

A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the
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Non-invasive orthopaedics leader turned medtech?!

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Abstract

The following paper represents an Equity Research report on Össur hf. The below section is the second part of a two-part series and focuses on the valuation of the company.

The aim of this part is to derive a final share price for the company while considering the takeaways from the market analysis conducted in part one of the Equity Research. Furthermore, the competitive landscape is analyzed to provide the best possible share price value.

Keywords: Equity Research, Valuation, Health Care, Medical Equipment

This report is part of the Össur Equity Research report (annexed) and should be read as an integral part of it.

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Valuation Assumptions

Financial Analysis and Forecast

▪ Covid-19 Balance Sheet Implications

Össur's financials, especially during the fiscal year of 2020 have been significantly impacted by the pandemic. The sector has suffered a major setback in elective surgeries which have been either postponed or cancelled. McKinsey has estimated a decrease of around 60-80% of elective surgeries in Europe and the USA during second quarter of 2020.¹²

On the balance sheet, the economic pressure of the pandemic can be tracked by a decrease in inventory by -16.7% (vs. FY19 +16.9%) as well as a negative working capital which indicates a momentary setback in Össur's capabilities to stay in line with the necessary financing. Historically, Össur's average sales outstanding period has always exceeded its average payable period, however, during the pandemic suppliers demanded faster payments (39 days in FY19 vs. 31 days in FY20), whereas Össur's sales outstanding period stayed constant (57 days in FY19 and FY20), resulting in a negative working capital. Normally, this would be of concern but given Össur's history and current initiatives to drive down its own sales outstanding period, Össur is expected to generate positive working capital as of FY22 (Table 3). The company's overall liquidity ratios confirm this observation. Össur's current ratio slightly declined by -7.7% to 2.12 in FY20 from 2.3 in FY19. Similarly, the quick ratio declined by 4.4 to 1.31 in FY20.

	2016A	2017A	2018A	2019A	2020A	2021A
Inventories	75,296	82,291	95,863	112,013	93,231	102,225
Accounts receivables	82,109	93,058	103,923	106,588	98,353	108,157
Prepaid Expenses	10,959	12,594	10,643	14,761	12,844	13,080
Accounts payables	(17,810)	(23,448)	(28,142)	(26,675)	(20,024)	(30,102)
Total	150,554	164,495	182,287	206,687	184,404	193,360
<i>Change WC</i>	<i>(21,937)</i>	<i>(13,941)</i>	<i>(17,792)</i>	<i>(24,400)</i>	<i>22,283</i>	<i>(8,956)</i>

Table 3 – Working capital items

Source: Company information, Analyst Research

Despite the temporary setback, Össur continued its aggressive acquisition driven policy which can be observed on the active side of the balance sheet as well. Goodwill increased by +5% due to impairment charges in FY17 resulting from the

¹² McKinsey Article: "Reimagining medtech for a COVID-19 world"

company's acquisition of Touch Bionics and TeamOImed. As Össur entered a new market of bionic arm prosthetics through the Touch Bionic purchase, an increase of 30% for intangible assets could be observed. Furthermore, Össur has acquired College Park Industries during FY19 which resulted in an overall Goodwill increase of +17.5% from FY19 to FY20, amounting to USD 612 m. Property, Plant and Equipment (PPE) decreased from FY19 to FY20 by -10.3% to USD 58.5 m due to the divestment of Gibaud and the corresponding loss of two production facilities across France. As of FY20, Össur operates in total seven production facilities. Overall, CapEx grew by roughly 67%. However, this high growth is somewhat diluted due to the implementation of IFRS-16. However, we expect mostly maintenance CapEx, therefore, no abnormal changes will be expected in the future.

For long-term liabilities, net-interest-bearing debt increased by almost 40% to USD 381 m due to acquisitions (Orthoway SAS and College Park Industries) in FY20. The company's shares buyback program was put temporarily on hold as the NIBD/EBITDA ratio was higher than the capital structure and dividend policy due to a lower EBITDA in FY20. The FY20 NIBD/EBITDA ratio was at 3.76x, much higher than the overall company's target range of 1.5x to 2.5x. Accordingly, Total-Debt-to-Equity was up +17.9%, since the total equity remained in line with the buy backs and total liabilities increased by 42%, resulting in a FY20 Equity-to-Debt Ratio of 62.13% (vs. 44.25% FY19). Furthermore, Össur prioritizes value-adding acquisitions while using excess cash to pay dividends or repurchase shares. Given the circumstances in 2020, the company's buyback was put on hold as of Q2 FY20 and resulted in only a purchase of 1,295,450 shares in FY20 (-72.9% vs. 4,784,631 in FY19). As sales in Q2 FY21 increased to an almost pre-pandemic scenario and due to the Gibaud divestment, the FY21 EBITDA increased, resulting in the resuming of the company's share buyback program and an NIBD/EBITDA ratio of 2.96x. For the forecasted period (FY22-33) the range between 1.5x to 2.5x will be retained. (Table 1 mit NIBD)

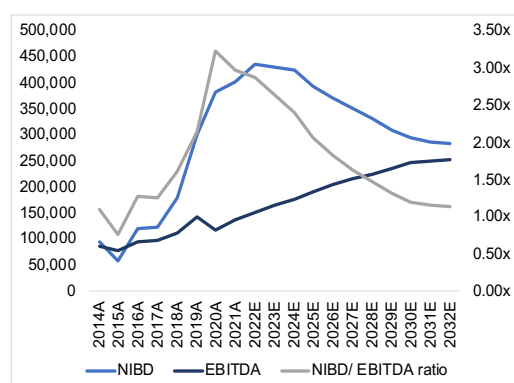


Figure 19 – NIBD/ EBITDA ratio

Source: Company information, Analyst Research

■ Acquisition Strategy

Össur started as a prosthetics manufacturer in 1971. As of 2021, the company is the second largest company globally in the non-invasive orthopedics market focusing on prosthetics, bracing and supports. Össur has experienced several milestones throughout its acquisition history. For instance, in 2003, the company entered the B&S market by acquiring Generation II and Century XXII. Furthermore, in 2016 Össur acquired Touch Bionics, ultimately entering the upper limb prosthetics market (Table 4).

Especially for the prosthetics sector, acquisitions have been the main sales growth contributors, as stated in Figure 20. For instance, during FY19 17% of the company's growth was contributed through acquisitions. Also, during the pandemic in FY20, inorganic growth related to the College Park acquisition and previous ones, compensated most of the negative impact of the overall demand decline as demonstrated in Figure 18. However, we believe that M&A activities will not be dominated the prosthetic landscape as the market is consolidated (Össur and Ottobock own >50% total market share). Another reason are regulatory risks related to anti-trust issues which arise from increasing consolidation. Both Össur and Ottobock have had acquisitions partly or fully denied by the US Federal Trade Commission (FTC) on anti-trust issues. For instance, in 2017, Ottobock acquired Freedom Innovations, a manufacturer of specialized prosthetic feet. The FTC filed a complaint regarding this integration. By the end of 2020, the FTC approved Ottobock's divestment of certain divisions to Proteor. Ottobock's hydraulic foot-ankle prosthesis "Kintrol K2", however, remains in the company's portfolio. Össur has also had experiences with anti-trust issues. The company acquired College Park Industries (CPI), a US prosthetic solutions manufacturer, in 2019. The acquisition was completed in June 2020 after a year of discussions with the FTC. The approval by the FTC was conditional on the divestment of CPI's elbow business. Regulators seem particularly hesitant about consolidation in the prosthetics market. This may be attributable to the fact that this market is already very concentrated with fewer players when compared to the B&S market. Considering the pressure from regulators to offer better products at lower prices in combination with the anti-trust issues, consolidation will be increasingly more difficult.

Furthermore, we do not believe that M&A activities will dominate the B&S segment. Össur operates in two product segments, low-to-mid and high end. Here, increasing sales is only through increasing volumes. The overall market as already mentioned is quite fragmented and acquiring smaller players, will not generated any cost or revenue synergies, resulting in a decrease of profitability

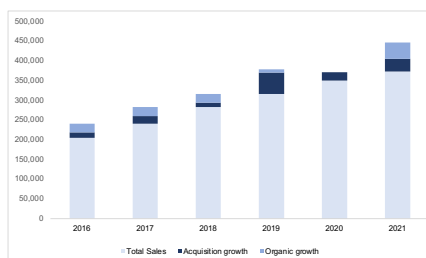


Figure 20 – Prosthetics sales growth

Note: 2020 sales decline due to Covid impact

Source: Company Information

margins. Also, the market experiences have been experiencing price pressure, all ultimately not setting a positive M&A environment.

Lastly, a recent trend among large players is vertical integration as already mentioned in previous sections. Össur started acquiring O&P clinics in FY13 and continued this trend during FY18 and FY19. Combined sales of all acquired O&P clinics in FY18 amounted to USD 70m in FY18, whereas combined sales in FY19 were USD 20. The reasoning behind this strategy, on one side, is that most B&S and prosthetic components are sold to O&P clinics. By acquiring O&P clinics, Össur can position its products better and many cost synergies related to overhead for instance can be generated. Overall, we believe that it takes approximately 4 years for Össur to fully integrate and restructure its O&P clinics. On the other side, due to the pandemic, we believe that FY22 will be an adjustment period where we do not expect to see any acquisitions. All in all, we believe that in FY24 and FY29, Össur will expand its O&P clinic coverage across the US and Canada.

Year	Target Name	Össur's Role	Country	Segment	Revenue (in USD m)	EBITDA
2021	Liberating Technologies	Seller	US	Prosthetics	n/a	n/a
2020	Orthoway	Buyer	France	B&S	n/a	n/a
2020	Gibaud	Seller	France	B&S	51	11.1
2019	College Park Industries	Buyer	US	Prosthetics	20	n/a
2019 ⁽¹⁾	Next Step (3 Clinics)	Buyer	US	O&P Clinic	20	n/a
2019 ⁽¹⁾	Virginia Prosthetics & Orthotics (7 Clinics)	Buyer	US	O&P Clinic		n/a
2019 ⁽¹⁾	O&P Clinic	Buyer	US	O&P Clinic		n/a
2018	Ortos	Buyer	Denmark	Prosthetics, B&S	n/a	n/a
2018 ⁽²⁾	Bulow O&P (2 Clinics)	Buyer	US	O&P Clinic		n/a
2018 ⁽²⁾	O&P Clinic	Buyer	US	O&P Clinic	70	n/a
2018 ⁽²⁾	O&P Clinic	Buyer	US	O&P Clinic		n/a
2018 ⁽²⁾	O&P Clinic	Buyer	US	O&P Clinic		n/a
2016	Medi Prosthetics	Buyer	Germany	Prosthetics	17	n/a
2016	Touch Bionics	Buyer	UK	Prosthetics	21	1.3
2013	Ausonius Medical	Buyer	Norway	O&P Clinic	21.1	1.7
2013	TeamOlmed Syd	Buyer	Sweden	O&P Clinic	54.5	2.2
2013	Ortopedia Correto	Buyer	Brazil	O&P Clinic	3.2	n/a
2011	Technology in Motion	Seller	UK	B&S	n/a	n/a
2010	Orthopaedic Partner Africa	Buyer	Africa	B&S	n/a	n/a
2009	Team Makena	Buyer	US	Prosthetics, B&S	n/a	n/a
2006	Gibaud	Buyer	France	B&S	50.5	10.6
2006	Innovation Sports	Buyer	US	B&S	n/a	n/a
2005	Innovative Medical Products	Buyer	UK	B&S	14	2.8
2005	Royce Medical Co	Buyer	US	B&S	68	17.7
2005	Advanced Prosthetic Components	Buyer	Australia	B&S	n/a	n/a
2004	Mauch	Seller	US	Prosthetics, B&S	n/a	n/a
2003	Generation II Orthotics	Buyer	Canada	B&S	20	n/a
2000	Century XXII Innovations	Buyer	US	B&S	10	n/a
2000	2 Swedish distributors	Buyer	Sweden	Prosthetics	9.7	n/a
2000	Flex-Foot	Buyer	US	Prosthetics	39.3	n/a

Note: (1) Combined sales of USD 20 m (2) Combined sales of USD 70 m

Table 4 – M&A History

Source: Company Information, Analyst Research

■ Historic Revenue Development

Overall, the company experienced organic and inorganic growth amounting to a CAGR of 6.42% between the period of FY16 and FY21. The sales split between the B&S and Prosthetics division has always been relatively balanced, however, in recent years a stronger development towards Prosthetics can be observed (59% of total sales in FY20 vs. 55% in FY19). We believe this development can mainly be attributed to two developments. Firstly, Össur has been increasingly

focused on driving bionic prosthetics sales. Bionics retail at much higher prices and the market is showing much higher growth in general. Moreover, we believe the acquisition of O&P clinics in 2013, 2018, and 2019 have contributed to the development. Össur does not report these revenues as a separate segment but distributes them to B&S and prosthetics according to their contribution to clinic service revenues. We believe that a higher portion of these revenues stem from prosthetics (see further explanations below). The prosthetics revenue contribution hit an all time high in 2020 with 59%. This can, firstly, be explained by the higher resilience of the prosthetics segment, more specifically mechanics, throughout the pandemic as these patients were often prioritized due to the higher severity of injury. Secondly, Össur divested its French B&S subsidiary Gibaud in Q3 of 2020, which is why 2HY20 revenues dropped as well. Hence, prosthetics revenues were fairly stable in 2020 (USD 372 m in FY20 vs. USD 378 m in FY19) whereas B&S revenues dropped much stronger (USD 257 m in FY20 vs. 308 m in FY19).

- **O&P Clinic Revenue**

As already mentioned, the company also provides patient care services through a number of acquired O&P clinics. We estimate these services to account for USD 213m, around 30% of Össur's total sales in FY21 (see Part 1). As cost structure and growth drivers differ for the O&P clinic segment, we introduced an additional segment to the valuation. To do this, we must determine how much of this revenue stems from clinic services related to B&S and prosthetics. In contrast to the two product segments, there is one public O&P clinic operator called Hanger, which is US-based and disclosed total sales amounting to USD 1,0021.2 m in FY20. 83.1% of these sales stemmed from patient care, resulting in a total amount of USD 831,603 m. Furthermore, according to analyst expectation, Hanger's FY21 sales should amount to USD 1,132 m and USD 1,195 m in FY22. The underlying CAGR (2019A-21E) is 2.9%. Given Hanger's size and market coverage, we assume a 1.5% growth rate for Össur's O&P clinics' sales development. Therefore, we estimate sales amounting to USD 213 m in FY22. Furthermore, Hanger disclosed that 56% of its total patient care sales in FY20 (+1% vs. FY19) stemmed from prosthetics, whereas 44% from B&S solutions. For FY19, Hanger's patient care revenue was 82.5% of total revenue, 55% of which were attributable to prosthetics. We see FY19 as more representative due to potential covid effects in 2020. Hence, we assume 55% of the estimated USD 213 m O&P clinic revenue for Össur to stem from prosthetics patients and the rest (45%) from B&S patients.

- **Covid-19 Implications on Prosthetics and B&S Revenue**

The demand for mechanical limbs since the pandemic started remained relatively resilient while bionics have declined in sales, possibly because they require more time for fitting and training which has been challenging in the pandemic environment. For the markets Össur generates most of its sales, the demand is vastly driven by servicing the existing amputee population with maintenance, renewals, and upgrades of their prosthesis. As already mentioned, prosthetic patients are often given high priority in clinics due to the fact that delays of e.g. surgeries, fittings, or trainings affect their mobility heavily. This makes the prosthetic market quite resilient to the pandemic by nature.

In contrast, Össur's B&S division suffered a decline in revenues from FY19 to FY20 of 17%, partly due to the Gibaud divestment but mostly due to the pandemic. According to Össur, the pandemic and the respective lockdown measures had a significant impact on amateur sports and activity levels that have resulted in fewer injuries. Moreover, Covid-19 has impacted volumes of elective surgeries, impacting the demand for post-operative bracing solutions negatively. A similar trend occurred with OA solutions as physician access was limited.

In its earnings call, Össur management highlighted that Q3 2021 sales normalized to pre-pandemic levels in organic terms and that they expect moderate effects of Covid-19 for the remainder of the year. Moreover, they believe sales to continue to normalize in 2022. Management expects some slight pent-up demand, demand which could not be fulfilled due to the pandemic, in the coming quarters. We think this statement mostly refers to prosthetics and post-operative products as these are the products linked to surgeries. Furthermore, Jon Sigurdsson, CEO of Össur, stated that long-term prospects and underlying fundamental drivers of the prosthetics and B&S market are not expected to change as a result of the pandemic. We believe Össur's fast financial recovery in 2021 is a proof of that. Hence, we assume a full recovery from the second half of 2022 onwards and a slightly higher demand for prosthetics, both bionic and mechanical, and post-operative bracing.

- **Prosthetics and B&S Revenue**

Össur estimates a market growth of 3-5% for both prosthetics and B&S. As established above, aging population is the main driver of growth for both segments. Current aging population growth is in line with these estimates. Össur's key markets North America, Europe, and East Asia & Pacific are growing at CAGRs of 2.94%, 1.67% and 3.42% for 2020-25E, respectively (Table 5). We will use these growth rates as a benchmark and account for other factors such as market share, regional mix, innovation, competitive environment etc. to establish the future sales development of both divisions.

Aging population	2020 - 2025 :xp. Regional Mix	2025-2030 :xp. Regional Mix	30-2035	Exp. Regional Mix		
East Asia & Pacific	3.42%	8%	3.53%	9%	3.59%	10%
European Union	1.67%	43%	1.65%	41%	1.43%	39%
North America	2.94%	49%	2.27%	50%	1.39%	51%
Growth %	2.43%	100%	2.13%	100%	1.63%	100%

Table 5 – Aging population by region

Source: Company Information, Analyst Research

In terms of regional mix, Össur relies heavily on the Americas region and Europe with sales contributions of 49% and 42% in FY20. In contrast, the APAC region only contributed with 9% to total sales in FY20. Looking at historical data, the Americas region has increasingly generated more revenue over time from 44% in FY15 to 49% in FY20. Most of this increase can be observed between 2018 to 2019. We believe this increase stems mostly from inorganic growth as Össur acquired in total seven undisclosed O&P clinic operators with a cumulative revenue of USD 90 m in 2018 to 2019. Moreover, Össur acquired College Park Industries in 2019 which generated total revenues of USD 22 m in that year. As mentioned, the drop in EMEA sales in 2020 can be explained by the Gibaud divestment. Gibaud contributed to a total revenue of USD 52.67 m in 2019 which needs to be accounted for in the forecasting periods.¹³ For the future, we expect Össur to continue acquisitions of O&P clinics in the US every four years (see section “Acquisition Strategy”). As the last O&P clinic acquisitions were conducted in 2019, the next ones should occur in 2024, followed by acquisitions in 2029. Hence, we expect US sales contribution to amount to 49% until 2025 and increase steadily from then onwards. We also expect slight increases in APAC sales as Össur invests heavily in the region. Össur also considers this market as rather underpenetrated in comparison to the US and Europe. We weighted aging population growth with our forecasted regional mix to compute base growth rates which we adjusted with other drivers for the respective divisions.

The B&S division has experienced stable growth throughout the past years with a divisional sales CAGR of 6.99% for FY16-FY21. We believe future growth will be driven by three factors. First and foremost, it will be driven as already mentioned by aging population. Secondly, some small growth can be expected by innovation, primarily from high-end solutions such as the company’s OA products and injury solution products like the Functional Healing line. These products not only retail at much higher prices but also differentiate Össur from most of its competitors and is much more difficult to replicate due to the innovative component. We expect that there is still some room for penetration, especially when it comes to OA solutions. This growth is estimated to amount to

¹³ Dun & Bradstreet Estimates

0.5% until 2024E and to 0.25% for the three following fiscal years. We expect no substantial growth from mid- to low-range injury solution products given the price pressure from regulators as well as competitors. Lastly, we expect as already mentioned some pent-up demand due to delayed surgeries for the first half of 2022 which we expect will contribute with a growth rate of 0.5% for the entire fiscal year.

The prosthetics division has experienced stable growth throughout the past years with a divisional sales CAGR 11.07% for FY15-FY20. We believe prosthetics revenue will be driven by four factors with the first factor being, as already mentioned, aging population growth weighted with our regional sales mix forecast. Another strong growth contributor is diabetes. Just like with the aging population numbers, we weighted the diabetes growth rates as implied by projections of the International Diabetes Federation with our expected regional mix. The resulting growth rates amount to 1.30% for the period 2022-30E and 0.75% for the rest of the forecasting period. Moreover, we also expect some pent-up demand in 2022 due to delayed surgeries amounting to 0.5%. Lastly, we expect strong growth stemming from innovation for Össur’s prosthetics segments. This is primarily driven by the room for technological innovation in the bionic space, for which a positive shift can be observed in the last years. Össur’s bionic sales have been in between 20-24% of total prosthetic sales historically. Due to a change in health insurance regulations regarding bionic solutions in developed countries, an increasing middle class in emerging markets and the possible market introduction of Össur’s myoelectric elbow, we estimate that bionic sales will account for 32% of total prosthetic sales by 2032 (Table 21).

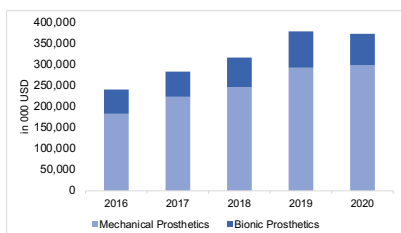


Figure 21 – Bionic/ mechanical prosthetics sales
 Source: Company Information, Analyst Research

▪ **Cost Structure**

Higher freight and raw material costs occurred in 2020, affecting the FY20 gross margin by -10.8% (vs. FY19 +13.4%). As a response, Össur reduced its overall manufacturing capacity temporarily. They will grow in line with sales recovery and are expected to be fully functioning by 2022. Furthermore, Össur introduced in 2017 a cost reduction initiative in the areas of manufacturing, distribution, and sourcing. According to management, the company saved already USD 10 m in FY20 (vs. USD 4 m in 2019) which can be observed in a reduced COGS development (+14.8% FY14-17 vs +11.4% FY17-20). Furthermore, we are expecting cost synergies resulting from the College Park acquisition and further O&P clinics acquisitions. For instance, the CAGR from FY16 to FY20 amounted to 5.5% and will add up to 3.02% within the forecasted periods. Sales & Marketing (S&M) costs declined by 2% and accounted for 36% of total sales in FY20 (vs. 34% in FY19). Overall, the company intends to spend less on traveling, marketing, and selling. Consequently, these saving measurements will increase

investments in market access in emerging markets and R&D of high-end product development innovations such as exoskeletons and the myoelectric elbow. However, we only expect a temporary rise of R&D costs but an overall decline in future periods. Costs will increase to 7% within FY22 and FY23 and decline to 5% according to management. On the contrary, General & Administrative (G&A) costs decreased by almost 14% and amounted to 12% of sales (vs. 11% of total sales in FY19). Due to Össur's highly acquisition driven business model, some extraordinary items related to acquisition and legal settlement expenses were included in the overall General & Administrative expenses. Therefore, we adjusted G&A, accounting now for 10% of sales in FY20 (64m USD adjusted vs. 78m USD reported in FY20). As Össur explores the acquisitions of other O&P clinics, the company will be able to profit from cost-cutting synergies related to overheads for instance. Overall, the company's CAGR from FY21 to FY33 will amount to 2.47% (vs. 4.65% FY16 to FY20).

Due to the pandemic, we observe a decline in the EBITDA margin to 16% in FY20 (vs. FY19 +20.6%) but we assume that given the large service pent-up demand that the EBITDA margin in FY21 partly recovers and reaches an overall EBITDA margin of 20.5-25.6% once the pandemic passes. Furthermore, given the divestment of Gibaud in FY20, we concluded that the reported EBITDA margin in FY19 of 21% did not accurately represent the company's profitability. Gibaud's sales were USD 51 m in FY19. Excluding Gibaud, Össur's total sales would have amounted to USD 636 m, resulting in a 23.4% margin. As the divestment was only fully completed in FY20, we estimate that the FY20 EBITDA margin is 2% lower than it should be. Hence, we conclude that the EBITDA margin will benefit from Gibaud's divestment, resulting in a margin of 23.5% in FY22 and 25% in FY23. However, we believe that those margins will be affected by the integration of lower-margin retailers such as O&P clinics. We estimate that the company's calculated EBITDA margin in the forecasted periods will be 1-2% lower than expected. According to Össur's management, the main cost drivers include COGS and G&A. Overall, COGS account for 29-54% of total O&P sales, whereas G&A contributes 40-51%. This results in an average profitability margin of 7% and for industry leaders EBITDA margins can generate up to 15%. Hanger, for instance, generated during FY20 an EBITDA margin of 11.5% and expects a margin of 11.2% in FY21 and 11.7% in FY22. Hence, we expect Össur to currently operate in the lower 7% segment and target a 9% margin by FY33. Overall, the generated EBITDA for O&P clinics amounts to USD 14.9 m in FY21 with an expected CAGR of 3.9% from FY21 to FY32.

Unfortunately, Össur does not provide a divisional profitability split, but we estimate Prosthetics to generate an EBITDA of 21-25%, while B&S generates 18-19%, respectively. Typically, Prosthetics benefit from higher margins due to its

higher-end product sales such as bionics, therefore, the higher EBITDA contribution. DJO, US-based B&S competitor, disclosed in 2017 its EBITDA margin to be 21.7%.¹⁴ DJO’s product portfolio also slightly varies from Össur’s and is 4x the size of Össur’s B&S division. Therefore, we assumed a slight lower EBITDA margin of 18-19% for Össur and a higher margin for its prosthetic segment. For instance, Össur’s strongest privately held competitor, Ottobock’s EBITDA margin amounted to 19% in FY19. As the competitor does not only sell prosthetic devices but as well wheelchairs and offers special treatment services, we conclude that the adjusted EBITDA margin for Ottobock’s prosthetics segment is slightly larger than 19% and in accordance with the estimate made for Össur of around 21-23%.

▪ Cash Flow Statement

Finally, the free cash flow (FCF) is impacted by the company’s overall aggressive acquisition history as already mentioned in the Balance Sheet section. As FY10 implemented IFRS-16 measurements, FY19 free cash flow from operations or in our case the core business free cash flow was diluted for making any comparisons possible. However, throughout the pandemic, Össur’s free cash flows from operations, financing and investing as well as the FCF remained stable. Overall, the company’s historical cash flow has been strong and stable, despite the pandemic.

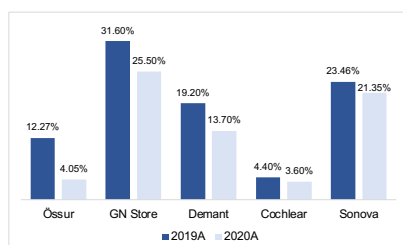


Figure 22 – Return on Equity (Össur vs. competitors)

Source: Company Information, Analyst Research

Unfortunately, Össur’s Return-on-Equity (ROE) offers an unfavourable comparison to its selected public peers (further explanations in Section “Comparable Companies Analysis”). Comparing Össur to its peers in FY20, the company was hit the strongest due to the pandemic. However, looking at FY19, Össur’s ROE improved but comparing to tis peers still underperforming.

Cost of Capital

To discount the expected future cash flows in the DCF valuation, the weighted average cost of capital (WACC) needs to be determined. The Capital Asset Pricing Model is used to calculate the return on equity, a key component of the WACC. As an estimation for the nominal risk-free rate, the 10-year US treasury as of December 3rd, 2021 (1.345%) was used. For the beta estimation, the monthly returns of the MSCI World (denominated in DKK) were regressed against Össur’s stock returns for a five-year time frame. The resulting beta amounts to 0.69 within a confidence interval from 0.30 and 1.08. Considering this rather large confidence interval, Össur’s beta needs to be compared against peers. However, since Össur’s main direct competitors are not publicly listed, the

Rolling Beta	
Period	Beta
2012 - 2016	0.64
2013 - 2017	0.67
2014 - 2018	0.66
2015 - 2019	0.67
2016 - 2020	0.77
2017 - 2021	0.69

Table 6 – Rolling Beta

Source: Analyst estimation

¹⁴ Colfax Website

comparison was conducted with companies operating in similar industries, invasive orthopaedics and hearing aid solutions. Levering the beta of these companies with Össur's debt structure shows a median levered beta for invasive orthopaedics peers of 1.14 whereas hearing aid peers trade at a median beta of 0.97. In addition, Össur's rolling beta based on four-year time frames and monthly returns was calculated (Table 6). It shows that the beta remained relatively stable over time with a higher cyclicity from 2016 onwards. We attribute this to the investor behaviour in the pandemic with a much higher cyclicity of healthcare stocks. Using the above-mentioned beta of 0.69, the risk-free rate of 1.345%, and the equity risk premium as suggested by KPMG of 5.75%, results in a cost of equity of 5.32%.

As Össur does not have any public outstanding debt issued, a synthetic rating approach was conducted to estimate the company's credit rating. Applying Altman's Z-Score Model results in a score of 17.31. As this score is well above 3, literature suggests Össur has a very strong financial positioning. Damodaran suggests in its literature to use the interest coverage ratio approach to determine a company's synthetic rating. Össur's interest coverage ratio was relatively stable between 2016 and 2018 but dropped significantly in 2019 (from 15.80 in 2018 to 9.89 in 2019). This can be attributed to reporting changes with IFRS 16 which was applied from January 2019 onwards. In 2020, EBIT was under pressure due to Covid and the resulting drop in demand. Hence, this year is not taken into consideration when estimating the company's credit rating. The 2019 interest coverage ratio of 9.89 translates into a credit rating of AA according to Damodaran. From the above-mentioned peer group, the majority has no public outstanding debt. Medtronic comes closest to Össur in terms of credit rating with a S&P rating of A which is why we used Medtronic's cost of debt as a benchmark for Össur. The Medtronic corporate bond denominated in USD expiring on the 15th of March 2035 has a yield to maturity of 0.53%. Considering this yield and the respective default and loan recovery rate of the bond, a cost of debt of 0.52% was estimated.

Nevertheless, these inputs are forward-looking assumptions. Hence, the sensitivity of the cost of equity in dependence of the risk-free rate and beta was tested. The values for the later were chosen within the confidence interval. The 10-year US treasury yield especially has a lot of potential for upward pressure depending on the next FOMC meeting and the resulting decision on a faster tapering timeline, which could open the door for up to three interest rate hikes in 2022. We see the risk of lower yields in the next year rather low. Although new Covid variants such as the Omicron variant may arise, recent comments by vaccine manufacturers suggest that they can respond very fast with adjusted booster shots.

Furthermore, the WACC sensitivity with the cost of equity between 3.08% and 7.57% (derived by different levels of beta) and the cost of debt between 0.33% and 0.93% was tested (Table 7 and 8).

		Levered beta						
		0.30	0.43	0.56	0.69	0.82	0.95	1.08
Risk-free rate	0.95%	2.68%	3.42%	4.17%	4.92%	5.67%	6.42%	7.17%
	1.15%	2.88%	3.62%	4.37%	5.12%	5.87%	6.62%	7.37%
	1.35%	3.08%	3.82%	4.57%	5.32%	6.07%	6.82%	7.57%
	1.55%	3.28%	4.02%	4.77%	5.52%	6.27%	7.02%	7.77%
	1.75%	3.48%	4.22%	4.97%	5.72%	6.47%	7.22%	7.97%

Table 7 – Risk free rate and levered beta sensitivity

Source: Company Information, Analyst Research

		Cost of equity						
		3.08%	3.82%	4.57%	5.32%	6.07%	6.82%	7.57%
Cost of debt	0.33%	2.72%	3.37%	4.02%	4.68%	5.33%	5.98%	6.63%
	0.43%	2.73%	3.38%	4.03%	4.69%	5.34%	5.99%	6.64%
	0.53%	2.74%	3.39%	4.04%	4.70%	5.35%	6.00%	6.65%
	0.63%	2.75%	3.40%	4.05%	4.71%	5.36%	6.01%	6.66%
	0.73%	2.76%	3.41%	4.06%	4.72%	5.37%	6.02%	6.67%
	0.83%	2.77%	3.42%	4.07%	4.73%	5.38%	6.03%	6.68%
	0.93%	2.78%	3.43%	4.08%	4.74%	5.39%	6.04%	6.69%

Table 8 – Cost of debt and cost of equity sensitivity

Source: Company Information, Analyst Research

Intrinsic Valuation

To model a DCF valuation according to Össur's characteristics, specific assumptions had to be made. As discussed, we derived a WACC of 4.7%. We applied the corporate tax rate of 20% taking under consideration past rates and governmental changes. To derive to Össur's share price, we discounted the FCFs separately with the WACC. Furthermore, the terminal value of the last unlevered free cash flow (UFCF) has been calculated by applying the Gordon Growth Model. As perpetuity growth rate (g), we analysed the company's core markets and corresponding GDP growth and inflation rates. Hence, we assume an overall g of 3%. We cross-examined the assumed growth rate by calculating the Exit EBITDA multiple under the same assumptions. Here, we derived to an EBITDA multiple of 28.75x. Comparing it to our chosen peer group (See Section "Comparable Company Analysis"), we calculated a FY21 EBITDA Multiple of 22.35x. We believe that as our defined peer group does not operate in the same subsector but within an adjacent sector, that both EBITDA multiples are aligned. Summing the individuals UFCFs and the terminal value, we derived to the enterprise value of USD 3,391 m. To derive to the Equity Value and the implied Share Price, we deducted Net Debt from the enterprise value, resulting in an equity value of USD 3,005 m. The corresponding share price as of FY21 is USD

6.06 or DKK 46.41. As the terminal value accounts for 80.36% of Össur's enterprise value, the company highly depends on the perpetuity growth rate. Therefore, we conducted separate sensitivity analysis to measure the perpetuity impact on the implied enterprise value and share price (Figure 9 and 10).

		Perpetuity Growth Rate				
		1.0%	1.50%	2.0%	2.50%	3.0%
WACC	5.20%	2,347,566	2,568,968	2,859,558	3,257,773	3,836,996
	4.90%	2,529,209	2,795,435	3,153,464	3,660,671	4,434,829
	4.70%	2,666,687	2,970,008	3,385,669	3,990,268	4,950,514
	4.50%	2,819,893	3,167,859	3,655,013	4,385,744	5,603,628
	4.30%	2,991,685	3,393,979	3,971,183	4,869,055	6,457,600

Table 8 – Enterprise Value Sensitivity

Source: Company Information, Analyst Research

		Perpetuity Growth Rate				
		1.0%	1.50%	2.0%	2.50%	3.0%
WACC	5.20%	4.61	5.13	5.81	6.75	8.11
	4.90%	5.04	5.66	6.50	7.69	9.51
	4.70%	5.36	6.07	7.05	8.47	10.72
	4.50%	5.72	6.54	7.68	9.40	12.26
	4.30%	6.12	7.07	8.42	10.53	14.26

Table 9 – Share Price Sensitivity

Source: Company Information, Analyst Research

Comparable Companies Analysis

To arrive at an indicative valuation based on FY21 figures, the definition of an appropriate peer group is key. As none of Össur's direct competitors in the prosthetics and B&S segment are listed, we analysed companies within the health care industry which also have aging population as the key growth driver. We think three segments fulfil this criterion: invasive orthopaedics players (e.g. Globus Medical, Smith & Nephew, Stryker, Zimmer Biomet, Medartis, Medtronic), hearing aid solutions providers (e.g. Demant, GN Store, Cochlear, Sonova) and the only public O&P clinic operator, Hanger. Although these segments have the same key growth driver, they differ in the room for innovation left. While hearing aid solutions is more comparable to the prosthetics market in terms of innovation due to the technological component, invasive orthopaedics is more comparable to the injury solutions segment with surgeries being one important sales indicator. In contrast, O&P clinic operators have the least room for innovation due to the nature of the clinic space. These considerations also hold when looking at EV/EBITDA 2021E multiples. The median multiple for hearing aid solutions providers amounts to 25.36x while invasive orthopaedics peers trade at an EV/EBITDA multiple of 18.43x. In contrast, Hanger only trades at a multiple of 7.94x. Össur trades at 28.75x according to our valuation. We believe this is primarily due to the technological innovation leverage in the prosthetics segment.

as of 2021	Market cap (m USD)	Revenues (m USD)	EBITDA margin
Hearing Aid Solutions			
GN Store	10,866	2,397	19.17%
Demant	12,184	2,805	24.14%
Cochlear	10,457	1,105	24.89%
Sonova	22,013	3,393	31.05%
Median			24.51%
Invasive Orthopaedics			
Globus Medical	7,311	952	34.50%
Smith & Nephew	17,938	6,959	25.83%
Stryker	96,298	17,661	27.54%
Zimmer Biomet	35,165	7,877	32.04%
Medartis	1,070	161	17.17%
Medtronic	170,366	31,636	31.40%
Median			29.47%
O&P Clinic Operators			
Hanger	636	1,132	7.17%

Table 10 – Ratios Peers

Source: Company Information, Analyst Research

Recommendation

After conducting this in-depth analysis, we recommend to buy the stock. Össur has an excellent market positioning in both the prosthetics and B&S segment with the second largest player in terms of market share. Moreover, the company has positioned itself in the high-end spectrum of both segments where the entry barriers are much higher, especially when it comes to prosthetics. Although 2020 was a rather challenging year due to delayed surgeries, Össur rebounded very strongly this year and we expect pandemic effects to fully dilute in the next few quarters. We see future growth to be driven mostly by bionic prosthetics and other innovations such as 3D printing. We also see growth potential in the APAC region which is still rather underpenetrated, only contributing with 9% to the overall sales in 2020.

We see strong room for margin improvements in the next couple of years. One area for strong margin improvement is O&P clinics. Össur's management strongly believes margins for these clinics can be improved by up to 8% due to increased efficiencies with Össur to support with best practices, increasing profitability and driving sales. Furthermore, we see the O&P clinic acquisitions as an opportunity to drive upselling, particularly for prosthetics.

In terms of financials, Össur has a track record of growing organically at least in line with the market. Excluding the outlier year 2020, Össur's organic growth in the prosthetics segment has ranged between 7 and 9% in recent years while the B&S segment showed solid organic growth around 2%. In addition, the company provides attractive margins which ranged between 17 and 21% in last years.

Based on all of the above-mentioned assumptions, we derive a final 12-month price target of DKK 46.41. This represents an upside of 16.02% to the share price of DKK 40.00 on our valuation date, the 3rd of December. Given this undervaluation, we initiate a buy-rating on Össur hf.

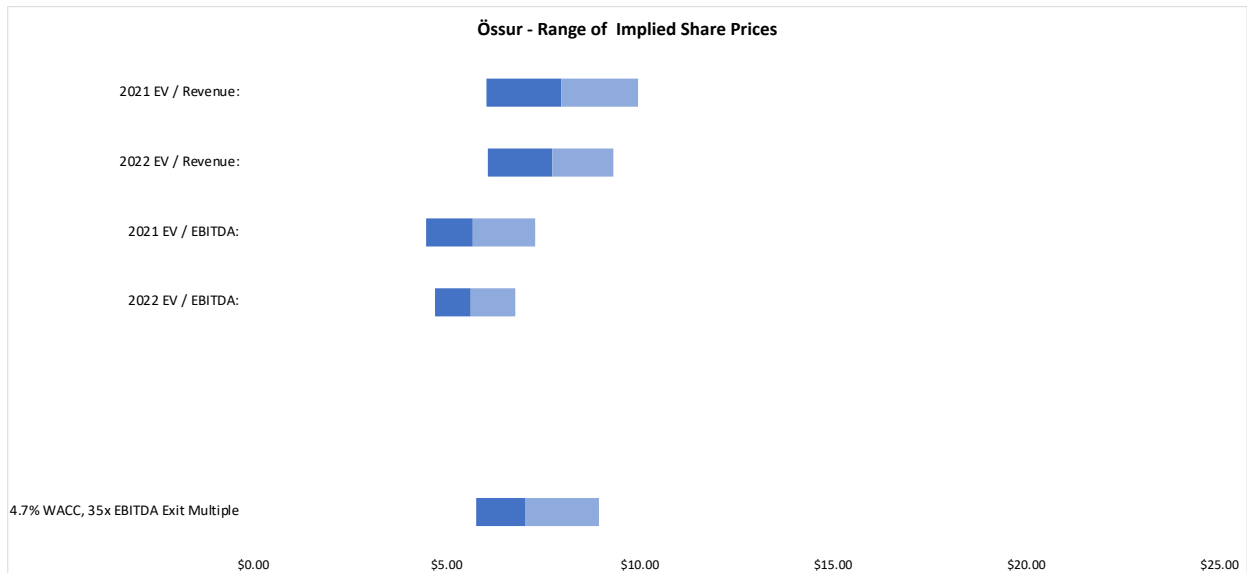


Table 23 – Football Field

Source: Company Information, Analyst Research

Appendix

Financial Statements

Income Statement

in '000 USD	2021A	2022B	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Core Business												
<i>Product lines</i>												
Bracing and supports	168,765	174,553	179,666	184,929	189,884	194,406	199,036	203,278	207,611	212,036	215,487	218,994
% total sales	23.74%	23.63%	23.48%	23.32%	23.15%	22.95%	22.75%	22.53%	22.31%	22.08%	21.92%	21.76%
Prosthetics	328,867	347,693	365,858	384,972	404,122	423,021	442,804	462,406	482,874	504,249	519,996	536,233
% total sales	46.26%	47.07%	47.81%	48.55%	49.26%	49.93%	50.61%	51.24%	51.88%	52.52%	52.90%	53.28%
O&P clinics	213,245	216,444	219,690	222,986	226,330	229,725	233,171	236,669	240,219	243,822	247,479	251,192
% total sales	30.00%	29.30%	28.71%	28.12%	27.59%	27.12%	26.65%	26.23%	25.81%	25.40%	25.18%	24.96%
<i>Other products</i>												
Net sales	710,877	738,689	765,214	792,886	820,336	847,152	875,011	902,352	930,704	960,108	982,962	1,006,419
Cost of goods sold	(261,700)	(269,452)	(277,995)	(287,042)	(294,256)	(301,657)	(310,784)	(320,662)	(330,915)	(341,138)	(351,712)	(362,618)
% of sales	36.81%	36.48%	36.33%	36.20%	35.87%	35.61%	35.52%	35.54%	35.56%	35.53%	35.78%	36.03%
Gross Profit	449,177	469,237	487,219	505,845	526,080	545,496	564,227	581,691	599,789	618,970	631,250	643,802
% Gross Profit Margin	63.19%	63.52%	63.67%	63.80%	64.13%	64.39%	64.48%	64.46%	64.44%	64.47%	64.22%	63.97%
<i>Operating Expenses</i>												
Sales and marketing expenses	(247,904)	(248,187)	(251,641)	(256,027)	(260,458)	(267,797)	(274,246)	(281,030)	(287,879)	(294,934)	(302,190)	(309,638)
Research and development expenses	(30,654)	(32,800)	(35,096)	(36,851)	(38,693)	(40,628)	(42,659)	(44,792)	(47,032)	(49,383)	(51,852)	(54,445)
General and administrative expenses	(79,648)	(80,964)	(82,950)	(85,309)	(87,563)	(86,410)	(88,815)	(91,450)	(94,048)	(96,723)	(99,479)	(102,306)
<i>Special items:</i>												
Acquisition expenses	(4,380)	(4,380)	(4,380)	(4,380)	(4,380)	(4,380)	(4,380)	(4,380)	(4,380)	(4,380)	(4,380)	(4,380)
Legal Settlement	0	0	0	0	0	0	0	0	0	0	0	0
Core result before taxes (EBIT)	86,591	102,906	113,153	123,278	134,986	146,280	154,127	160,040	166,450	173,550	173,349	173,032
% Return on sales	12.18%	13.93%	14.79%	15.55%	16.45%	17.27%	17.61%	17.74%	17.88%	18.08%	17.64%	17.19%
Adjusted taxes	(19,434)	(23,095)	(25,395)	(27,667)	(30,295)	(32,830)	(34,591)	(35,918)	(37,356)	(38,950)	(38,905)	(38,834)
Core result after taxes	67,158	79,811	87,758	95,611	104,691	113,451	119,536	124,122	129,094	134,600	134,444	134,199
Non-core Business												
Other income / (expenses)	792	0	0	0	0	0	0	0	0	0	0	0
Financial income	563	899	899	899	899	899	899	899	899	899	899	899
Interest on bank deposits		569	569	569	569	569	569	569	569	569	569	569
Other financial income		330	330	330	330	330	330	330	330	330	330	330
Net exchange rate difference	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047
Non-core result before taxes	2,401	1,946	1,946	1,946	1,946	1,946	1,946	1,946	1,946	1,946	1,946	1,946
Taxes	(480)	(389)	(389)	(389)	(389)	(389)	(389)	(389)	(389)	(389)	(389)	(389)
Effects of associates	0	0	0	0	0	0	0	0	0	0	0	0
Share in profit of associated companies	0	0	0	0	0	0	0	0	0	0	0	0
Other comprehensive income	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)
Non-core result after taxes	(14,327)	(14,691)	(14,691)	(14,691)	(14,691)	(14,691)	(14,691)	(14,691)	(14,691)	(14,691)	(14,691)	(14,691)
Financial												
Financial expenses	(12,583)	(2,500)	(2,621)	(2,676)	(2,738)	(2,763)	(2,789)	(2,819)	(2,913)	(3,014)	(3,123)	(3,228)
Financial result before taxes	(12,583)	(2,500)	(2,621)	(2,676)	(2,738)	(2,763)	(2,789)	(2,819)	(2,913)	(3,014)	(3,123)	(3,228)
Financial tax shield	2,517	500	524	535	548	553	558	564	583	603	625	646
Financial result after taxes	(10,066)	(2,000)	(2,097)	(2,141)	(2,191)	(2,210)	(2,231)	(2,255)	(2,331)	(2,411)	(2,498)	(2,583)

Balance Sheet

in '000 USD	2021A	2022B	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Core Business												
Non-current assets												
Property, plant and equipment	58,661	58,476	59,522	61,327	60,505	60,904	61,819	65,787	68,059	70,346	72,868	75,422
Right of use assets	118,287	138,313	152,961	167,984	183,390	199,190	215,394	232,013	249,058	266,540	284,472	302,865
Goodwill	645,120	651,571	658,087	664,668	671,314	678,028	684,808	691,656	698,573	705,558	712,614	719,740
Other intangible assets	58,095	56,379	49,773	49,805	49,304	42,233	42,410	42,647	42,659	42,901	43,160	43,413
Current assets												
Inventories	102,225	109,339	112,805	116,476	119,403	122,407	126,110	130,118	134,279	138,427	142,718	147,143
Days inventory held	143	148	148	148	148	148	148	148	148	148	148	148
Accounts receivables	108,157	112,842	116,894	121,122	125,315	129,411	133,667	137,844	142,175	146,666	150,158	153,741
Days sales outstanding	42	56	56	56	56	56	56	56	56	56	56	56
Other assets	16,809	19,526	19,876	21,147	17,657	18,829	21,998	21,017	22,314	21,803	23,451	23,704
Prepaid expenses	13,080	13,331	13,587	13,848	14,114	14,385	14,661	14,943	15,230	15,522	15,820	16,124
% sales	1.84%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%
VAT refundable	3,729	6,194	6,289	7,299	3,543	4,444	7,337	6,074	7,084	6,281	7,631	7,580
% of sales	0.52%	0.84%	0.82%	0.92%	0.43%	0.52%	0.84%	0.67%	0.76%	0.65%	0.78%	0.75%
Total operating assets	1,107,353	1,146,445	1,169,919	1,202,528	1,226,889	1,251,000	1,286,206	1,321,082	1,357,115	1,392,243	1,429,442	1,466,029
Non-current liabilities												
Deferred income	6,444	6,696	6,937	7,187	7,436	7,679	7,932	8,180	8,437	8,703	8,910	9,123
% of sales	0.91%	0.91%	0.91%	0.91%	0.91%	0.91%	0.91%	0.91%	0.91%	0.91%	0.91%	0.91%
Provisions (Warranties)	3,474	3,610	3,740	3,875	4,009	4,141	4,277	4,410	4,549	4,693	4,804	4,919
% of sales	0.49%	0.49%	0.49%	0.49%	0.49%	0.49%	0.49%	0.49%	0.49%	0.49%	0.49%	0.49%
Other financial liabilities	12,701	2,566	898	1,098	12,701	7,634	5,388	4,316	5,993	4,979	5,544	6,227
Current liabilities												
Accounts payable	30,102	27,160	28,021	28,933	29,660	30,406	31,326	32,322	33,355	34,386	35,452	36,551
Days payables outstanding	31	37	37	37	37	37	37	37	37	37	37	37
Accrued salaries and related expenses	39,261	32,115	33,268	34,471	35,664	36,830	38,041	39,230	40,463	41,741	42,735	43,754
% of sales	5.52%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%
Provisions (Warranties)	3,621	3,762	3,897	4,038	4,178	4,315	4,457	4,596	4,740	4,890	5,007	5,126
% of sales	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%
Total operating liabilities	95,603	75,910	76,761	79,603	93,650	91,005	91,421	93,054	97,537	99,392	102,451	105,701
Non-core Business												
Non-current assets												
Investment in associates	13,296	13,296	13,296	13,296	13,296	13,296	13,296	13,296	13,296	13,296	13,296	13,296
Other financial assets	3,414	4,040	4,040	4,040	4,040	4,040	4,040	4,040	4,040	4,040	4,040	4,040
Deferred tax assets	27,429	24,487	24,487	24,487	24,487	24,487	24,487	24,487	24,487	24,487	24,487	24,487
Current assets												
Other assets	4,881	4,881	4,881	4,881	4,881	4,881	4,881	4,881	4,881	4,881	4,881	4,881
Receivables related to divestment of su	0	0	0	0	0	0	0	0	0	0	0	0
Total non-operating assets	49,020	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704
Non-current liabilities												
Deferred tax liabilities	26,932	26,083	26,083	26,083	26,083	26,083	26,083	26,083	26,083	26,083	26,083	26,083
Provisions (Other)	4,108	3,979	4,087	4,300	4,840	4,108	4,043	4,058	4,118	4,263	4,263	4,276
Provision reporting difference	0	0	0	0	0	0	0	0	0	0	0	0
Defined employee benefits	0	0	0	0	0	0	0	0	0	0	0	0
Current liabilities												
Other liabilities	28,013	28,013	28,013	28,013	28,013	28,013	28,013	28,013	28,013	28,013	28,013	28,013
Provisions (Other)	4,368	4,368	4,368	4,368	4,368	4,368	4,368	4,368	4,368	4,368	4,368	4,368
Provision reporting difference	0	0	0	0	0	0	0	0	0	0	0	0
Income tax payable	5,713	7,892	8,255	8,315	8,326	8,327	8,328	8,328	8,328	8,328	8,328	8,328
Pension related expenses	14,140	14,423	14,855	15,301	15,760	16,233	16,720	17,222	17,738	18,270	18,818	19,383
# of employees	3,419	3,487	3,592	3,700	3,811	3,925	4,043	4,164	4,289	4,418	4,550	4,687
pension expenses per employee	4	4	4	4	4	4	4	4	4	4	4	4
Total non-operating liabilities	83,274	84,757	85,661	86,380	87,389	87,132	87,554	88,071	88,648	89,324	89,872	90,450
Financing Activities												
Current financing assets												
Bank balances and cash equivalents	90,559	83,115	101,423	120,561	158,651	186,777	213,427	251,497	293,535	329,610	358,303	382,480
Total financing assets	90,559	83,115	101,423	120,561	158,651	186,777	213,427	251,497	293,535	329,610	358,303	382,480
Non-current financing liabilities												
Borrowings	276,819	280,971	283,781	286,619	289,485	292,380	295,304	310,069	325,572	341,851	358,943	376,891
Lease liabilities	130,343	155,089	168,310	182,325	188,637	194,804	201,210	207,497	214,017	220,778	226,034	231,428
Current financing liabilities												
Borrowings	62,889	56,600	50,940	45,846	41,261	37,135	33,422	30,080	27,072	24,364	21,928	19,735
% of long-term borrowing	22.72%	20.14%	17.95%	16.00%	14.25%	12.70%	11.32%	9.70%	8.32%	7.13%	6.11%	5.24%
Lease liabilities	22,048	26,234	28,470	30,841	31,908	32,951	34,035	35,099	36,201	37,345	38,234	39,146
% of long-term liabilities	16.92%	16.92%	16.92%	16.92%	16.92%	16.92%	16.92%	16.92%	16.92%	16.92%	16.92%	16.92%
Total financing liabilities	492,099	518,894	531,501	545,631	551,292	557,270	563,971	582,744	602,862	624,339	645,139	667,200
Equity												
Equity	575,957	596,703	624,123	658,180	699,913	749,074	803,391	855,414	908,308	955,503	996,986	1,031,862
Non-controlling interest	0	0	0	0	0	0	0	0	0	0	0	0
Total Equity	575,957	596,703	624,123	658,180	699,913	749,074	803,391	855,414	908,308	955,503	996,986	1,031,862

Statement of Cash Flows

in '000 USD	2021A	2022B	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Adjusted EBIT	86,591	102,906	113,153	123,278	134,986	146,280	154,127	160,040	166,450	173,550	173,349	173,032
Notional taxes	(17,318)	(20,581)	(22,631)	(24,656)	(26,997)	(29,256)	(30,825)	(32,008)	(33,290)	(34,710)	(34,670)	(34,606)
Adjusted taxes	(2,115)	(2,514)	(2,764)	(3,012)	(3,298)	(3,574)	(3,765)	(3,910)	(4,066)	(4,240)	(4,235)	(4,227)
NOPLAT	67,158	79,811	87,758	95,611	104,691	113,451	119,536	124,122	129,094	134,600	134,444	134,199
Depreciation, Amortization & Impairmer	48,855	48,844	50,512	53,557	56,032	57,616	60,642	64,585	68,438	72,070	75,845	79,706
% sales	6.87%	6.61%	6.60%	6.75%	6.83%	6.80%	6.93%	7.16%	7.35%	7.51%	7.72%	7.92%
Gross CF from Operations	116,013	128,655	138,270	149,168	160,723	171,066	180,178	188,707	197,532	206,670	210,289	213,904
Working Capital items												
Plus: Inventories	102,225	109,339	112,805	116,476	119,403	122,407	126,110	130,118	134,279	138,427	142,718	147,143
Plus: Accounts receivables	108,157	112,842	116,894	121,122	125,315	129,411	133,667	137,844	142,175	146,666	150,158	153,741
Plus: Prepaid Expenses	13,080	13,331	13,587	13,848	14,114	14,385	14,661	14,943	15,230	15,522	15,820	16,124
Less: Accounts payables	(30,102)	(27,160)	(28,021)	(28,933)	(29,660)	(30,406)	(31,326)	(32,322)	(33,355)	(34,386)	(35,452)	(36,551)
Total	193,360	208,352	215,266	222,513	229,172	235,797	243,112	250,583	258,328	266,230	273,244	280,457
Net Change in Working Capital	(8,956)	(14,992)	(6,913)	(7,247)	(6,659)	(6,625)	(7,316)	(7,470)	(7,745)	(7,902)	(7,014)	(7,213)
Capex	(44,752)	(59,294)	(57,916)	(62,088)	(62,229)	(66,630)	(70,546)	(77,918)	(80,156)	(84,199)	(88,612)	(92,920)
% of sales	6.30%	8.03%	7.57%	7.83%	7.59%	7.87%	8.06%	8.63%	8.61%	8.77%	9.01%	9.23%
Change in operating assets	(32,532)	(7,200)	(4)	(7,623)	(2,390)	(543)	(9,851)	(5,822)	(7,939)	(6,425)	(8,665)	(7,328)
Change in operating liabilities	26,965	(16,751)	(10)	1,930	13,319	(3,391)	(503)	637	3,450	825	1,993	2,150
Unlevered core FCF	56,738	30,418	73,427	74,140	102,764	93,878	91,962	98,133	105,142	108,969	107,992	108,594
Non-operating income	2,401	1,946	1,946	1,946	1,946	1,946	1,946	1,946	1,946	1,946	1,946	1,946
Taxes	(480)	(389)	(389)	(389)	(389)	(389)	(389)	(389)	(389)	(389)	(389)	(389)
Other comprehensive income	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)
Effects of associates	0	0	0	0	0	0	0	0	0	0	0	0
Share in profit of associated companies	0	0	0	0	0	0	0	0	0	0	0	0
Change in non-operating assets	12,733	2,316	0	0	0	0	0	0	0	0	0	0
Change in non-operating liabilities	(11,914)	1,483	904	719	1,010	(258)	423	516	577	676	548	577
Unlevered non-core FCF	(13,509)	(10,892)	(13,787)	(13,973)	(13,682)	(14,949)	(14,269)	(14,175)	(14,114)	(14,015)	(14,143)	(14,114)
Unlevered FCF	43,229	19,526	59,640	60,168	89,082	78,929	77,693	83,958	91,027	94,954	93,849	94,480
Tax shield	2,517	500	524	535	548	553	558	564	583	603	625	646
Levered FCF	45,746	20,026	60,164	60,703	89,630	79,482	78,251	84,522	91,610	95,557	94,473	95,125
Interest expense	(12,583)	(2,500)	(2,621)	(2,676)	(2,738)	(2,763)	(2,789)	(2,819)	(2,913)	(3,014)	(3,123)	(3,228)
Financial debt items												
Financial debt	492,099	518,894	531,501	545,631	551,292	557,270	563,971	582,744	602,862	624,339	645,139	667,200
Less: Bank balances and cash equivalent:	(90,559)	(83,115)	(101,423)	(120,561)	(158,651)	(186,777)	(213,427)	(251,497)	(293,535)	(329,610)	(358,303)	(382,480)
Total	401,540	435,779	430,078	425,069	392,641	370,494	350,543	331,248	309,327	294,728	286,836	284,720
Change in Financial Debt	20,510	34,239	(5,701)	(5,008)	(32,428)	(22,147)	(19,951)	(19,295)	(21,920)	(14,599)	(7,892)	(2,116)
Change in Equity	(43,998)	(42,373)	(43,550)	(44,722)	(46,076)	(47,387)	(48,297)	(55,152)	(59,179)	(70,302)	(75,772)	(82,048)
Financial FCF	(33,554)	(10,134)	(51,348)	(51,871)	(80,695)	(71,745)	(70,479)	(76,703)	(83,429)	(87,313)	(86,162)	(86,747)

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Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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Appendix - Full Report

ÖSSUR HF.

HEALTH CARE

STUDENT: FITORE ZECIRI | CONSTANZA KUHN

COMPANY REPORT

16TH DECEMBER 2021

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Non-invasive orthopaedics leader turned medtech?!

High-end positioning in a strong secular growth market

- We initiate Össur with a **Buy-rating**. Our **12-month price target** amounts to **DKK 46.41**, implying an overall upside of 16.02% compared to current price levels as of December 3rd, 2021.
- Össur has a strong competitive positioning in its key markets, prosthetics and B&S, with the second-largest market share. It has a track record of **growing at least in line with the market** (6.42% CAGR for 2016-21E) while delivering **attractive EBITDA margins** (19% average for 2016-21E).
- We expect **strong EBITDA margin improvements** over the next years with an expansion of over 5% until 2026E vs. current levels, driven by increased efficiencies in acquired O&P clinics and upselling of prosthetics in these clinics.
- We believe Össur's innovation-driven business model positions it well to continue benefiting from technology trade-up trends and strong secular growth drivers such as aging population and diabetes, resulting in a CAGR of over 3% for the forecasting period.
- The key risks to our valuation include changes in insurance coverage, a slower economic recovery from the pandemic and the introduction of additional competitive bidding procedures.

Company description

Össur hf., founded in 1971 and headquartered in Reykjavik, Iceland, develops and manufactures non-invasive equipment for orthopaedics and prosthetics. It caters to clients in the Americas, Europe, and Asia. In addition, Össur operates its own O&P clinics in the US, Norway, Sweden, and Brasil.

Recommendation: BUY

Vs Previous Recommendation N/A

Price Target FY22: DKK 46.41

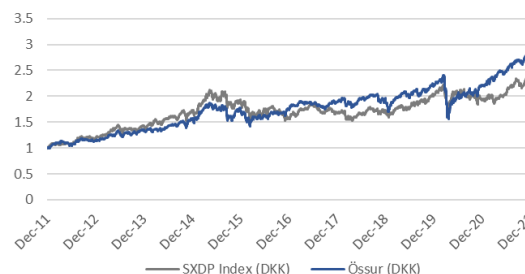
Vs Previous Price Target N/A

Price (as of 17-Dec-21) DKK 40.00

Reuters: OSSR.CO, Bloomberg: OSSR:DC

52-week range (DKK)	30.97-66.14
Market Cap (DKK m)	16,920
Outstanding Shares (m)	423
Implied Upside to Price Target	16.02%

Source: Bloomberg, Analyst Estimations



Source: Bloomberg

(Values in USD)	2020	2021E	2022F
Revenues (m)	630	711	739
Gross Profit (m)	391	449	469
EBIT (m)	53	87	103
EBITDA (m)	118	135	152
EPS	0.02	0.14	0.19
EV/Sales	5.39x	4.77x	4.59x
EV/EBITDA	28.75x	25.04x	22.35x
EV/EBIT	34.77x	39.16x	32.95x
ROIC	4.36%	6.77%	7.89%
Net Capex (m)	45	45	59

Source: Company Data, Analyst Estimations

THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES BY FITORE ZECIRI AND CONSTANZA MASCARENHAS KUHN, A MASTER IN FINANCE STUDENT OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A MERE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL. (PLEASE REFER TO THE DISCLOSURES AND DISCLAIMERS AT END OF THE DOCUMENT)

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Company Analysis

Company Overview

Founded in 1971 as a prosthetic clinic and headquartered in Reykjavik, Össur hf. (Össur) has established itself as a self-proclaimed global leader in non-invasive orthopaedics. Being a global leader in this market also represents the company’s vision, while its mission is to improve people’s mobility. Since 2009, Össur has been listed in Copenhagen, where its majority shareholder (52%), William Demant Invest A/S, is located. The company employs 3,385 people, operates in over 30 countries across Americas (49% of 2020 net revenue), EMEA (42%), and APAC (9%), and generated total revenues of USD 711 m as of 2021 (Figure 1). Its business can be divided into two synergistic segments, prosthetics and bracing & supports, contributing to 59% and 41% of total revenue in 2020, respectively (Figure 2).

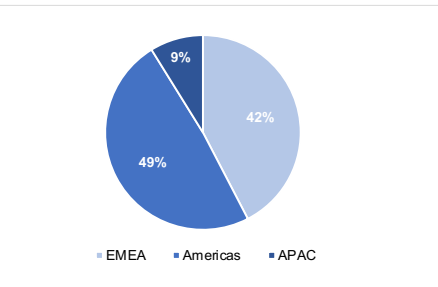


Figure 1 – 2021 Revenue split by region
Source: Company data

The **prosthetics** business unit includes artificial limbs and related products, catering to individuals who were born without limbs or who have had limbs amputated. Össur’s prosthetics products range from lower- to upper-limb prosthetics including feet, knees, and hands. This business unit can be divided into two sub-segments – mechanical products and bionic products. Mechanical products, solely available for lower extremities, react based on detected muscle movements in the residual limb or upper body and do not rely on batteries in contrast to bionic products.

The **bracing & supports (B&S)** business unit includes products used to support joints and other body parts for therapeutic and preventative purposes. Össur’s product portfolio in this market ranges from spinal, knee, hip, foot, ankle to hands. This business unit can also be divided into two sub-segments – injury solutions and osteoarthritis (OA) solutions. Injury solutions provides products which stabilize joints and improve healing for people recovering from fractures, ligament injuries or need a post-operative treatment. OA solutions provides braces for people affected with osteoarthritis, a disease where the protective cartilage that cushions the ends of the bones wears down over time. OA bracing unload affected joints and provided patients with a non-surgical treatment.

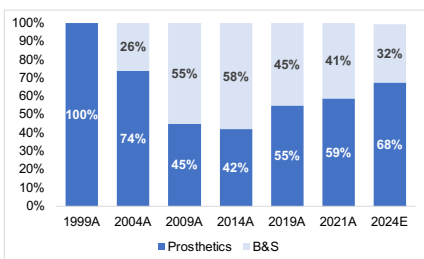


Figure 2 – Historical revenue split by segment
Source: Company data

The primary distribution channel for both divisions are specialized healthcare providers who provide and fit individuals with Össur products. Prosthetics are distributed solely through orthopaedics and prosthetic (O&P) clinics, some of which even owned by Össur. Bracing & supports products are distributed through

O&P clinics, hospitals, surgery centres, and Össur's online shop. The B&S products which require more fitting are not sold over-the-counter (OTC).

As the company heavily relies on the prescriptions and recommendations of its products by healthcare professionals, Össur has developed and maintained close relationships with numerous O&P clinics. Since 2013, Össur owns and operates its own O&P clinics in certain markets which have been added to the company's portfolio through acquisition. Moreover, Össur offers services and business solutions to O&P clinics through their Orthotic & Prosthetic Services (OPS). All O&P clinics owned by Össur are automatically part of the OPS network, however, most OPS members are independent O&P clinics. There are several key services for OPS members, the first being the outsourcing of fabrication. The company customizes full and partial prosthetics to the respective amputee, for both legs and arms. In addition, Össur offers a supporting technology called Design Studio for scanning, modifying, and fabrication purposes. The second OPS service is the empower software, a combination of inventory management, reimbursement, and consulting service solution. The third OPS offering is Össur's PRO App (Prosthetic Rehabilitation Outcomes Application), a patient outcomes management tool, which helps O&P clinics to administer, store, and analyse patient outcomes. Lastly, Össur shares its business expertise (e.g. regulatory, compliance audit etc.) with OPS customers.

Market Analysis

Bracing & Support

According to company estimates, the orthopaedic bracing & supports market has a size of USD 2.7-3.0 bn with a market growth of 3-5%. It states as main growth driver volumes and a positive product mix with increased penetration of high-end, innovative products where there is less competition. Össur currently estimates its market share to be around 5-7%. The company states to have lost one percent in market share with the 2020 divestment of its French subsidiary Gibaud, a designer and manufacturer of orthopaedics. Up until the divestment in Q3 of 2020, Össur used to report to have the second largest market share in the B&S segment. According to management, the divestment was conducted to enhance Össur's overall profitability.

- Össur's B&S Product Catalogue

In general, Össur's product portfolio consists of five brands: Rebound, Formfit, Miami, CTi, and Unloader. The latter includes product solutions for Osteoarthritis, whereas the other four lines offer injury solutions except for the CTi product line which offers one OA solution product as well.

Össur entered the injury solutions market in 2003 by acquiring Generation II. In 2006, the company ventured into the OA solutions field with the launch of its first-generation Unloader One knee brace, a pain relief product for patients with knee OA. The current knee OA product line includes nine different products. The products target different customers based on the severity of OA and, depending on the product, other medical issues as well. In 2016, it launched the Unloader hip brace, the first ever brace in the market for mild and moderate hip OA.

The Miami product line includes eight braces for spinal injuries whereas the CTi line mostly consists of knee braces for post-operative preventative care, targeting people who need rigid, functional knee support. The Formfit line focuses on post-operative, recovery, pain relief braces for numerous body parts. Össur extended this product line through the launch of Formfit Pro, which uses an innovative knit technique to produce sports compression braces while remaining breathable and providing a cooling effect. The Rebound product line protects the bone and soft tissue during healing and is available for feet & ankles, hips, and knees. In 2014, Össur started introducing innovative, high-end knee injury braces to the Rebound line, which are part of the so-called Functional Healing family. This range of injury solutions is designed to enhance the body’s natural healing while maintaining mobility and is therefore intended to be used as a supplement to current treatment options. All in all, it is evident that Össur’s B&S product portfolio has become increasingly high-end over the years with the entrance to the OA solutions market and the introduction of innovative injury solutions lines such as the Functional Healing or the Formfit Pro line.

Moreover, Össur will soon launch a new walker boot, which is expected to set new standards, differentiate itself from competing products, and address unmet needs in the marketplace.

▪ Competitive Environment

The B&S market is much more fragmented in comparison to the prosthetics market. This is primarily due to the much higher entry barriers in the prosthetics market as these products are much more complex and costly in the development stage. This deters potential new competitors from entering the market, especially when it comes to bionic prosthetics. All market participants are privately held companies with the only exception being Össur which is why data on competitors, especially financial data, is limited.

Össur’s biggest competitors are DJO, Breg, Bauerfeind, Thuasne, DeRoyal and Ottobock with the two first ones being the biggest competitors in both size and product portfolio. We estimate Össur to have 7% of market share in the B&S market (Figure 3). This number was based on Össur’s USD 2.7-3 bn market size estimation as well as our estimated B&S revenues for 2021, which were adjusted

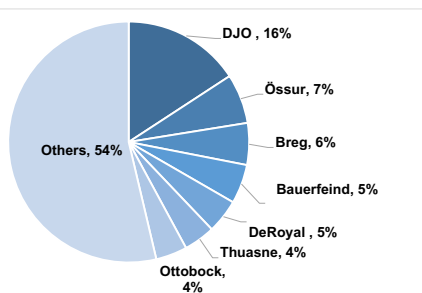


Figure 3 – Global Market Share of B&S Product Manufacturers as of 2021

Source: Analysts

by 30% to exclude O&P clinic revenues. DJO is the market leader with a considerable market share of 16% as suggested by our estimates. When the company was acquired by Colfax in 2018, it disclosed that its Bracing and Vascular division generated revenues amounting to USD 496,141 k in fiscal year 2018. The company also mainly operates in the US with 72.02% of net revenue in 2018 stemming from this region. DJO enjoys particularly great brand recognition there as Don Joy Orthopaedics, in short DJO, stands for the classical leg brace for leg injuries. Breg considers itself the company with the 2nd largest market share in the US market after DJO. We estimate a global market share of 6% for Breg. Both Breg and DJO’s product portfolios come closest to Össur’s in terms of product portfolio depth and high-end positioning (Figure 4 and 5). Breg just lags a little behind in terms of product selection for OA solutions. DJO’s is the more similar here as just like Össur, DJO’s OA solutions product portfolio includes nine high-end products for four different OA severity levels. However, Össur remains the only player to have entered the hip OA solutions market. The other competitors in the high-end OA solutions market such as DeRoyal and Bauerfeind with a market share of 5%, respectively, lag in terms of portfolio depth (Figure 4). Ottobock covers the mid-range in OA solutions while Thuasne (4% market share, see Figure 4) covers the low-end spectrum (Figure 4). The positioning in the injury solutions market is much more distinct. Ottobock, Bauerfeind, Thuasne, and DeRoyal cater to the low-end segment with only small differentiation in terms of product range while DJO, Breg, and Össur are positioned in the high-end segment (Figure 5). Moreover, we see Össur as best positioned in the high-end category even in comparison to Breg and DJO due to innovations such as the Functional Healing line which retails up to USD 1,500. It is important to note that for Ottobock we excluded its exoskeleton products from the analysis as they are the only player to have entered this market. Ottobock was able to leverage its technological knowledge from its prosthetics products to enter the bionic bracing market, where Ottobock has a head start over Össur and is considered the technology leader. In 2015, Ottobock launched its C-Brace, an orthotropic mobility system which strengthens the leg of a person with only partial motor control.

Prosthetics

Össur estimates the overall prosthetics market size to be around USD 1.3-1.4 bn with an expected growth rate of 3-5%. Typical market characteristics are stable pricing, technological innovations, and a moderate volume growth. The latter is



Figure 4 – OA competitive positioning as of 2021

Source: Analysts



Figure 5 – Injury Solutions competitive positioning as of 2021

Source: Analysts

determined by the limited number of new amputees who are fitted with a prosthetic device (only 30-40%).¹

- Össur's Prosthetics Product Catalogue

Össur offers upper and lower limb prosthetic solutions. For both, various product lines were developed to provide tailored solutions addressing different mobility needs. In general, the prosthetic leg (lower limb) consists of three main components (liner, knee, and foot) as well as accessories. In 2007, Össur introduced its first bionic foot, symbolising a new milestone for Össur's product portfolio, setting it apart from the industry's standard mechanical leg. For instance, the PROPRIO Foot consists of a microprocessor-controlled ankle which is designed to improve walking safety. Another recent innovation as of 2020 is the Cheetah Foot. This crossover foot is available in nine different models and is designed to allow patients to engage in various sports and daily activities without having to change the foot. In 2016, Össur entered the upper limb prosthetics market through the acquisition of TouchBionics. The company's upper limb product portfolio consists of two bionic solutions – i-Digits and i-Limb. Both prostheses have sensors attached to the patient's skin to mimic natural hand movements. Depending on the used raw materials, the hand carry load, grip force, and speed can be increased. The hand movement is powered through a battery which needs approximately 90 to 180 minutes to recharge and should be replaced yearly.

Moreover, in 2020, Össur started developing different knee solutions for different mobility needs. For instance, the Mobil Knee will cater to elderly and the Power Knee should improve mobility for active patients. Both solutions are planned to launch during the fiscal year of 2021.

Furthermore, Össur invests and sponsors many collaborations with start-ups, scientists, and foundations in the field of mind-controlled prosthetic devices. For instance, in 2019, Össur formed a joint venture with the Alfred Mann Foundation (AMF) to further develop and license AMF's implanted myoelectric sensor system. Another important project involved SpringActive. From this partnership Össur acquired technology related to the development of a powered ankle prosthesis. This technology allows the user to balance and perform natural ankle positions resulting in major improvements within several products such as the RHEO Knee, POWER Knee, and the PROPRIO Foot.

- Competitive Environment

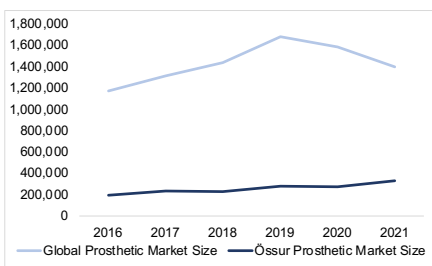


Figure 6 – Historical prosthetics market size

Source: Analysts

¹ Össur Annual Report 2020

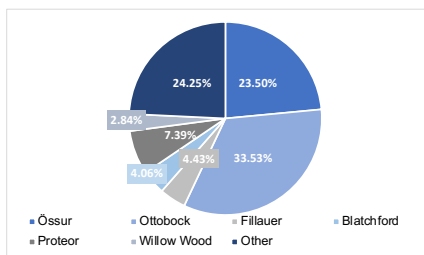


Figure 7 – Prosthetics market sizing as of 2021
Source: Analysts

The overall prosthetic market is consolidated and as all players are privately held, data availability is limited. However, there are high entrance barriers, and all relevant players differentiate themselves through price and product portfolio depth. Premium players like Össur and Ottobock have been pursuing vertical integration strategies through the acquisition of O&P clinics as an alternative route to increase market share.

Össur’s biggest competitors are Ottobock, Fillauer, Blatchford, Proteor, and Willow Wood. Ottobock, however, is the largest competitor and we estimate a current market share of 34% (Figure 7). We estimate Össur’s market share to account for 24% based on management’s market size estimation and our 2021 prosthetic sales projections, adjusted for O&P clinic revenues. Ottobock manufactures high-end upper and lower limb prosthetics with bionic and mechanical solutions, orthotics, and wheelchairs. During the fiscal year of 2019, Ottobock generated total sales of around USD 1,135 m (+8.02% vs. 2018) with an estimated EBITDA of USD 216 m (+10% vs. 2018), resulting in an EBITDA margin of 19.04% (+0.34% vs 2018).² Furthermore, the company invested USD 208 m, USD 69 m of which were spent in R&D. Össur in comparison spent USD 31 m in R&D. We estimate that roughly 40% of Ottobock’s total sales are contributed only by prosthetics product components, resulting in an overall market share of 34%.

Fillauer is next to Össur and Ottobock the only prosthetic manufacturer offering upper and lower limb solutions. According to our estimates, Fillauer accounts for 4% in market share. The company, however, sells only mid-range products and specializes in paediatrics and other orthotic products. In 2019, Fillauer acquired Therapeutic Recreation Systems, a manufacture of body-powered upper limb prosthetic devices, allowing Fillauer to gain market share in the upper limb segment. As Össur’s strength lies within the lower limb division, another considerable competitor is Blatchford. The company manufactures mid-range bionic and mechanical lower limb prosthetics, orthotics (e.g. special footwear) and special seatings. Furthermore, similarly to Ottobock and Össur, Blatchford acquired a chain of O&P clinics across Norway in 2014. Just like Össur, Blatchford specializes in sports solutions, differentiating itself by introducing waterproof and sweat resistant solutions. Overall, we expect Blatchford’s sales to account for an overall market share of 4%.

Since Proteor’s acquisition of Freedom Innovations from Ottobock in 2020, the company acquired certain foot, knee, and ankle solutions. The company is expected to launch a new bionic knee solution by FY22. We currently estimate

² Ottobock Website

Proteor's market share to account for roughly 7% with high potential to gain market share in the upcoming years due to its microprocessor-controlled knee products. Lastly, Willow Wood competes with Össur in the lower limb division as the company manufactures mechanical mid-range prosthetics. Due to Össur's acquisition of CollegePark in 2019, the company can compete with Willow Wood within this customer segment. As Willow Wood's product portfolio is simpler in comparison to the industry giants (Ottobock and Össur), the company accounts for only 3% of market share.

Risk Analysis

Health Insurance Coverages

High prices, eligibility and faulty reimbursement policies are setbacks to growth within the prosthetics market. According to Össur, a standard mechanical foot costs around USD 2,000. In comparison, a high-end mechanical foot can amount up to USD 8,000. The price for a bionic foot is around USD 10,000, resulting in a total cost of USD 40,000 for a complete bionic leg. The comparable bionic Genium knee by Ottobock costs around EUR 46,000, whereas its simpler C-leg model has a price of EUR 28,000.

95% of Össur's products are reimbursable through public and private reimbursement systems. Health insurance policies usually vary substantially between countries and products. The problem which arises is that health care providers try to minimize costs and lag behind in updating their corresponding policies. If Össur would launch a mind-controlled leg in 2022, it would take several years until any health insurance provider would acknowledge the benefits resulting from that leg as costs are higher in comparison to a simple mechanical or bionic leg. For instance, the main reimbursement source for services in the US occurs via commercial private payors, Medicare, Medicaid or the US Department of Veterans Affairs (VA). Medicare is a federally funded health insurance program that provides health insurance coverage for patients over the age of 65. Medicaid is a public insurance provider regardless of the age. Since the US healthcare reform in 2014, around 32 m new patients are insured, allowing for better reimbursement policies. However, patients are classified into mobility levels which justify the amount and the type of prosthesis the patient receives.

Eligibility is based on the user's functional status, the so called "K-level". Key factors are age, weight, the amputation's height and the overall health and physical condition of the patient. There are four relevant functional levels ranging from limited mobility within the patient's household (Level 1) to a full mobility (Level 4). Level 4 are typically prescribed to children, active adults, and athletes. K1/ K2 patients are considered elderly, less active patients and are most likely

fitted with a mechanical solution. K3/K4 patients, on the contrary, are eligible for bionic products. As most lower limb amputations occur in patients between the age of 65 to 70, most would be classified as K1 or K2. According to management around 80% of new amputations are categorized as “low activity” and therefore, receive a mechanical leg.

Regulatory Pressures

Healthcare is a tightly regulated sector which is why Össur’s products are subject to extensive global regulations by the respective authorities in the company’s operating countries.

In January of 2021, the Durable Medical Equipment, Prosthetics, Orthotics, and Supplies (DMEPOS) Competitive Bidding Program in the US came into effect for certain off-the-shelf knee, spinal, and back braces. The DMEPOS was mandated by Congress to improve the effectiveness of the federal health insurance program, Medicare, by reducing beneficiary out-of-pocket expenses and saving the Medicare program money while ensuring beneficiary access to quality items and services. Hence why the Centers for Medicare and Medicaid Services (CMS) has contracted with certain Durable Medical Equipment (DME) manufacturers to be the sole suppliers of the above-mentioned products. Through a competitive bidding process, contracts are awarded to the DME manufacturers with the best price while meeting certain quality and financial standards. This intensifies the already existing intense price competition in the B&S market. Price competition is also fuelled by the commoditization of low-end bracing and soft-good products. This is a major reason why Össur has made increasing efforts to position itself in the high-end B&S segment since 2014.

Vertical Integration Strategy

Since 2013, Össur has been following a vertical integration strategy through the acquisition of O&P clinics. According to the company, the primary objective in entering the O&P clinic space was to gain a better understanding of end-users needs as well as provide the clinics with insights and assist them with all operational aspects. We think the strategy is an opportunity to increase market share by expanding its share of wallet in the acquired clinics. This is a rather slow process in the O&P space with replacement cycles between three to five years and most patients having rather high brand loyalty. However, upselling i.e. encouraging customers to upgrade to more high-end products is much more likely to drive profitability. Össur first added self-owned O&P clinics to its portfolio

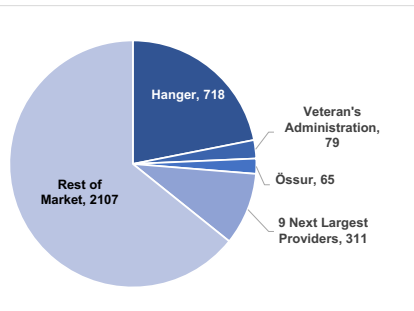


Figure 8 – O&P clinics market size as of 2021
Source: Analysts

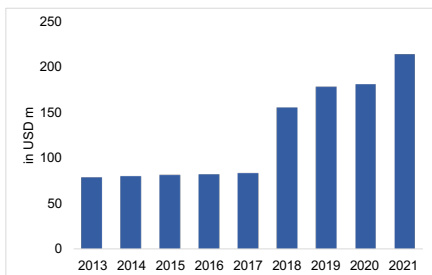


Figure 9 – O&P clinics as of 2021
Source: Analysts

through the acquisition of Swedish O&P solutions provider TeamOlmed in 2013, followed by two other O&P clinic operators in Norway and Brazil in the same year. In 2021, Össur entered the O&P clinic space in France through the acquisition of Orthoway. Generally, there are no network-wide clinics across Europe as reimbursement rules vary by nation. Hence why the US is the largest market for O&P clinics which Össur entered in 2018 with four undisclosed acquisitions, the first being Bulow O&P with two clinics. This was followed by three additional undisclosed acquisitions in 2019, two of which were Virginia Prosthetics & Orthotics and Next Step Bionics & Prosthetics, operating seven and three clinics, respectively. The addressable US O&P clinic market amounts to USD 4.3 bn with a total of 3,280 clinics.³ It is growing at 1.5-2.0% annually according to estimates made by Hanger’s management and is highly fragmented.⁴ As seen in Figure 8, Hanger has the largest share in the US with 21.9%. The second-largest operator is the US Department of Veteran Affairs with a market share of 2.4%. We estimate Össur’s US market share to amount to 2.0%. This number was derived by the number of clinics of known acquisitions and the cumulative revenue contribution of the acquisitions amounting to \$70mn and \$20mn for 2018 and 2019, respectively. The nine next largest O&P clinic operators own a cumulative market share of 9.5%. The rest of the market primarily of independent clinics. We estimate that Össur’s O&P clinic revenue as of 2021 year-end amounts to USD 213 m (Figure 9). This number is based on the sales contributions stated by Össur in the respective acquisition years while assuming a 1.5% growth rate.

Value Drivers

Bracing & Supports

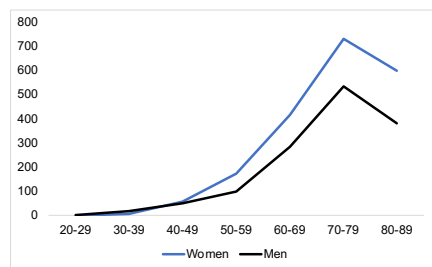


Figure 10– OA incidence by age
Source: The World Bank

Osteoarthritis is a incurable, degenerative joint disease, resulting from the breakdown of joint cartilage and the underlying bone. OA can affect any joint but is most common for knees, hips, and feet. It represents the most common joint disease worldwide as it affects more than 240 m people worldwide, approximately 10% of which are males and 18% females over the age of 60. Olivera et al conducted a large study on the incidence of the disease. The results showed that the OA incidence increased a lot with age (Figure 10). This also translates in numbers as 33% of people older than 75 have symptomatic and radiographic knee OA.⁵ Moreover, the study highlighted how knee OA is the most common type of OA with the incidence being twice that of hip or hand OA.

³ Hanger Investor Presentation May 2021

⁴ Hanger Investor Presentation May 2021

⁵ Paper: Diagnosis and Treatment of Hip and Knee Osteoarthritis

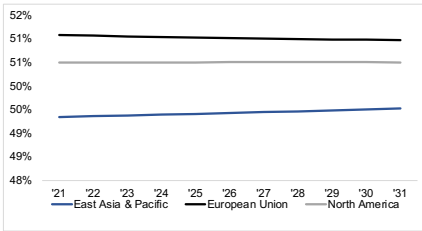


Figure 11 – Female Population (% of total population)
Source: The World Bank

Another major discovery was that women have much higher rates than men, especially after the age of 50. The female/male ratio for hand, hip, and knee OA was approximately 2:1. According to projections by the World Bank, however, the female population as a percentage of total population will remain relatively constant until 2050 (Figure 11). The decline in OA prevalence for the age group 80 to 89 as shown in Figures 12 and 13 can potentially be explained by sedentary activity levels in the older age groups, resulting in less joint injury and/or decreased joint pain. Moreover, the elderly may have increased pain thresholds, reducing the number of reported symptoms.

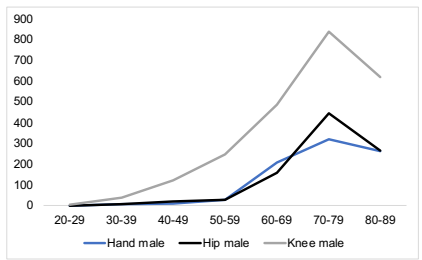


Figure 12 – OA prevalence per age group
Source: The World Bank

The treatment of the disease typically consists of non-operative (e.g. symptom relief medication, braces) and operative treatments (e.g. total knee replacement (TKR)). Surgery is usually not recommended for younger patients due to their higher activity level and the fact that TKRs need multiple revisions as one surgery usually lasts about ten years. OA bracing is seen as a cost-effective option to delay surgery. A study conducted by Lee et al followed OA patients who were treated with Össur’s Unloader One knee brace. 25.4% of patients wearing the brace were able to delay TKR by 24 months (Figure 14).

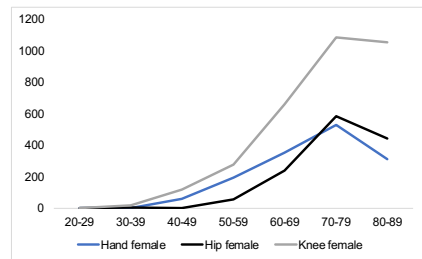


Figure 13 – OA prevalence per age group
Source: The World Bank

In contrast to OA, injury solutions is very complex to quantify. Firstly, there are numerous factors leading to injuries such as falls, sports or road traffic accidents. Secondly, there is limited data available for potential metrics. In terms of falls, we believe age is a strong risk factor. Elderly people are prone to injuries as muscle mass and strength decreases and vision deteriorates with age. In 2014, 28.7% of adults aged ≥ 65 in the US reported falling at least once in the preceding 12 months. This number tends to increase with age. 37.5% of this age group reported at least one fall that required medical treatment of restricted activity for at least one day.⁶ According to the CDC, one out of five falls can result in a serious injury such as a broken bone or head injury. In addition, elderly people are likely to go through age-related physical and psychosocial changes, which is why bones and ligaments naturally become weaker. This age group is prone to develop low back pain (LBP) pathologies and/or chronic LBP. In fact, LBP is considered one of the major disabling health conditions for elderly people (age ≥ 60).⁷

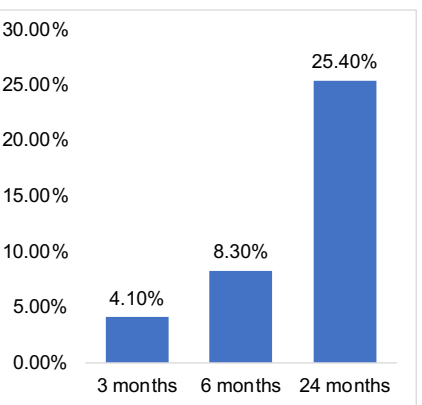


Figure 14 – Unloader One knee brace
Source: Lee et al

We believe road traffic accidents to not be a large contributor to overall injuries. According to the Association for Safe International Road Travel, merely 20 to 50 m people globally suffer non-fatal injuries from road accidents each year. In the US, non-fatally injured people in road accidents amounted to 2.74 m in 2019. This number remained relatively stable over time in the past. It grew by 500,000

⁶ Paper: Falls and Fall Injuries Among Adults Aged ≥ 65 Years — United States, 2014

⁷ Paper: Low back pain in older adults: risk factors, management options and future directions

Region	per 100k	Total procedures
France	3.32%	3.61%
Germany	1.08%	1.60%
Italy	2.19%	1.83%
Spain	2.37%	2.66%
United Kingdom	2.04%	2.73%
Europe Median	2.19%	2.66%

Table 1 – Surgical procedures (per 100k population)

Source: OECD

since 2010, primarily driven by increasing cell phone distraction during driving, for which young drivers account the most.⁸ In terms of sports accidents, the WHO reports that there have been no improvements in global levels of physical activity since 2001. Moreover, it is important to note that the WHO states that low or decreasing physical activity levels often correspond with a high or rising gross national product.

A potential estimator for past injuries may be the number of surgical procedures. Looking at past data from the OECD show relative moderate increases of surgeries per 100,000 for the time frame between 2014 and 2019. The CAGRs range from 0.76% in Canada to 3.32% in France (Table 1). The median CAGR for the five European countries as shown in table 1 amounts to 2.19%.

Prosthetics

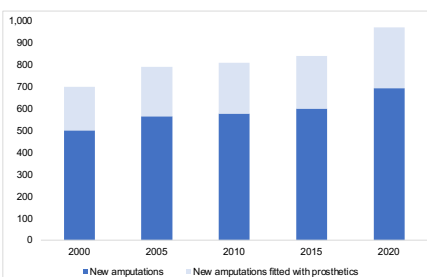


Figure 15 – Lower limb amputations

Source: Company Information

Market drivers for new amputations are aging population, diabetes, and serious road accidents. In total, worldwide 775,000 new amputations occur yearly, among only 3% or 25,000 are upper limb cases. In total, the total lower limb market share would amount to USD 150-200 m (vs. 1.3-1.4 bn total prosthetics market share).⁹ Roughly 30-40% of lower limb amputees receive a prosthetic device, whereas 50-60% of upper limb patients get one (Figure 15). Potential explanations are associated with mobility needs and age.

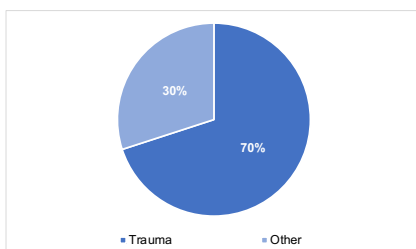


Figure 16 – Causes of upper limb amputations

Source: Company Information

Most upper limb amputations are caused by road accidents (Figure 16). According to the World Health Organization 20-50 m people suffer from.¹⁰ We believe that it would be highly inaccurate to forecast lower limb growth driver due to limited data availability. Furthermore, lower limb prosthetics sales only account for 3% of the total prosthetics market. Hence, we decided to base our prosthetic growth drivers based on the lower limb prosthetic growth drivers.

On the contrary, 60%¹¹ of lower limb amputations are caused by vascular diseases, 2% by cancer and the remaining by trauma (Figure 17). Vascular diseases impair the body's blood flow. The main driver here is diabetes which can lead to peripheral artery disease (PAD) which reduces the blood flow to legs and feet. Other diseases range from veins and lymph vessels to blood disorders. Most patients above the age of 65 suffer from those diseases, resulting in a moderate growth and market demand. Furthermore, the International Diabetes Federation (IDF) states that patients with diabetes are 25x more likely to undergo amputations. Also, according to IFD, Middle East and Latin America will suffer

⁸ Statista

⁹ Össur Q1 2021 Company Report

¹⁰ WHO

¹¹ Össur Annual Report 2020

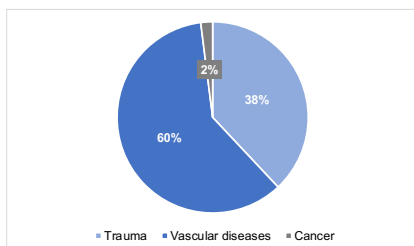


Figure 17 – Causes of lower limb amputations

Source: Company Information

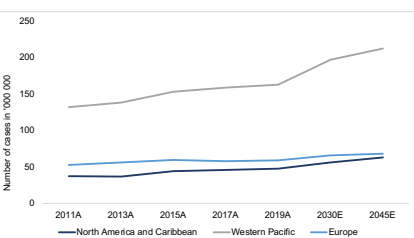


Figure 18 - Worldwide diabetes cases

Source: International Diabetes Federation

the highest number of new diabetes cases worldwide, whereas Europe shows relative low rates as stated in Figure 18. However, due to improved diabetes treatments, better surgical skills and healthier lifestyle choices, the average number of diabetes cases will slowly decrease starting 2030 in most countries. Following the previous aspect, Össur’s key markets are Europe, Americas and increasingly Asia Pacific.

Besides aging population and diabetes, we leveraged an innovation growth driver. Innovation growth consists of collaboration, joint ventures, in-house developments, and M&A acquisitions. Historically, Össur’s innovation growth was mainly a result of M&A activities. More details are included in the “Acquisition Strategy” Section. However, we believe that for the forecasted periods (FY22-32), M&A will become less relevant as the prosthetic market is quite consolidated and dominated by two players, leaving less opportunity to grow extensively through M&A. If potential acquisitions arise, they might be minor within the prosthetics. Hence, we believe that collaborations, joint ventures and R&D investments will dominate Össur’s innovation growth. Current market trends include 3D printing of tailored prosthetics and mind-controlled prosthetic devices.

▪ **Aging Population**

As established above, aging population is the main growth driver for both markets. According to the projections of the World Bank, the aging population will develop as follows. Middle East and North Africa, Latin America and Caribbean and East Asia and Pacific will lead the growth of population above 65 years as a percentage of total population with a 2020 to 2025 CAGR of 4.55%, 3.76%, and 3.42%, respectively. Both North America and Europe lag behind with a CAGR of 2.94% and 1.67% for the same period. This trend seems to sustain over time. For the time frame between 2025 and 2030, there is a slight increase in East Asia and Pacific to 3.53%. In addition, there is a considerable decrease in North America to 2.27%. The numbers in the other geographics remain fairly stable over this time frame. From then onwards, decreasing numbers can be seen almost in all geographics besides East Asia & Pacific where the CAGR is still slightly increasing between 2030 and 2035 (Table 2).

Region	2020 - 2025	2025 - 2030	2030 - 2035	2035 - 2040
North America	2.9%	2.3%	1.4%	0.8%
European Union	1.7%	1.7%	1.4%	1.0%
East Asia & Pacific	3.4%	3.5%	3.6%	2.5%

Table 2 – Aging population CAGRs by region

Source: The World Bank

Valuation Assumptions

Financial Analysis and Forecast

▪ Covid-19 Balance Sheet Implications

Össur's financials, especially during the fiscal year of 2020 have been significantly impacted by the pandemic. The sector has suffered a major setback in elective surgeries which have been either postponed or cancelled. McKinsey has estimated a decrease of around 60-80% of elective surgeries in Europe and the USA during second quarter of 2020.¹²

On the balance sheet, the economic pressure of the pandemic can be tracked by a decrease in inventory by -16.7% (vs. FY19 +16.9%) as well as a negative working capital which indicates a momentary setback in Össur's capabilities to stay in line with the necessary financing. Historically, Össur's average sales outstanding period has always exceeded its average payable period, however, during the pandemic suppliers demanded faster payments (39 days in FY19 vs. 31 days in FY20), whereas Össur's sales outstanding period stayed constant (57 days in FY19 and FY20), resulting in a negative working capital. Normally, this would be of concern but given Össur's history and current initiatives to drive down its own sales outstanding period, Össur is expected to generate positive working capital as of FY22 (Table 3). The company's overall liquidity ratios confirm this observation. Össur's current ratio slightly declined by -7.7% to 2.12 in FY20 from 2.3 in FY19. Similarly, the quick ratio declined by 4.4 to 1.31 in FY20.

	2016A	2017A	2018A	2019A	2020A	2021A
Inventories	75,296	82,291	95,863	112,013	93,231	102,225
Accounts receivables	82,109	93,058	103,923	106,588	98,353	108,157
Prepaid Expenses	10,959	12,594	10,643	14,761	12,844	13,080
Accounts payables	(17,810)	(23,448)	(28,142)	(26,675)	(20,024)	(30,102)
Total	150,554	164,495	182,287	206,687	184,404	193,360
<i>Change WC</i>	<i>(21,937)</i>	<i>(13,941)</i>	<i>(17,792)</i>	<i>(24,400)</i>	<i>22,283</i>	<i>(8,956)</i>

Table 3 – Working capital items

Source: Company information, Analyst Research

Despite the temporary setback, Össur continued its aggressive acquisition driven policy which can be observed on the active side of the balance sheet as well. Goodwill increased by +5% due to impairment charges in FY17 resulting from the

¹² McKinsey Article: "Reimagining medtech for a COVID-19 world"

company's acquisition of Touch Bionics and TeamOImed. As Össur entered a new market of bionic arm prosthetics through the Touch Bionic purchase, an increase of 30% for intangible assets could be observed. Furthermore, Össur has acquired College Park Industries during FY19 which resulted in an overall Goodwill increase of +17.5% from FY19 to FY20, amounting to USD 612 m. Property, Plant and Equipment (PPE) decreased from FY19 to FY20 by -10.3% to USD 58.5 m due to the divestment of Gibaud and the corresponding loss of two production facilities across France. As of FY20, Össur operates in total seven production facilities. Overall, CapEx grew by roughly 67%. However, this high growth is somewhat diluted due to the implementation of IFRS-16. However, we expect mostly maintenance CapEx, therefore, no abnormal changes will be expected in the future.

For long-term liabilities, net-interest-bearing debt increased by almost 40% to USD 381 m due to acquisitions (Orthoway SAS and College Park Industries) in FY20. The company's shares buyback program was put temporarily on hold as the NIBD/EBITDA ratio was higher than the capital structure and dividend policy due to a lower EBITDA in FY20. The FY20 NIBD/EBITDA ratio was at 3.76x, much higher than the overall company's target range of 1.5x to 2.5x. Accordingly, Total-Debt-to-Equity was up +17.9%, since the total equity remained in line with the buy backs and total liabilities increased by 42%, resulting in a FY20 Equity-to-Debt Ratio of 62.13% (vs. 44.25% FY19). Furthermore, Össur prioritizes value-adding acquisitions while using excess cash to pay dividends or repurchase shares. Given the circumstances in 2020, the company's buyback was put on hold as of Q2 FY20 and resulted in only a purchase of 1,295,450 shares in FY20 (-72.9% vs. 4,784,631 in FY19). As sales in Q2 FY21 increased to an almost pre-pandemic scenario and due to the Gibaud divestment, the FY21 EBITDA increased, resulting in the resuming of the company's share buyback program and an NIBD/EBITDA ratio of 2.96x. For the forecasted period (FY22-33) the range between 1.5x to 2.5x will be retained. (Table 1 mit NIBD)

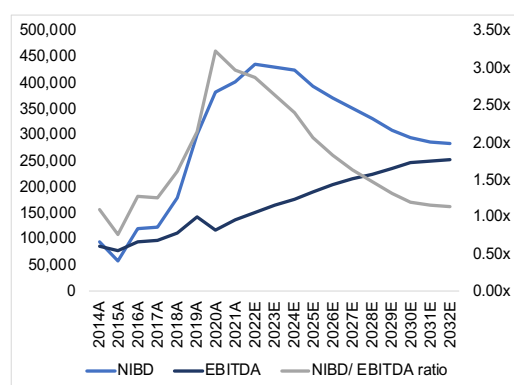


Figure 19 – NIBD/ EBITDA ratio

Source: Company information, Analyst Research

▪ Acquisition Strategy

Össur started as a prosthetics manufacturer in 1971. As of 2021, the company is the second largest company globally in the non-invasive orthopedics market focusing on prosthetics, bracing and supports. Össur has experienced several milestones throughout its acquisition history. For instance, in 2003, the company entered the B&S market by acquiring Generation II and Century XXII. Furthermore, in 2016 Össur acquired Touch Bionics, ultimately entering the upper limb prosthetics market (Table 4).

Especially for the prosthetics sector, acquisitions have been the main sales growth contributors, as stated in Figure 20. For instance, during FY19 17% of the company’s growth was contributed through acquisitions. Also, during the pandemic in FY20, inorganic growth related to the College Park acquisition and previous ones, compensated most of the negative impact of the overall demand decline as demonstrated in Figure 18. However, we believe that M&A activities will not be dominated the prosthetic landscape as the market is consolidated (Össur and Ottobock own >50% total market share). Another reason are regulatory risks related to anti-trust issues which arise from increasing consolidation. Both Össur and Ottobock have had acquisitions partly or fully denied by the US Federal Trade Commission (FTC) on anti-trust issues. For instance, in 2017, Ottobock acquired Freedom Innovations, a manufacturer of specialized prosthetic feet. The FTC filed a complaint regarding this integration. By the end of 2020, the FTC approved Ottobock’s divestment of certain divisions to Proteor. Ottobock’s hydraulic foot-ankle prosthesis “Kintrol K2”, however, remains in the company’s portfolio. Össur has also had experiences with anti-trust issues. The company acquired College Park Industries (CPI), a US prosthetic solutions manufacturer, in 2019. The acquisition was completed in June 2020 after a year of discussions with the FTC. The approval by the FTC was conditional on the divestment of CPI’s elbow business. Regulators seem particularly hesitant about consolidation in the prosthetics market. This may be attributable to the fact that this market is already very concentrated with fewer players when compared to the B&S market. Considering the pressure from regulators to offer better products at lower prices in combination with the anti-trust issues, consolidation will be increasingly more difficult.

Furthermore, we do not believe that M&A activities will dominate the B&S segment. Össur operates in two product segments, low-to-mid and high end. Here, increasing sales is only through increasing volumes. The overall market as already mentioned is quite fragmented and acquiring smaller players, will not generated any cost or revenue synergies, resulting in a decrease of profitability

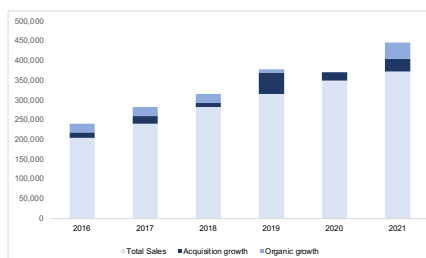


Figure 20 – Prosthetics sales growth

Note: 2020 sales decline due to Covid impact

Source: Company Information

margins. Also, the market experiences have been experiencing price pressure, all ultimately not setting a positive M&A environment.

Lastly, a recent trend among large players is vertical integration as already mentioned in previous sections. Össur started acquiring O&P clinics in FY13 and continued this trend during FY18 and FY19. Combined sales of all acquired O&P clinics in FY18 amounted to USD 70m in FY18, whereas combined sales in FY19 were USD 20. The reasoning behind this strategy, on one side, is that most B&S and prosthetic components are sold to O&P clinics. By acquiring O&P clinics, Össur can position its products better and many cost synergies related to overhead for instance can be generated. Overall, we believe that it takes approximately 4 years for Össur to fully integrate and restructure its O&P clinics. On the other side, due to the pandemic, we believe that FY22 will be an adjustment period where we do not expect to see any acquisitions. All in all, we believe that in FY24 and FY29, Össur will expand its O&P clinic coverage across the US and Canada.

Year	Target Name	Össur's Role	Country	Segment	Revenue (in USD m)	EBITDA
2021	Liberating Technologies	Seller	US	Prosthetics	n/a	n/a
2020	Orthoway	Buyer	France	B&S	n/a	n/a
2020	Gibaud	Seller	France	B&S	51	11.1
2019	College Park Industries	Buyer	US	Prosthetics	20	n/a
2019 ⁽¹⁾	Next Step (3 Clinics)	Buyer	US	O&P Clinic	20	n/a
2019 ⁽¹⁾	Virginia Prosthetics & Orthotics (7 Clinics)	Buyer	US	O&P Clinic		n/a
2019 ⁽¹⁾	O&P Clinic	Buyer	US	O&P Clinic		n/a
2018	Ortos	Buyer	Denmark	Prosthetics, B&S	n/a	n/a
2018 ⁽²⁾	Bulow O&P (2 Clinics)	Buyer	US	O&P Clinic		n/a
2018 ⁽²⁾	O&P Clinic	Buyer	US	O&P Clinic	70	n/a
2018 ⁽²⁾	O&P Clinic	Buyer	US	O&P Clinic		n/a
2018 ⁽²⁾	O&P Clinic	Buyer	US	O&P Clinic		n/a
2016	Medi Prosthetics	Buyer	Germany	Prosthetics	17	n/a
2016	Touch Bionics	Buyer	UK	Prosthetics	21	1.3
2013	Ausonius Medical	Buyer	Norway	O&P Clinic	21.1	1.7
2013	TeamOlmed Syd	Buyer	Sweden	O&P Clinic	54.5	2.2
2013	Ortopedia Correto	Buyer	Brazil	O&P Clinic	3.2	n/a
2011	Technology in Motion	Seller	UK	B&S	n/a	n/a
2010	Orthopaedic Partner Africa	Buyer	Africa	B&S	n/a	n/a
2009	Team Makena	Buyer	US	Prosthetics, B&S	n/a	n/a
2006	Gibaud	Buyer	France	B&S	50.5	10.6
2006	Innovation Sports	Buyer	US	B&S	n/a	n/a
2005	Innovative Medical Products	Buyer	UK	B&S	14	2.8
2005	Royce Medical Co	Buyer	US	B&S	68	17.7
2005	Advanced Prosthetic Components	Buyer	Australia	B&S	n/a	n/a
2004	Mauch	Seller	US	Prosthetics, B&S	n/a	n/a
2003	Generation II Orthotics	Buyer	Canada	B&S	20	n/a
2000	Century XXII Innovations	Buyer	US	B&S	10	n/a
2000	2 Swedish distributors	Buyer	Sweden	Prosthetics	9.7	n/a
2000	Flex-Foot	Buyer	US	Prosthetics	39.3	n/a

Note: (1) Combined sales of USD 20 m (2) Combined sales of USD 70 m

Table 4 – M&A History

Source: Company Information, Analyst Research

■ Historic Revenue Development

Overall, the company experienced organic and inorganic growth amounting to a CAGR of 6.42% between the period of FY16 and FY21. The sales split between the B&S and Prosthetics division has always been relatively balanced, however, in recent years a stronger development towards Prosthetics can be observed (59% of total sales in FY20 vs. 55% in FY19). We believe this development can mainly be attributed to two developments. Firstly, Össur has been increasingly

focused on driving bionic prosthetics sales. Bionics retail at much higher prices and the market is showing much higher growth in general. Moreover, we believe the acquisition of O&P clinics in 2013, 2018, and 2019 have contributed to the development. Össur does not report these revenues as a separate segment but distributes them to B&S and prosthetics according to their contribution to clinic service revenues. We believe that a higher portion of these revenues stem from prosthetics (see further explanations below). The prosthetics revenue contribution hit an all time high in 2020 with 59%. This can, firstly, be explained by the higher resilience of the prosthetics segment, more specifically mechanics, throughout the pandemic as these patients were often prioritized due to the higher severity of injury. Secondly, Össur divested its French B&S subsidiary Gibaud in Q3 of 2020, which is why 2HY20 revenues dropped as well. Hence, prosthetics revenues were fairly stable in 2020 (USD 372 m in FY20 vs. USD 378 m in FY19) whereas B&S revenues dropped much stronger (USD 257 m in FY20 vs. 308 m in FY19).

- **O&P Clinic Revenue**

As already mentioned, the company also provides patient care services through a number of acquired O&P clinics. We estimate these services to account for USD 213m, around 30% of Össur's total sales in FY21 (see Part 1). As cost structure and growth drivers differ for the O&P clinic segment, we introduced an additional segment to the valuation. To do this, we must determine how much of this revenue stems from clinic services related to B&S and prosthetics. In contrast to the two product segments, there is one public O&P clinic operator called Hanger, which is US-based and disclosed total sales amounting to USD 1,0021.2 m in FY20. 83.1% of these sales stemmed from patient care, resulting in a total amount of USD 831,603 m. Furthermore, according to analyst expectation, Hanger's FY21 sales should amount to USD 1,132 m and USD 1,195 m in FY22. The underlying CAGR (2019A-21E) is 2.9%. Given Hanger's size and market coverage, we assume a 1.5% growth rate for Össur's O&P clinics' sales development. Therefore, we estimate sales amounting to USD 213 m in FY22. Furthermore, Hanger disclosed that 56% of its total patient care sales in FY20 (+1% vs. FY19) stemmed from prosthetics, whereas 44% from B&S solutions. For FY19, Hanger's patient care revenue was 82.5% of total revenue, 55% of which were attributable to prosthetics. We see FY19 as more representative due to potential covid effects in 2020. Hence, we assume 55% of the estimated USD 213 m O&P clinic revenue for Össur to stem from prosthetics patients and the rest (45%) from B&S patients.

- **Covid-19 Implications on Prosthetics and B&S Revenue**

The demand for mechanical limbs since the pandemic started remained relatively resilient while bionics have declined in sales, possibly because they require more time for fitting and training which has been challenging in the pandemic environment. For the markets Össur generates most of its sales, the demand is vastly driven by servicing the existing amputee population with maintenance, renewals, and upgrades of their prosthesis. As already mentioned, prosthetic patients are often given high priority in clinics due to the fact that delays of e.g. surgeries, fittings, or trainings affect their mobility heavily. This makes the prosthetic market quite resilient to the pandemic by nature.

In contrast, Össur's B&S division suffered a decline in revenues from FY19 to FY20 of 17%, partly due to the Gibaud divestment but mostly due to the pandemic. According to Össur, the pandemic and the respective lockdown measures had a significant impact on amateur sports and activity levels that have resulted in fewer injuries. Moreover, Covid-19 has impacted volumes of elective surgeries, impacting the demand for post-operative bracing solutions negatively. A similar trend occurred with OA solutions as physician access was limited.

In its earnings call, Össur management highlighted that Q3 2021 sales normalized to pre-pandemic levels in organic terms and that they expect moderate effects of Covid-19 for the remainder of the year. Moreover, they believe sales to continue to normalize in 2022. Management expects some slight pent-up demand, demand which could not be fulfilled due to the pandemic, in the coming quarters. We think this statement mostly refers to prosthetics and post-operative products as these are the products linked to surgeries. Furthermore, Jon Sigurdsson, CEO of Össur, stated that long-term prospects and underlying fundamental drivers of the prosthetics and B&S market are not expected to change as a result of the pandemic. We believe Össur's fast financial recovery in 2021 is a proof of that. Hence, we assume a full recovery from the second half of 2022 onwards and a slightly higher demand for prosthetics, both bionic and mechanical, and post-operative bracing.

- **Prosthetics and B&S Revenue**

Össur estimates a market growth of 3-5% for both prosthetics and B&S. As established above, aging population is the main driver of growth for both segments. Current aging population growth is in line with these estimates. Össur's key markets North America, Europe, and East Asia & Pacific are growing at CAGRs of 2.94%, 1.67% and 3.42% for 2020-25E, respectively (Table 5). We will use these growth rates as a benchmark and account for other factors such as market share, regional mix, innovation, competitive environment etc. to establish the future sales development of both divisions.

Aging population	2020 - 2025 :xp. Regional Mix	2025-2030 :xp. Regional Mix	30-2035	Exp. Regional Mix		
East Asia & Pacific	3.42%	8%	3.53%	9%	3.59%	10%
European Union	1.67%	43%	1.65%	41%	1.43%	39%
North America	2.94%	49%	2.27%	50%	1.39%	51%
Growth %	2.43%	100%	2.13%	100%	1.63%	100%

Table 5 – Aging population by region

Source: Company Information, Analyst Research

In terms of regional mix, Össur relies heavily on the Americas region and Europe with sales contributions of 49% and 42% in FY20. In contrast, the APAC region only contributed with 9% to total sales in FY20. Looking at historical data, the Americas region has increasingly generated more revenue over time from 44% in FY15 to 49% in FY20. Most of this increase can be observed between 2018 to 2019. We believe this increase stems mostly from inorganic growth as Össur acquired in total seven undisclosed O&P clinic operators with a cumulative revenue of USD 90 m in 2018 to 2019. Moreover, Össur acquired College Park Industries in 2019 which generated total revenues of USD 22 m in that year. As mentioned, the drop in EMEA sales in 2020 can be explained by the Gibaud divestment. Gibaud contributed to a total revenue of USD 52.67 m in 2019 which needs to be accounted for in the forecasting periods.¹³ For the future, we expect Össur to continue acquisitions of O&P clinics in the US every four years (see section “Acquisition Strategy”). As the last O&P clinic acquisitions were conducted in 2019, the next ones should occur in 2024, followed by acquisitions in 2029. Hence, we expect US sales contribution to amount to 49% until 2025 and increase steadily from then onwards. We also expect slight increases in APAC sales as Össur invests heavily in the region. Össur also considers this market as rather underpenetrated in comparison to the US and Europe. We weighted aging population growth with our forecasted regional mix to compute base growth rates which we adjusted with other drivers for the respective divisions.

The B&S division has experienced stable growth throughout the past years with a divisional sales CAGR of 6.99% for FY16-FY21. We believe future growth will be driven by three factors. First and foremost, it will be driven as already mentioned by aging population. Secondly, some small growth can be expected by innovation, primarily from high-end solutions such as the company’s OA products and injury solution products like the Functional Healing line. These products not only retail at much higher prices but also differentiate Össur from most of its competitors and is much more difficult to replicate due to the innovative component. We expect that there is still some room for penetration, especially when it comes to OA solutions. This growth is estimated to amount to

¹³ Dun & Bradstreet Estimates

0.5% until 2024E and to 0.25% for the three following fiscal years. We expect no substantial growth from mid- to low-range injury solution products given the price pressure from regulators as well as competitors. Lastly, we expect as already mentioned some pent-up demand due to delayed surgeries for the first half of 2022 which we expect will contribute with a growth rate of 0.5% for the entire fiscal year.

The prosthetics division has experienced stable growth throughout the past years with a divisional sales CAGR 11.07% for FY15-FY20. We believe prosthetics revenue will be driven by four factors with the first factor being, as already mentioned, aging population growth weighted with our regional sales mix forecast. Another strong growth contributor is diabetes. Just like with the aging population numbers, we weighted the diabetes growth rates as implied by projections of the International Diabetes Federation with our expected regional mix. The resulting growth rates amount to 1.30% for the period 2022-30E and 0.75% for the rest of the forecasting period. Moreover, we also expect some pent-up demand in 2022 due to delayed surgeries amounting to 0.5%. Lastly, we expect strong growth stemming from innovation for Össur’s prosthetics segments. This is primarily driven by the room for technological innovation in the bionic space, for which a positive shift can be observed in the last years. Össur’s bionic sales have been in between 20-24% of total prosthetic sales historically. Due to a change in health insurance regulations regarding bionic solutions in developed countries, an increasing middle class in emerging markets and the possible market introduction of Össur’s myoelectric elbow, we estimate that bionic sales will account for 32% of total prosthetic sales by 2032 (Table 21).

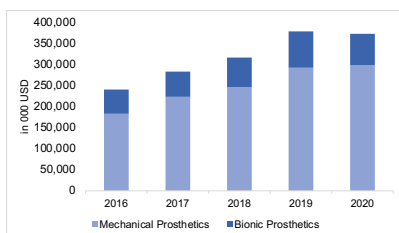


Figure 21 – Bionic/ mechanical prosthetics sales
 Source: Company Information, Analyst Research

▪ **Cost Structure**

Higher freight and raw material costs occurred in 2020, affecting the FY20 gross margin by -10.8% (vs. FY19 +13.4%). As a response, Össur reduced its overall manufacturing capacity temporarily. They will grow in line with sales recovery and are expected to be fully functioning by 2022. Furthermore, Össur introduced in 2017 a cost reduction initiative in the areas of manufacturing, distribution, and sourcing. According to management, the company saved already USD 10 m in FY20 (vs. USD 4 m in 2019) which can be observed in a reduced COGS development (+14.8% FY14-17 vs +11.4% FY17-20). Furthermore, we are expecting cost synergies resulting from the College Park acquisition and further O&P clinics acquisitions. For instance, the CAGR from FY16 to FY20 amounted to 5.5% and will add up to 3.02% within the forecasted periods. Sales & Marketing (S&M) costs declined by 2% and accounted for 36% of total sales in FY20 (vs. 34% in FY19). Overall, the company intends to spend less on traveling, marketing, and selling. Consequently, these saving measurements will increase

investments in market access in emerging markets and R&D of high-end product development innovations such as exoskeletons and the myoelectric elbow. However, we only expect a temporary rise of R&D costs but an overall decline in future periods. Costs will increase to 7% within FY22 and FY23 and decline to 5% according to management. On the contrary, General & Administrative (G&A) costs decreased by almost 14% and amounted to 12% of sales (vs. 11% of total sales in FY19). Due to Össur's highly acquisition driven business model, some extraordinary items related to acquisition and legal settlement expenses were included in the overall General & Administrative expenses. Therefore, we adjusted G&A, accounting now for 10% of sales in FY20 (64m USD adjusted vs. 78m USD reported in FY20). As Össur explores the acquisitions of other O&P clinics, the company will be able to profit from cost-cutting synergies related to overheads for instance. Overall, the company's CAGR from FY21 to FY33 will amount to 2.47% (vs. 4.65% FY16 to FY20).

Due to the pandemic, we observe a decline in the EBITDA margin to 16% in FY20 (vs. FY19 +20.6%) but we assume that given the large service pent-up demand that the EBITDA margin in FY21 partly recovers and reaches an overall EBITDA margin of 20.5-25.6% once the pandemic passes. Furthermore, given the divestment of Gibaud in FY20, we concluded that the reported EBITDA margin in FY19 of 21% did not accurately represent the company's profitability. Gibaud's sales were USD 51 m in FY19. Excluding Gibaud, Össur's total sales would have amounted to USD 636 m, resulting in a 23.4% margin. As the divestment was only fully completed in FY20, we estimate that the FY20 EBITDA margin is 2% lower than it should be. Hence, we conclude that the EBITDA margin will benefit from Gibaud's divestment, resulting in a margin of 23.5% in FY22 and 25% in FY23. However, we believe that those margins will be affected by the integration of lower-margin retailers such as O&P clinics. We estimate that the company's calculated EBITDA margin in the forecasted periods will be 1-2% lower than expected. According to Össur's management, the main cost drivers include COGS and G&A. Overall, COGS account for 29-54% of total O&P sales, whereas G&A contributes 40-51%. This results in an average profitability margin of 7% and for industry leaders EBITDA margins can generate up to 15%. Hanger, for instance, generated during FY20 an EBITDA margin of 11.5% and expects a margin of 11.2% in FY21 and 11.7% in FY22. Hence, we expect Össur to currently operate in the lower 7% segment and target a 9% margin by FY33. Overall, the generated EBITDA for O&P clinics amounts to USD 14.9 m in FY21 with an expected CAGR of 3.9% from FY21 to FY32.

Unfortunately, Össur does not provide a divisional profitability split, but we estimate Prosthetics to generate an EBITDA of 21-25%, while B&S generates 18-19%, respectively. Typically, Prosthetics benefit from higher margins due to its

higher-end product sales such as bionics, therefore, the higher EBITDA contribution. DJO, US-based B&S competitor, disclosed in 2017 its EBITDA margin to be 21.7%.¹⁴ DJO’s product portfolio also slightly varies from Össur’s and is 4x the size of Össur’s B&S division. Therefore, we assumed a slight lower EBITDA margin of 18-19% for Össur and a higher margin for its prosthetic segment. For instance, Össur’s strongest privately held competitor, Ottobock’s EBITDA margin amounted to 19% in FY19. As the competitor does not only sell prosthetic devices but as well wheelchairs and offers special treatment services, we conclude that the adjusted EBITDA margin for Ottobock’s prosthetics segment is slightly larger than 19% and in accordance with the estimate made for Össur of around 21-23%.

▪ Cash Flow Statement

Finally, the free cash flow (FCF) is impacted by the company’s overall aggressive acquisition history as already mentioned in the Balance Sheet section. As FY10 implemented IFRS-16 measurements, FY19 free cash flow from operations or in our case the core business free cash flow was diluted for making any comparisons possible. However, throughout the pandemic, Össur’s free cash flows from operations, financing and investing as well as the FCF remained stable. Overall, the company’s historical cash flow has been strong and stable, despite the pandemic.

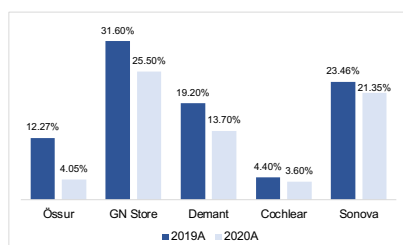


Figure 22 – Return on Equity (Össur vs. competitors)

Source: Company Information, Analyst Research

Unfortunately, Össur’s Return-on-Equity (ROE) offers an unfavourable comparison to its selected public peers (further explanations in Section “Comparable Companies Analysis”). Comparing Össur to its peers in FY20, the company was hit the strongest due to the pandemic. However, looking at FY19, Össur’s ROE improved but comparing to tis peers still underperforming.

Cost of Capital

To discount the expected future cash flows in the DCF valuation, the weighted average cost of capital (WACC) needs to be determined. The Capital Asset Pricing Model is used to calculate the return on equity, a key component of the WACC. As an estimation for the nominal risk-free rate, the 10-year US treasury as of December 3rd, 2021 (1.345%) was used. For the beta estimation, the monthly returns of the MSCI World (denominated in DKK) were regressed against Össur’s stock returns for a five-year time frame. The resulting beta amounts to 0.69 within a confidence interval from 0.30 and 1.08. Considering this rather large confidence interval, Össur’s beta needs to be compared against peers. However, since Össur’s main direct competitors are not publicly listed, the

Rolling Beta

Period	Beta
2012 - 2016	0.64
2013 - 2017	0.67
2014 - 2018	0.66
2015 - 2019	0.67
2016 - 2020	0.77
2017 - 2021	0.69

Table 6 – Rolling Beta

Source: Analyst estimation

¹⁴ Colfax Website

comparison was conducted with companies operating in similar industries, invasive orthopaedics and hearing aid solutions. Levering the beta of these companies with Össur's debt structure shows a median levered beta for invasive orthopaedics peers of 1.14 whereas hearing aid peers trade at a median beta of 0.97. In addition, Össur's rolling beta based on four-year time frames and monthly returns was calculated (Table 6). It shows that the beta remained relatively stable over time with a higher cyclicity from 2016 onwards. We attribute this to the investor behaviour in the pandemic with a much higher cyclicity of healthcare stocks. Using the above-mentioned beta of 0.69, the risk-free rate of 1.345%, and the equity risk premium as suggested by KPMG of 5.75%, results in a cost of equity of 5.32%.

As Össur does not have any public outstanding debt issued, a synthetic rating approach was conducted to estimate the company's credit rating. Applying Altman's Z-Score Model results in a score of 17.31. As this score is well above 3, literature suggests Össur has a very strong financial positioning. Damodaran suggests in its literature to use the interest coverage ratio approach to determine a company's synthetic rating. Össur's interest coverage ratio was relatively stable between 2016 and 2018 but dropped significantly in 2019 (from 15.80 in 2018 to 9.89 in 2019). This can be attributed to reporting changes with IFRS 16 which was applied from January 2019 onwards. In 2020, EBIT was under pressure due to Covid and the resulting drop in demand. Hence, this year is not taken into consideration when estimating the company's credit rating. The 2019 interest coverage ratio of 9.89 translates into a credit rating of AA according to Damodaran. From the above-mentioned peer group, the majority has no public outstanding debt. Medtronic comes closest to Össur in terms of credit rating with a S&P rating of A which is why we used Medtronic's cost of debt as a benchmark for Össur. The Medtronic corporate bond denominated in USD expiring on the 15th of March 2035 has a yield to maturity of 0.53%. Considering this yield and the respective default and loan recovery rate of the bond, a cost of debt of 0.52% was estimated.

Nevertheless, these inputs are forward-looking assumptions. Hence, the sensitivity of the cost of equity in dependence of the risk-free rate and beta was tested. The values for the later were chosen within the confidence interval. The 10-year US treasury yield especially has a lot of potential for upward pressure depending on the next FOMC meeting and the resulting decision on a faster tapering timeline, which could open the door for up to three interest rate hikes in 2022. We see the risk of lower yields in the next year rather low. Although new Covid variants such as the Omicron variant may arise, recent comments by vaccine manufacturers suggest that they can respond very fast with adjusted booster shots.

Furthermore, the WACC sensitivity with the cost of equity between 3.08% and 7.57% (derived by different levels of beta) and the cost of debt between 0.33% and 0.93% was tested (Table 7 and 8).

		Levered beta						
		0.30	0.43	0.56	0.69	0.82	0.95	1.08
Risk-free rate	0.95%	2.68%	3.42%	4.17%	4.92%	5.67%	6.42%	7.17%
	1.15%	2.88%	3.62%	4.37%	5.12%	5.87%	6.62%	7.37%
	1.35%	3.08%	3.82%	4.57%	5.32%	6.07%	6.82%	7.57%
	1.55%	3.28%	4.02%	4.77%	5.52%	6.27%	7.02%	7.77%
	1.75%	3.48%	4.22%	4.97%	5.72%	6.47%	7.22%	7.97%

Table 7 – Risk free rate and levered beta sensitivity

Source: Company Information, Analyst Research

		Cost of equity						
		3.08%	3.82%	4.57%	5.32%	6.07%	6.82%	7.57%
Cost of debt	0.33%	2.72%	3.37%	4.02%	4.68%	5.33%	5.98%	6.63%
	0.43%	2.73%	3.38%	4.03%	4.69%	5.34%	5.99%	6.64%
	0.53%	2.74%	3.39%	4.04%	4.70%	5.35%	6.00%	6.65%
	0.63%	2.75%	3.40%	4.05%	4.71%	5.36%	6.01%	6.66%
	0.73%	2.76%	3.41%	4.06%	4.72%	5.37%	6.02%	6.67%
	0.83%	2.77%	3.42%	4.07%	4.73%	5.38%	6.03%	6.68%
	0.93%	2.78%	3.43%	4.08%	4.74%	5.39%	6.04%	6.69%

Table 8 – Cost of debt and cost of equity sensitivity

Source: Company Information, Analyst Research

Intrinsic Valuation

To model a DCF valuation according to Össur's characteristics, specific assumptions had to be made. As discussed, we derived a WACC of 4.7%. We applied the corporate tax rate of 20% taking under consideration past rates and governmental changes. To derive to Össur's share price, we discounted the FCFs separately with the WACC. Furthermore, the terminal value of the last unlevered free cash flow (UFCF) has been calculated by applying the Gordon Growth Model. As perpetuity growth rate (g), we analysed the company's core markets and corresponding GDP growth and inflation rates. Hence, we assume an overall g of 3%. We cross-examined the assumed growth rate by calculating the Exit EBITDA multiple under the same assumptions. Here, we derived to an EBITDA multiple of 28.75x. Comparing it to our chosen peer group (See Section "Comparable Company Analysis"), we calculated a FY21 EBITDA Multiple of 22.35x. We believe that as our defined peer group does not operate in the same subsector but within an adjacent sector, that both EBITDA multiples are aligned. Summing the individuals UFCFs and the terminal value, we derived to the enterprise value of USD 3,391 m. To derive to the Equity Value and the implied Share Price, we deducted Net Debt from the enterprise value, resulting in an equity value of USD 3,005 m. The corresponding share price as of FY21 is USD

6.06 or DKK 46.41. As the terminal value accounts for 80.36% of Össur's enterprise value, the company highly depends on the perpetuity growth rate. Therefore, we conducted separate sensitivity analysis to measure the perpetuity impact on the implied enterprise value and share price (Figure 9 and 10).

		Perpetuity Growth Rate				
		1.0%	1.50%	2.0%	2.50%	3.0%
WACC	5.20%	2,347,566	2,568,968	2,859,558	3,257,773	3,836,996
	4.90%	2,529,209	2,795,435	3,153,464	3,660,671	4,434,829
	4.70%	2,666,687	2,970,008	3,385,669	3,990,268	4,950,514
	4.50%	2,819,893	3,167,859	3,655,013	4,385,744	5,603,628
	4.30%	2,991,685	3,393,979	3,971,183	4,869,055	6,457,600

Table 8 – Enterprise Value Sensitivity

Source: Company Information, Analyst Research

		Perpetuity Growth Rate				
		1.0%	1.50%	2.0%	2.50%	3.0%
WACC	5.20%	4.61	5.13	5.81	6.75	8.11
	4.90%	5.04	5.66	6.50	7.69	9.51
	4.70%	5.36	6.07	7.05	8.47	10.72
	4.50%	5.72	6.54	7.68	9.40	12.26
	4.30%	6.12	7.07	8.42	10.53	14.26

Table 9 – Share Price Sensitivity

Source: Company Information, Analyst Research

Comparable Companies Analysis

To arrive at an indicative valuation based on FY21 figures, the definition of an appropriate peer group is key. As none of Össur's direct competitors in the prosthetics and B&S segment are listed, we analysed companies within the health care industry which also have aging population as the key growth driver. We think three segments fulfil this criterion: invasive orthopaedics players (e.g. Globus Medical, Smith & Nephew, Stryker, Zimmer Biomet, Medartis, Medtronic), hearing aid solutions providers (e.g. Demant, GN Store, Cochlear, Sonova) and the only public O&P clinic operator, Hanger. Although these segments have the same key growth driver, they differ in the room for innovation left. While hearing aid solutions is more comparable to the prosthetics market in terms of innovation due to the technological component, invasive orthopaedics is more comparable to the injury solutions segment with surgeries being one important sales indicator. In contrast, O&P clinic operators have the least room for innovation due to the nature of the clinic space. These considerations also hold when looking at EV/EBITDA 2021E multiples. The median multiple for hearing aid solutions providers amounts to 25.36x while invasive orthopaedics peers trade at an EV/EBITDA multiple of 18.43x. In contrast, Hanger only trades at a multiple of 7.94x. Össur trades at 28.75x according to our valuation. We believe this is primarily due to the technological innovation leverage in the prosthetics segment.

as of 2021	Market cap (m USD)	Revenues (m USD)	EBITDA margin
Hearing Aid Solutions			
GN Store	10,866	2,397	19.17%
Demant	12,184	2,805	24.14%
Cochlear	10,457	1,105	24.89%
Sonova	22,013	3,393	31.05%
Median			24.51%
Invasive Orthopaedics			
Globus Medical	7,311	952	34.50%
Smith & Nephew	17,938	6,959	25.83%
Stryker	96,298	17,661	27.54%
Zimmer Biomet	35,165	7,877	32.04%
Medartis	1,070	161	17.17%
Medtronic	170,366	31,636	31.40%
Median			29.47%
O&P Clinic Operators			
Hanger	636	1,132	7.17%

Table 10 – Ratios Peers

Source: Company Information, Analyst Research

Recommendation

After conducting this in-depth analysis, we recommend to buy the stock. Össur has an excellent market positioning in both the prosthetics and B&S segment with the second largest player in terms of market share. Moreover, the company has positioned itself in the high-end spectrum of both segments where the entry barriers are much higher, especially when it comes to prosthetics. Although 2020 was a rather challenging year due to delayed surgeries, Össur rebounded very strongly this year and we expect pandemic effects to fully dilute in the next few quarters. We see future growth to be driven mostly by bionic prosthetics and other innovations such as 3D printing. We also see growth potential in the APAC region which is still rather underpenetrated, only contributing with 9% to the overall sales in 2020.

We see strong room for margin improvements in the next couple of years. One area for strong margin improvement is O&P clinics. Össur's management strongly believes margins for these clinics can be improved by up to 8% due to increased efficiencies with Össur to support with best practices, increasing profitability and driving sales. Furthermore, we see the O&P clinic acquisitions as an opportunity to drive upselling, particularly for prosthetics.

In terms of financials, Össur has a track record of growing organically at least in line with the market. Excluding the outlier year 2020, Össur's organic growth in the prosthetics segment has ranged between 7 and 9% in recent years while the B&S segment showed solid organic growth around 2%. In addition, the company provides attractive margins which ranged between 17 and 21% in last years.

Based on all of the above-mentioned assumptions, we derive a final 12-month price target of DKK 46.41. This represents an upside of 16.02% to the share price of DKK 40.00 on our valuation date, the 3rd of December. Given this undervaluation, we initiate a buy-rating on Össur hf.

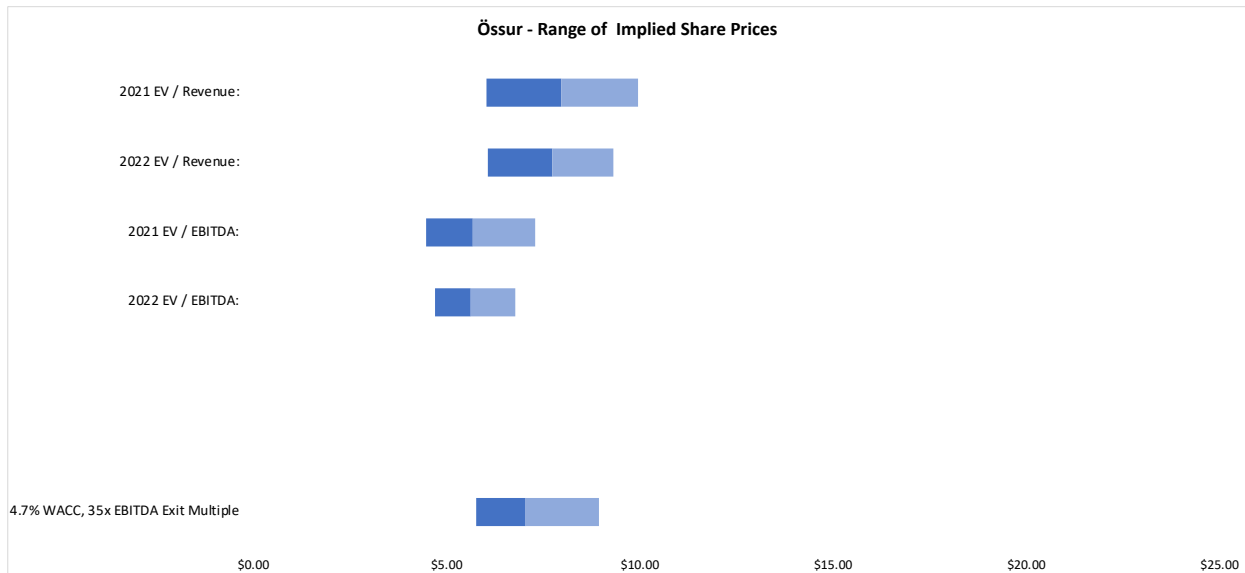


Table 23 – Football Field
 Source: Company Information, Analyst Research

Appendix

Financial Statements

Income Statement

in '000 USD	2021A	2022B	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Core Business												
<i>Product lines</i>												
Bracing and supports	168,765	174,553	179,666	184,929	189,884	194,406	199,036	203,278	207,611	212,036	215,487	218,994
% total sales	23.74%	23.63%	23.48%	23.32%	23.15%	22.95%	22.75%	22.53%	22.31%	22.08%	21.92%	21.76%
Prosthetics	328,867	347,693	365,858	384,972	404,122	423,021	442,804	462,406	482,874	504,249	519,996	536,233
% total sales	46.26%	47.07%	47.81%	48.55%	49.26%	49.93%	50.61%	51.24%	51.88%	52.52%	52.90%	53.28%
O&P clinics	213,245	216,444	219,690	222,986	226,330	229,725	233,171	236,669	240,219	243,822	247,479	251,192
% total sales	30.00%	29.30%	28.71%	28.12%	27.59%	27.12%	26.65%	26.23%	25.81%	25.40%	25.18%	24.96%
<i>Other products</i>												
Net sales	710,877	738,689	765,214	792,886	820,336	847,152	875,011	902,352	930,704	960,108	982,962	1,006,419
Cost of goods sold	(261,700)	(269,452)	(277,995)	(287,042)	(294,256)	(301,657)	(310,784)	(320,662)	(330,915)	(341,138)	(351,712)	(362,618)
% of sales	36.81%	36.48%	36.33%	36.20%	35.87%	35.61%	35.52%	35.54%	35.56%	35.53%	35.78%	36.03%
Gross Profit	449,177	469,237	487,219	505,845	526,080	545,496	564,227	581,691	599,789	618,970	631,250	643,802
% Gross Profit Margin	63.19%	63.52%	63.67%	63.80%	64.13%	64.39%	64.48%	64.46%	64.44%	64.47%	64.22%	63.97%
<i>Operating Expenses</i>												
Sales and marketing expenses	(247,904)	(248,187)	(251,641)	(256,027)	(260,458)	(267,797)	(274,246)	(281,030)	(287,879)	(294,934)	(302,190)	(309,638)
Research and development expenses	(30,654)	(32,800)	(35,096)	(36,851)	(38,693)	(40,628)	(42,659)	(44,792)	(47,032)	(49,383)	(51,852)	(54,445)
General and administrative expenses	(79,648)	(80,964)	(82,950)	(85,309)	(87,563)	(86,410)	(88,815)	(91,450)	(94,048)	(96,723)	(99,479)	(102,306)
<i>Special items:</i>												
Acquisition expenses	(4,380)	(4,380)	(4,380)	(4,380)	(4,380)	(4,380)	(4,380)	(4,380)	(4,380)	(4,380)	(4,380)	(4,380)
Legal Settlement	0	0	0	0	0	0	0	0	0	0	0	0
Core result before taxes (EBIT)	86,591	102,906	113,153	123,278	134,986	146,280	154,127	160,040	166,450	173,550	173,349	173,032
% Return on sales	12.18%	13.93%	14.79%	15.55%	16.45%	17.27%	17.61%	17.74%	17.88%	18.08%	17.64%	17.19%
Adjusted taxes	(19,434)	(23,095)	(25,395)	(27,667)	(30,295)	(32,830)	(34,591)	(35,918)	(37,356)	(38,950)	(38,905)	(38,834)
Core result after taxes	67,158	79,811	87,758	95,611	104,691	113,451	119,536	124,122	129,094	134,600	134,444	134,199
Non-core Business												
Other income / (expenses)	792	0	0	0	0	0	0	0	0	0	0	0
Financial income	563	899	899	899	899	899	899	899	899	899	899	899
Interest on bank deposits		569	569	569	569	569	569	569	569	569	569	569
Other financial income		330	330	330	330	330	330	330	330	330	330	330
Net exchange rate difference	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047
Non-core result before taxes	2,401	1,946	1,946	1,946	1,946	1,946	1,946	1,946	1,946	1,946	1,946	1,946
Taxes	(480)	(389)	(389)	(389)	(389)	(389)	(389)	(389)	(389)	(389)	(389)	(389)
Effects of associates	0	0	0	0	0	0	0	0	0	0	0	0
Share in profit of associated companies	0	0	0	0	0	0	0	0	0	0	0	0
Other comprehensive income	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)
Non-core result after taxes	(14,327)	(14,691)	(14,691)	(14,691)	(14,691)	(14,691)	(14,691)	(14,691)	(14,691)	(14,691)	(14,691)	(14,691)
Financial												
Financial expenses	(12,583)	(2,500)	(2,621)	(2,676)	(2,738)	(2,763)	(2,789)	(2,819)	(2,913)	(3,014)	(3,123)	(3,228)
Financial result before taxes	(12,583)	(2,500)	(2,621)	(2,676)	(2,738)	(2,763)	(2,789)	(2,819)	(2,913)	(3,014)	(3,123)	(3,228)
Financial tax shield	2,517	500	524	535	548	553	558	564	583	603	625	646
Financial result after taxes	(10,066)	(2,000)	(2,097)	(2,141)	(2,191)	(2,210)	(2,231)	(2,255)	(2,331)	(2,411)	(2,498)	(2,583)

Balance Sheet

in '000 USD	2021A	2022B	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Core Business												
Non-current assets												
Property, plant and equipment	58,661	58,476	59,522	61,327	60,505	60,904	61,819	65,787	68,059	70,346	72,868	75,422
Right of use assets	118,287	138,313	152,961	167,984	183,390	199,190	215,394	232,013	249,058	266,540	284,472	302,865
Goodwill	645,120	651,571	658,087	664,668	671,314	678,028	684,808	691,656	698,573	705,558	712,614	719,740
Other intangible assets	58,095	56,379	49,773	49,805	49,304	42,233	42,410	42,647	42,659	42,901	43,160	43,413
Current assets												
Inventories	102,225	109,339	112,805	116,476	119,403	122,407	126,110	130,118	134,279	138,427	142,718	147,143
Days inventory held	143	148	148	148	148	148	148	148	148	148	148	148
Accounts receivables	108,157	112,842	116,894	121,122	125,315	129,411	133,667	137,844	142,175	146,666	150,158	153,741
Days sales outstanding	42	56	56	56	56	56	56	56	56	56	56	56
Other assets	16,809	19,526	19,876	21,147	17,657	18,829	21,998	21,017	22,314	21,803	23,451	23,704
Prepaid expenses	13,080	13,331	13,587	13,848	14,114	14,385	14,661	14,943	15,230	15,522	15,820	16,124
% sales	1.84%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%
VAT refundable	3,729	6,194	6,289	7,299	3,543	4,444	7,337	6,074	7,084	6,281	7,631	7,580
% of sales	0.52%	0.84%	0.82%	0.92%	0.43%	0.52%	0.84%	0.67%	0.76%	0.65%	0.78%	0.75%
Total operating assets	1,107,353	1,146,445	1,169,919	1,202,528	1,226,889	1,251,000	1,286,206	1,321,082	1,357,115	1,392,243	1,429,442	1,466,029
Non-current liabilities												
Deferred income	6,444	6,696	6,937	7,187	7,436	7,679	7,932	8,180	8,437	8,703	8,910	9,123
% of sales	0.91%	0.91%	0.91%	0.91%	0.91%	0.91%	0.91%	0.91%	0.91%	0.91%	0.91%	0.91%
Provisions (Warranties)	3,474	3,610	3,740	3,875	4,009	4,141	4,277	4,410	4,549	4,693	4,804	4,919
% of sales	0.49%	0.49%	0.49%	0.49%	0.49%	0.49%	0.49%	0.49%	0.49%	0.49%	0.49%	0.49%
Other financial liabilities	12,701	2,566	898	1,098	12,701	7,634	5,388	4,316	5,993	4,979	5,544	6,227
Current liabilities												
Accounts payable	30,102	27,160	28,021	28,933	29,660	30,406	31,326	32,322	33,355	34,386	35,452	36,551
Days payables outstanding	31	37	37	37	37	37	37	37	37	37	37	37
Accrued salaries and related expenses	39,261	32,115	33,268	34,471	35,664	36,830	38,041	39,230	40,463	41,741	42,735	43,754
% of sales	5.52%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%
Provisions (Warranties)	3,621	3,762	3,897	4,038	4,178	4,315	4,457	4,596	4,740	4,890	5,007	5,126
% of sales	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%
Total operating liabilities	95,603	75,910	76,761	79,603	93,650	91,005	91,421	93,054	97,537	99,392	102,451	105,701
Non-core Business												
Non-current assets												
Investment in associates	13,296	13,296	13,296	13,296	13,296	13,296	13,296	13,296	13,296	13,296	13,296	13,296
Other financial assets	3,414	4,040	4,040	4,040	4,040	4,040	4,040	4,040	4,040	4,040	4,040	4,040
Deferred tax assets	27,429	24,487	24,487	24,487	24,487	24,487	24,487	24,487	24,487	24,487	24,487	24,487
Current assets												
Other assets	4,881	4,881	4,881	4,881	4,881	4,881	4,881	4,881	4,881	4,881	4,881	4,881
Receivables related to divestment of su	0	0	0	0	0	0	0	0	0	0	0	0
Total non-operating assets	49,020	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704
Non-current liabilities												
Deferred tax liabilities	26,932	26,083	26,083	26,083	26,083	26,083	26,083	26,083	26,083	26,083	26,083	26,083
Provisions (Other)	4,108	3,979	4,087	4,300	4,840	4,108	4,043	4,058	4,118	4,263	4,263	4,276
Provision reporting difference	0	0	0	0	0	0	0	0	0	0	0	0
Defined employee benefits	0	0	0	0	0	0	0	0	0	0	0	0
Current liabilities												
Other liabilities	28,013	28,013	28,013	28,013	28,013	28,013	28,013	28,013	28,013	28,013	28,013	28,013
Provisions (Other)	4,368	4,368	4,368	4,368	4,368	4,368	4,368	4,368	4,368	4,368	4,368	4,368
Provision reporting difference	0	0	0	0	0	0	0	0	0	0	0	0
Income tax payable	5,713	7,892	8,255	8,315	8,326	8,327	8,328	8,328	8,328	8,328	8,328	8,328
Pension related expenses	14,140	14,423	14,855	15,301	15,760	16,233	16,720	17,222	17,738	18,270	18,818	19,383
# of employees	3,419	3,487	3,592	3,700	3,811	3,925	4,043	4,164	4,289	4,418	4,550	4,687
pension expenses per employee	4	4	4	4	4	4	4	4	4	4	4	4
Total non-operating liabilities	83,274	84,757	85,661	86,380	87,389	87,132	87,554	88,071	88,648	89,324	89,872	90,450
Financing Activities												
Current financing assets												
Bank balances and cash equivalents	90,559	83,115	101,423	120,561	158,651	186,777	213,427	251,497	293,535	329,610	358,303	382,480
Total financing assets	90,559	83,115	101,423	120,561	158,651	186,777	213,427	251,497	293,535	329,610	358,303	382,480
Non-current financing liabilities												
Borrowings	276,819	280,971	283,781	286,619	289,485	292,380	295,304	310,069	325,572	341,851	358,943	376,891
Lease liabilities	130,343	155,089	168,310	182,325	188,637	194,804	201,210	207,497	214,017	220,778	226,034	231,428
Current financing liabilities												
Borrowings	62,889	56,600	50,940	45,846	41,261	37,135	33,422	30,080	27,072	24,364	21,928	19,735
% of long-term borrowing	22.72%	20.14%	17.95%	16.00%	14.25%	12.70%	11.32%	9.70%	8.32%	7.13%	6.11%	5.24%
Lease liabilities	22,048	26,234	28,470	30,841	31,908	32,951	34,035	35,099	36,201	37,345	38,234	39,146
% of long-term liabilities	16.92%	16.92%	16.92%	16.92%	16.92%	16.92%	16.92%	16.92%	16.92%	16.92%	16.92%	16.92%
Total financing liabilities	492,099	518,894	531,501	545,631	551,292	557,270	563,971	582,744	602,862	624,339	645,139	667,200
Equity												
Equity	575,957	596,703	624,123	658,180	699,913	749,074	803,391	855,414	908,308	955,503	996,986	1,031,862
Non-controlling interest	0	0	0	0	0	0	0	0	0	0	0	0
Total Equity	575,957	596,703	624,123	658,180	699,913	749,074	803,391	855,414	908,308	955,503	996,986	1,031,862

Statement of Cash Flows

in '000 USD	2021A	2022B	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Adjusted EBIT	86,591	102,906	113,153	123,278	134,986	146,280	154,127	160,040	166,450	173,550	173,349	173,032
Notional taxes	(17,318)	(20,581)	(22,631)	(24,656)	(26,997)	(29,256)	(30,825)	(32,008)	(33,290)	(34,710)	(34,670)	(34,606)
Adjusted taxes	(2,115)	(2,514)	(2,764)	(3,012)	(3,298)	(3,574)	(3,765)	(3,910)	(4,066)	(4,240)	(4,235)	(4,227)
NOPLAT	67,158	79,811	87,758	95,611	104,691	113,451	119,536	124,122	129,094	134,600	134,444	134,199
Depreciation, Amortization & Impairmer	48,855	48,844	50,512	53,557	56,032	57,616	60,642	64,585	68,438	72,070	75,845	79,706
% sales	6.87%	6.61%	6.60%	6.75%	6.83%	6.80%	6.93%	7.16%	7.35%	7.51%	7.72%	7.92%
Gross CF from Operations	116,013	128,655	138,270	149,168	160,723	171,066	180,178	188,707	197,532	206,670	210,289	213,904
Working Capital items												
Plus: Inventories	102,225	109,339	112,805	116,476	119,403	122,407	126,110	130,118	134,279	138,427	142,718	147,143
Plus: Accounts receivables	108,157	112,842	116,894	121,122	125,315	129,411	133,667	137,844	142,175	146,666	150,158	153,741
Plus: Prepaid Expenses	13,080	13,331	13,587	13,848	14,114	14,385	14,661	14,943	15,230	15,522	15,820	16,124
Less: Accounts payables	(30,102)	(27,160)	(28,021)	(28,933)	(29,660)	(30,406)	(31,326)	(32,322)	(33,355)	(34,386)	(35,452)	(36,551)
Total	193,360	208,352	215,266	222,513	229,172	235,797	243,112	250,583	258,328	266,230	273,244	280,457
Net Change in Working Capital	(8,956)	(14,992)	(6,913)	(7,247)	(6,659)	(6,625)	(7,316)	(7,470)	(7,745)	(7,902)	(7,014)	(7,213)
Capex	(44,752)	(59,294)	(57,916)	(62,088)	(62,229)	(66,630)	(70,546)	(77,918)	(80,156)	(84,199)	(88,612)	(92,920)
% of sales	6.30%	8.03%	7.57%	7.83%	7.59%	7.87%	8.06%	8.63%	8.61%	8.77%	9.01%	9.23%
Change in operating assets	(32,532)	(7,200)	(4)	(7,623)	(2,390)	(543)	(9,851)	(5,822)	(7,939)	(6,425)	(8,665)	(7,328)
Change in operating liabilities	26,965	(16,751)	(10)	1,930	13,319	(3,391)	(503)	637	3,450	825	1,993	2,150
Unlevered core FCF	56,738	30,418	73,427	74,140	102,764	93,878	91,962	98,133	105,142	108,969	107,992	108,594
Non-operating income	2,401	1,946	1,946	1,946	1,946	1,946	1,946	1,946	1,946	1,946	1,946	1,946
Taxes	(480)	(389)	(389)	(389)	(389)	(389)	(389)	(389)	(389)	(389)	(389)	(389)
Other comprehensive income	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)	(16,248)
Effects of associates	0	0	0	0	0	0	0	0	0	0	0	0
Share in profit of associated companies	0	0	0	0	0	0	0	0	0	0	0	0
Change in non-operating assets	12,733	2,316	0	0	0	0	0	0	0	0	0	0
Change in non-operating liabilities	(11,914)	1,483	904	719	1,010	(258)	423	516	577	676	548	577
Unlevered non-core FCF	(13,509)	(10,892)	(13,787)	(13,973)	(13,682)	(14,949)	(14,269)	(14,175)	(14,114)	(14,015)	(14,143)	(14,114)
Unlevered FCF	43,229	19,526	59,640	60,168	89,082	78,929	77,693	83,958	91,027	94,954	93,849	94,480
Tax shield	2,517	500	524	535	548	553	558	564	583	603	625	646
Levered FCF	45,746	20,026	60,164	60,703	89,630	79,482	78,251	84,522	91,610	95,557	94,473	95,125
Interest expense	(12,583)	(2,500)	(2,621)	(2,676)	(2,738)	(2,763)	(2,789)	(2,819)	(2,913)	(3,014)	(3,123)	(3,228)
Financial debt items												
Financial debt	492,099	518,894	531,501	545,631	551,292	557,270	563,971	582,744	602,862	624,339	645,139	667,200
Less: Bank balances and cash equivalent:	(90,559)	(83,115)	(101,423)	(120,561)	(158,651)	(186,777)	(213,427)	(251,497)	(293,535)	(329,610)	(358,303)	(382,480)
Total	401,540	435,779	430,078	425,069	392,641	370,494	350,543	331,248	309,327	294,728	286,836	284,720
Change in Financial Debt	20,510	34,239	(5,701)	(5,008)	(32,428)	(22,147)	(19,951)	(19,295)	(21,920)	(14,599)	(7,892)	(2,116)
Change in Equity	(43,998)	(42,373)	(43,550)	(44,722)	(46,076)	(47,387)	(48,297)	(55,152)	(59,179)	(70,302)	(75,772)	(82,048)
Financial FCF	(33,554)	(10,134)	(51,348)	(51,871)	(80,695)	(71,745)	(70,479)	(76,703)	(83,429)	(87,313)	(86,162)	(86,747)

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Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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