactive approach to industry shifts.

1.2 Historical Financial Analysis

Over the past five years, Husqvarna Group has consistently delivered a robust financial performance, with net sales showing a stable 6.5% Compound Annual Growth Rate (CAGR) from 2018 to 2022. Despite this positive trajectory, the year 2022 brought significant challenges due to global supply chain disruptions, which had a remarkable negative impact on its Net Working Capital (NWC). These disruptions resulted in critical component shortages and a substantial 37% surge in inventory levels. Despite the adverse conditions, Husqvarna managed to maintain a strong EBITDA growth, exhibiting an impressive 12.4% CAGR during the same five-year period. This resilience was partly attributed to the company's strategic focus on M&A, particularly in the construction division, which contributed significantly to overall sales growth.

1.3 Market Overview

With significant growth potential, Husqvarna operates in markets with a combined market value of over USD 203bn, especially in important sub-segments like robotic lawn mowers, smart irrigation systems, and battery-powered products. Particularly in the shift from manual and petrol-powered products to automated and battery-powered solutions, the company caters to the increasing customer demands for sustainability and is well-positioned to profit from this trend. The Gardena and Orbit brands have the tools to hold their dominant market shares, specifically in the smart irrigation market. About 85% of the global market value is accounted for by North America and Europe combined, with challenges in other regions arising from different climates, distinct gardening habits, and lower purchasing power. By leading the charge to replace conventional commercial lawn care equipment with robotic models – such as CEORA, which especially targets the U.S. market and takes on local incumbents – Husqvarna hopes to capture a market opportunity that is estimated at SEK 65bn. The introduction of new ecologically friendly products, providing climate advantages, lowering CO2 emissions, and electrification for a low-carbon economy are some of the key trends driving this sector. The company's shift to service-based business models increases client value and creates a steady source of income, while cyclicity is reduced by concentrating on infrastructure, repair, and refurbishment projects. Constant R&D expenditures enable the company to take the lead in implementing cutting-edge technology and adjusting to changing legal requirements, bolstering the business's dedication to electrification and sustainability. Its competitive position is characterized by growth-oriented strategic advantages. Top competitors include Stanley Black & Decker, John Deere, Toro, STIGA, STIHL, Kaercher, and Fiskars. Husqvarna is focused on improving market penetration and product line diversification, despite a lower net sales CAGR. Strong operational efficiency is reflected in the company's steadily rising EBIT margin, enhancing its market edge. Simultaneously, there is room for improvement in profitability,

when compared to competitors like Toro and John Deere, which makes Husqvarna a desirable target for private equity. The company's performance is not as strong as that of its Nordic peers in the Industrials sector, but it is nevertheless in a strong position to benefit from emerging trends such as electrification and autonomous solutions.

1.4 Investment Strategy

The three substantially different divisions showcase the need for a multifaceted strategy to achieve long-term profitability. The plan involves leveraging the company's current strengths in combination with favorably changing market dynamics. The investment strategy has a keen focus on sustainability, market penetration, and operational efficiency, while navigating through the challenges of geographical expansion. At the forefront of Project Tundra's growth trajectory is the robotics segment, particularly with the CEORA line, which presents a strategic advantage in the professional turf care market. To capitalize on these opportunities, a major focus market will be the U.S., which is one of the largest markets in the world, but also one of the hardest to break into. To compete with large U.S. key players Husqvarna will need local expertise and tailored experience at hand. The strategy therefore encompasses a strategic shift in management, with Blake Grams replacing Mr. Winberg, which is pivotal for the U.S. expansion. Mr. Grams brings extensive experience and industry expertise from his +20 years at Toro, a U.S. based company and one of Husqvarna's main competitors. Mr. Grams will accelerate execution and penetration in the U.S. by leveraging his industry network. To further enhance value creation, the strategy includes a series of four bolt-on acquisitions, some of which are specifically targeting the U.S. market. The buy and build strategy is not solely for the purpose of geographical reach, but also for achieving margin improvement and reducing revenue seasonality, which is a current weakness of the company. Each of the four acquisitions brings unique strengths, from Brokk's dominance in the remote demolition market to

TechnoAlpin's pioneering efforts in sustainable snowmaking. Brokk and Ehwa will be additions to the Construction division, as they will extend current product lines so that the division can offer customers a complete range of tools for any light construction work. TechnoAlpin and Douglas Dynamics will further expand Husqvarna's products into snow equipment and will become an integral part of the F&G division. As the main sources of revenue for the latter two companies stem from the winter season and colder weather, their quarterly net sales will partly balance out Husqvarna's current seasonality. The strategy therefore reduces the need for expensive short-term debt during the second half of the year. Lastly, financial efficiency is another key focus of the strategy for Husqvarna. A pivotal move here is the change of product mix, favoring higher-margin robotic products. This shift towards sustainable products and their underlying drivers is further discussed in the next chapter.

1.5 ESG Strategy

The Environmental, Social, and Governance (ESG) strategy is a cornerstone of Project Tundra's investment strategy as it seeks to highlight factors that are believed to be intrinsically important for future business operations and long-term sustainable growth. Strong emphasis is put on accelerating the phase-out of legacy petrol products, which will increase focus on electrified robotic products with lower CO₂ emissions that are expected to see high growth in the next five to seven years considering new legislations and changing consumer behavior. However, as legacy petrol products will be phased out, top-line development will be affected negatively. Conversely, as the shift in product mix will lead to margin improvement, bottom-line development will experience a positive upward trend. As shown with CEORA, robotic products can lead to significant cost-savings for the end-user, thereby increasing the willingness to pay a higher price for these products. The benefits of having a fundamental ESG strategy also stretch

beyond those of the products themselves. With the company's strong track record of sustainability focus, the acquisition of Husqvarna is designed to be partly financed by a Sustainability Linked Loan (SLL). The SLL will be related to a performance objective, more specifically the phase-out of legacy petrol products. If the objective of decreasing legacy petrol product sales to less than 6% of total Group sales is achieved, the firm will get a discount of 15 bps on the margin for this specific facility. Contrary, the company must pay a premium of 15 bps if the objective is not achieved. This strategy utilizes the debt structure as a leverage tool, aligning financial incentives with operational objectives, while also proving to its Limited Partners (LP) and stakeholders that they are truly committed to the ESG targets. In a world characterized by dynamic shifts in societal values, Husqvarna is positioned to take advantage of global growth trends in autonomous solutions and electrification. Historically, Husqvarna has been able to reduce its CO2 emissions by 32%, while simultaneously increasing net sales by 49%. Their electrified products can reduce the product life-cycle CO2 emissions by more than 80%, compared to traditional petrol products. These strategic aspects might also allow Project Tundra to benefit from an ESG premium at exit. In precedent research, suggestive evidence is found that companies in the Industrials sector with a higher ESG score trade at a higher multiple. The multiple becomes even higher when there are constant improvements over time, which is the vision of Husqvarna during the five-year holding period. Consequently, buyers might be willing to pay a premium at the exit, boosting returns favorably.

1.6 Business Plan

Project Tundra outlines a comprehensive business plan for Husqvarna, emphasizing a robust growth strategy driven by both organic and inorganic components. Positioned for long-term success, the plan centers on technological innovation, market expansion, and operational efficiency. Husqvarna's top-line growth strategy integrates organic and inorganic initiatives,

leveraging growth-oriented advantages for product line diversification and market penetration. Forecasts indicate organic sales rising from SEK 53.6bn in 2023 to SEK 75.9bn in 2028, with inorganic sales contributing with an additional SEK 17.6bn. Key drivers include product robotization, the CEORA platform, and smart watering products, with acquisitions targeting market share, expanded product lines, and cross-selling opportunities. A detailed financial outlook, presented in Table 1 an Appendix, underscores the strategic initiatives contributing to top-line projections. The bottom-line forecast reflects a strategic shift from petrol-powered to battery-powered products and robotics, resulting in margin improvements across the divisions. Project Tundra anticipates a 1% yearly decrease in COGS for the F&G division, aligning with the focus on higher-margin products. Gardena and Construction divisions envision gradual declines in COGS, supported by a commitment to growing robotic sales and operational efficiency. Bolt-on acquisitions are expected to yield margin improvements, driven by cost synergies within the Husqvarna ecosystem. A cost breakdown is displayed in Table 2 in the Appendix. Accordingly, Project Tundra projects an organic EBITDA of SEK 13.5bn, complemented by an inorganic EBITDA of SEK 3.2bn at exit in 2028. The total EBITDA for the same period is projected at SEK 13.5bn, reflecting a CAGR of 15%, and a margin improvement from 13% in 2023 to 18% in 2028. The effective management of inventory and supply chains transforms strong EBITDA growth into solid cash flows. The NWC forecast, driven by inventory optimization, indicates a commitment to operational efficiency. The forecasted EBITDA growth at 17% CAGR is supported by a strategic shift from petrol products to robotics and battery products, organic growth, and bolt-on acquisitions. The maintenance CapEx focuses on investments in robotics, particularly the CEORA products, and extending the Construction division's product line-up on the PACE battery platform.

1.7 Valuation

Husqvarna is valued at an EV/EBITDA multiple of 11.2x, yielding an Enterprise Value (EV) of SEK 80.5bn (EUR 6.8bn). The multiple is calculated by applying different weights to the median EV/EBITDA multiples, which are derived from the valuation methods outlined in Table 3. As observed in the table, the weights are higher for the Comparable Companies (CCA) and Comparable Transactions (CTA) of the F&G and Gardena segments, given that they collectively represent 85% of the total net sales in 2022, and lower for the trading comparables and precedent transactions of its Nordic peers, since they align more with geography rather than business model, products, and industries. The Discounted Cash Flow (DCF) analysis employs two approaches using a Weighted Average Cost of Capital (WACC) of 9.01%, which is shown in Table 4. The first approach calculates the terminal value using the Gordon-Growth Model (GGM), while the second approach applies an EV/EBITDA exit multiple of 11.2x to the 2028 exit EBITDA. The first approach uses a 1.63% terminal growth rate from average forecasted real GDP growth in Europe, North America, and the rest of the world. This results in EV estimates of SEK 118bn for the GGM and SEK 144bn for the exit multiple analysis. In the CTA and CCA, multiple sectors are assessed, including forest and garden equipment, light construction equipment, and Nordic Industrial transactions, due to Husqvarna's unique market position having no direct peer to compare it to. The median EV/NTM EBITDA multiples range from 7.2x to 13.1x, with corresponding median EV figures between SEK 51.8bn and SEK 93.8bn. The Dividend Discount Model (DDM) considers an annual average dividend of SEK 1.92 and a consistent 7.2% growth rate from 2007 to 2023, estimating an EV of SEK 61.2bn. The Sum of the Parts (SOTP) analysis evaluates each segment by averaging the medians from both the CCA and CTA for the F&G and Construction divisions. This results in a median EV of SEK 73.2bn, with valuations of SEK 41.7bn for F&G, SEK 17.5bn for Gardena, and SEK 14.0bn for Construction.

1.8 Capital Structure

Husqvarna's capital structure pre-acquisition consists of 75.4% equity and 24.6% debt, reflecting a market capitalization of SEK 47.2bn and net debt of SEK 15.4bn. Opting for the optimal debt structure 1 as detailed in Table 5, which offers higher returns while maintaining a manageable 5.7x leverage ratio, the proposed Leveraged Buyout (LBO) involves an equity investment of SEK 65.0bn. This transition reshapes the post-acquisition capital structure to 46.2% debt and 53.8% equity, corresponding to SEK 40.8bn in debt and SEK 47.4bn in equity as seen in Table 6. The financing structure primarily relies on a 6.4x shareholder loan of SEK 45.6bn, featuring a 9% PIK interest element, and ordinary equity accounting for 0.3x, which includes sweet equity for Management amounting to SEK 90m. The debt structure encompasses Senior debt, representing 4.2x, and subordinated debt in the form of mezzanine debt amounting to 1.5x. The senior debt is divided into three tranches: Term Loan A (TLA), Term Loan B (TLB), and the SLL, with variable interest rates ranging from 3.0% to 6.5% based on leverage development. TLA is amortized and has a term of 6 years at a variable rate, while TLB and SLL feature a bullet repayment having a term of 7 and 8 years respectively. The mezzanine debt includes a fixed interest rate with a partial payment structure involving accrued interest and cash disbursements. Transaction expenses, comprising refinancing costs, M&A advisory fees, due diligence fees, and arrangement fees, amount to 7.9% of the total EV.

1.9 Value Creation and Returns

The Investment Case is estimated to generate an attractive MOIC of 3.1x and an IRR of 25.1%, while the Bank Case and the Management Case are expected to generate a MOIC of 2.5x and 3.7x and an IRR of 19.8% and 29.6% at exit, respectively. Assuming no multiple expansion with an entry and exit multiple of 11.2x EBITDA 2023, the estimated EV at exit amounts to

SEK 187bn (EUR 15.9bn), of which SEK 33.1bn in net debt. After deducting advisory fees for the exit of 3% of EV, the investment generates an equity value at exit of SEK 149bn (EUR 12.7bn), of which ordinary shares account for SEK 78.5bn. Management receives a 5% stake in the ordinary shares amounting to SEK 3.9bn, implying a MOIC of 43.6x. Additionally, a scenario analysis is conducted that tests the returns and covenants in the case of (i) no M&A, (ii) an increase of +300bps on Euribor, and (iii) multiple contraction at exit of 9.0x vs. 11.2x. In any of these possible, yet unlikely, scenarios the returns at exit are still attractive at 2.7x, 2.9x, and 2.3x MOIC, while no covenant is breached during the holding period. In this regard, several risk mitigation strategies are determined to reduce the potential risks of these scenarios.

Most of the 3.06x value creation for Project Tundra is expected to be achieved through revenue growth (1.14x), followed by an increase in EBITDA margin from 13.3% in 2023 to 17.8% in 2028 due to economies of scale, pricing power, as well as costs, production and sourcing synergy effects arising from M&A (0.90x) and inorganic EBITDA from the bolt-on acquisitions (0.69x). Furthermore, bolt-on multiple expansion generates SEK 9.6bn in value (0.18x) arising from acquiring these four bolt-ons at a lower entry multiple, between 7.8x-8.2x, than the exit multiple of 11.2x. Lastly, cash generation and deleveraging contribute 0.15x to total value creation of SEK 160bn.

1.10 Exit Strategy

The exit strategy of Project Tundra is complex and requires a detailed plan to maximize shareholder value in a timely manner. In the case of Husqvarna, there is mainly a size constraint, considering that the company at exit has an estimated EV of SEK 187bn (EUR 15.9bn), which significantly lowers the pool of potential buyers. Additionally, the company consists of three fundamentally different divisions in separate industries. Four main exit routes have been

explored, all of which are characterized by benefits and drawbacks. First and foremost, the most likely exit strategy is a sale in parts, in which the Construction division would be separated from F&G and Gardena, and spin-off the two entities to different strategic buyers. If needed, F&G and Gardena could also be further separated, thereby selling off the three divisions separately. As the EV of each of the newly formed entities would be lower than the EV of the company as a single entity, it would enable a larger group of acquirers to take part in a bidding process. However, a sale in parts approach could also result in a complex and time-consuming process with higher costs due to multiple selling processes. Additionally, the estimated valuation of the sale in parts at exit would most likely yield a higher valuation than the company as a whole, as a premium of 1.6x on top of the exit multiple of 11.2x would be included for F&G and Gardena, in line with the 75th percentile of average CCA and CTA, that represents the brand name, strong reputation, and a leading position of both divisions in their respective markets. However, a premium is not estimated for the Construction division, as the main focus lies on gardening. The MOIC for a potential sale in parts is projected to be 3.5x at exit, compared to 3.1x if the company were to be sold as a single entity. Furthermore, taking liquidity into perspective, an IPO is a plausible exit option for a company of Husqvarna's size, especially in an American stock exchange such as the NYSE. Lastly, the fourth option would be a secondary buyout from another private equity firm. Although this industry is not characterized by a high PE activity, a sale to a financial sponsor implies a faster and more efficient sale compared to selling to a strategic buyer or going public, it will likely yield a lower purchase price. Project Tundra deems the best course of action to be an IPO and M&A dual track process, as that maximizes the chance of a high-yielding exit, while lowering the risk of being unable to exit the investment. When examining the key strategic players in the market, there are five companies expected to show particularly strong interest in acquiring Husqvarna. The most notable potential buyer is Bosch, which has also publicly stated its interest in expanding into

markets where Husqvarna has a strong presence. For sale in parts, John Deere and Honda would be ideal buyers for F&G and Gardena, whereas Stanley Black & Decker and Hilti have more synergies to realize from the acquisition of the Construction division.

1.11 Key Risks and Due Diligence

Husqvarna's high seasonality of net sales poses a major challenge which is addressed by exploring snow equipment opportunities and shifting towards services. Historical low organic growth – excluding robotic lawn mowers – makes M&A an essential path to deliver attractive returns, which is supported by Husqvarna's successful track record of acquisitions in the last years. Additionally, to prevent external disruptions like the 2022 supply chain issues impacting sales and production, Husqvarna is reengineering products for broader compatibility, establishing direct supplier relationships, and building safety stock. Lastly, FX risks are managed by establishing local production facilities, maintaining resilience through multiple growth drivers, and hedging FX exposure with currency clauses in contracts.

Before finalizing the transaction, Tundra has identified four critical areas that require in-depth due diligence, namely commercial, financial, operational, and legal. In the commercial part, Project Tundra advises a thorough analysis of market trends and dynamics, specifically focusing on the North American and APAC regions, particularly in the robotic lawn mower, battery, and watering markets. Additionally, it suggests evaluating the strength of dealer and retailer relationships, reviewing contractual agreements, engaging with key stakeholders, as well as thorough due diligence on the bolt-on acquisitions. For financial due diligence, Project Tundra recommends a comprehensive assessment of financial reporting, including revenue recognition and division consolidation methods as well as conducting a fixed asset optimization appraisal to assess facility utilization rates, capacity for growth, maintenance practices, and the integration of new technology. In the operations area, Project Tundra advises an assessment of

inventory management efficiency, focusing on turnover ratios, supply chain robustness, quality control for inventory safety and reliability, as well as an evaluation of R&D capabilities. Lastly, for the legal area, the team recommends a comprehensive evaluation of intellectual property, contracts, and non-compete clauses, as well as a thorough ESG analysis.

1.12 Investment Thesis

Husqvarna inherits many traits that qualify it as a suitable candidate for an LBO, with the intention to transform the firm to a global leader in forest and gardening products and light construction equipment. These traits refer primarily to its position as a global market leader in its core markets, including robotic lawnmowers, consumer watering systems, as well as cutting equipment and diamond tools for the construction industry. This results in Husqvarna having a best-in-class brand name and reputation, together with an extensive distribution network and customer trust. Additionally, Husqvarna benefits from attractive market dynamics supported by positive tailwinds and further consolidation potential in fast-growing sustainable autonomous solutions, transitioning from petrol-powered products to low-battery and electrical products. Furthermore, Husqvarna showcases an attractive financial profile that enables several value creation levers. The firm's historic growth was accompanied by steady and predictable EBITDA growth achieved through an improved product mix and reduced exposure to low-margin petrol products, growing at 12.4% CAGR from 2018 to 2022. This is further supported by the attractive inorganic growth potential in snow removal and snowmaking segments that reduce the seasonality of cash flows, and the tangible opportunity in the professional use of autonomous solutions, such as CEORA for golf courses and sports fields. Lastly, Husqvarna benefits from a highly committed and incentivized management with over 50 years of combined industry experience and a solid track record of value creation, growing the firm's EBITDA from SEK 4.0bn in 2018 to SEK 6.4bn in 2022, an increase of c. 60%.

Section II – Individual Analysis

2.1 Introduction

“It’s far better to buy a wonderful company at a fair price, than a fair company at a wonderful price.” This famous quote by Warren Buffet highlights the importance of valuation. Corporate valuation, a critical aspect of financial analysis, stands at the forefront of investment decisions, corporate finance, and mergers and acquisitions. It involves analyzing all aspects of a business to determine its fair value, using various methodologies and assumptions. Providing a quantifiable measure of a company’s value is a fundamental component of valuation and is essential for stakeholders, investors, and management teams. The precise assessment of a corporation’s value is not just a financial necessity, but also a strategic instrument that facilitates decision-making, investment decisions, and understanding the market positioning of the business. This research paper explores various valuation methodologies and their applications in valuation (Schmidt, no date). These methods can be broadly categorized into three groups. First, the market-based valuation, which includes approaches like Comparable Company Analysis (CCA), and Comparable Transaction Analysis (CTA). This method of determining a company’s value relies on market perceptions and comparisons. Second, is the income-based valuation, which centers around the Discounted Cash Flow (DFC) analysis. The present value of expected future cash flows is calculated with this method, which also considers factors such as cost of capital and terminal value. Lastly, the asset-based valuation technique assesses a company based on its assets, emphasizing elements such as liquidation value, book value, and net asset value (NAV). Every one of these approaches offers distinct perspectives, involves various analytical frameworks, and has its benefits and limitations (Chen, 2023).

2.2 Financial Statement Analysis

Financial statement analysis is a critical component in the valuation process. It provides a comprehensive understanding of a company's past performance, current financial condition, and prospects. Financial statements include income statements, balance sheets, cash flow statements, and statements of shareholder's equity, which are used to assess a company's financial health, profitability, liquidity, and solvency (Alvarez and Fridson, 2022). Firstly, it is essential to analyze revenue and profitability. Analysis of revenue trends and profitability margins, including gross, operating, and net margins, provides insights into the company's market position and operational efficiency. These indicators support evaluating the company's revenue generation and cost management, both of which are vital components in determining its overall financial health and growth prospects. Secondly, the analysis of a company's balance sheets provides an additional perspective on its financial standing. Balance sheets help in assessing the capital structure and financial stability of the business by providing information on its assets, liabilities, and equity at a given point in time. The ability of a company to meet its short- and long-term obligations, manage its debt levels, and effectively use shareholder's equity is evaluated using metrics obtained from the balance sheets, such as current ratio, debt-to-equity ratio, and return on equity. Lastly, the cash flow statements hold a significant importance in the valuation process. In contrast to the income statements, which can be influenced by accounting policies and non-cash items, the cash flow statements show how a company generates and uses cash for financing, investing, and operating activities. Moreover, liquidity and solvency ratios, including the quick ratio and interest coverage ratio, are conventional metrics for examining the short-term financial health of a company. These ratios provide insights into a company's ability to meet its short-term financial obligation to service its debt. Efficiency ratios, such as inventory turnover and accounts receivable turnover, offer a view into how effectively a company is managing its resources and converting its assets into

revenue (Bloomenthal, 2023). Other key financial metrics used in valuation include price-to-earnings ratio (P/E), price-to-cash flow (P/CF), price-to-sales (P/S), enterprise value/EBITDA (EV/EBITDA), and price-to-book (P/B) (Elmerraji, 2022). Analyzing the financial statements and extracting the previously mentioned key metrics and ratios build the base for valuing a company and bridge the gap to various valuation methodologies, which are described in detail in subsequent chapters.

2.3 Valuation Approaches

The field of valuation is typified by a wide range of methodologies, each providing a distinct perspective for evaluating a company's value. These methods, which are based on different financial theories and market realities, provide analysts with tools to estimate a company's worth under various conditions and assumptions (Schmidt, no date). This chapter explores the main approaches to valuation, discussing their methodologies, strengths, and weaknesses.

2.3.1 Market-Based Valuation

The market-based approach is a method of valuation that estimates the value of a company, intangible asset, business ownership interest, or security by comparing it to the market values of similar companies or assets that are in operation or have recently sold. Price-related metrics including price-to-earnings, book values, and sales are typically employed (Hayes, 2023). It includes methods like Comparable Transactions Analysis (CTA), which looks at prices paid for comparable companies in recent transactions, and Comparable Company Analysis (CCA), which compares the subject company to publicly traded companies on measures like price-to-earnings ratio. Another aspect of this technique is the multiples approach, which assigns a company a value based on multiples, such as EBITDA multiples, obtained from similar

companies. The market-based approach's reliance on actual market data, which makes it highly relevant and timely, is one of the main advantages. However, its efficiency is dependent on the availability of comparable companies and transactions. Additionally, as market prices can be impacted by factors unrelated to a firm's fundamentals, this approach might not fully reflect the inherent value of a company (CFI, no date).

2.3.1.1 Comparable Company Analysis (CCA)

Comparable Company Analysis is a principal valuation methodology that is employed to assess the value of a given company by comparing its financial statistics with those of similar public companies. This method is a relative form of valuation as opposed to intrinsic approaches like Discounted Cash Flow (DCF) analysis. The core of performing a CCA includes selecting comparable companies for the target company. Based on a variety of financial indicators and ratios, such as the company name, industry, market capitalization, revenue, net income, EBITDA, EV, EV/EBITDA, EV/revenue, P/E ratio, P/B ratio, ROE, ROA, dividend per share, and yield, these companies are benchmarked against each other and the target. Valuation metrics used may vary by sector. The comparable companies' trading multiples are then computed, and this information is used to derive a valuation range for the target company. Applying the chosen multiples to the target's financial data yields this valuation range. The purpose of CCA is to represent a company's current valuation based on the conditions and sentiment of the market (Pearl and Rosenbaum, 2021).

2.3.1.2 Comparable Transactions Analysis (CTA)

Comparable Transactions Analysis (CTA) is closely related to CCA, except that historical valuation multiples from historical acquisitions or divestitures of similar companies instead of

trading multiples of similar listed companies. Similar to CCA, descriptive statistics, such as mean, median, and range of valuation multiples are analyzed to estimate or evaluate a company's value. Unlike CCA, the valuation multiples in CTA include takeover premiums, because they reflect historical acquisitions (CFA Institute, 2022).

2.3.2 Income-Based Valuation

The income-based valuation approach focuses on a company's intrinsic value, primarily through the application of the Discounted Cash Flow (DCF) analysis (Gordon, 2023). It calculates the present value of the projected future cash flows for the company by discounting those cash flows with a discount rate that reflects the risk associated with those cash flows. This method includes predicting future cash flows, determining the appropriate discount rate, and calculating the terminal value of the company. The upside of this method is that it focuses on the fundamental earning capacity of the company, which makes it an effective instrument for long-term valuation. Its accuracy is, however, heavily reliant upon the preciseness of the cash flow forecasts and the selected discount rate, which leaves room for errors either from overly optimistic assumptions or poorly calculated risk assessments (Cervantes and O'Leary, 2023).

2.3.2.1 Discounted Cash Flow (DCF) Analysis

A financial analysis technique called Discounted Cash Flow (DCF) analysis is used to calculate a company's intrinsic value based on its projected cash flows. The DCF analysis entails forecasting future cash flows for a certain time frame and figuring out the appropriate discount rate to turn those cash flows into a present value (Damodaran, 2012). The unlevered cash flow (UFCF) represents the cash flows generated from a company's core operations, independent of its financing structure. This method focuses on the operational efficiency and cash generation

capability of the business, providing a basis for comparison across companies with varying capital structures and tax situations. The UFCF is calculated with a company's EBIT, which is adjusted for taxes. Depreciation and amortization are added back, while capital expenditures and changes in net working capital (NWC) are subtracted to calculate the UFCF of a company. These adjustments are necessary because depreciation and amortization are non-cash expenses that reduce net income but do not involve actual cash outflows., while capital expenditures and changes in NWC are cash-effective items that are not covered in the profit and loss statements of a company. The UFCF is usually forecasted for the following three to seven periods (Koller, Goedhart, and Wessels, 2015). Typically, the discount rate to calculate the cash flows' present value is determined by the cost of capital which can be very different based on the project, investment, or company being analyzed. The discount rate in DCF analysis is often the company's Weighted-Average Cost of Capital (WACC), which is explained in more detail below (Damodaran, 2012). The terminal value in DCF analysis represents the present value of all future cash flows beyond the forecast period, which can be calculated using two primary methods. The exit multiple method assumes the business is sold at the end of the forecast period for a multiple of a financial metric, such as EBITDA (Koller, Goedhart, and Wessels, 2015). Any DCF analysis must include sensitivity analysis to test its results. The most influential variables, the assumed terminal growth rate, cost of capital, and exit multiple, are selected and sensitized to evaluate their effect on the valuation of a company (Damodaran, 2012).

2.3.2.2 Cost of Capital

The WACC represents the average rate of return required by all of its security holders (equity and debt). It is calculated as a weighted average of the cost of equity and the cost of debt. The Capital Asset Pricing Model (CAPM), which connects a security's expected return to its risk to

the market as a whole, is commonly used to determine the cost of equity. The current yield on a company's outstanding debt, less the tax shelter provided by interest payments, is typically used to calculate the cost of debt (Brealey, Myers, and Allen, 2016).

2.3.3 Asset-Based Valuation

The asset-based valuation approach is a method that evaluates a company's value based on its assets. The NAV is a key measure in this approach, determining the fair market value of a company's assets, and subtracting its liabilities. This method can be further broken down into two parts: the book value and the fair value of a company's assets. The book value refers to the value of assets and liabilities as recorded in its financial statements, while the fair value represents an estimate of the asset's market value. There may be a large difference between these two figures, particularly when market values differ significantly from historical prices. Another essential component of asset-based valuation is the liquidation value, which estimates the amount that could be realized if all assets of a company were sold and liabilities settled. This value is especially important in situations like full company wind-downs or bankruptcy proceedings. Despite its clarity and simplicity, asset-based valuation has its limitations. It tends to focus predominantly on tangible assets, potentially undervaluing companies with significant intangible assets, such as brand value or intellectual property. Moreover, this method may not accurately reflect companies with high growth potential, as it does not typically consider future earnings or market conditions (Brealey, Myers, and Allen, 2016).

2.4 Factors Influencing Valuation

Valuation is a complex process that involves the determination of a company's value based on various factors. These factors can be broadly categorized into four groups: macroeconomic

factors, industry-specific factors, company-specific factors, and non-financial factors, such as corporate governance and management quality. Interest rates, inflation, and GDP growth are examples of macroeconomic factors that can have a big impact on valuation. For instance, a high inflation rate can lead to higher costs for a company, or a low-interest-rate environment can lead to higher borrowing costs, which can negatively impact its valuation. Industry-specific factors, including competition, market demand, and technology, also play a role. A highly competitive industry might result in a lower valuation. Company-specific factors, notably financial performance and growth prospects, are crucial, with stronger performance often leading to higher valuation. Additionally, non-financial factors such as corporate governance and management quality are significant, with stronger governance and management typically enhancing a company's valuation (Trustman and Keely, 2022).

2.5 Impact of ESG Factors on Valuation

Environmental, social, and governance, or ESG, factors are becoming increasingly relevant as significant elements in valuation. The integration of ESG factors into company valuations can bring many opportunities, but the results should always be closely examined (Rödl & Partner, 2023). The financial performance, reputation, risk profile, and ultimately the enterprise valuation of a company can all be impacted by ESG factors (KPMG, 2021). As a result, taking ESG considerations into account is becoming more and more crucial for investment strategies and business valuation. There is evidence of an “ESG value premium”, indicating that high ESG performance is rewarded by the market. A Deloitte study discovered that market value is typically higher for companies with higher ESG scores. The impact of ESG performance on market value was measured by evaluating changes in the EV/EBITDA multiple. The analysis supports the existence of an “ESG value premium”, and that valuation multiples may increase as a result of corporate investments and advancements in ESG practices within an organization

(Deloitte, no date). However, the subjective aspect of determining materiality and applying ESG-related adjustments to cash flows and discount rates might make it difficult to fully incorporate these factors into business valuation. Therefore, it is critical to consider the evolution of market and industry pressures from an ESG perspective in addition to a financial one and account for them in the cash flows and discount rate (KPMG, 2021). To account for ESG considerations in valuation under the market approach, comparable companies and industries are identified and assessed for their ESG practices, and the subject company's performance is evaluated against these criteria. The market inputs to the target company are then calibrated to reflect the relevant performance compared to the comparable companies. However, the fact that subject companies are usually private businesses and that ESG data, disclosures, and rating systems are still in the early stages, is a significant drawback of that approach. As a result, scoring would be subjective, with various practitioners possibly giving certain ESG factors and corporate practices different weights or scores (Deloitte, 2022). To incorporate ESG considerations in the valuation under the income-based approach, it is crucial to how ESG factors will affect the discount rate and cash flows. Adjustments to the discount rate, which reflect ESG risks, potentially increase WACC and cost of equity in the income-based valuation methods. When applying ESG modifications to cash flows and the discount rate, it is essential to avoid calculating risks and opportunities, which may already be implicitly reflected in the valuation, twice. For instance, factors justifying the inclusion of a size premium in the discount rate derivation may overlap with what are commonly considered ESG factors, such as weaker governance in smaller, private companies, concentrated shareholding, or non-existence of independent oversight from the board of directors (Deloitte, 2022). This can be accomplished by carefully weighing the possible subjective character of the evaluation of ESG-related modifications and presenting the adjustments in a variety of circumstances. By doing

this, management and investors can concentrate on the pertinent, significant ESG issues in the company and minimize confusion over the good or negative impact of ESG (KPMG, 2021).

2.6 Implications and Conclusion

Every valuation approach discussed in this paper provides distinctive perspectives and is appropriate for various kinds of companies and situations. Although the market approach offers a quick, market-sensitive valuation, it may not always accurately reflect a company's intrinsic value and is subject to market volatility. The income-based approach, while theoretically robust, relies on future forecast accuracy, which can be difficult to estimate. The asset-based approach is straightforward but may not fully account for companies with substantial intangible assets or growth prospects. In practice, analysts often combine these approaches, leveraging the respective information to find the most accurate and comprehensive valuations (Doran, 2023).

ESG considerations have a major impact on valuation. Prioritizing ESG elements can increase a company's valuation, as they can boost demand for shares, lower exposure to risk, and enhance revenue. On the other hand, ignoring ESG factors could result in bad press, loss of sales, and a minor valuation. As a result, it is critical to take ESG factors into account, for companies when developing their business plan and for analysts when valuing a business (Singh, 2022). In conclusion, accurate valuation has wide-ranging implications since it offers a strong basis for making informed decisions, improving business strategy, and optimizing shareholder value. Companies and investors must stay current with the newest valuation techniques and trends as the business landscape changes. Examples of these trends include the growing importance of ESG issues, the growing usage of technology, and the tendency towards valuing intangible assets.

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Appendix

Table 1: Net Sales Forecast

Net sales (SEK in millions)	2022A	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	CAGR '24-'30
Husqvarna Forest & Garden	32,082	32,342	33,537	45,465	48,919	52,740	56,968	61,647	66,828	11%
Robotics	5,574	6,354	7,291	8,366	9,601	11,017	12,642	14,506	16,646	15%
Petrol products	7,288	5,923	4,679	4,486	4,302	4,124	3,954	3,792	3,635	(7%)
Sales excluding robotics and petrol products	19,221	20,065	21,566	23,180	24,915	26,779	28,783	30,936	33,251	7%
Inorganic sales				9,432	10,102	10,820	11,589	12,413	13,296	
Gardena	13,606	12,774	13,855	15,030	16,306	17,693	19,201	20,840	22,623	9%
Robotics	1,113	1,224	1,373	1,541	1,729	1,940	2,176	2,442	2,740	12%
Sales excluding robotics	12,493	11,550	12,482	13,489	14,577	15,753	17,025	18,398	19,883	8%
Husqvarna Construction	8,232	8,390	8,883	9,405	15,006	16,048	17,177	18,401	19,732	13%
Construction (organic)	8,232	8,390	8,883	9,405	9,958	10,543	11,162	11,818	12,513	6%
Inorganic sales					5,049	5,505	6,014	6,583	7,219	
Group common	117	118	120	123	125	127	130	133	135	2%
Total organic sales	54,037	53,624	56,395	60,590	65,206	70,283	75,872	82,025	88,803	7%
Total inorganic sales				9,432	15,151	16,326	17,604	18,996	20,514	
Total net sales	54,037	53,624	56,395	70,022	80,357	86,609	93,476	101,021	109,317	11%
Growth, %	15%	(1%)	5%	21%	18%	8%	8%	8%	8%	
Organic growth, %			5%	7%	6%	6%	6%	6%	6%	
Inorganic growth, %				14%	11%	1%	1%	2%	2%	

Table 2: Expenses Forecast

Expenses (SEK in millions)	2022A	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	CAGR '24-'30
Total net sales	54,037	53,624	56,395	70,022	80,357	86,609	93,476	101,021	109,317	11%
Cost of goods sold	(39,424)	(37,425)	(39,180)	(47,210)	(54,886)	(58,568)	(62,586)	(66,972)	(71,762)	10%
Gross income	14,613	16,199	17,215	20,934	25,206	27,626	30,310	33,290	36,603	12%
Gross margin, %	27%	30%	31%	30%	31%	32%	32%	33%	33%	
SG&A	(11,771)	(12,525)	(11,771)	(13,655)	(15,576)	(16,712)	(17,956)	(19,319)	(20,813)	8%
Other operating income (expense)	201	24	110	(44)	(397)	(439)	(484)	(533)	(282)	
Restructuring costs				(195)	(198)	(99)				
EBITDA	6,385	7,152	9,169	11,017	13,364	14,916	16,663	18,524	20,927	17%
EBITDA margin, %	12%	13%	16%	16%	17%	17%	18%	18%	19%	
Organic EBITDA		7,152	9,169	9,821	10,838	12,076	13,471	14,939	16,900	13%
Inorganic EBITDA				1,196	2,526	2,840	3,191	3,585	4,027	
Items affecting comparability	1,810	1,077	-	195	198	99	-	-	-	
Adj. EBITDA	7,450	7,729	9,169	11,212	13,561	15,015	16,663	18,524	20,927	15%
Adj. EBITDA margin, %	14%	14%	16%	16%	17%	17%	18%	18%	19%	

Table 3: Summary of Valuation Methods

Valuation Method	Median	EV/EBITDAx	Weight	Weighted Multiple
CCA - Forest & Gardening	61,872	8.7x	15.0%	1.298x
CCA - Construction	93,807	13.1x	10.0%	1.312x
CCA - Nordic Industrial Peers	73,848	10.3x	5.0%	0.516x
CTA - Forest & Gardening	66,164	9.3x	15.0%	1.388x
CTA - Construction	51,834	7.2x	10.0%	0.725x
CTA - Nordic Industrial Peers	67,960	9.5x	5.0%	0.475x
DCF - Perpetuity Growth	117,852	16.5x	10.0%	1.648x
DCF - Exit Multiple	143,580	20.1x	10.0%	2.008x
DDM	61,234	8.6x	10.0%	0.856x
Sum of the Parts	73,226	10.2x	10.0%	1.024x
Implied acquisition multiple >>				11.2x
Total Entry value in SEKm >>				80,449.0

Table 4: Weighted Average Cost of Capital (WACC)

Capital Structure	
Market Value of Equity (SEKm)	47,234
Net Debt 2023 Q3	15,405
D/E ratio	32.6%
Implied E/EV	75.4%
Implied D/EV	24.6%
General Assumptions	
Risk free rate GER	2.6%
Swedish Corporate Tax rate	20.6%
Market Risk Premium	7.0%
Equity beta 3Y	1.21
Cost of Equity	
Cost of Equity	11.11%
Cost of Debt - Credit Spread	
Credit Spread S&P BBB rated	1.4%
Cost of Debt	4.1%
After-tax cost of debt	3.23%
WACC	9.01%

Table 5: Debt Financing Structure

	Structure 1	Structure 2	Structure 3	Structure 4	Financing fees (%)	Fee (SEK)
Cash-on-hand	0.0x	0.0x	0.0x	0.0x	0.0%	0.0
RCF	0.0x	0.0x	0.0x	0.0x	0.5%	20.0
CapEx Facility	0.0x	0.0x	0.0x	0.0x	0.5%	55.2
Senior debt						
Term Loan A	1.2x	2.0x	1.2x	2.0x	1.0%	85.8
Term Loan B	1.5x	1.0x	1.2x	1.0x	1.5%	160.9
SLL	1.5x	1.0x	1.5x	1.0x	2.0%	214.5
Subordinated debt						
Mezzanine	1.5x	1.0x	2.0x	1.5x	3.0%	321.8
Total debt	5.7x	5.0x	5.9x	5.5x	8.5%	
Total fees excl. RCF and Capex facility						783.1

Table 6: Financing Assumptions

	Leverage	Term		Repayment	Interest		Margin			Interest rate
		years	Nominal		Type	Margin (bps)	OOB (bps)	Floor (bps)	Cap (bps)	
Cash-on-hand	0.0x		0							
Senior debt										
Term Loan A	1.2x	6	8,582	Amortization	FLOAT	Leverage grid	450	300	600	
Term Loan B	1.5x	7	10,727	Bullet	FLOAT	Leverage grid	475	325	625	
SLL	1.5x	8	10,727	Bullet	FLOAT	Leverage grid	500	350	650	
Subordinated debt										
Mezzanine	1.5x	9	10,727	Bullet						
PIK element					FIXED					5.5%
Cash element					FIXED	450				8.4%
Total debt	5.7x									
Shareholder loan	6.4x	9	45,640							
PIK element										9.0%
Ordinary equity	0.3x		1,800							
Institutional equity	0.2x		1,710							
Sweet equity	0.0x		90							