

# Embellence Group

## A wall of opportunities

- A growing house of brands, with premium paving the way
- '21-'25e sales and adj. EBITA CAGRs of 8% and 11%
- Initiating coverage with a fair value range of SEK 30-41

## Building on a rich design legacy

With over 100 years of history, Embellence Group has ramped up its growth over the last ten years to become a house of brands. With sales in the Nordics (~50% of group sales in '21), Europe (~40%) and RoW (~10%), Embellence, through its six brands, has a global distribution network that is present in >90 countries across all continents. Its core offering is premium wallpaper, but the group is successively expanding into adjacent product categories (e.g., textiles, window film, and floor coverings). Operating in a highly fragmented market and with a lean balance sheet (YE'22e ND/EBITDA 1.5x), we see significant possibilities for Embellence to become a consolidator within the premium home interior market.

## Premium segment driving growth

Embellence targets '25 sales of SEK 1.2bn, implying a '21-'25 CAGR of 17%. With an above-group gross margin and higher forecasted growth rates, we view the premium segment as the core growth driver. Moreover, we define its key organic growth pillars as: 1) geographical expansion in Europe and the US through its premium brands Artscape, Cole & Son and Wall & Decò, 2) expanding further into adjacent categories, and 3) improving its B2C channels. We forecast a '21-'25e sales CAGR of 8% (3% organic). Furthermore, we estimate a stable gross margin, coupled with operational leverage, to yield a '25e adj. EBITA margin of 17.5% and a '21-'25e adj. EBITA CAGR of 11%.

## Fair value range implies '23e EV/EBITDA adj. of 6.1x-7.8x

The Embellence share is -7% YTD, and -26% since it was listed on the Nasdaq First North Premier Growth Market in March 2021. As such, earnings multiples (EV/EBITDA, NTM) have contracted by 16%, and the share is on our estimates currently trading at 7.3x-4.8x in '22e-'25e. Blending our peer group valuation, EV/EBIT(A), with discounted cash flows, we arrive at a fair value range of SEK 30-41 per share, implying '23e EV/EBITDA adj. multiples of 6.1x-7.8x. The main risks to our estimates are related to changes in consumption trends, cost inflation, and the integration of the newly acquired Artscape Inc.

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SEKm	2020	2021	2022e	2023e	2024e
Sales	570	647	773	821	849
EBITDA	93	107	150	161	169
EBITDA margin (%)	16.3	16.6	19.4	19.6	19.9
EBIT adj	55	92	115	123	130
EBIT adj margin (%)	9.6	14.2	14.9	15.0	15.3
Pretax profit	51	86	105	112	119
EPS rep	1.49	3.31	3.62	3.89	4.13
EPS adj	1.49	3.31	3.62	3.89	4.13
Sales growth (%)	-4.1	13.5	19.5	6.1	3.4
EPS growth (%)	high	122.5	9.5	7.3	6.2

Source: ABG Sundal Collier, Company data

Reason: Initiating coverage

## Company sponsored research

Not rated

Share price (SEK) 10/03/2022 32.0  
 Fair value range (per share) 30-41

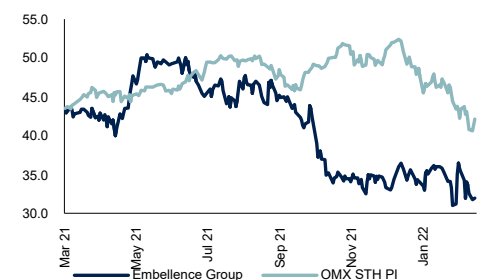
Retail, Sweden  
 EMBELL.ST/EMBELL SS

MCap (SEKm) 685  
 MCap (EURm) 64  
 Net debt (EURm) 21

No. of shares (m) 21.4  
 Free float (%) 47  
 Av. daily volume (k) 10

Next event Q1 report: 29 Apr

## Performance



Absolute (%) 1m 3m 12m  
 -10.2 -8.4 na

Source: FactSet

	2022e	2023e	2024e
P/E (x)	8.8	8.2	7.8
P/E adj (x)	8.8	8.2	7.8
P/BVPS (x)	1.82	1.57	1.37
EV/EBITDA (x)	6.3	5.5	4.8
EV/EBIT adj (x)	8.2	7.1	6.2
EV/sales (x)	1.22	1.07	0.95
ROE adj (%)	23.6	20.5	18.9
Dividend yield (%)	3.4	3.6	3.9
FCF yield (%)	-16.1	12.5	13.3
Lease adj. FCF yld (%)	-17.1	11.5	12.3
Net IB debt/EBITDA	1.5	1.0	0.5
Lease adj. ND/EBITDA	1.2	0.7	0.3

Please refer to important disclosures at the end of this report

This research product is commissioned and paid for by the company covered in this report. As such, this report is deemed to constitute an acceptable minor non-monetary benefit (i.e. not investment research) as defined in MiFID II.

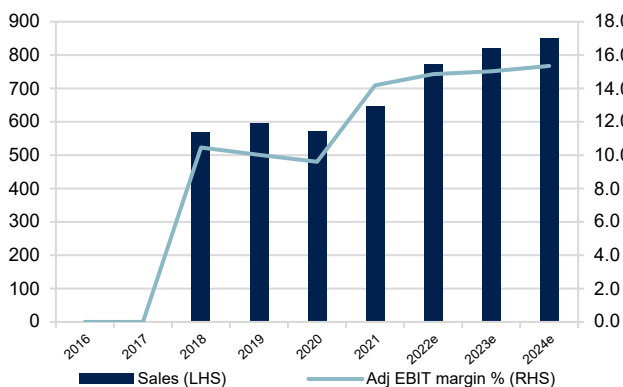
## Company description

Embellence Group is a Swedish house of brands focused on premium wallpaper that is successively expanding into adjacent product categories (textiles, rugs, window film). It holds leading positions in the Swedish and Norwegian markets, and top-three positions in Italy and the UK. Embellence has over 100 years of history and today consists of the six brands Artscape Inc., Boråstapeter, Cole & Son, Wall & Decó, Pappelina and Perswall. The group aims to broaden its geographical footprint and grow both organically and through acquisitions, with a focus on the premium segment.

## Risks

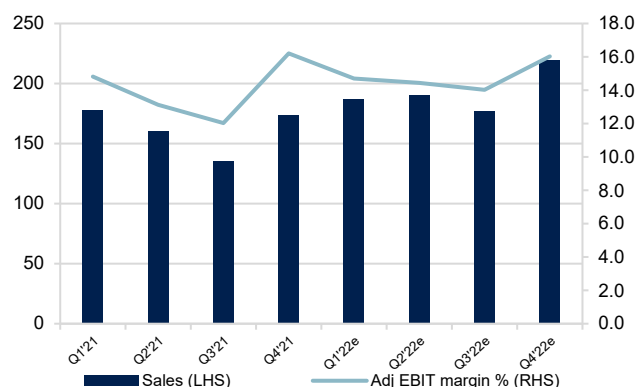
Embellence uses a variety of raw materials in its production, making it subject to potential cost inflation that could hamper margins and earnings. Other risks include production-related risks, but we view this risk as fairly low given that the majority of its production is in-house. Embellence also has exchange rate exposure, primarily to GBP, EUR, NOK and USD, which could have a significant impact if large fluctuations occur.

### Annual sales & adj. EBIT margin, SEKm



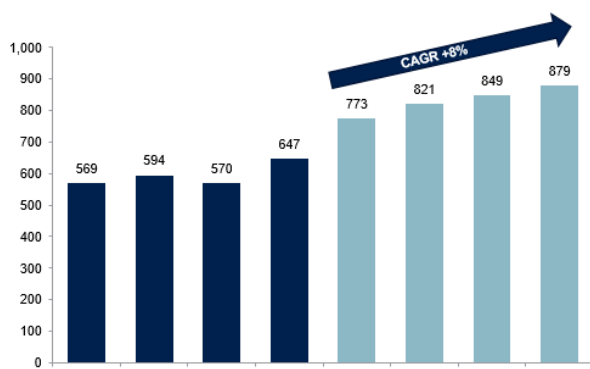
Source: ABG Sundal Collier, Company data

### Quarterly sales and adj. EBIT margin



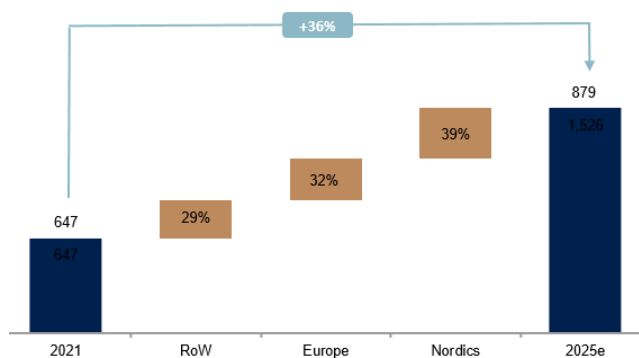
Source: ABG Sundal Collier, Company data

### Annual sales, SEKm



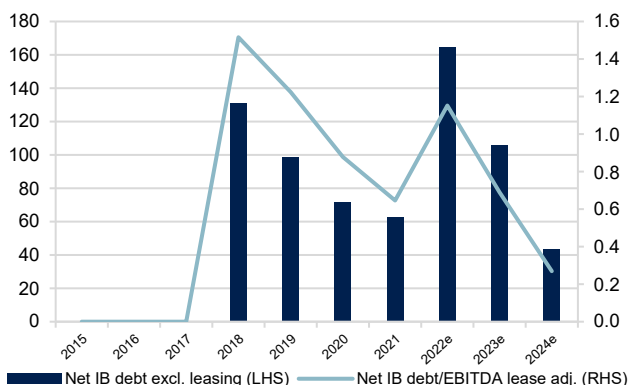
Source: ABG Sundal Collier, Company data

### Growth bridge by market area, SEKm



Source: ABG Sundal Collier, Company data

### Lease adj. net debt and ND/EBITDA



Source: ABG Sundal Collier, Company data

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## Summary

***Embellence Group (Embellence) was founded in Borås, Sweden, in 1905. During the last 10 years, the group has expanded from its roots as Boråstapeter (a wallpaper supplier and distributor) into a house of brands with a focus on premium products. Embellence is successively expanding into adjacent categories beyond wallpaper (e.g., textiles, window film and floor coverings), and today consists of the brands Artscape Inc., Boråstapeter, Cole & Son, Wall & Decò, Perswall and Pappelina. With a global distribution network, it holds leading market positions in Sweden and Norway, and top-three positions in Italy and the UK. It reported for the first time as a group in 2018, and has since then grown sales at a 4% CAGR ('18-'21), reaching SEK 647m in sales and SEK 100m in adj. EBITA in 2021. The group targets sales of SEK 1.2bn and an EBITA margin >15% in 2025, implying a '21-'25 sales CAGR of 17%.***

### **A premium house of brands in the making**

The global wallpaper market (consisting of value and premium segments) is mature; estimated by Mordor Intelligence to grow at a CAGR of 3.6% between '21 and '26. Although the market benefited from an increased interest in home interiors during the pandemic and a slowdown in demand is likely, we argue that it should remain above pre-pandemic levels. This is on the back of that peoples' homes have become more central parts of their lives, and we also note that the main reason for purchasing wallpaper internationally is redecoration, followed by renovating and moving. In terms of where to find the long-term growth, we argue that the premium market is where to look. Spending on high-end interior design is directly influenced by consumers' wealth, which for Embellence means the premium segment, where high-net-worth individuals (HNWIs) play a key role. Both the number and wealth of European HNWIs grew at a 7% CAGR in '12-'18, and are forecasted by Statista to continue growing, which we think should play right into the hands of Embellence.

### **Focusing on premium growth is the correct strategy**

We argue that the premium market should be Embellence's core focus. The segment is forecasted (by a company-commissioned market survey) to post higher growth rates than the value segment across all the group's key markets, and offers attractive gross margins (~65% vs. ~55% for the group). More specifically, we think that Embellence can spur the growth of its premium offering organically by: 1) expanding geographically through its premium brands, 2) using its extensive pattern archive to move further into adjacent product segments, and 3) improving its B2C channels. Moreover, the premium market is highly fragmented, lacking any distinct leaders. As such, with a lean balance sheet (YE'22e ND/EBITDA 1.5x), we see significant opportunities for Embellence to gain market share and become a consolidator within the high-margin, low-multiple home interior premium market.

### **We set a fair value range of SEK 30-41 per share**

With the premium segment as the main growth driver, we pencil in a sales CAGR ('21-'25e) of 8%, including an average organic growth of 3%. Moreover, we estimate the incremental organic growth, supported by a stable gross margin and operational leverage, to have a relatively smooth drop-through to earnings. Hence, we forecast an adj. EBITA CAGR of 11% in '21-'25e, reaching a 17.5% margin, in line with the group's EBITA target of >15%. Through a blend of discounted cash flows (DCF) and peer group valuations, we initiate coverage with a fair value range of SEK 30-41 per share, implying a '23e EV/EBITA adj. range of 6.1x-7.8x.

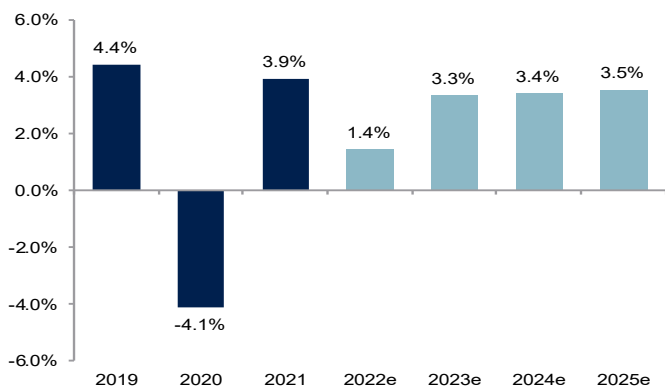
## Supporting charts

### Embellence Group's brands



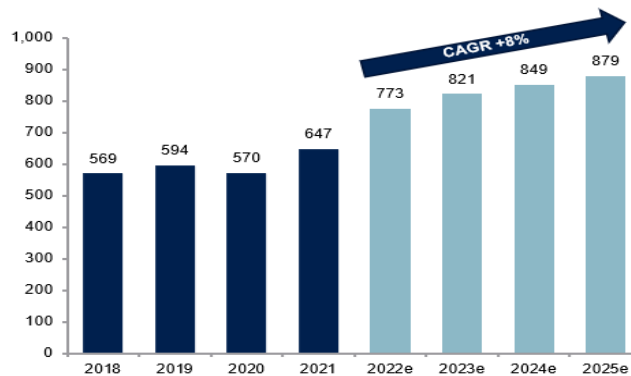
Source: ABG Sundal Collier, company data

### Organic sales growth estimates



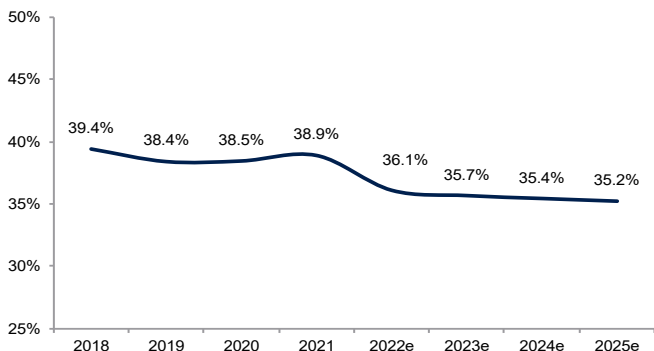
Source: ABG Sundal Collier, company data

### Annual sales, SEKm



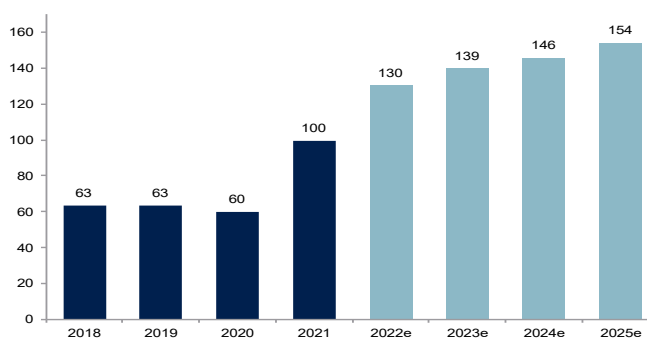
Source: ABG Sundal Collier, company data

### Opex-to-sales, '18-'25e



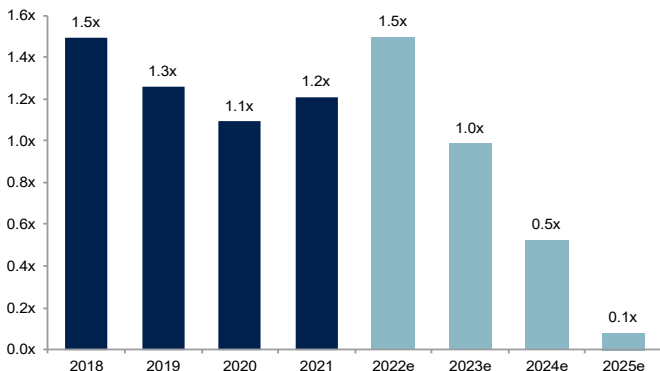
Source: ABG Sundal Collier, company data

### Adj. EBITA, '18-'25e, SEKm



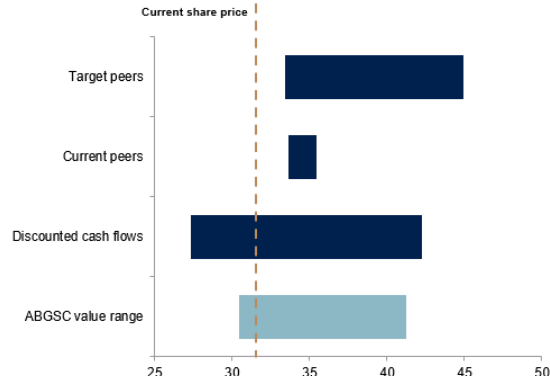
Source: ABG Sundal Collier, company data

### Declining ND/EBITDA, '18-'25e, SEKm



Source: ABG Sundal Collier, company data

### Valuation summary



Source: ABG Sundal Collier, company data

## Embellence in brief

*Embellence Group (Embellence) is a leading Swedish house of brands, with a focus on premium wallpaper. Through its six brands – Artscape Inc., Boråstapeter, Cole & Son, Wall & Decò, Perswall, and Pappelina – the group designs, produces and distributes wallpaper, and has expanded into adjacent product segments such as rugs, window film, and textiles. With more than 17,500 patterns in its combined archive, the group appears well-positioned for continued growth. Embellence increased its sales by a 4% CAGR between 2018 and 2021, reaching SEK 647m in sales (+14 y-o-y) and SEK 100m in adj. EBITA (+66% y-o-y) in 2021, resulting in an all-time high adj. EBITA margin of 15.4%.*

### A house of brands

Situated in Borås, Sweden, and founded in 1905, Embellence has over 100 years of history. The group has built a “house of brands” within interior decoration, with a focus on premium brands in wallpaper, textiles, window film and rugs. From its roots as Boråstapeter, the past ten years have seen the group accelerate its journey via organic growth and acquisitions. We think it is no coincidence that the group’s two most recent acquisitions, of Pappelina in 2021 and Artscape in 2022, were in adjacent product categories (premium rugs and window film). Today the group has a strong presence through distributors worldwide, with leading market positions in Sweden and Norway and top-three positions in Italy and the UK.

### Overview of Embellence Group’s history



Source: ABG Sundal Collier, company data

### Business model

Embellence operates through its six brands: Artscape Inc., Boråstapeter, Cole & Son, Wall & Decò, Perswall, and Pappelina. The group aims to offer high-quality products and its core offering today is within premium wallpaper. However, the group has also expanded its product offering to adjacent segments, (e.g. window film, textiles, and rugs), both organically and through acquisitions. The brands under the Embellence umbrella distribute their products through traditional brick-and-mortar and specialist stores, but also through B2C-channels, which it aims to grow in the upcoming years. Based on 2021 figures, Embellence’s group sales stem primarily from the Nordics (~51%), followed by Europe (~37%), and lastly RoW (~12%). We anticipate the Nordics to continue constituting the largest share of sales, although we expect RoW to grow on the back of the acquisition of US-based Artscape.

Embellence has a global distribution network, with a presence on all continents, and showrooms in Milan, London, and Cologne. For instance, Pappelina, which was

acquired in January 2021, generates >60% of its sales outside the Nordics. The most recent acquisition (Artscape Inc.) is US-based, with most of its sales in North America.

**Embellence Group’s brands are sold in more than 90 countries**

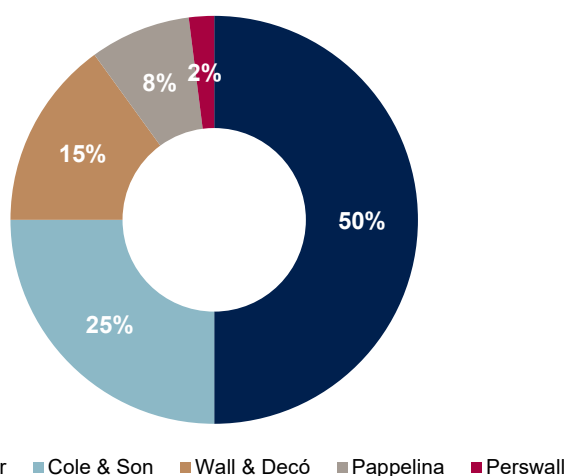


Source: ABG Sundal Collier, company data

**A look under the umbrella**

The majority of Embellence’s brands focus on wallpaper products: Boråstapeter (~50% of group sales), Cole & Son (~25% of group sales), Wall & Decò (~15% of group sales) and Perswall (~2% of group sales).<sup>1</sup> Within the wallpaper market, there are two different product segments; value and premium. According to Embellence, the value segment consists of the sub-segments basic and mid, where basic wallpaper is priced at SEK 0-299 per roll,<sup>2</sup> while mid is priced at SEK 300-699 per roll. The premium segment is defined as wallpaper priced above SEK 700 per roll. This segment is furthermore characterised by a high degree of customer awareness and preferences for branded wallpaper products, and shares similar features with the global high-end design market.

**Estimated pro forma sales per brand in 2020**



Source: ABG Sundal Collier, company data, excluding Artscape Inc.

<sup>1</sup> Based on 2020 figures, estimated pro forma including Pappelina. A brief description of all the brands under the Embellence Group umbrella is found in Appendix 2.  
<sup>2</sup> One roll corresponds to 0.53m width x 10.05 length, according to Embellence Group.

**Brands**

Boråstapeter and Perswall focus mainly on the value segment, while the UK-based Cole & Son and Italy-based Wall & Decò offer only premium wallpaper. For instance, Cole & Son is the wallpaper supplier by Royal Warrants of Appointment to Her Majesty Queen Elizabeth II, where its wallpapers have been used in e.g. Buckingham Palace and the Palace of Westminster. Wall & Decò has expanded from premium wallpaper to two collections in innovative performance wallpaper; the “OUT system” and “WET system” – which are wallpapers adapted for outdoors and facades, as well as damp environments such as bathrooms.

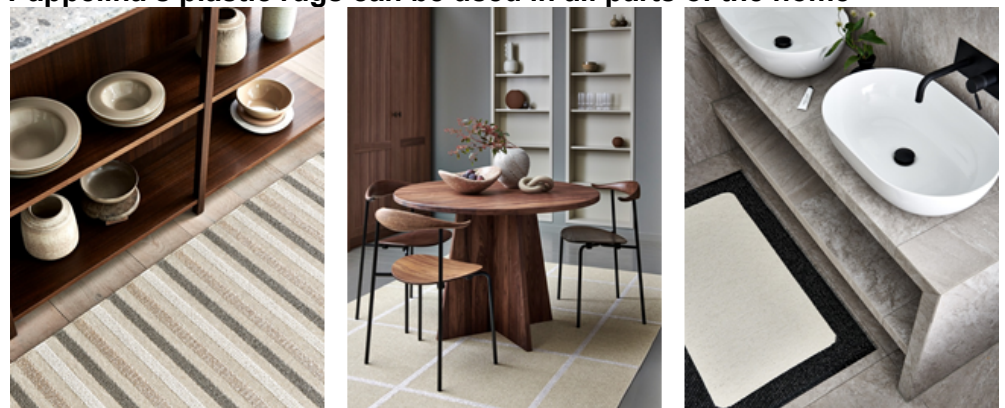
**Example of wallpapers for the different brands**



Source: ABG Sundal Collier, company data

Through its acquisition of Pappelina in January 2021, Embellence expanded into the floorcovering segment. Founded in 1999, Pappelina (~8% of group sales)<sup>3</sup> is a Sweden-based company whose primary products are premium plastic rugs that are designed and woven in Dalarna, Sweden. It also offers interior decor such as blankets and cushions. In November 2021, Embellence conducted an asset acquisition of Dalaslöjden, which is and has been Pappelina’s manufacturer since 1999. The asset acquisition includes Dalaslöjden’s production facilities in Leksand, Sweden, and in Estonia. Through the asset acquisition, Embellence gains control over the goods supply, which we think should entail increased efficiency and accessibility.

**Pappelina’s plastic rugs can be used in all parts of the home**

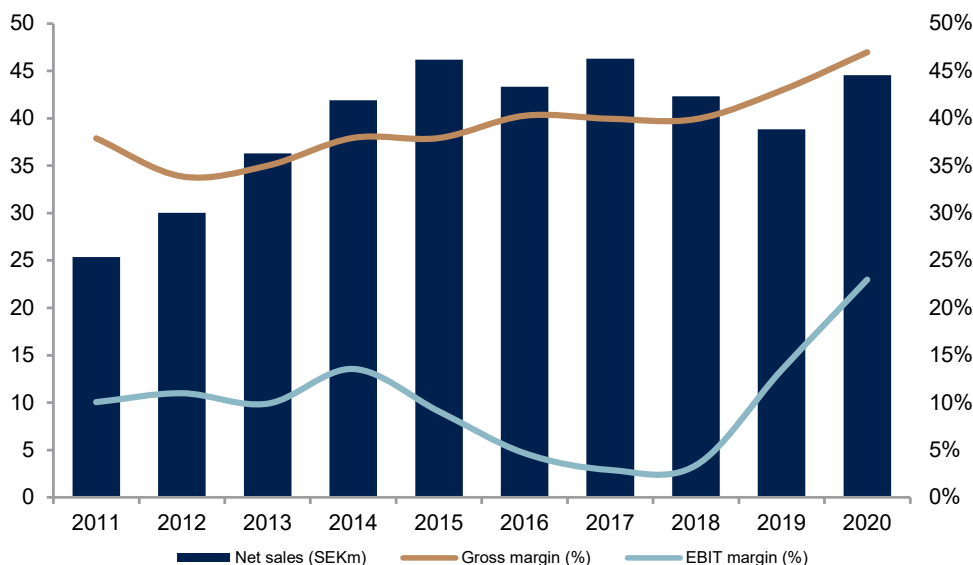


Source: ABG Sundal Collier, company data

<sup>3</sup> Based on 2020 figures, estimated pro forma including Pappelina.

Embellence paid SEK 56.1m for Pappelina (incl. fees), corresponding to an EV/EBIT multiple of c. 3.5x and an EV/Sales of 0.8x.<sup>4</sup> We find the acquisition multiples attractive, as they are below what Embellence is trading at (~9x EV/EBIT in '21), and because Pappelina is a premium brand offering high margins. We take a positive view on the addition of Pappelina to the group, not least due to its global presence (in >40 markets), its growing share of B2C-sales with strong gross margins, and its proven online platform. The acquisition marks an important milestone for Embellence in its continued expansion beyond wallpaper and provides support for increased M&A efforts in these areas.

**Pappelina’s net sales, gross margin, and EBITA-margin, 2011-2020**



Source: ABG Sundal Collier, company data

Embellence’s most recent acquisition, of the US-based company Artscape Inc., was announced on 21 February 2022. Artscape Inc. is a premium brand within pattern-based window film, i.e. artwork for windows. Through the acquisition Embellence is continuing its expansion into an adjacent product segment, diversifying its offering and taking another step towards becoming a leading international house of premium brands.

Artscape was acquired on a cash- and debt-free basis of USD 20m, translating into an EV/EBITA multiple of 5.5x. However, the acquisition is handled as an asset acquisition solely for tax purposes, meaning that the effective EV/EBITA multiple amounts to c. 5.1x. Artscape has a history of profitability since it was founded in 1999, and opens up the US-market even further for Embellence, as this is where Artscape has the vast majority of its sales. According to management, there should be several growth opportunities associated with the acquisition. Although Artscape’s core focus currently is to grow further in North America (according to management), there is potential to expand Artscape’s business into Europe. The company’s current sales exposure in that market is limited. Furthermore, we think there could be possibilities for Artscape to utilise design synergies with the other brands in the group to gain a broader product offering and reach new markets.

<sup>4</sup> Based on 2020 figures for Pappelina.

## Artscape's window film can be used in all rooms in the home



Source: ABG Sundal Collier, company data

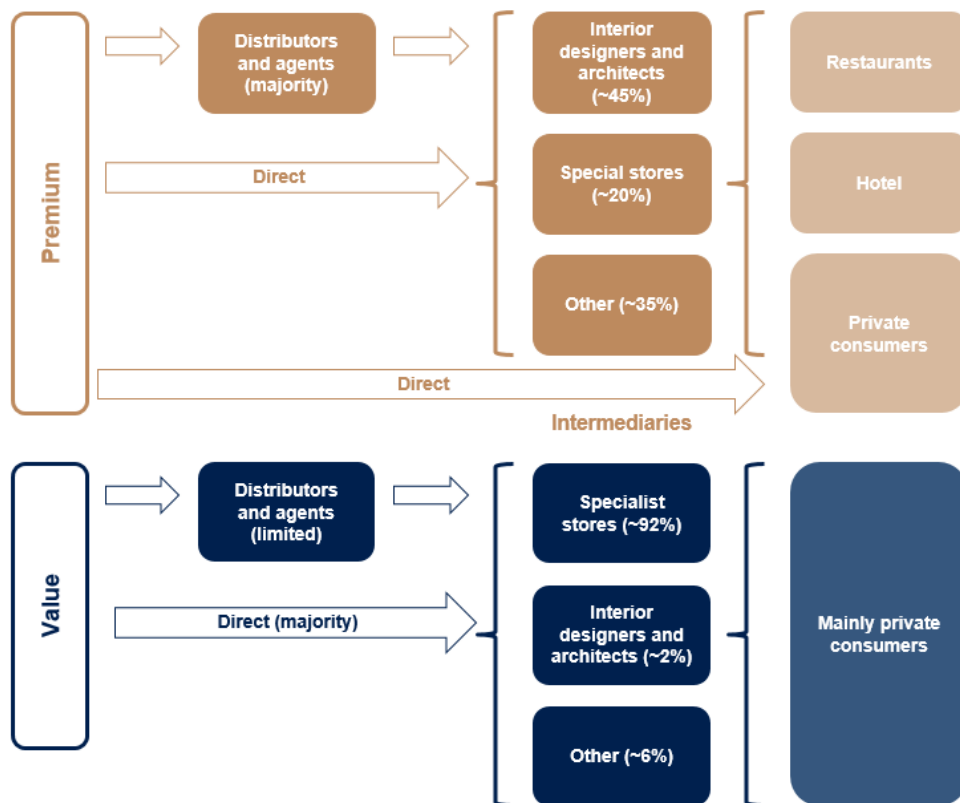
We will go further into Artscape's financials and the effect of the acquisition on the group in our estimate chapter, however we note that Artscape will add c. 20% to Embellence's sales in 2022e, while contributing with higher margins than the average for Embellence's brands (Artscape reported a 26% EBITA margin in 2021). Furthermore, we emphasise that this acquisition clearly demonstrates that Embellence can successfully identify and acquire high-margin companies at low multiples (~4-5x EBIT(A)).

### **Distribution channels: A strong mix, with increased B2C efforts**

Embellence's brands distribute their products through different sales channels. The value segment's end customers are usually private persons, with the products mainly distributed through specialist stores (~92%), such as Colorama and Bauhaus. In contrast, the brands in the premium segment primarily distribute their products through interior designers and architects.

Considering the above, the value and premium sales channels differ significantly: the end customers for premium products usually hire interior designers and/or architects to make decisions based on their preferences. Additionally, some end customers in the premium segment are hotels and restaurants (the hospitality segment), but we do not see this as being Embellence's main focus today or in the future.

**Overview of Embellence’s go-to-market model**



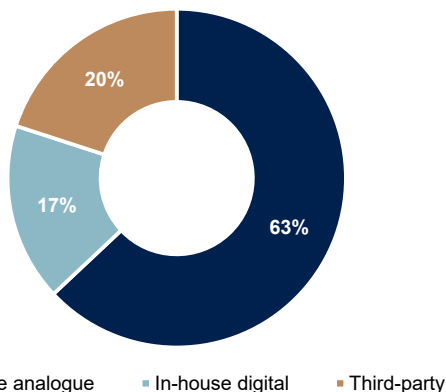
Source: ABG Sundal Collier, company data

Embellence aims to increase its B2C efforts through e.g. developing a stronger e-commerce presence. Although Pappelina already had an established online platform, the Boråstapeter and Perswall brands only launched their own online sales platforms during 2021. Having stronger B2C channels should not only imply higher margins by cutting out intermediaries, but also allows the brands to have more control over and insights into its customer base. While the premium products are not usually sold through B2C channels, we argue that there could be potential for this share to increase: it entails several benefits that are presented in the market chapter of this report.

**Production: An efficient and flexible set-up**

Embellence has both in-house and third-party production. Its in-house production mainly relates to Boråstapeter’s production plant in Borås, but it also has a plant in Cervia, Italy. Furthermore, Embellence owns (since 1990) the land and the building of the facility in Borås. The group’s in-house production stands for c. 80% of its total production and comprises both digital and classic (analogue) production. As previously mentioned, Embellence also owns (since November 2021) the assets of Pappelina’s manufacturer Dalaslöjden.

### Production split



Source: ABG Sundal Collier, company data

Analogue production (~63% of total production) is best suited for collections printed in large volumes. While digital production is made-to-order, analogue is based on forecasted volumes, hence stored as inventory. The lead-time for both digital and analogue production spans from one day up to two weeks, depending on the type of product. Digital production (~17% of total production) is mainly used by Wall & Decò at the Cervia plant, as Wall & Decò’s products all are made-to-order and digitally produced. Although digital production has more flexibility, reduced production waste and less need for inventory, it requires higher volumes in order to be as cost efficient as analogue production.

### Digital production process



Source: ABG Sundal Collier, company data

### Analogue production process



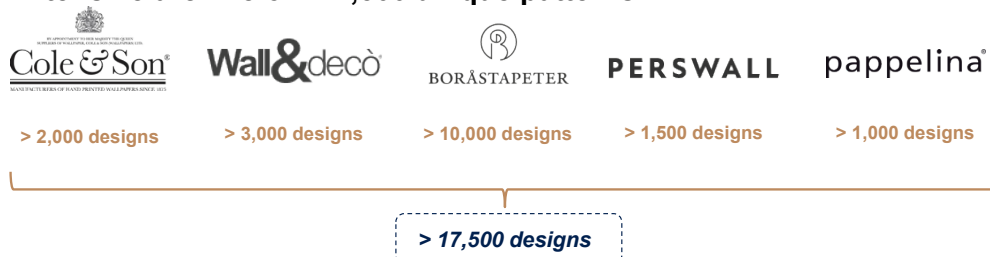
Source: ABG Sundal Collier, company data

Embellence’s own production plants also produce for other companies (according to management, it has around 14 external customers that it produces for). We think that the group has a favourable mix that seems to work well considering the relatively stable gross margin over the years (around 55%). We anticipate mixed growth in the three production areas, but we argue that higher growth in digital production is likely, as Wall & Decò continues to grow and expand. We also expect third-party production to increase, where we think that this increased growth could be seen as an effect of growing the premium segment and expanding into adjacent product categories, which could require external production. Both Cole & Son and Artscape have third-party production, and we see growth for both of the brands as likely to continue as they expand geographically and into adjacent product categories.

## Extensive archive of patterns to utilise in adjacent product segments

The brands in Embellence Group share extensive pattern archives: we are particularly impressed by some of Boråstapeter's patterns, which have their roots as far back as the 16th century. In total, Embellence has an archive of >17,500 unique patterns. Additionally, Wall & Decò has a patent-pending application for its WET and OUT systems, which are both unique techniques that we think would provide that brand with a competitive advantage.

## Extensive archive of >17,500 unique patterns



Source: ABG Sundal Collier, company data

Illustrating the value of the brands' pattern archive is the fact that Cole & Son derived >35% of its net sales in 2020 from previous collections that were updated and re-launched. Furthermore, Cole & Son has launched textiles for furniture and curtains using the designs from its pattern archive. We think that this demonstrates an untapped potential for further expansion: the brands could utilise existing designs to move into adjacent product segments.

## Example of how Cole & Son uses its designs for furniture and curtains



Source: ABG Sundal Collier, company data

## Market overview

*The global wallpaper market is mature, and is estimated to grow at a CAGR of 3.6% between 2021 and 2026. The premium segment, however, looks poised to outperform in terms of growth in all of Embellence’s key markets. Furthermore, a closer look reveals a fragmented market, not least for the premium segment. We think that Embellence’s limited market share outside of the Nordics, combined with a highly fragmented market lacking any distinct leaders, should entail potential white space. The group looks well placed, in our view, to capture market share in the global premium wallpaper and home interior market.*

### A wall of opportunities

#### Global wallcovering and wallpaper market

The global wallcovering<sup>5</sup> market is estimated by Mordor Intelligence to be worth approximately SEK 410bn p.a., although we argue that it is more relevant to look at the global wallpaper market for Embellence, considering it is the group’s main focus. Of the global wallpaper market, which is estimated at SEK ~70bn, c. 16% is attributable to the premium segment, meaning that the largest share (as of today) is the value segment. The value segment in turn consists of the mid and basic segments, as illustrated in the graph below: prices for the premium segment are 6-7x higher than the basic segment, and the mid segment is 2-5x higher.

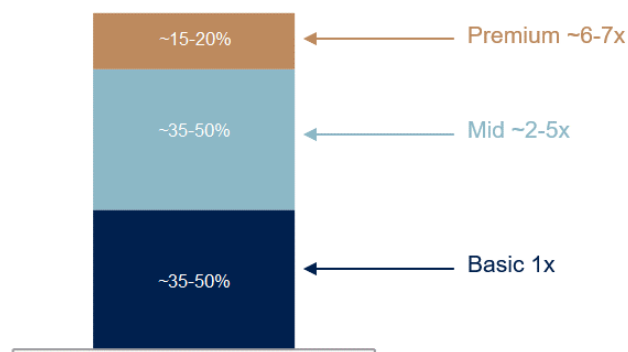
It has been estimated by Mordor that the total global wallpaper market will grow at a CAGR of 3.6% between 2021 and 2026.<sup>6</sup>

Global wall covering and wallpaper market



Source: ABG Sundal Collier, Embellence-commissioned market survey

Market volume by price segment



Source: ABG Sundal Collier, Embellence-commissioned market survey

#### A closer look at some key markets...

Considering that the Nordics (~50% of group sales) and Europe (~40% of group sales) constitute the vast majority of Embellence’s sales, we argue that Europe, including the Nordics, are the most crucial markets to look at. In 2020, roughly 60% of the global wallpaper market was attributable to Europe. We also include the US in our considerations since it constitutes the largest share of the group’s sales outside

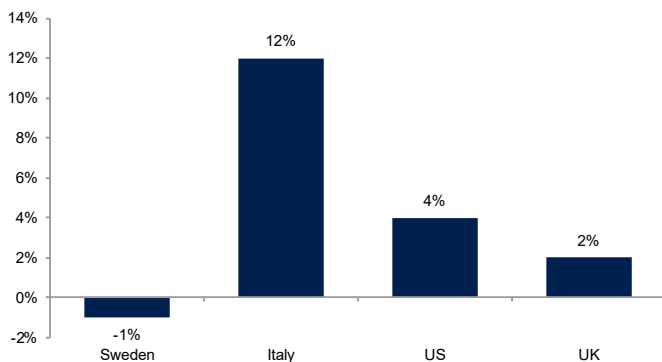
<sup>5</sup> Examples of wallcoverings include e.g. wallpaper, panels, and tiles.

<sup>6</sup> Mordor Intelligence, Wallpaper market, 2021 – 26, industry share, size, growth, <https://www.mordorintelligence.com/industry-reports/wallpaper-market>

of Europe, and we estimate it to grow on the back of the acquisition of US-based Artscape.

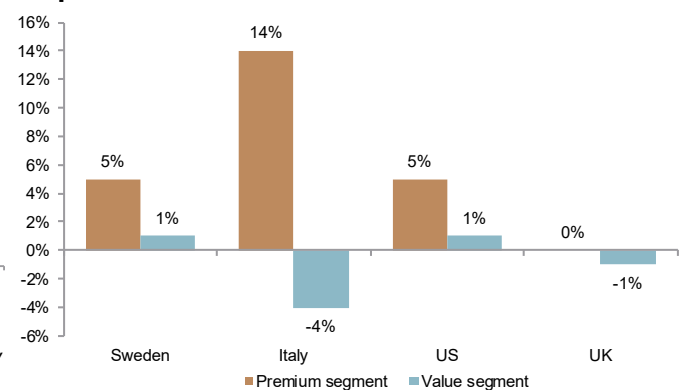
According to a market survey commissioned by Embellence, historical growth rates for its key markets have been at low single-digit levels, with the exception of Italy (which has a historical double-digit growth rate of 12%). The same survey predicts that the premium segment will outperform the value segment, even though it currently represents the smallest market volume. More specifically, the survey suggests an average annual growth rate of 5-10% between 2017 and 2022. Although the pandemic has boosted demand and hence the growth of the wallpaper market, the aforementioned growth levels can be considered a somewhat more sustainable long-term growth level beyond the pandemic.

**Historical market growth rates at low levels...**



Source: ABG Sundal Collier, Embellence-commissioned market survey

**... but premium segment is forecasted to outperform in all markets**



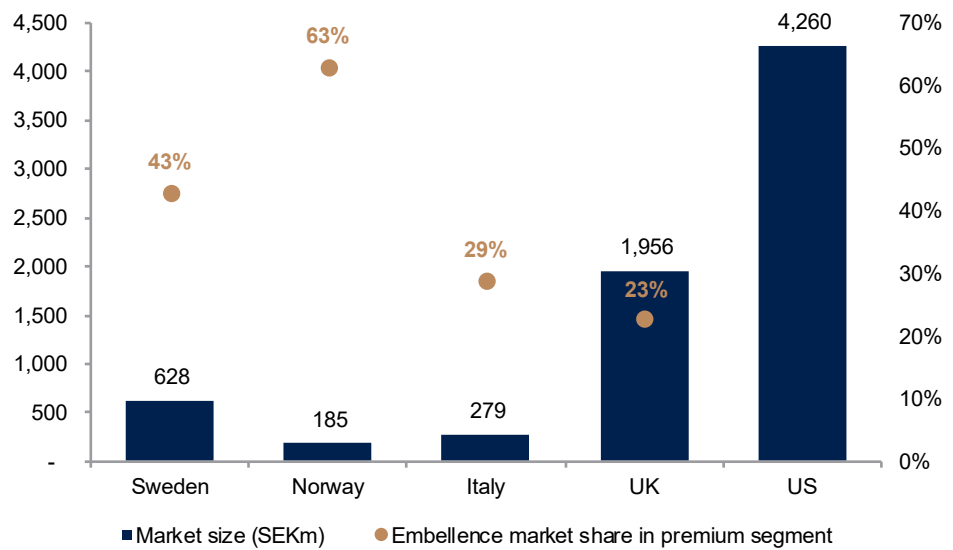
Source: ABG Sundal Collier, Embellence-commissioned market survey

**...indicates white space that should enable consolidation**

The total wallpaper market, including both the value and premium segments, is fragmented (i.e. only a few large players hold the largest market shares). In the value segment there are only a handful of players posting sales above SEK 1bn, while there are more than a hundred players reporting sales below this level. Looking at the premium segment also suggests a fragmented market, with over 50 companies reporting sales below SEK 1bn. In terms of large companies, there is a lack of such leaders in the premium segment, although there are some enterprises representing larger market shares than others. Examples of these companies are Sanderson Design Group (UK), Thibaut (US), and Élitis (France). We anticipate that Embellence will report sales for FY 2022 of SEK 773m, which means that the group should be considered a relatively small player in the global wallpaper market.

With the premium segment expected to grow fastest, and no clear market leaders, we believe there is space for Embellence to use its expertise to become a leading player in the premium wallpaper market. Looking at the market sizes for the premium segment and Embellence’s market share in those markets, it is evident that the group has a leading position primarily in Norway and Sweden (63% and 43% of market share, respectively). In Italy and UK, Embellence’s market share corresponds to a top-three position in the wallpaper market, with market shares of 29% and 23%, respectively. We note that Italy stands out in terms of growth, with double-digit rates (both historical and anticipated). Although the other markets’ growth rates are at the single-digit level, we think that they also present opportunities for consolidation, as the markets are fragmented.

**Premium market sizes and Embellence market shares**

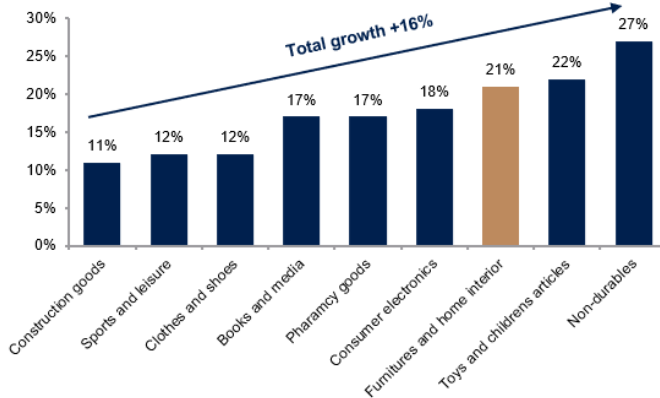


Source: ABG Sundal Collier, Embellence-commissioned market survey

**A product offering well-suited to increased e-commerce penetration**

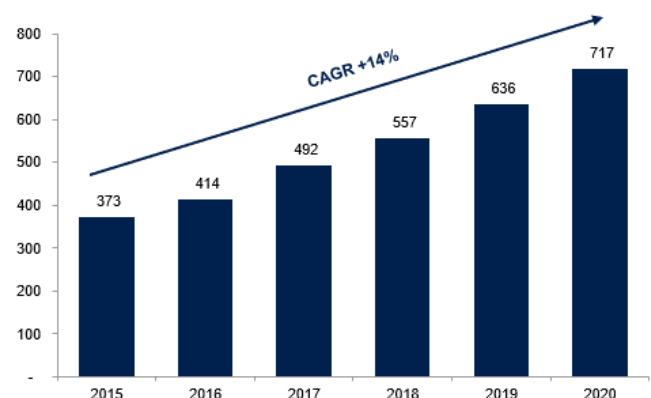
Traditionally, wallpaper has been purchased by visiting a brick-and-mortar or specialist store. However, as e-commerce sales have increased (especially in the retail sector), the wallpaper market has seen a rapid change in consumer preferences and trends.

**Swedish online penetration by category**



Source: ABG Sundal Collier, E-barmetern

**Growth of e-commerce revenue, EURm**



Source: ABG Sundal Collier, ecommercenews.eu

Our main reasons why we think that wallpaper is well-suited to increased e-commerce penetration are:

- Browsing for wallpaper is less time consuming and more easily accessible through e-commerce, which facilitates the comparison of different wallpaper types and patterns online. Some companies, such as Boråstapeter, allow customers to order home samples, meaning that the physical aspect of touch-and-feel is retained.
- Ordering online simplifies the transportation of wallpaper products. Usually when buying wallpaper several rolls are required in order to decorate an entire wall or room. As urbanisation increases, the share of the population with a car naturally decreases. Because it is not always convenient to transport several wallpaper rolls on public transportation, home delivery is often a more suitable

alternative. Furthermore, it is for many people more time-efficient to have home delivery.

- E-commerce makes it easier to compare prices for different wallpapers. When visiting a brick-and-mortar or specialist store it can usually be difficult to gain an overview of the price ranges of the different options and to navigate these.

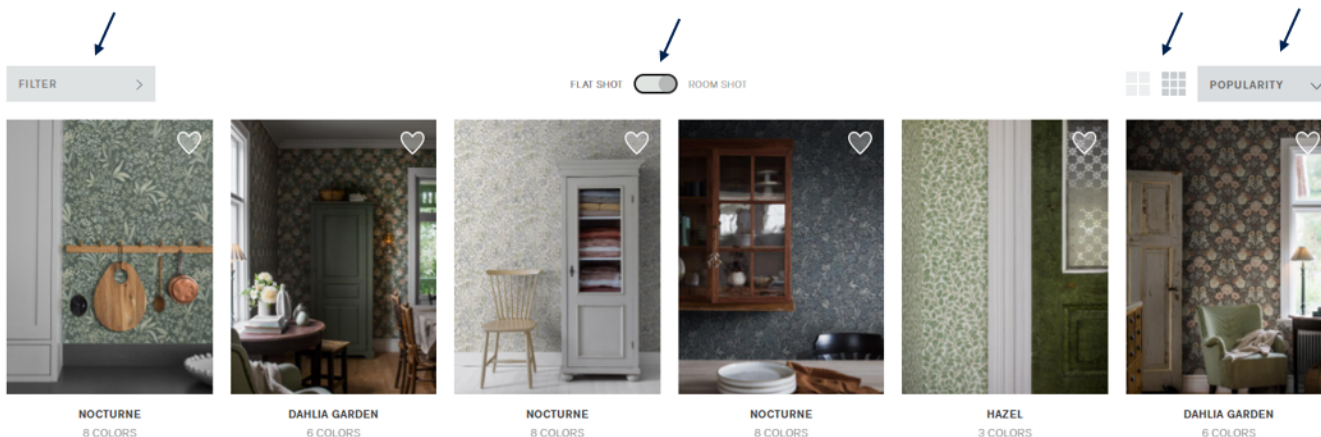
### Example of what a wallpaper store could look like



Source: ABG Sundal Collier, [nm-fargbutik.se](http://nm-fargbutik.se)

In addition to the abovementioned benefits that we think e-commerce entails, it also comes with several other advantages. As illustrated in the screenshot below, which is from Boråstapeter's online shop, the website is user-friendly in several ways. It offers consumers the opportunity to choose between showing the wallpaper either solely as a pattern, or in a room (where the wallpaper can be displayed on a mobile device using augmented reality technology to show how it could look at home in a room). Furthermore, the website allows the user to sort the wallpapers using desired parameters such as popularity, price, article numbers, or new designs.

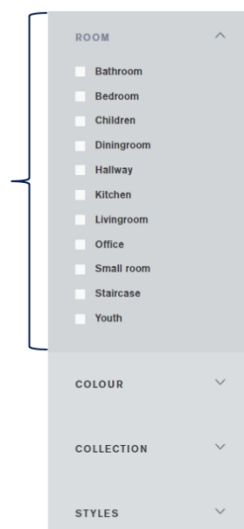
Screenshot from Boråstapeter’s online shop



Source: ABG Sundal Collier, company data

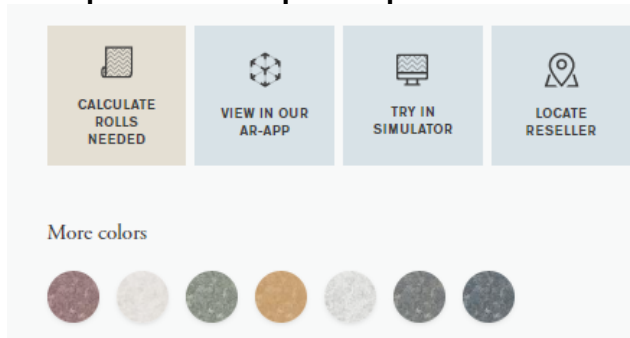
Additionally, Boråstapeter has excellent visualising features where the user can visualise the wallpaper in different rooms using a wallpaper simulator. Via its own ‘Wonderwall’ application the user can virtually apply the wallpaper to desired walls in the home, using augmented reality. We argue that features like these improve the customer experience significantly, and are a great supplement and/or even a superior alternative to traditional brick-and-mortar and specialist stores.

Boråstapeter’s filter function



Source: ABG Sundal Collier, company data

Example of Boråstapeter’s product details

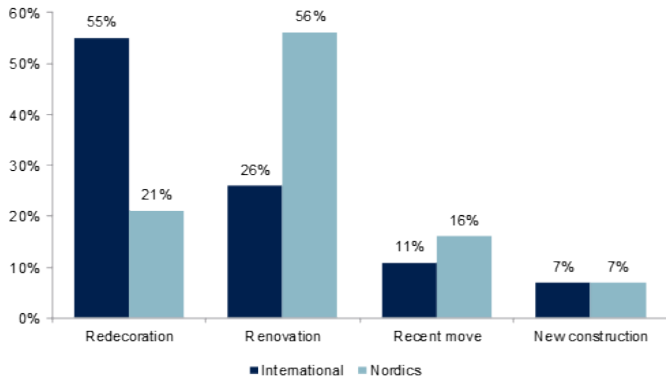


Source: ABG Sundal Collier, company data

Increased retail spending, a long-lasting effect?

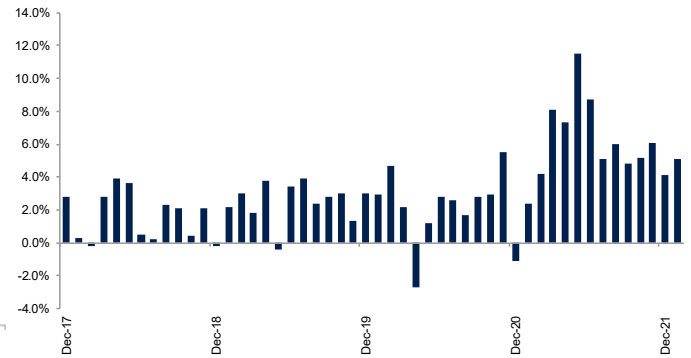
In the wake of the pandemic, consumer spending on home interiors has surged. More specifically, retail sales have seen a significant shift in recent years. In 2017 to 2019 the average growth rate in Sweden was some 1.5-2%, while in 2020 it increased from these levels to around 2.5-3%. In H1’21 we could see an even sharper upswing, to 7% average growth, which then contracted slightly in H2’21 to c. 5% average growth. For FY’21 the average growth amounted to roughly 6.1%. Although some of the growth is likely to have been prompted by COVID-19, there are reasons to believe that the increase in consumer retail spending is here to stay.

**Main triggers for purchasing wallpaper**



Source: ABG Sundal Collier, company data

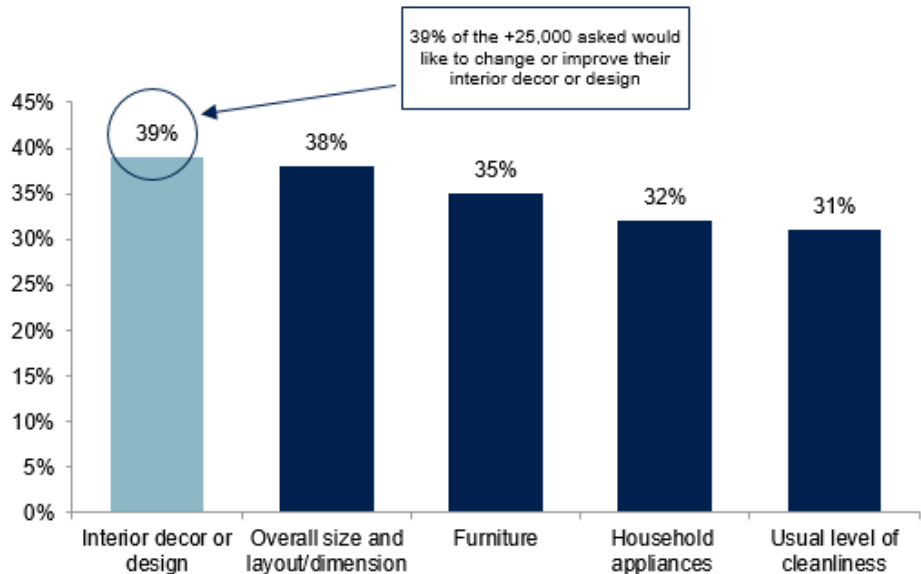
**Retail sales y-o-y, Sweden**



Source: ABG Sundal Collier, SCB

The COVID-19 virus has removed several cultural and technological barriers that had previously prevented the widespread adoption of remote working. Post the pandemic, the structural shift is prevailing, and remote work is increasingly common for many people. A study by McKinsey (which looked at nine countries, 800 jobs and 2,000 tasks), concluded that more than 20% of the workforce could work remotely at least 3-5 days per week, just as effectively as they could from an office. If remote work would take hold at these levels it would imply that 3-4x as many people would be working from home compared with pre-pandemic levels. McKinsey stated that this would have a profound effect on consumer spending, and also noted that workers would save money by not having to commute or travel to different locations for work.<sup>7</sup>

**What people would like to change or improve in their home if they could**



Source: ABG Sundal Collier, Global GfK survey home improvement Top 5 answers from +25,000 asked in 22 countries.

McKinsey also highlighted that remote work is more likely to occur in advanced economies, where the share of the population that are highly educated and have well-paid jobs is higher. As illustrated below, such jobs are found in e.g. the finance and insurance sectors, management, and IT.

<sup>7</sup> McKinsey, The future of remote work: an analysis of 2,000 tasks, 800 jobs, and 9 countries, <https://www.mckinsey.com/featured-insights/future-of-work/whats-next-for-remote-work-an-analysis-of-2000-tasks-800-jobs-and-nine-countries>

We think that this trend should provide support for the home interior and wallpaper markets, and particularly for the premium segment: if people with higher incomes work more from home, they can increase their consumer spending. Moreover, we argue that working from home should make people more conscious about their home environments, which would naturally have a spill-over effect to the wallpaper market.

The fact that these trends are particularly evident in advanced economies favours companies like Embellence, whose main geographical segments consist of developed economies. We also note that the main triggers for purchasing wallpaper are renovation (in the Nordics) and redecoration (internationally). Additionally, ~40% of +25,000 people asked in a survey would like to change or improve their interior decor or design if they could. We think this supports our thesis that home interior awareness is a likely contributor to increased spending on wallpaper and other home interior products.

### Potential share of time spent working remotely by sector in the US



Source: ABG Sundal Collier, McKinsey

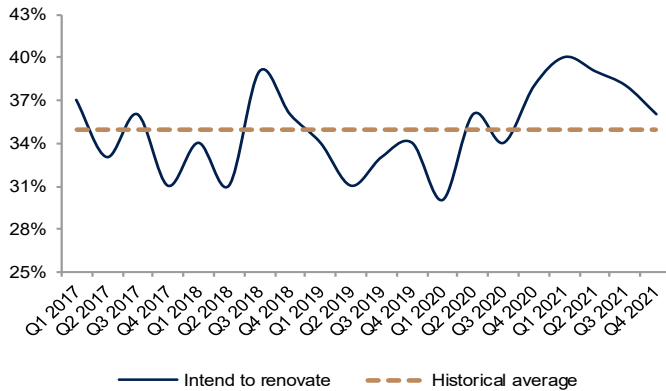
### Macro indicators look supportive

Although Sweden on its own cannot fully represent Embellence as a group, it constitutes the largest share of Embellence’s Nordics sales, which in turn stands for the largest stake of the group’s total sales. Below we present and discuss what we view as some key macro indicators for the underlying Swedish market.

COVID-19 has boosted interest in home interior, including renovation. This is reflected in Swedes’ intention to renovate, which has surged since Q1’20 (see chart below). Although the trend has slowed somewhat in recent quarters, it is still above the historical average. Furthermore, the transaction volume for detached houses (permanent and seasonal) was up 3.6% in 2021 versus the year before. We argue that transaction volume is a useful metric to look at as consumers tend to renovate

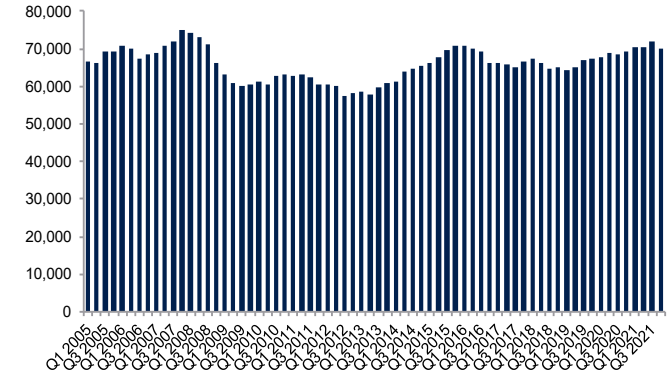
in connection with a move to a new house. Moreover, we note that published housing ads on the key real estate classified site in Sweden (Hemnet) are equal or above the levels of previous years.

**Intend to renovate, Sweden**



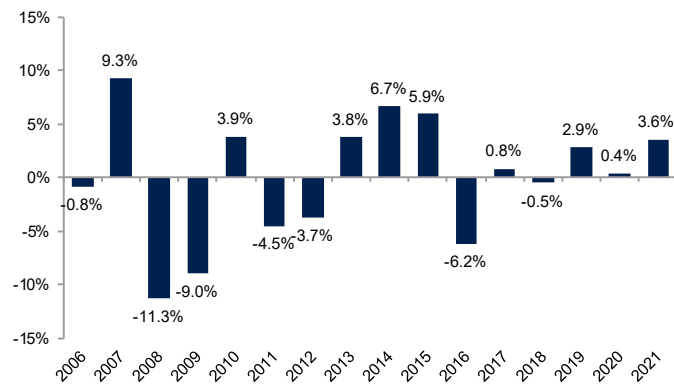
Source: ABG Sundal Collier, Konjunkturinstitutet

**Transaction volume in Sweden (houses), 12mtr**



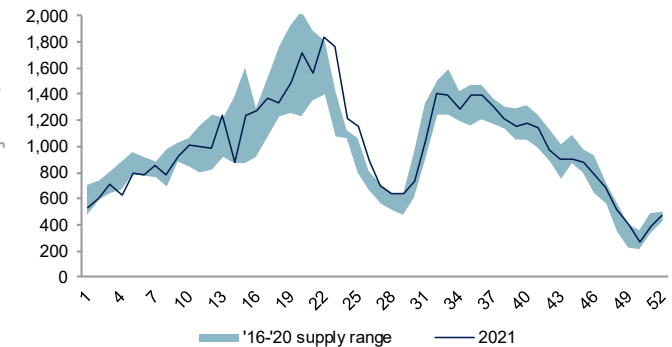
Source: ABG Sundal Collier, SCB

**Transaction volume in Sweden (houses) y-o-y**



Source: ABG Sundal Collier, SCB

**Weekly publishing of detached houses in Sweden (permanent + seasonal)**



Source: ABG Sundal Collier, Hemnet

**Premium vs value – where to find the long-term growth?**

As illustrated at the beginning of this chapter, the premium segment is projected to grow faster than the value segment. Below we identify some additional reasons why the premium segment looks more attractive from a long-term perspective:

**The premium segment offers higher gross margins...**

Embellence’s gross margin is roughly 55% on a group level, including both the value and premium segments. However, if looking at the premium segment separately, the gross margin is significantly higher at 65%. We start by comparing these levels to some value wallpaper brands, namely Sangetsu (Japan) and AS Creation (Germany), which are both global wallpaper brands with relatively large market shares in comparison to the overall fragmented market. These companies have gross margins of 33% and 53%, respectively, which are below Embellence’s levels for both the total group and for the premium segment. The slightly lower levels may be due to the fact that companies in the value segment tend to focus more on volumes rather than consumer branding.

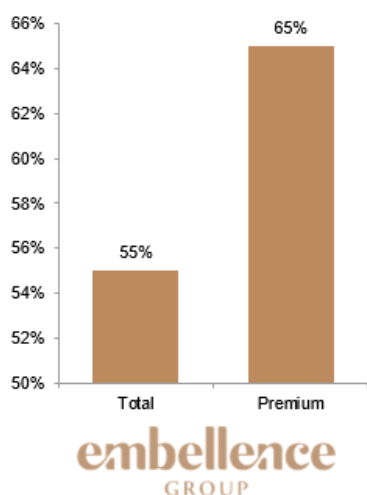
The private Swedish wallpaper company Gimmersta, which is also based in Borås, has an impressive gross margin of 87% (note that all numbers referred to in this section are 2020 figures). Gimmersta has a wide product offering of value and premium wallpapers, and has posted gross margin levels around 80-85% for several years, implying that the 2020 figures were not inflated by the pandemic.

We have also included Sanderson Design Group and Colefax Group, which are both based in the UK and operate mainly in the premium segment. As seen in the graph below, they report gross margins of 59% and 56%, respectively, which is also slightly below Embellence’s premium segment gross margin of 65%.

For the premium segment we have also looked at high-end luxury brands such as Hermès and Ralph Lauren, which offer premium designs and patterns, although they focus on other categories than wallpaper. We also include the Nordic designer Marimekko. The average gross margins for these three brands are 63%, which is in line with Embellence’s premium segment gross margin.

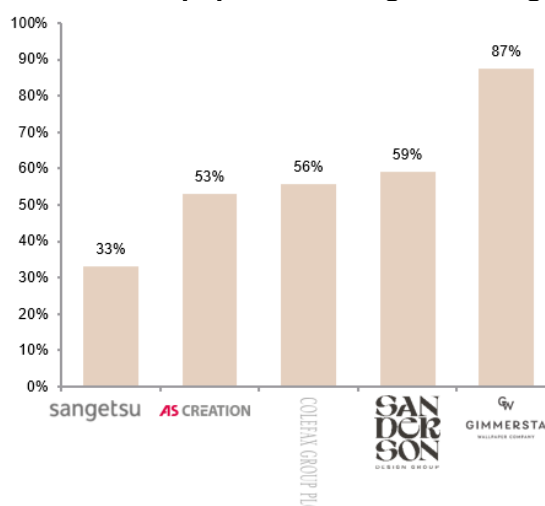
These gross margin levels support our belief that the premium segment represents the best opportunity for sustainable and high long-term growth. Gimmersta’s impressively high gross margin level indicates that there should be room for Embellence to improve its premium segment gross margin even further.

### Embellence, gross margin



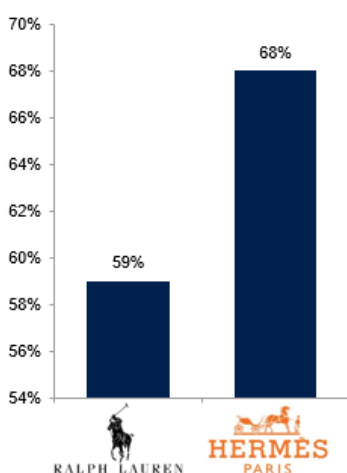
Source: ABG Sundal Collier, company data

### Selected wallpaper brands, gross margin



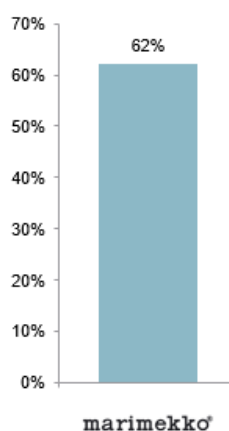
Source: ABG Sundal Collier, company data, allabolag.se

### Selected global luxury brands, gross margin



Source: ABG Sundal Collier, company data

### Selected design brand, gross margin



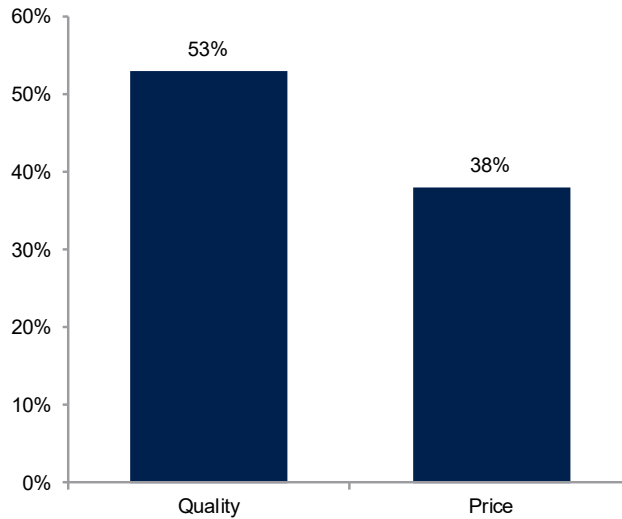
Source: ABG Sundal Collier, company data

### ...and consumers increasingly prefer quality over quantity

Further supporting our thesis of future growth for the premium segment is the fact that an increasing majority of consumers consider quality as the most important

factor when making purchases. Approximately 53% of 1,000 respondents to one survey (undertaken in the US in 2018), rated quality as the most important factor when making a purchase.<sup>8</sup> The survey additionally highlighted that the swift change in consumer preferences provides an opportunity for retailers to capture sales by offering quality products in every category, ranging from apparel to home interior-related products.

**A majority of consumers rated quality as the most important factor**

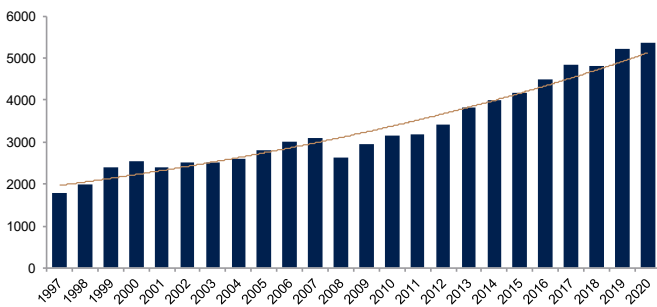


Source: ABG Sundal Collier, FirstInsight

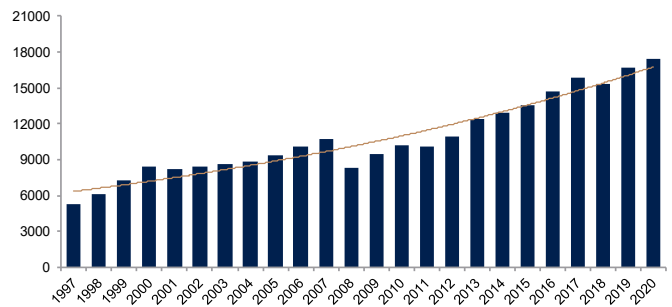
**The numbers and wealth of high-net-worth individuals continues growing...**

Spending on high-end interior design products is partly affected by the state of the economy as well as consumer confidence. However, it is more directly influenced by consumer wealth. For Embellence this relates to the premium segment for wallpaper, where the wealth of high-net-worth individuals (HNWI) plays a key role. According to Statista, the number of HNWIs grew at a CAGR of 7% between 2012 and 2018 and is forecasted to continue growing at a CAGR of 5% for the next four years. Furthermore, the European population and wealth of HNWIs grew at a solid CAGR of 5% between 1997 and 2020.

**European HNWI population (000s)**



**European HNWI wealth (USDbn)**



Source: ABG Sundal Collier, Statista  
 HNWI in financial services and private wealth management industries signifies persons, whose investible assets (stocks, bonds etc.) exceeds at least USD 1m in financial assets. (Statista, 2021)

Source: ABG Sundal Collier, Statista

<sup>8</sup> First Insight, Quality more important to consumers than price as influence of discounts on purchase decisions declines, <https://www.firstinsight.com/press-releases/quality-more-important-than-price-study>

### **...which should benefit Embellence**

According to another study by Bain & Co. the younger generations (Generation Y and Z) will be the biggest buyers of luxury products going forward.<sup>9</sup> More specifically, younger consumers were estimated to represent over two-thirds of global luxury purchases, implying that the consumption of such products, including interior decor and design, should increase in the medium to long term. With the premium segment growing as a share of total sales for Embellence, we argue that the rising numbers of HNWIs (combined with increased high-end interior design consumption) should benefit Embellence.

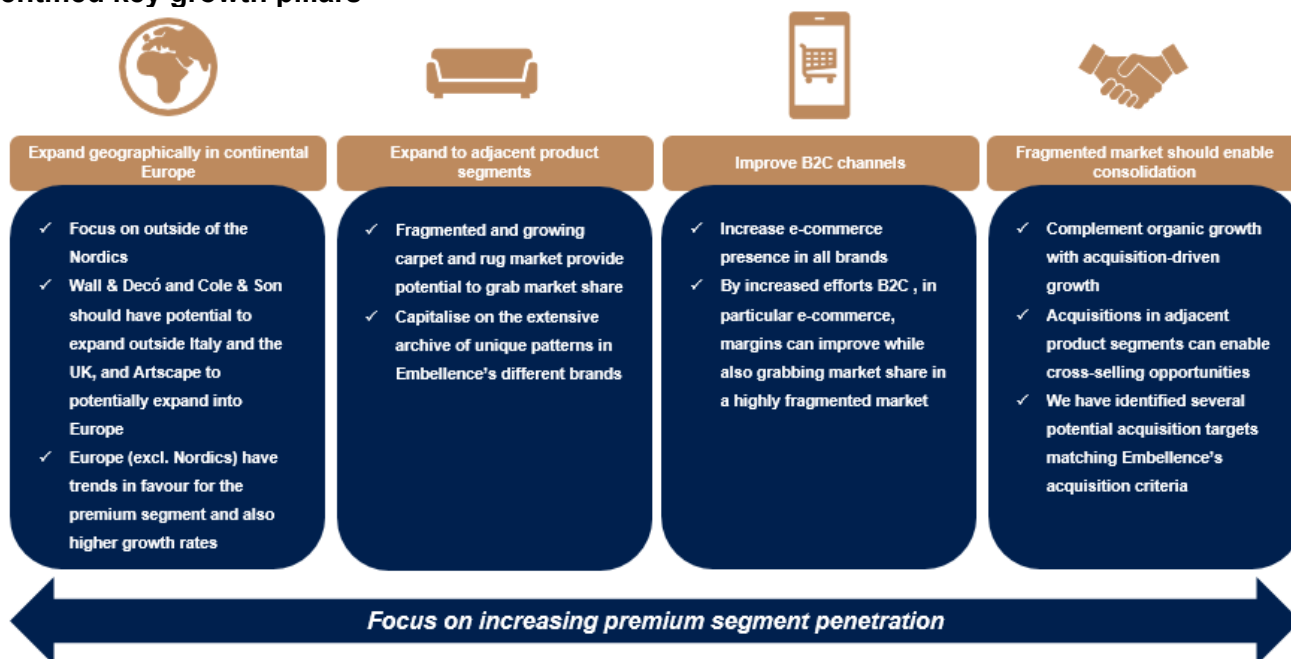
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<sup>9</sup> Bain & Company, The Future of Luxury: Bouncing Back from COVID-19, <https://www.bain.com/insights/the-future-of-luxury-bouncing-back-from-covid-19/>

## The growth agenda

*With the global wallpaper market, including the premium segment, being highly fragmented, we see significant possibilities for Embellence to take market share and become a consolidator. We believe that this can be done through a combination of organic and acquisition-driven growth. In particular, we think that Embellence could take Cole & Son and Wall & Decò outside of the UK and Italy to other parts of Europe, where there is similar consumption behaviour and trends. We also see strong potential for Embellence to capitalise on its extensive pattern archive (>17,500 unique patterns) to expand into adjacent product segments beyond wallpaper. By also putting more effort into B2C and accelerating M&A activity, we believe that Embellence could have extensive growth opportunities and become a premium consolidator within home interior.*

### Identified key growth pillars



Source: ABG Sundal Collier, company data

### Increase premium segment penetration...

Embellence has its highest market share for the premium segment in the Nordics (~43-63%, its market share outside of the Nordics is lower at ~23-29%). Combining this with the fact that the market for the premium segment is expected to grow at a higher pace outside of the Nordics implies that there should be market share for Embellence to take.

The premium segment (as a share of the group's total sales) grew by 3pp between 2018 and 2020, and we forecast it to continue increasing. Because the premium segment has an attractive gross margin of roughly 65% (10pp above total group's gross margin), that would contribute to expanding the group's gross margin.

In order to increase the penetration of the premium segment we believe that both organic and acquisition-driven growth are key. Organically, we think that Embellence can grow by:

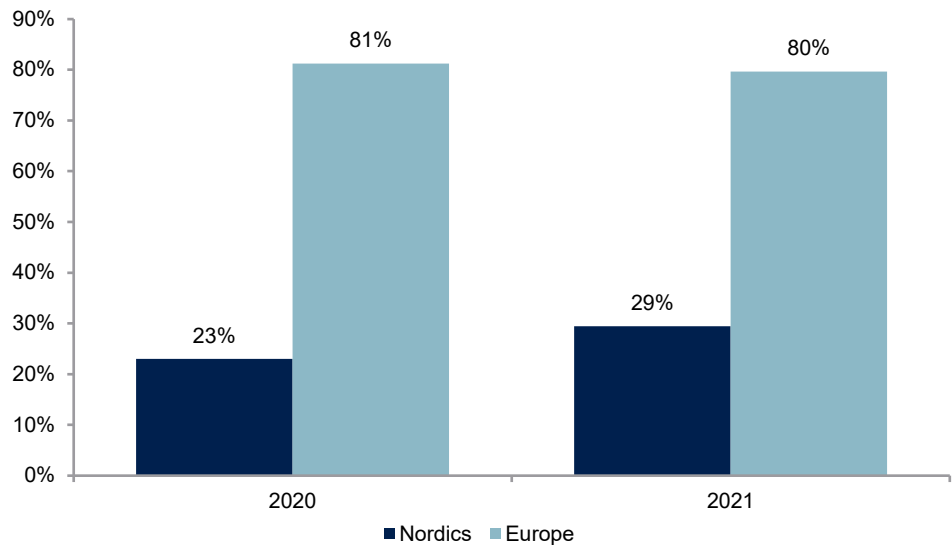
- Expanding geographically in Europe (outside of the Nordics)
- Using its extensive archive of patterns to expand to adjacent segments
- Improving its B2C channels for existing brands

**...by expanding geographically in continental Europe...**

The Nordics currently stands for the vast majority of Embellence’s group sales (~50%), followed by Europe (~40%) and lastly RoW (~10%). We see strong near-term potential for Embellence to expand further into Europe. The group’s current European exposure is primarily limited to Cole & Son in the UK and Wall & Decò in Italy. The southern European markets differ significantly from the Nordics, implying that the premium segment should have greater growth opportunities in these markets.

Because the markets are larger and expected to grow at a higher rate than the Nordics, we are convinced that Europe is the right market for Embellence to focus its expansion efforts on in the near term. Additionally, the premium segment (as a share of sales by geography) is significantly larger in Europe compared to the Nordics (29% in Nordics vs 80% in Europe for FY’21), indicating that demand for such products is higher in Europe.

**Premium segment is significantly larger in Europe, as a share of sales**



Source: ABG Sundal Collier, company data

Looking at the Nordics compared with the rest of Europe, a distinct difference is that in the rest of Europe it is more common to hire a home interior designer. According to Embellence’s management, 80% of homeowners in the south of Europe hire interior designers, while only 20% of Nordic homeowners do so. This is in line with Embellence’s identified market model for the premium segment (see below), where the sales channels differ between the premium and value segments. For instance, premium wallpaper is mainly sold through interior designers, which aligns well with the fact that people in Europe (excl. Nordics) tend to hire those for their homes.

Consequently, we believe that Wall & Decò and Cole & Son (both premium wallpaper brands) should have the potential to expand to countries outside Italy and the UK. Moreover, we believe that the most recently acquired US-based premium

brand Artscape could expand further in North America, but could also potentially move into selected European markets.

**Premium segment is sold in different channels**

	Value	Premium
Interior designers and architects/showrooms	✗	✓
Commercial projects	✗	✓
High-end stores	✗	✓
Online specialists	✓	✓
Online generalist	✓	✗
Own B2C e-commerce	✗	✓
Traditional and independent specialist stores	✓	✓
DIY / trade chains	✓	✗

Source: ABG Sundal Collier, company data

**...and expanding into adjacent product segments...**

In early 2021 Embellence acquired the premium design rug-specialist Pappelina, thus making its first acquisition of a brand within an adjacent product segment. With >60% of its sales outside of the Nordics, Pappelina contributes to a broader geographical sales exposure for Embellence. Additionally, it has a pattern archive with >1,000 designs that are used in e.g. rugs, tablecloths, and cushions.

At the end of February, Embellence announced the acquisition of the premium window film company Artscape Inc., which has the vast majority of its sales in North America. We think it is no coincidence that both of Embellence’s most recent acquisitions have been in adjacent categories, and argue that there should be potential to utilise these new brands to expand the other brands’ product categories, hence continuing to diversify the group’s product offering.

Within the premium segment for wallpaper, it is relatively common to expand into adjacent segments such as fabrics and furniture. As of today, Cole & Son (with >2,000 designs in its pattern archive) and Boråstapeter (>10,000 designs) already use their extensive archive of patterns to offer fabrics and textiles in addition to wallpapers. Moreover, Wall & Decò (with >3,000 designs) offers wallcoverings for damp environments such as bathrooms and outdoors.

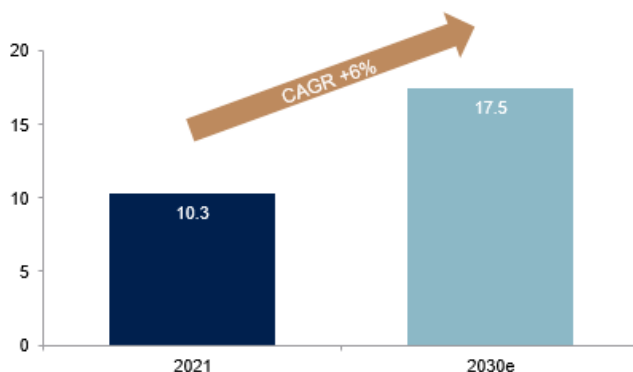
**Floor coverings and window films**

The floor covering (carpet and rug) market will, according to Infinite Research, grow at a CAGR of 4% between 2020 and 2024. Additionally, the window film market is estimated to grow at a CAGR of 5.7% between 2021 and 2030.<sup>10</sup> Considering Embellence’s vast pattern archive with unique designs, we see strong potential for Embellence to grow by

<sup>10</sup> <https://www.alliedmarketresearch.com/window-film-market>

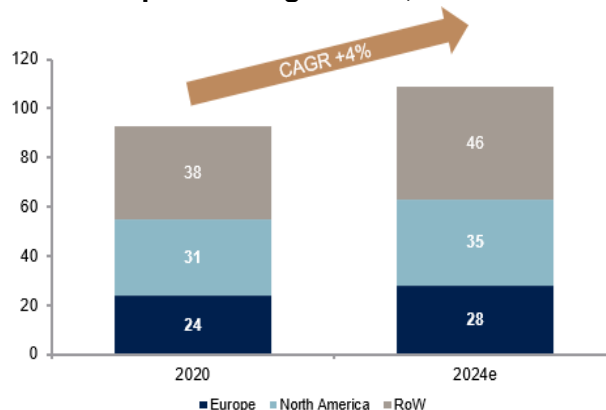
ramping up its expansion into adjacent product segments through its premium brands. There should in particular be potential for Embellence to grow its market share in rugs through Pappelina, and window film through Artscape, considering that both markets are highly fragmented and poised to continue growing.<sup>11</sup>

**Global window film market, USDbn**



Source: ABG Sundal Collier, Infinite Research

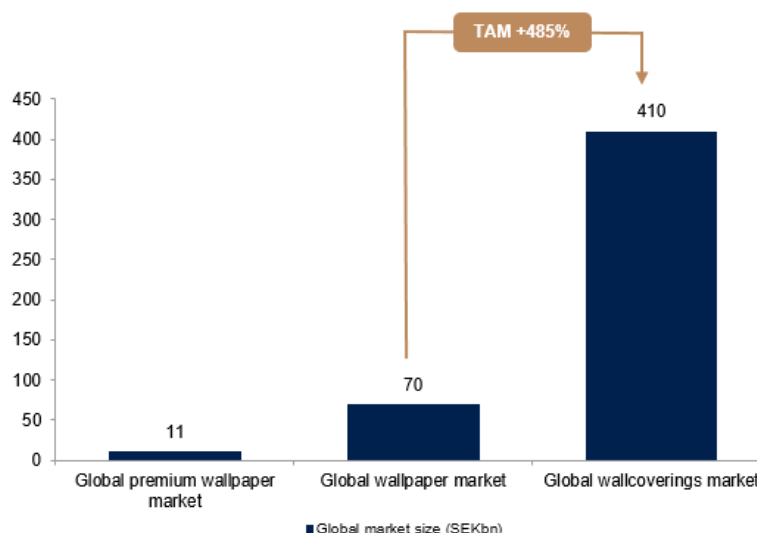
**Global carpet and rug market, USDbn**



Source: ABG Sundal Collier, Infinite Research

We note that the global wallpaper market constitutes c. 17% of the total global wallcovering market, while the corresponding figure for the global premium wallpaper market is only 3%. Consequently, expanding to adjacent product segments, such as other wallcoverings in addition to traditional wallpapers (as Wall & Decò is doing), implies that Embellence’s TAM could increase by as much as c. 485% (SEK 340bn).

**Expanding to wallcoverings beyond wallpaper implies a TAM hike of c. 485%**



Source: ABG Sundal Collier, company data

We view the expansion into adjacent product segments as an excellent growth opportunity for Embellence, not least considering that the brands’ current distributors, according to management, are already selling textiles for other brands. This implies that introducing new home interior products under the existing brands’ names should be a relatively smooth process.

<sup>11</sup> Mordor Intelligence, Europe carpet and rugs market, 2021-26, industry share, size, growth, <https://www.mordorintelligence.com/industry-reports/europe-carpet-and-rugs-market>

**...and improving B2C channels**

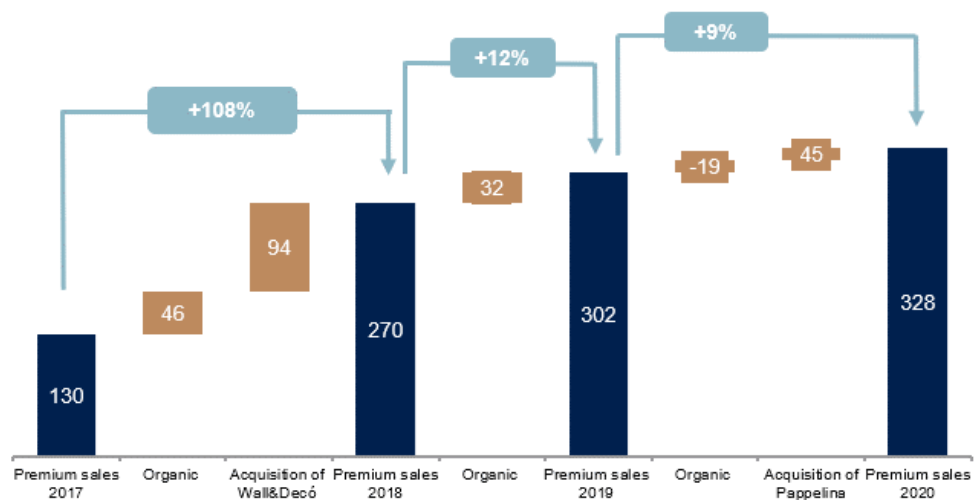
As consumers become more e-com savvy, improving B2C channels while emphasising e-commerce is increasingly important. For Embellence to gain market share in the fragmented wallpaper market, and to assist the group in expanding to adjacent product segments, we believe that improving its e-commerce channels will play a key role. Management targets a 10% online penetration for its group sales, which we think is relatively conservative in light of the fact that global online penetration of e-commerce grew at a CAGR of 14% between 2015 and 2020 and looks poised to continue its growth.

The 10% online penetration target has already been achieved in the UK through the premium brand Cole & Son, according to management (B2C launched in 2020). In other regions Embellence has already started its journey towards the total group’s online penetration target, by launching B2C channels in Boråstapeter and Perswall in 2021. Pappelina already has an established and well-functioning online platform, paving the way for Embellence’s continued B2C efforts.

**Fragmented market should enable consolidation**

Embellence’s acquisitions of the wallpaper brands Cole & Son and Wall & Decò have proven to be successful: Cole & Son has more than tripled its net sales since joining Embellence. Going forward, we argue that organic growth should continue to be complemented with acquisition-driven growth, with a focus on acquiring premium brands.

**Historical sales growth bridge, organic and acquisitions (SEKm)**



Source: ABG Sundal Collier, company data

Embellence has stated its acquisition criteria as outlined below:

- Premium brands and profitable companies
- Additional design expression and potential leverage on pattern banks
- Limited share of own production and efficient operations
- Complementing geographic markets

These are well in line with our analysis and identified growth pillars for Embellence. More specifically, they align with our view that Embellence should focus on growing the premium segment organically and through acquisitions, with a particular focus on growing in continental Europe.

According to Embellence’s management, it has a short list of ~10 potential acquisition targets. A closer look at the competitive landscape reveals several potential targets within the premium segment. Consequently, we argue that there should be extensive opportunities for Embellence to become a consolidator of the premium wallpaper market. Furthermore, we believe that acquisitions could be made to expand into adjacent product segments (like the acquisitions of Pappelina and Artscape), which in turn could enable cross-selling opportunities for existing brands’ wallpapers and textiles/fabrics.

The table below lists examples of companies in the premium segment with the type of profile that could fit with Embellence’s business model. We do not know if any of these companies are on Embellence’s shortlist, or if the owners would be interested in selling, but we find several that could be a potential fit. We think that Dedar Milano (Italy), Pierre Frey (France), GP & J Baker (UK), and Lelièvre (France) look especially attractive. All of them have combined production set-ups (in-house and outsourced), which is attractive for Embellence. They offer wallpapers and textiles, and all except for Dedar Milano also offer rugs. Additionally, three out of the four companies have other products (furniture/related accessories). Moreover, all of them, except for Dedar Milano, are active in geographies outside of Embellence’s existing ones, implying that Embellence could expand its geographical footprint.

## Overview of competitive landscape, premium wallpaper segment

	Country HQ	Ownership	Products				Production set-up
			Wallpaper	Textiles	Rugs	Others*	
<b>Embellence</b>	Sweden	Listed	Yes	Yes	Yes	Yes	Combined
Sanderson Design Group	UK	Listed	Yes	Yes	Yes	Yes	In-house
Colefax Group	UK	Listed	Yes	Yes	No	No	Outsourced
Vescom	Netherlands	Private	Yes	Yes	No	Yes	In-house
Designers Guild	UK	Private	Yes	Yes	Yes	Yes	Outsourced
York Wallcoverings	US	Private	Yes	Yes	No	No	In-house
Dedar Milano	Italy	Private	Yes	Yes	No	Yes	Combined
Arte	Germany	Private	Yes	No	No	No	Combined
Éitis	France	Private	Yes	Yes	Yes	Yes	Outsourced
Thibaut	US	Private	Yes	Yes	No	Yes	Outsourced
Pierre Frey	France	Private	Yes	Yes	Yes	Yes	Combined
GP & J Baker	UK	Private	Yes	Yes	Yes	Yes	Combined
Lelièvre	France	Private	Yes	Yes	Yes	No	Combined
Osborne & Little	UK	Private	Yes	Yes	No	No	Outsourced
Maya Romanoff	US	Private	Yes	Yes	No	No	In-house
Eijffinger	Netherlands	Private	Yes	Yes	No	Yes	Outsourced
Omexco	Germany	Private	No	No	No	No	In-house

Source: ABG Sundal Collier, company data

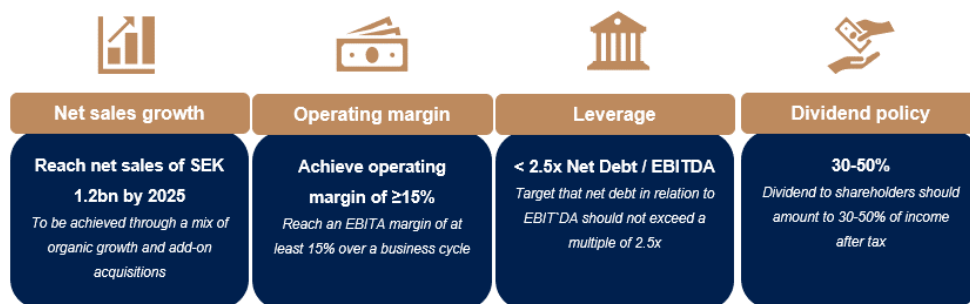
\*Other products include e.g. furniture, paint, or related accessories

## Financial targets

**Embellence has net sales target, to be reached by 2025, and also an operating margin target, in addition to leverage and dividend policies. The net sales and EBITA targets correspond to a CAGR (from 2021 levels) of 17% and 20%, respectively. We consider the targets to be ambitious but achievable, if management executes on its organic growth strategy and successfully identifies, acquires, and integrates new brands that align with its growth agenda.**

Embellence targets net sales of SEK 1.2bn by 2025, which it aims to achieve through a mix of organic growth and add-on acquisitions. In terms of operating margin, the company aims for an EBITA margin of at least 15%, implying EBITA of at least SEK 180m (in 2025). Regarding the balance sheet, Embellence has a leverage target to not exceed a ND/EBITDA multiple of 2.5x. However, temporary exceptions are allowed in connection with acquisitions. The dividend policy states that the dividend to shareholders should amount to 30-50% of income after tax.

### Embellence Group’s financial targets to be reached by 2025

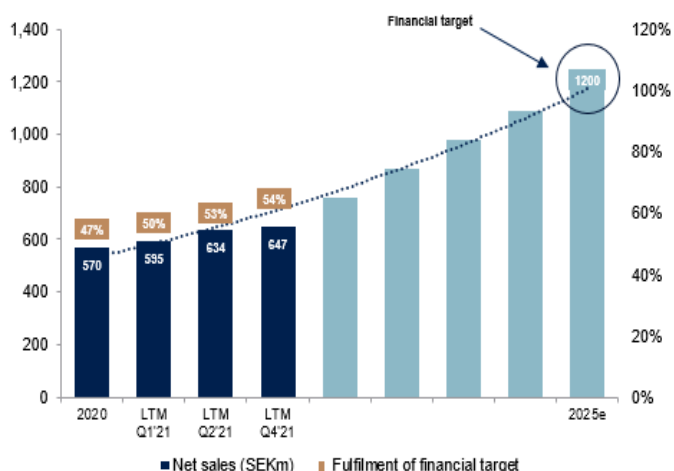


Source: ABG Sundal Collier, company data

Looking at the FY’21 figures, the group’s net sales amounted to SEK 647m, corresponding to a 54% fulfilment of its 2025 target. The EBITA margin was 13.6% (15.4% adj. EBITA), 1.4pp below (0.4pp above) the target of at least 15%. For FY’21 ND/LTM EBITDA was 1.2x, well below the target of less than 2.5x.

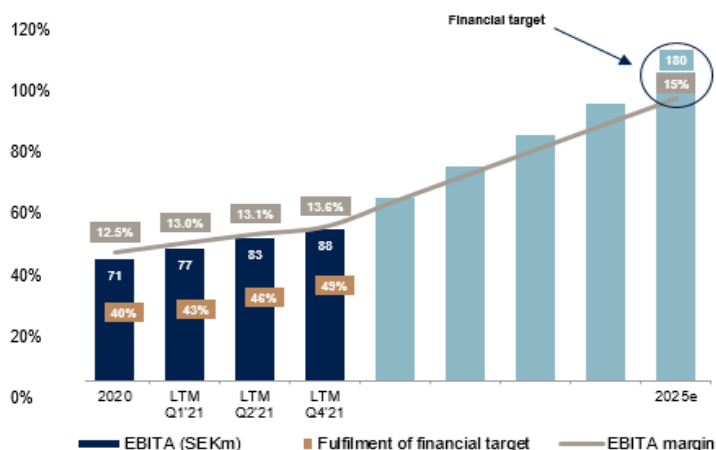
For 2022e we estimate group sales of SEK 773m, corresponding to a 64% fulfilment of the target. For adj. EBITA we pencil in SEK 130m, yielding a 16.8% EBITA margin, 1.8pp above the financial target. For 2025e we forecast group sales of SEK 879m, or a 73% fulfilment of the target. In terms of profitability, we estimate a ’25e adj. EBITA margin of 17.5%, in line with the groups target of >15%. We elaborate further in the estimates section of this report.

LTM net sales, Q4'21, SEKm



Source: ABG Sundal Collier, company data

LTM EBITA and EBITA margin, Q4'21, SEKm



Source: ABG Sundal Collier, company data

### Scenario analysis for '25 net sales target

Below we illustrate what EV/EBITA multiples Embellence could trade at if it reaches its 2025 net sales target of SEK 1.2bn. We test the multiple's sensitivity to different levels of organic growth and acquisition multiples, using an organic growth range of 4-10% and an acquisition multiple range (EV/EBITA) of 5x-10x.

#### EV/EBITA sensitivity to org. growth and M&A multiples if reaching '25 sales target

'25e EV/EBITA	Organic CAGR '21e-25e	Acquisition multiple M&A growth					
		5x	6x	7x	8x	9x	10x
4%	6%	3.8x	4.1x	4.5x	4.5x	5.1x	5.5x
	8%	3.5x	3.8x	4.1x	4.4x	4.7x	4.9x
	10%	3.3x	3.5x	3.7x	3.9x	4.2x	4.4x
	12%	3.0x	3.2x	3.4x	3.5x	3.7x	3.9x

Source: ABG Sundal Collier, company data

Our first scenario assumes constant organic growth of 4%, which is relatively in line with our estimates. Moreover, it assumes an acquisition multiple of 5x EV/EBITA, reflecting the level of Embellence's two most recent acquisitions. As illustrated below, this implies that the group would have to add ~10-16% in M&A growth p.a. between 2022 and 2025 to reach its sales target. This translates into an EV/EBITA of 3.8x. By contrast, our current estimates entail EV/EBITA of 4.8x in 2025e.

If Embellence was to acquire at a higher multiple, e.g. 10x EV/EBITA, while keeping its organic growth constant at 4%, it would trade at 5.5x EV/EBITA. This is slightly above our current 2025 estimates of 4.8x. Furthermore, if Embellence continued acquiring companies at 5x EV/EBITA but increased its organic growth to e.g. 8%, it would instead have to add ~7-11% in M&A growth p.a. between 2022 and 2025, while trading at 3.3x EV/EBITA. Assuming organic growth of 6% and an acquisition multiple of 7x, this implies that Embellence would have to grow through M&A by ~8-14% p.a., yielding an EV/EBITA of 4.1x.

**Assuming org. growth of 4% and acquisition multiple of 5x EV/EBITA  
(note: yearly figs. derived from 4% calculation, i.e. not ABGSCe)**

	2021	2022e	2023e	2024e	2025e
Sales	647	777	913	1,054	1,200
y-o-y		20.1%	17.4%	15.4%	13.9%
Organic growth, %		4.0%	4.0%	4.0%	4.0%
M&A growth, %		16%	13%	11%	10%
M&A growth, SEKm		104	104	104	104
EBITA		131	155	181	210
EBITA margin		16.8%	17.0%	17.2%	17.5%
Pre-M&A FCF		78	93	109	126
FCF conversion, ex M&A		60.0%	60.0%	60.0%	60.0%
M&A spend		-88	-89	-90	-91
FCF post-M&A		-9	4	19	35
Net debt	130	139	135	116	81
MCAP		715	715	715	715
EV		853	849	830	795
EV/EBITA		6.5x	5.5x	4.6x	3.8x

Source: ABG Sundal Collier, company data

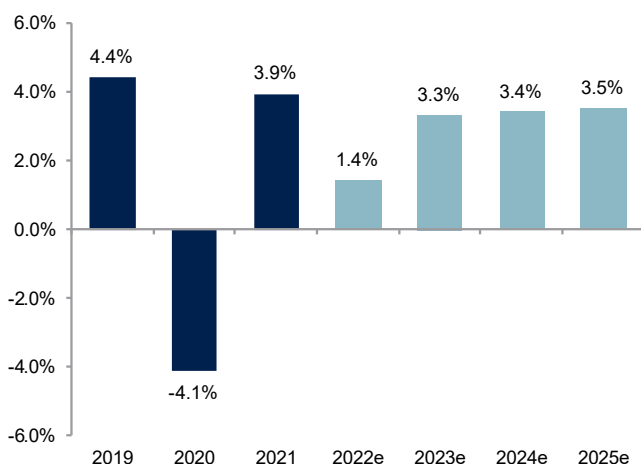
## Estimates

*Embellence targets '25 net sales of SEK 1.2bn, implying a '21-'25 CAGR of c. 17%. Although this is expected to be achieved through a mix of organic and acquisition-driven growth, we do not pencil in any unannounced M&A, hence taking a more conservative approach in our estimates. We estimate a '21-'25e sales CAGR of 8%. Furthermore, we expect Embellence to focus on the premium segment, which offers above-group gross margins, and is a more fragmented market. As such, we pencil in a margin expansion in our forecast period and argue that the fragmented premium market (combined with Embellence's lean balance sheet) should allow for further acquisitions to be made. In terms of earnings, we expect organic sales growth supported by operational leverage to have a relatively smooth drop-through to earnings. Consequently, we forecast an adj. EBITA CAGR of 11% in '21-'25e, yielding a '25e margin of 17.5%, hence delivering in line with the group's EBITA margin target of >15%.*

### Breaking down our sales estimates

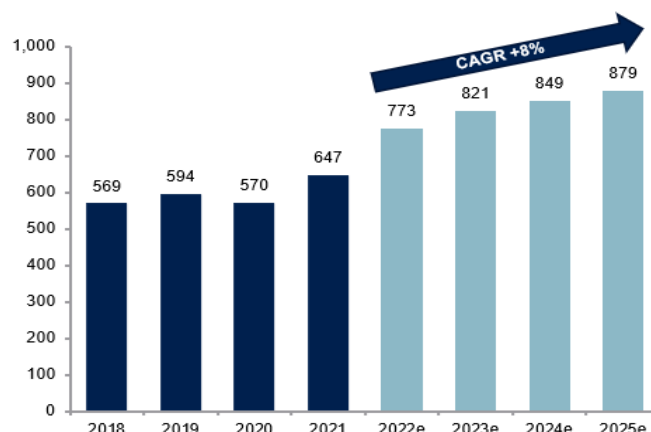
Embellence has a limited financial history, reporting for the first time as a group in 2018. We estimate a four-year net sales CAGR ('21-'25e) of 8%, including an average organic growth rate of 3%. In this section we provide a detailed breakdown of our forecasts.

#### Organic sales growth estimates



Source: ABG Sundal Collier, company data

#### Annual sales, SEKm

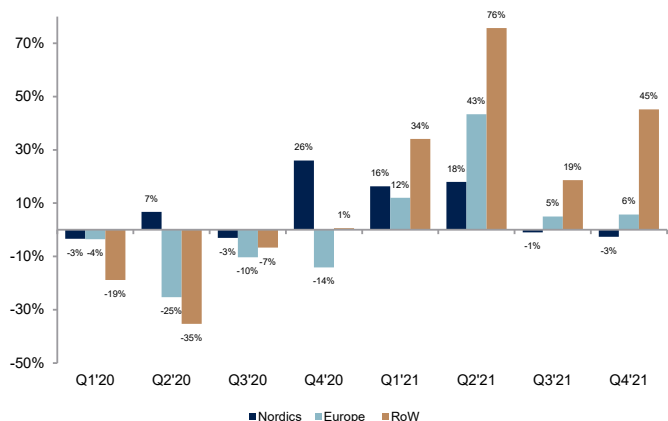


Source: ABG Sundal Collier, company data

Embellence reports under three business areas, Nordics, Europe, and Rest of World (RoW). The Nordics is primarily dominated by Sweden and Norway, while Europe today is dominated by the UK and Italy, and RoW by the US. In 2020, the Nordics posted a y-o-y sales growth of 6%, while the group sales dropped by 4%, driven by a decrease in sales in Europe and RoW of 14% and 15%, respectively. We understand the abovementioned sales decline as Europe generated some 40% of group sales. Furthermore, Embellence's main European markets, Italy and the UK, were both under strict lockdowns for large parts of the year.

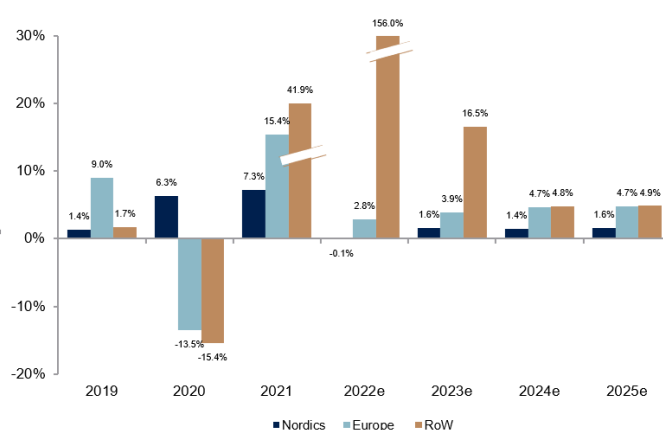
In 2021, RoW posted the highest sales growth, followed by Europe. However, in absolute terms, the Nordics remained as the main contributor to the overall growth, constituting approximately 50% of the group sales. In total, the group posted a y-o-y sales growth of 14% to SEK 647m, including the acquisition of Pappelina, which added 10% to group sales.

**Quarterly historical sales growth per BA**



Source: ABG Sundal Collier, company data, BA = business area

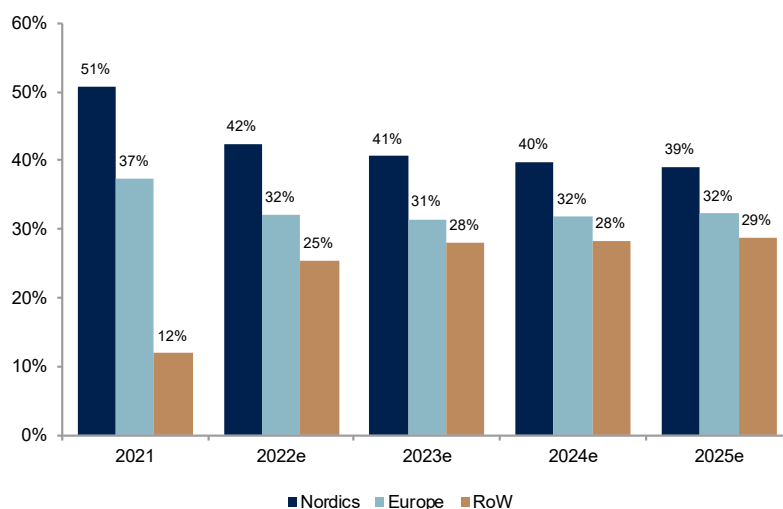
**Historical and forecasted sales growth per BA**



Source: ABG Sundal Collier, company data, BA = business area

Going forward, we assume a changed sales split among the business areas, mainly due to the acquisition made in Q1'22 of US-based Artscape Inc (consolidated into the group from 1 March 2022). We estimate RoW's share of total sales to increase from 2021's level of c. 12% to 25% in 2022e, and to 28% in 2023, where we expect it to stay in the following years. As such, we pencil in the Nordic and European share of total sales declining in the coming years.

**Estimated sales split by business area**



Source: ABG Sundal Collier, company data

We estimate the organic growth in Europe to be driven by the premium segment where we see high growth-potential for the premium-brands Cole & Son and Wall & Decò to implement their designs into adjacent product segments (e.g., textiles, furniture), while also expanding geographically in Europe.

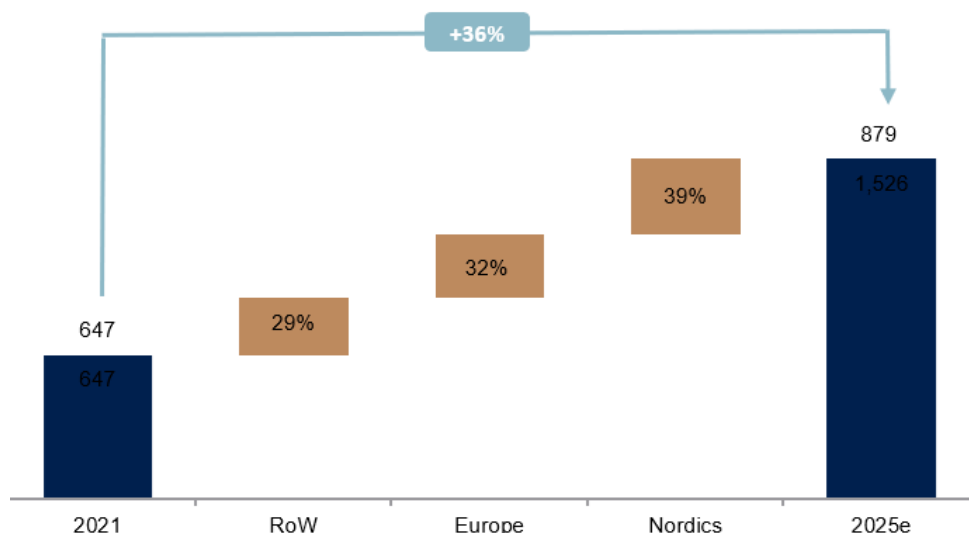
We forecast the organic growth trend in the Nordics to decelerate from its high levels, as consumers partially shift their consumption towards services. However, we estimate it to remain slightly above pre-pandemic levels. Additionally, we fear that the surge in electricity prices in the Nordics, affecting consumers' wallets, could hamper demand in H1'22e. Coupled with the fact that the Nordics has the lowest share of the premium segment (FY'21 29%), the Nordics is likely to post lower sales growth than the remaining segments, in our view.

Looking at RoW, we view this business segment as a pure growth area, not least considering that approximately 85% of its revenue (FY'21) is derived from premium

products. The key growth driver for RoW should naturally be the newly acquired US-based Artscape, which has its majority of sales in North America. According to management, the main focus for Artscape is to continue expanding in North America, although there is potential further ahead to expand to Europe. Although the lion's share of the growth in RoW in the upcoming year will stem from the acquisition of Artscape, we still expect RoW to post the highest organic growth rates in our forecast period, followed by Europe.

We note that Pappelina, which is similar to Artscape as a premium brand, has a large sales exposure to the RoW, in particular the US. As such, we also expect Pappelina to contribute with a large share of the organic sales growth in RoW in the coming years.

**Growth bridge by business area, SEKm**



Source: ABG Sundal Collier, company data

**Seasonality effects**

Embellence is subject to seasonality effects, where Q1 and Q4 are usually the strongest quarters for the group. Q2 and Q3 are historically weaker quarters due to the softer demand during the warm summer months.

**Stable underlying market growth**

The global wallpaper market is, as mentioned earlier in this report, mature and estimated to grow at a CAGR of 3.6% between 2021 and 2026. However, the premium segment is suggested (according to a survey commissioned by Embellence) to post slightly higher growth rates of an annual average between 5-8%. As we expect Embellence to continue growing its premium share in the upcoming years, we argue that its organic growth rates are set to marginally increase in our forecast period. Furthermore, we note that although we estimate the group to grow within premium, it still has a vast share within the value segment, primarily through Boråstapeter.

Looking at Embellence's revenue target, it implies a 2021-2025e sales CAGR of 17%. We currently estimate a 2025e sales of SEK 879m, translating into a 73% fulfilment of the financial target. While we think there is plenty of untapped market opportunities for Embellence to continue organically growing its sales, we especially think that Embellence has great potential to become a premium home interior consolidator considering the high level of market fragmentation. However, we do not factor in any unannounced M&A in our forecasts.

### ABGSC sales estimates per business area by quarter, SEKm

	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22e	Q2'22e	Q3'22e	Q4'22e
Nordics	85	64	65	93	98	75	64	91	92	72	68	96
Europe	55	45	52	58	62	65	54	61	63	63	57	65
RoW	13	11	15	16	18	20	17	23	31	55	52	58
<b>Total</b>	<b>153</b>	<b>120</b>	<b>131</b>	<b>166</b>	<b>178</b>	<b>160</b>	<b>136</b>	<b>174</b>	<b>187</b>	<b>190</b>	<b>177</b>	<b>220</b>
<b>Sales growth y-o-y</b>												
Nordics	-3%	7%	-3%	26%	16%	18%	-1%	-3%	-6%	-5%	6%	6%
o/w organic	-3%	8%	-1%	27%	17%	17%	-1%	-4%	-10%	-5%	5%	6%
o/w FX	-1%	-2%	-2%	-1%	-1%	1%	0%	1%	1%	0%	1%	0%
o/w structural	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Europe	-4%	-25%	-10%	-14%	12%	43%	5%	6%	3%	-3%	5%	7%
o/w organic	-5%	-25%	-9%	-12%	14%	45%	5%	3%	1%	-5%	3%	7%
o/w FX	1%	0%	-1%	-2%	-2%	-1%	0%	2%	2%	2%	2%	0%
o/w structural	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
RoW	-19%	-35%	-7%	1%	34%	76%	19%	45%	76%	182%	205%	159%
o/w organic	-6%	-13%	-6%	7%	35%	77%	19%	44%	10%	10%	10%	11%
o/w FX	1%	0%	-1%	-1%	-1%	-1%	0%	1%	1%	1%	1%	0%
o/w structural	0%	0%	0%	0%	0%	0%	0%	0%	65%	171%	194%	149%
<b>Total</b>	<b>-5%</b>	<b>-13%</b>	<b>-6%</b>	<b>6%</b>	<b>16%</b>	<b>33%</b>	<b>4%</b>	<b>5%</b>	<b>5%</b>	<b>19%</b>	<b>30%</b>	<b>26%</b>
o/w organic	-6%	-11%	-3%	11%	18%	33%	3%	3%	-3%	-3%	5%	7%
o/w FX	1%	-2%	-4%	-5%	-1%	0%	0%	2%	1%	1%	1%	0%
o/w structural	0%	0%	0%	0%	0%	0%	0%	0%	6%	21%	25%	19%

Source: ABG Sundal Collier, company data

### ABGSC sales estimates per business area by year, SEKm

	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Nordics	284	288	306	328	328	333	338	343
Europe	222	242	210	242	249	258	270	283
RoW	63	64	54	77	197	229	240	252
<b>Total</b>	<b>569</b>	<b>594</b>	<b>570</b>	<b>647</b>	<b>773</b>	<b>821</b>	<b>849</b>	<b>879</b>
<b>Sales growth y-o-y</b>								
Nordics	n.m.	1%	6%	7%	0%	2%	1%	2%
o/w organic	n.m.	1%	6%	7%	-1%	2%	1%	2%
o/w FX	n.m.	0%	0%	0%	0%	0%	0%	0%
o/w structural	n.m.	0%	0%	0%	0%	0%	0%	0%
Europe	n.m.	9%	-13%	15%	3%	4%	5%	5%
o/w organic	n.m.	9%	-13%	16%	1%	4%	5%	5%
o/w FX	n.m.	0%	0%	0%	1%	0%	0%	0%
o/w structural	n.m.	0%	0%	0%	0%	0%	0%	0%
RoW	n.m.	2%	-15%	42%	156%	17%	5%	5%
o/w organic	n.m.	2%	-15%	42%	10%	5%	5%	5%
o/w FX	n.m.	0%	0%	0%	1%	0%	0%	0%
o/w structural	n.m.	0%	0%	0%	145%	11%	0%	0%
<b>Total</b>	<b>n.m.</b>	<b>4%</b>	<b>-4%</b>	<b>14%</b>	<b>20%</b>	<b>6%</b>	<b>3%</b>	<b>4%</b>
o/w organic	n.m.	4%	-4%	13%	1%	3%	3%	4%
o/w FX	n.m.	0%	0%	0%	1%	0%	0%	0%
o/w structural	n.m.	0%	0%	0%	17%	3%	0%	0%

Source: ABG Sundal Collier, company data

### Breaking down our earnings estimates

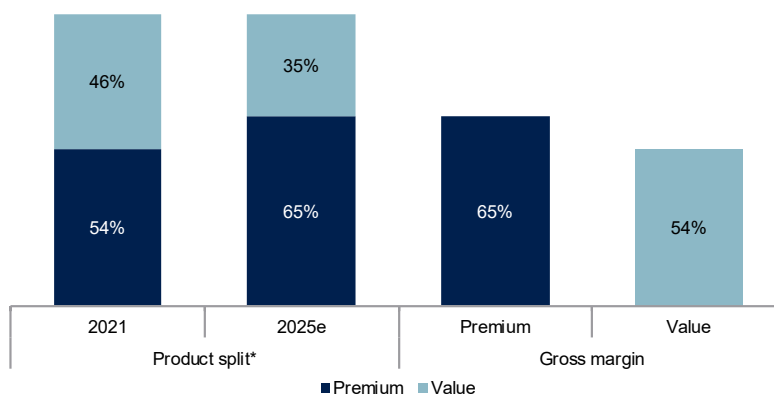
Embellence has improved its gross margin since 2019, growing by 0.5pp between 2019 and 2020, and 0.8pp between 2020 and 2021. The margin expansion is foremost driven by the growth in the premium segment, combined with an increased interest in home interiors. According to management the gross margins in the value segment at group level are around 52-56%, while the premium segment has gross margins of roughly 60-70%.

Although it seems fair to assume that consumers might shift consumption towards a greater share of services beyond the pandemic, we believe that the demand could remain above pre-pandemic levels, as peoples’ homes have become a more vital part of their lives. Additionally, we argue that the demand for home interior premium products, which foremost targets high net-worth individuals (HNWIs), is here to stay: both the numbers and wealth of HNWIs are growing consistently, and we see little reason why this group should decrease its spending on homes.

### Gross margin assumptions

In FY’21 the premium segment generated 54% of the group sales, growing 4pp y-o-y. As mentioned above, we expect the growth to continue over the coming years, reaching 65% of total group sales in 2025e (i.e. a CAGR of 5%), in line with the underlying premium market. Assuming that the premium segment has 10pp higher gross margins than the value segment, our estimates suggest a positive mix effect of c. 25bp per year or a total 1pp by 2025e.

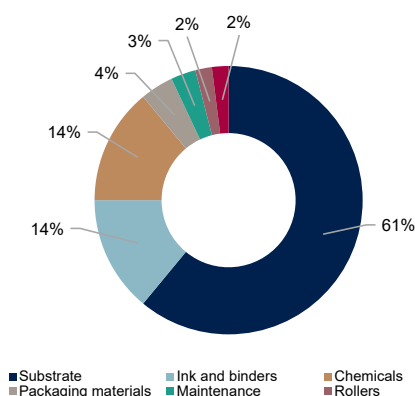
### We estimate a positive mix effect of ~1pp by 2025e



Source: ABG Sundal Collier, company data  
\*Excluding Artscape

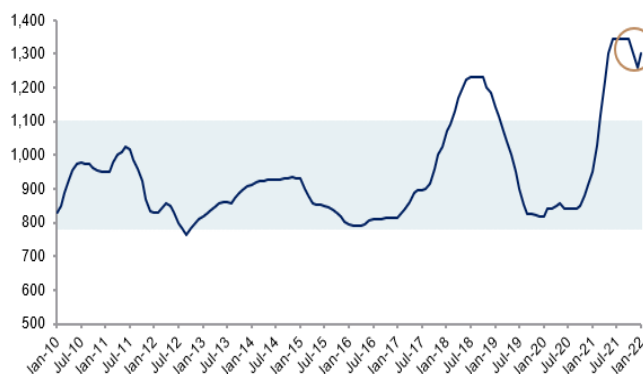
Furthermore, we note that the newly-acquired Artscape has a below-group gross margin (47% in 2021, according to management). Therefore, Artscape dilutes the group’s gross margin by c. 1.5pp. However, we assume gross margin synergies to the tune of 3% of sales, implying a 1pp gross margin dilution for the group. As such, we estimate an initial margin contraction, until 2023e. From 2024e we pencil in an expansion, however, due to us expecting Embellence to grow its share of premium sales over time (while also experiencing gross margin synergies in Artscape).

**Embellence's sourcing by material**



Source: ABG Sundal Collier, company data

**Pulp (NBSK) prices have surged lately, USD/t**

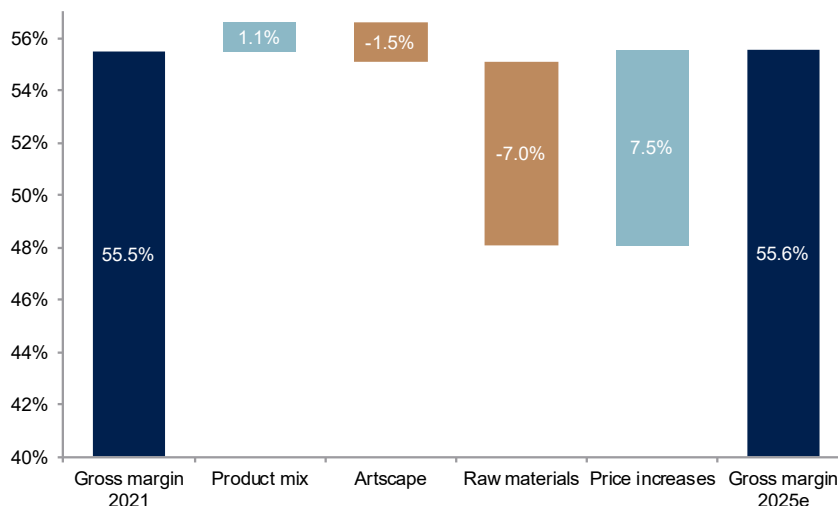


Source: ABG Sundal Collier, RISI

Furthermore, Embellence's raw material exposure is highly tilted towards pulp, which is used to produce wallpaper. As seen above, pulp prices have surged since the beginning of 2021. So far, Embellence has successfully transferred its COGS inflation to customers. However, given recent price-hikes and the overall inflationary environment, we fear that quick price adjustments could become increasingly difficult. This could in turn hamper short- to mid-term gross margins.

Below we illustrate a potential gross margin bridge from 2021 to 2025e. It implies that if Embellence was to face continued cost inflation on raw materials, coupled with the dilution effect from Artscape and positive product mix of ~1pp, it would have to apply price adjustments of at least 7.5% in order to meet our 2025e gross margin estimates (+1bps vs 2021's gross margin).

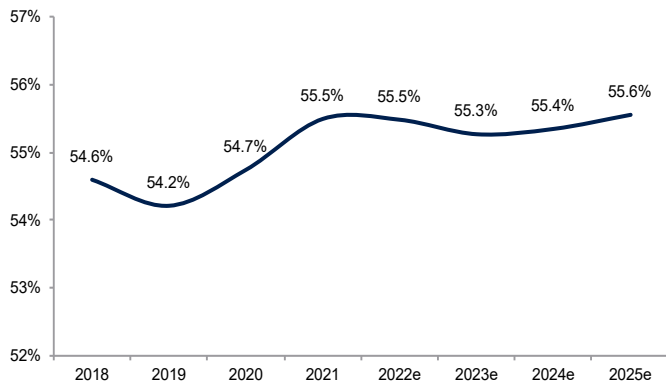
**Illustration of potential gross margin bridge**



Source: ABG Sundal Collier, company data

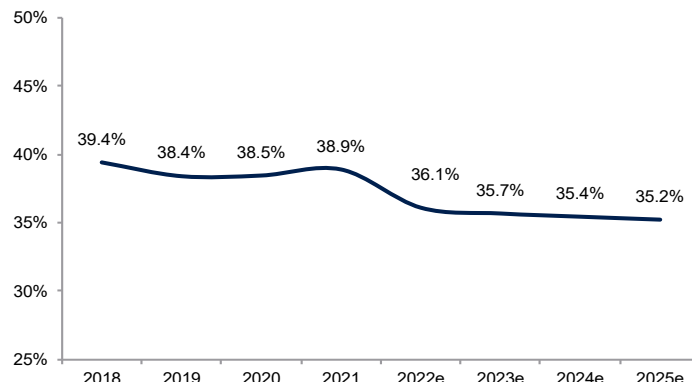
All in all, we take a slightly more cautious approach in our gross margin estimates on the back of Artscape's below-group gross margin, coupled with limited visibility on continued cost inflation.

## Gross margin, '18-'25e



Source: ABG Sundal Collier, company data

## Opex-to-sales, '18-'25e



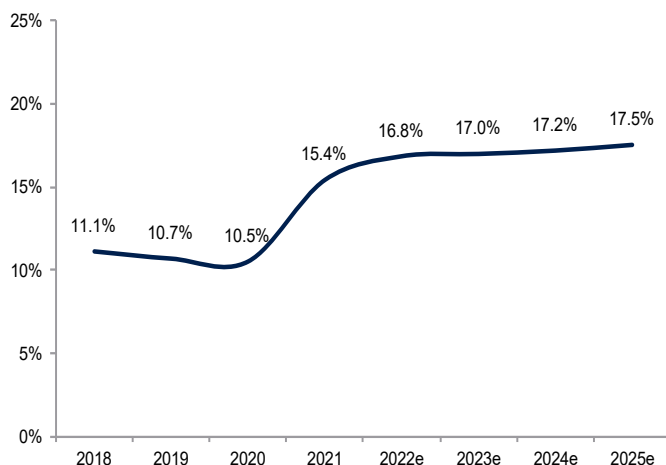
Source: ABG Sundal Collier, company data

### Earnings assumptions

Although Artscape contributes with a somewhat lower gross margin, it has an above-group EBITA margin (26% in 2021 according to management). With Artscape being integrated into the group from 1 March 2022, we pencil in a declining opex-base, resulting in an adj. EBITA margin expansion of 2.1pp between 2021 and 2025e, hence being well in line with the group's EBITA margin target of at least 15%. We note that the adjustments to EBITA in 2021 were non-recurring costs related to the IPO and acquisitions (~SEK 11.6m). Excluding these adjustments yield an EBITA margin of 13.6% for 2021.

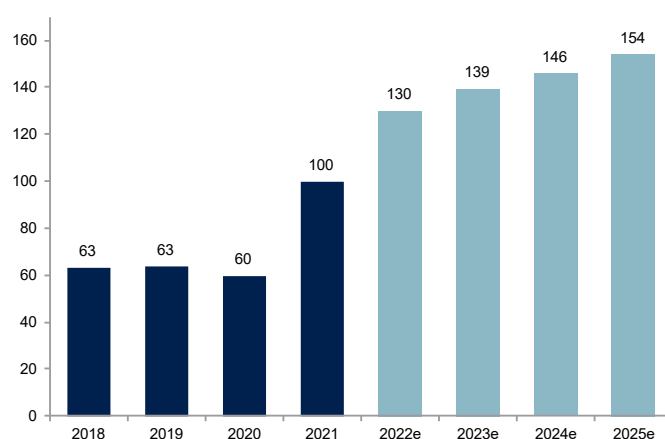
In all, we expect the operational leverage, generated by the sales growth and positive effects from Artscape along with a stable gross margin, to have a relatively smooth drop-through to earnings. Consequently, we pencil in an EBITA CAGR in '21-'25e of 11%. In terms of EPS, we estimate an ~60% EPS accretion, from SEK 2.8 per share in 2021 to 4.4 in 2022e.

## Adj. EBITA margin, '18-'25e



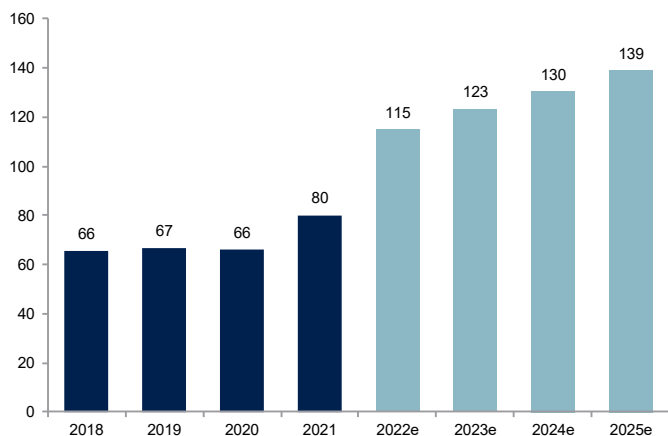
Source: ABG Sundal Collier, company data

## Adj. EBITA, '18-'25e, SEKm



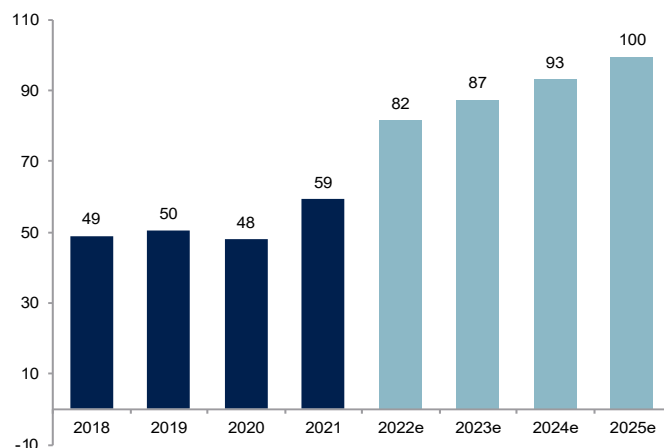
Source: ABG Sundal Collier, company data

## EBIT, '18-'25e, SEKm



Source: ABG Sundal Collier, company data

## Net profit, '18-'25e, SEKm



Source: ABG Sundal Collier, company data

## COVID-19 impact

Embellence suffered from the pandemic, primarily in its Europe business area: its main European markets Italy and the UK (but also France and Germany) were under strict lockdowns. This was naturally reflected in the organic growth, which dropped significantly during 2020, especially during H1 when the restrictions were the toughest.

Although Embellence has most likely benefited overall from the increased focus on renovation and home interior during the pandemic, we emphasise that the main trigger for purchasing wallpaper internationally is redecoration. Organic growth picked up in 2021 (on easy comps), despite severe challenges related to supply chain disruptions and cost inflation on input materials. The cost inflation has so far largely been offset by price increases, which is reflected in the stable gross margin throughout 2021 (hovering around 56%). Although there is limited visibility on continued cost inflation, we stress that customers in the premium segment do not seem to be as price sensitive as customers in the value segment.

## ABGSC P&L estimates by quarter, SEKm

	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22e	Q2'22e	Q3'22e	Q4'22e
<b>Net sales</b>	<b>153</b>	<b>120</b>	<b>131</b>	<b>166</b>	<b>178</b>	<b>160</b>	<b>136</b>	<b>174</b>	<b>187</b>	<b>190</b>	<b>177</b>	<b>220</b>
COGS	-69	-55	-57	-77	-82	-70	-59	-77	-83	-85	-79	-97
Gross profit	83	66	74	89	95	90	76	97	104	105	98	123
Other operating income	0	5	0	0	1	1	1	3	2	2	2	2
Other external expenses	0	0	0	0	0	0	0	0	0	0	0	0
SG&A	-65	-50	-48	-59	-68	-64	-53	-70	-71	-70	-65	-80
Other operating expenses	-1	0	0	-2	0	-1	-1	0	0	0	0	0
<i>Total opex</i>	<i>-66</i>	<i>-45</i>	<i>-48</i>	<i>-61</i>	<i>-68</i>	<i>-64</i>	<i>-53</i>	<i>-67</i>	<i>-69</i>	<i>-69</i>	<i>-64</i>	<i>-78</i>
EBITDA	18	21	26	28	28	26	23	31	35	37	34	45
<b>Adj. EBITDA</b>	<b>18</b>	<b>21</b>	<b>26</b>	<b>28</b>	<b>33</b>	<b>28</b>	<b>23</b>	<b>35</b>	<b>35</b>	<b>37</b>	<b>34</b>	<b>45</b>
Depreciation	-6	-6	-6	-8	-5	-5	-5	-5	-5	-5	-5	-5
EBITA	12	15	20	20	23	21	18	26	30	32	29	39
<b>Adj. EBITA</b>	<b>12</b>	<b>15</b>	<b>20</b>	<b>20</b>	<b>28</b>	<b>23</b>	<b>18</b>	<b>30</b>	<b>30</b>	<b>32</b>	<b>29</b>	<b>39</b>
Amortisation	0	0	0	0	-2	-2	-2	-2	-2	-4	-4	-4
EBIT	12	15	20	20	21	19	16	24	27	27	25	35
Adj. EBIT	12	15	20	20	26	21	16	28	27	27	25	35
NRI	0	0	0	0	-5	-2	0	-5	0	0	0	0
Net financial items	-1	0	-2	-1	-1	-2	-2	-1	-2	-3	-3	-2
PTP	10	15	18	19	20	17	14	23	25	25	21	33
Taxes	-1	-4	-4	-4	-5	-4	-2	-5	-6	-5	-5	-7
Net profit	9	11	14	15	15	13	12	18	20	19	17	26
Discounted ops	0	1	-1	-5	0	0	0	0	0	0	0	0
<b>Net profit to shareholders</b>	<b>9</b>	<b>13</b>	<b>13</b>	<b>10</b>	<b>15</b>	<b>13</b>	<b>12</b>	<b>18</b>	<b>20</b>	<b>19</b>	<b>17</b>	<b>26</b>
EPS	0.4	0.6	0.6	0.5	0.7	0.6	0.6	0.9	0.9	0.9	0.7	1.2
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Sales growth, yoy (%)	-5.0	-11.9	-4.3	5.9	16.4	32.9	3.6	4.8	5.2	19.0	30.4	26.2
Gross margin (%)	54.7	54.7	56.7	53.4	53.7	56.3	56.4	56.0	55.5	55.3	55.3	55.8
Opex-to-sales (%)	43.0	37.0	36.8	36.7	38.1	40.1	39.3	38.4	37.0	36.0	36.0	35.5
EBITDA margin (%)	11.7	17.6	19.9	16.7	15.6	16.2	17.1	17.5	18.5	19.3	19.3	20.3
Adj. EBITDA margin (%)	11.7	17.6	19.9	16.7	18.6	17.3	17.1	20.2	18.5	19.3	19.3	20.3
EBITA margin (%)	7.6	12.5	15.1	11.8	12.8	13.3	13.5	14.8	15.9	16.7	16.5	18.0
Adj. EBITA margin (%)	7.6	12.5	15.1	11.8	15.8	14.3	13.5	17.5	15.9	16.7	16.5	18.0
EBIT margin (%)	7.6	12.5	15.1	11.8	11.8	12.1	12.0	13.6	14.7	14.4	14.0	16.0
Adj. EBIT margin (%)	7.6	12.5	15.1	11.8	14.8	13.1	12.0	16.2	14.7	14.4	14.0	16.0
Pretax margin (%)	6.8	12.4	14.0	11.4	11.2	10.7	10.6	13.2	13.5	13.0	12.2	15.1
Net margin (%)	6.1	10.4	9.7	6.0	8.6	8.3	9.0	10.6	10.5	10.1	9.5	11.8

Source: ABG Sundal Collier, company data

## ABGSC P&L estimates by year, SEKm

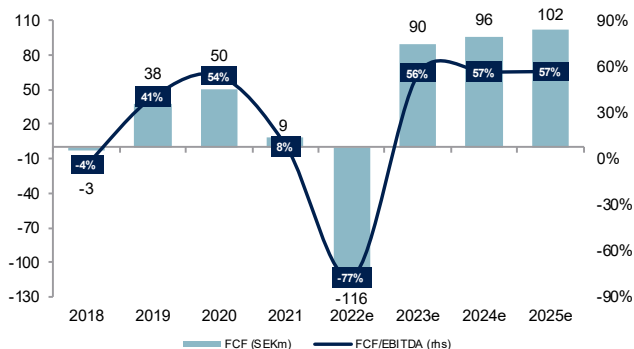
	2018	2019	2020	2021	2022e	2023e	2024e	2025e
<b>Net sales</b>	<b>569</b>	<b>594</b>	<b>570</b>	<b>647</b>	<b>773</b>	<b>821</b>	<b>849</b>	<b>879</b>
COGS	-258	-272	-258	-288	-344	-367	-379	-390
Gross profit	311	322	312	359	429	454	470	488
Other operating income	2	2	4	6	8	8	8	9
Other external expenses	0	0	0	0	0	0	0	0
SG&A	-220	-228	-222	-255	-287	-301	-309	-318
Other operating expenses	-6	-2	-2	-2	0	0	0	0
<i>Total opex</i>	<i>-225</i>	<i>-228</i>	<i>-219</i>	<i>-252</i>	<i>-279</i>	<i>-293</i>	<i>-301</i>	<i>-309</i>
EBITDA	86	94	93	107	150	161	169	179
<b>Adj. EBITDA</b>	<b>80</b>	<b>86</b>	<b>81</b>	<b>119</b>	<b>150</b>	<b>161</b>	<b>169</b>	<b>179</b>
Depreciation	-17	-23	-22	-19	-20	-22	-23	-25
EBITA	69	71	71	88	130	139	146	154
<b>Adj. EBITA</b>	<b>63</b>	<b>63</b>	<b>60</b>	<b>100</b>	<b>130</b>	<b>139</b>	<b>146</b>	<b>154</b>
Amortisation	-4	-4	-5	-8	-15	-16	-15	-15
EBIT	66	67	66	80	115	123	130	139
Adj. EBIT	60	60	55	92	115	123	130	139
NRI	6	7	11	-12	0	0	0	0
Net financial items	-2	-5	-4	-6	-10	-11	-11	-11
PTP	64	62	62	74	105	112	119	128
Taxes	-15	-11	-14	-15	-23	-25	-26	-28
Net profit	49	50	48	59	82	87	93	100
Discounted ops	-5	0	-5	0	0	0	0	0
<b>Net profit to shareholders</b>	<b>44</b>	<b>50</b>	<b>43</b>	<b>59</b>	<b>82</b>	<b>87</b>	<b>93</b>	<b>100</b>
EPS	n.a.	n.a.	2.0	2.8	3.6	3.9	4.1	4.4
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Sales growth, yoy (%)	n.m	4.4	-4.1	13.5	19.5	6.1	3.4	3.5
Gross margin (%)	54.6	54.2	54.7	55.5	55.5	55.3	55.4	55.6
Opex-to-sales (%)	39.4	38.4	38.5	38.9	36.1	35.7	35.4	35.2
EBITDA margin (%)	15.2	15.8	16.3	16.6	19.4	19.6	19.9	20.3
Adj. EBITDA margin (%)	14.1	14.6	14.3	18.4	19.4	19.6	19.9	20.3
EBITA margin (%)	12.2	11.9	12.5	13.6	16.8	17.0	17.2	17.5
Adj. EBITA margin (%)	11.1	10.7	10.5	15.4	16.8	17.0	17.2	17.5
EBIT margin (%)	11.5	11.3	11.6	12.4	14.9	15.0	15.3	15.8
Adj. EBIT margin (%)	10.5	10.0	9.6	14.2	14.9	15.0	15.3	15.8
Pretax margin (%)	11.2	10.4	10.9	11.5	13.5	13.7	14.0	14.5
Net margin (%)	7.8	8.5	7.6	9.1	10.5	10.7	10.9	11.3

Source: ABG Sundal Collier, company data

### Cash flow

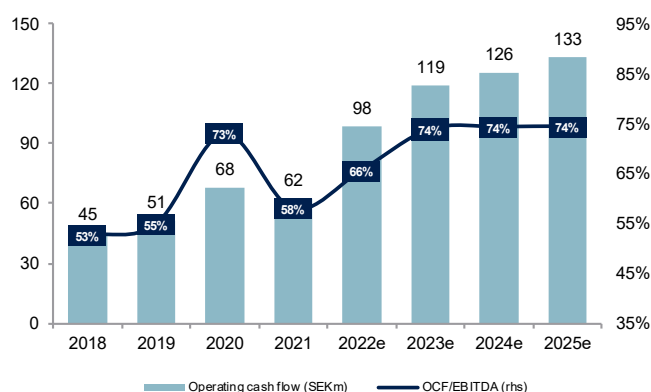
Embellence has a cash generative and asset-light business model, with relatively low capex needs (we estimate a tangible capex level of ~3.5% of sales). In terms of NWC as % of sales, we assume a ~14% level, resulting in a cash conversion (OCF/EBITDA) of ~75% and operating cash flow of SEK 98m, 119m, 126m and 133m in '22e-'25e, respectively. We note that the cash flow dropped significantly in 2021 on the back of the acquisition of Pappelina in January 2021. Following the acquisition of Artscape we expect the cash flow in 2022e to also be squeezed. However, when excluding M&A from the free cash flow, we see significantly more stable cash flows. Going forward, we estimate operating cash flow improvement to primarily stem from increased earnings, but also lower changes in working capital.

**FCF and FCF/EBITDA, SEKm**



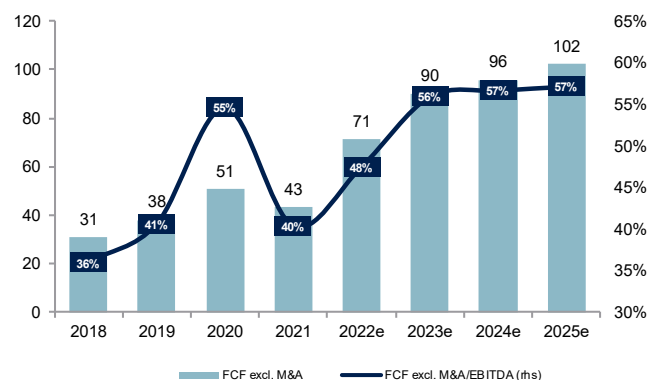
Source: ABG Sundal Collier, company data

**OCF and OCF conversion, SEKm**



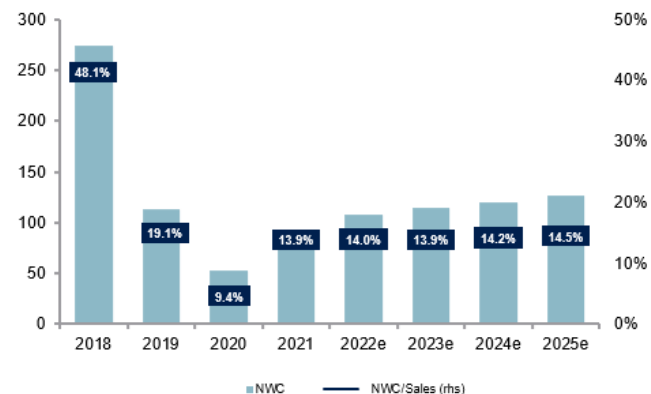
Source: ABG Sundal Collier, company data

**FCF excl. M&A, FCF excl. M&A/EBITDA, SEKm**



Source: ABG Sundal Collier, company data

**NWC/Sales, SEKm**



Source: ABG Sundal Collier, company data

**ABGSC cash flow estimates, SEKm**

	2018	2019	2020	2021	2022e	2023e	2024e	2025e
EBITDA	86	94	93	107	150	161	169	179
Net interest	-2	-5	-4	-7	-10	-11	-11	-11
Paid taxes	-14	-10	-7	-9	-23	-25	-26	-28
Changes in working capital	-28	-31	-12	-37	-18	-6	-6	-7
Other non-cash items	3	5	0	8	0	0	0	0
Operating cash flow from divested units	0	-1	-3	0	0	0	0	0
<b>OPERATING CASH FLOW</b>	<b>45</b>	<b>51</b>	<b>68</b>	<b>62</b>	<b>98</b>	<b>119</b>	<b>126</b>	<b>133</b>
Net capex, tangibles	-10	-8	-9	-19	-23	-25	-25	-26
Net capex, intangibles	-4	-5	-8	0	-4	-4	-4	-4
Acquisitions	-34	0	0	-34	-187	0	0	0
Cash flow from divested units	0	-1	0	0	0	0	0	0
<b>TOTAL CAPEX</b>	<b>-48</b>	<b>-13</b>	<b>-17</b>	<b>-53</b>	<b>-214</b>	<b>-29</b>	<b>-30</b>	<b>-31</b>
<b>FREE CASH FLOW</b>	<b>-3</b>	<b>38</b>	<b>50</b>	<b>9</b>	<b>-116</b>	<b>90</b>	<b>96</b>	<b>102</b>
<b>FREE CASH FLOW excl. M&amp;A</b>	<b>31</b>	<b>38</b>	<b>51</b>	<b>43</b>	<b>71</b>	<b>90</b>	<b>96</b>	<b>102</b>
Other investing activities	0	0	0	0	0	0	0	0
Share issues and buybacks	0	0	0	0	38	0	0	0
Dividends paid	0	0	0	0	-17	-24	-26	-28
Leasing liability amortisation	0	-13	-11	-10	-7	-7	-7	-7
Changes in borrowing	28	-11	-23	8	104	0	0	0
Cash flow from divested units	0	0	0	0	0	0	0	0
Paid group contribution	-20	0	0	0	0	0	0	0
<b>CASH FLOW FOR THE PERIOD</b>	<b>4</b>	<b>13</b>	<b>17</b>	<b>7</b>	<b>2</b>	<b>58</b>	<b>62</b>	<b>67</b>
FX changes	0	1	-2	2	0	0	0	0
<b>Net cash flow, after FX</b>	<b>5</b>	<b>14</b>	<b>15</b>	<b>9</b>	<b>2</b>	<b>58</b>	<b>62</b>	<b>67</b>
IB liquid funds	16	20	34	49	58	60	118	181
OB liquid funds	20	34	49	58	60	118	181	248

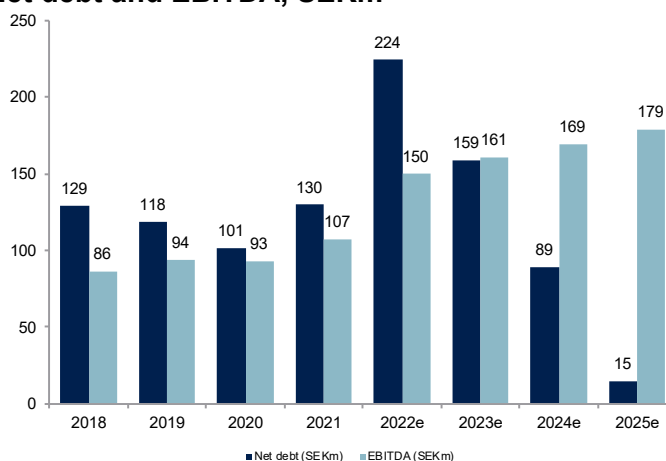
Source: ABG Sundal Collier, company data

### Balance sheet

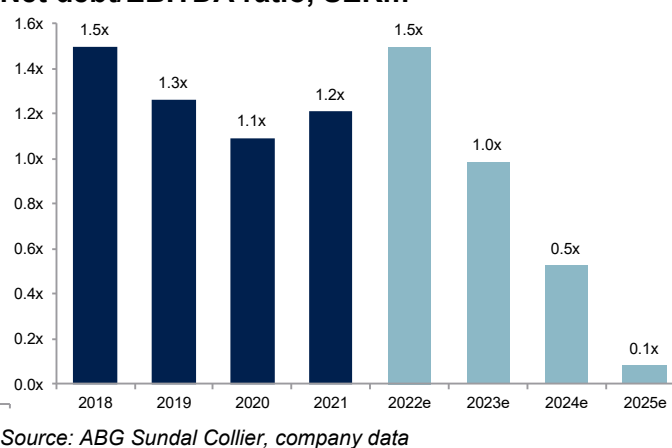
Embellence has tangible assets, which mainly relate to its two production plants (SEK 70m in '21). In addition, SEK 67m refers to IFRS 16 leases (e.g., machines).

Despite the acquisition of Pappelina in Q1'21, Embellence ended 2021 with a solid balance sheet, posting a ND/EBITDA of 1.2x. As such, the group was well below its financial target of <2.5x ND/EBITDA. Following the acquisition of Artscape the ND/EBITDA ratio will naturally increase, and we estimate a YE'22e ND/EBITDA of 1.5x, still being well-below the financial target. With a continued declining ND/EBITDA ratio and a highly fragmented premium market, we see significant headroom for continued M&A activity going forward. The relatively low acquisition multiples for Pappelina (~3.5x EV/EBIT, ~0.8x EV/Sales) and Artscape (~5.5x EV/EBITA) illustrate that Embellence is able to exploit multiple arbitrages when making acquisitions. Consequently, we think it likely that Embellence will continue consolidating the high-margin low-multiple industry.

Net debt and EBITDA, SEKm



Net debt/EBITDA ratio, SEKm



Source: ABG Sundal Collier, company data

Source: ABG Sundal Collier, company data

## ABGSC balance sheet estimates, SEKm

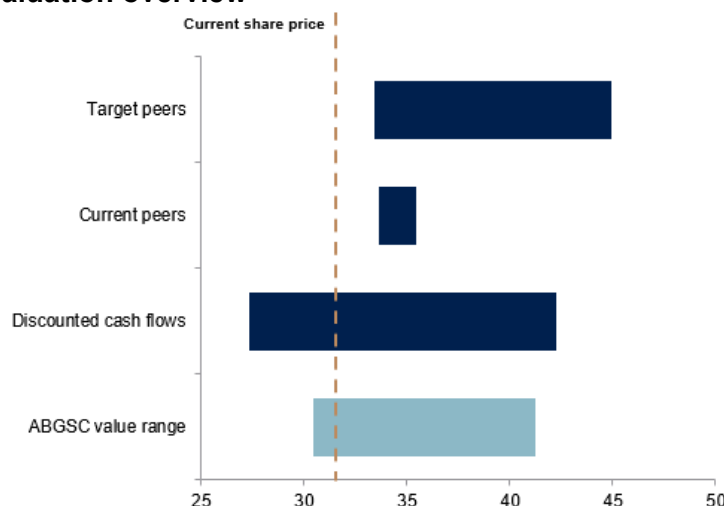
	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Intangible assets	29	31	31	209	384	373	361	351
Deferred tax assets	2	0	5	1	1	1	1	1
<b>Total intangible assets</b>	<b>168</b>	<b>174</b>	<b>173</b>	<b>209</b>	<b>385</b>	<b>373</b>	<b>362</b>	<b>351</b>
Property, plant and equipment	86	67	65	70	80	91	100	109
Right-of-use assets	0	21	33	67	60	53	46	38
Financial assets	0	0	0	1	1	1	1	1
<b>Total non-current assets</b>	<b>254</b>	<b>262</b>	<b>272</b>	<b>348</b>	<b>527</b>	<b>518</b>	<b>509</b>	<b>499</b>
Inventories	99	107	85	87	110	117	124	132
Customer receivables	79	71	84	105	132	141	150	159
Other receivables	193	17	9	11	14	15	16	17
Prepaid expenses and accrued income	16	22	15	15	14	14	14	14
Cash and cash equivalents	20	34	49	58	60	118	181	248
<b>Total current assets</b>	<b>407</b>	<b>270</b>	<b>242</b>	<b>276</b>	<b>330</b>	<b>405</b>	<b>484</b>	<b>569</b>
Assets held for sales	0	19	0	0	0	0	0	0
<b>TOTAL ASSETS</b>	<b>661</b>	<b>532</b>	<b>513</b>	<b>624</b>	<b>856</b>	<b>923</b>	<b>993</b>	<b>1068</b>
<b>Shareholder's equity</b>	<b>386</b>	<b>249</b>	<b>212</b>	<b>293</b>	<b>396</b>	<b>459</b>	<b>526</b>	<b>597</b>
Non-controlling interest	0	0	0	0	0	0	0	0
<b>Total equity</b>	<b>386</b>	<b>249</b>	<b>212</b>	<b>293</b>	<b>396</b>	<b>459</b>	<b>526</b>	<b>597</b>
Long-term interest bearing liabilities	9	0	0	0	104	104	104	104
Pension provisions	2	2	4	5	5	5	5	5
Long-term leasing liabilities	0	12	26	55	48	41	33	26
Deferred tax liabilities	7	9	8	14	14	14	14	14
Other non-current liabilities	4	0	0	0	0	0	0	0
<b>Total non-current liabilities</b>	<b>22</b>	<b>23</b>	<b>38</b>	<b>74</b>	<b>171</b>	<b>163</b>	<b>156</b>	<b>149</b>
Short-term interest bearing liabilities	140	130	117	116	116	116	116	116
Short-term leasing liabilities	0	8	7	12	12	12	12	12
Payables	58	51	52	48	60	64	68	73
Current tax liabilities	4	6	2	0	0	0	0	0
Accrued expenses and prepaid income	44	41	62	50	63	68	72	76
Provisions for guarantees	1	1	1	0	0	0	0	0
Other current liabilities	6	8	22	30	38	40	43	45
<b>Total current liabilities</b>	<b>253</b>	<b>260</b>	<b>263</b>	<b>256</b>	<b>290</b>	<b>300</b>	<b>311</b>	<b>322</b>
Assets held for sale	0	16	0	0	0	0	0	0
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>661</b>	<b>532</b>	<b>513</b>	<b>624</b>	<b>856</b>	<b>923</b>	<b>993</b>	<b>1068</b>
Net debt incl. pension provisions	129	118	101	130	224	159	89	15
ND/EBITDA	1.5x	1.3x	1.1x	1.2x	1.5x	1.0x	0.5x	0.1x

Source: ABG Sundal Collier, company data

## Valuation

The Embellence Group share is -26% since the listing in March 2021 and -7% YTD. At current share price levels, the stock trades at 6.3x EV/EBITA 2023e, which is ~18% and ~31% below our current and premium peer groups, respectively. Using an EV/EBIT(A) peer valuation and blending it with our three discounted cash flow scenarios yields our fair value range of SEK 30-41 per share, corresponding to an EV/EBITA range of 6.1x-7.8x on our '23 estimates.

### Valuation overview



Source: ABG Sundal Collier, company data

### Valuation summary

Valuation	Weight	Value per share range	
DCF	50%	27	42
Current peers	25%	34	35
Target peers	25%	33	45
<b>Value range per share (SEK)</b>	<b>100%</b>	<b>30</b>	<b>41</b>
<b>Implied EV/EBITA '23e</b>		<b>6.1x</b>	<b>7.8x</b>

Source: ABG Sundal Collier, company data

### Peer group valuation

We use two different peer groups to try to fully capture the different features of Embellence's business. More specifically, we have constructed one peer group which could be argued to be comparable to Embellence's current positioning, and one peer group which is more of a target peer group. For both peer groups we provide a snapshot of a financial overview along with a peer group valuation. Overall, we find that EV/EBIT(A) is the most suitable metric to look at. Furthermore, we look at '22e-'23e multiples, given that '24 estimates are not yet available for all our peer group companies.

#### Current peers








The companies in our current peer group are all directly or indirectly operating in the consumer durables segment. We have chosen to include RugVista, Byggmax, Sanderson Design Group, Svedbergs, Balta Group and Nobia. We find Sanderson Design Group to be the most comparable peer to Embellence, given its distinct focus on wallpaper design, manufacturing and in-house marketing. Furthermore,

Byggmax, being a DIY discount retailer, shares some similar characteristics with Embellence in terms of being somewhat dependent on construction and renovation. The same growth drivers can be found in Nobia, a Swedish kitchen designer, and Svedbergs, a manufacturer of exclusive bathroom furnishing.

We also include two floorcovering companies, RugVista and Balta Group. This is due to Embellence further expanding into this product segment, but also because it targets the same customer groups. RugVista is a Swedish pure-play online retailer, while Balta Group is a Belgian manufacturer of design floorcoverings and tiles.

Although these peer companies have different features, we find the group appealing to look at given the overall focus on home interior and the sharing of many similar growth drivers.

## Overview of current peers

Current peers							
Sales channel	In-store	Online	In-store	In-store	In-store	In-store	In-store
Sales '20 (BSEK)	0.57	0.56	6.8	1.1	0.65	5.7	12.7
Sales CAGR '20-'23e	7.3%	18.9%	2.9%	10.8%	36.6%	7.0%	6.9%
EBIT margin '23e	13.3%	18.3%	6.8%	10.9%	13.6%	8.0%	10.2%
EBIT CAGR '20-'23e	12.4%	19.1%	-8.3%	114.6%	41.8%	35.0%	64.9%
Home furnishings pure play	Yes	Yes	No	Yes	Yes	Yes	Yes
Own production	Yes	Yes	No	No	Yes	Yes	Yes
House of brands	Yes	No	No	Yes	No	No	No
Main geographical presence	Europe	Europe	Nordics	US/Europe	Nordics	Global	Europe

Source: ABG Sundal Collier for Embellence, FactSet for all other companies

For '22e-'23e Embellence is trading at EV/EBIT(A) of 7.3x-6.3x. This is 18% below the current peer group average on both '22e-'23e estimates.

## Current peers, valuation multiples overview

Current peers Company	MCAP SEKm	EV/EBIT(A) (x)			EV/EBITDA (x)			EV/Sales (x)		
		2021	2022e	2023e	2021	2022e	2023e	2021	2022e	2023e
RugVista Group AB	1,950	12.8	11.8	9.5	12.4	11.1	9.0	2.4	2.1	1.7
Byggmax Group AB	3,934	7.2	11.4	11.0	4.5	5.4	5.3	0.8	0.8	0.8
Sanderson Design Group PLC	1,195	6.5	5.8	5.0	4.2	3.8	3.3	0.7	0.6	0.5
Svedbergs i Dalstorp AB Class B	1,459	24.9	9.5	8.4	n.a.	8.1	7.3	2.7	1.3	1.1
Balta Group NV	1,270	8.4	7.7	6.5	4.9	5.3	5.0	0.6	0.7	0.7
Nobia AB	6,505	8.4	7.2	5.9	4.6	4.4	3.7	0.6	0.6	0.6
<b>Peer average</b>		<b>11.4</b>	<b>8.9</b>	<b>7.7</b>	<b>6.1</b>	<b>6.3</b>	<b>5.6</b>	<b>1.3</b>	<b>1.0</b>	<b>0.9</b>
<b>Peer median</b>		<b>8.4</b>	<b>8.6</b>	<b>7.4</b>	<b>4.6</b>	<b>5.4</b>	<b>5.1</b>	<b>0.7</b>	<b>0.8</b>	<b>0.7</b>
<b>Embellence Group AB</b>	<b>685</b>	<b>9.2</b>	<b>7.3</b>	<b>6.3</b>	<b>6.8</b>	<b>6.3</b>	<b>5.5</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>
vs. peer average		-19%	-18%	-18%	12%	-1%	-2%	-5%	19%	17%
vs. peer median		10%	-16%	-15%	49%	17%	7%	69%	60%	45%
Implied equity value vs. avg. (SEKm)		782	798	792	527	728	742	724	570	590
Implied equity value vs. Median (SEKm)		543	764	758	365	581	666	352	364	445
Implied equity value / share vs. avg. (SEK)		37	35	35	25	32	33	34	25	26
Implied equity value / share vs. Median (SEK)		25	34	34	17	26	30	16	16	20

Source: ABG Sundal Collier for Embellence, FactSet for all other companies

Below, we illustrate Embellence's share price sensitivity to different peer group averages and its level above/below this average.

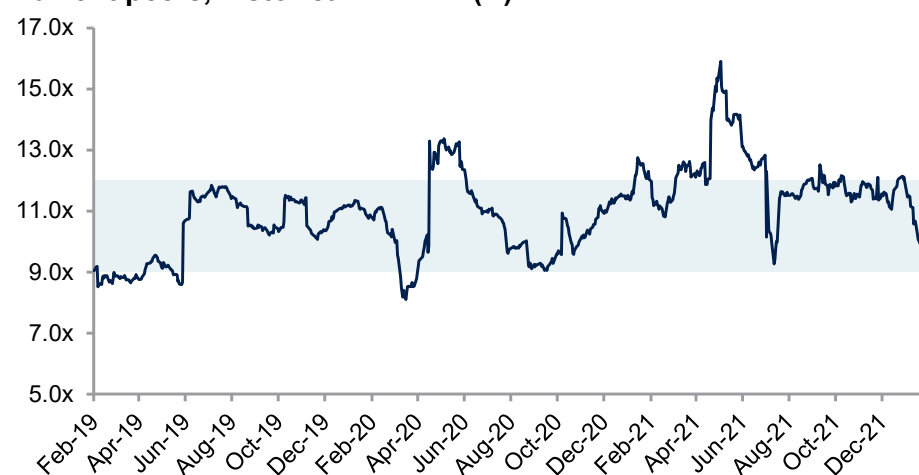
## Share price sensitivity to peer EV/EBIT(A) average and vs. peers in '23e

Current peer group '23e		Peer average				
EV/EBIT(A)		8.9x	9.4x	9.9x	10.4x	10.9x
vs. Peers	-18%	40	42	44	46	49
	-8%	45	47	50	52	55
	2%	50	52	55	58	61
	12%	54	57	61	64	67
	22%	59	63	66	69	73

Source: ABG Sundal Collier, company data

Historically the current peer group's EV/EBITs tend to hover around 9-12x, and have de-rated somewhat lately. Nevertheless, we note that Embellence is trading slightly below this level.

## Current peers, historical EV/EBIT(A)



Source: ABG Sundal Collier, FactSet

## Target peers

As highlighted throughout this report, Embellence is successively moving towards becoming a premium consolidator within home interior, expanding its premium wallpaper offering further into adjacent product categories. As such, we find it appealing to look also at a group of premium brands: we have included Tempur Sealy, Marimekko, RH, Fiskars Group, Ralph Lauren, Weber and Williams-Sonoma.

RH and Williams-Sonoma are both manufacturers and sellers of a diverse range of premium home furnishing products. Moreover, customers of Tempur, Marimekko, Ralph Lauren, and Weber are generally willing to pay more for premium products, and we expect them to overlap with prospective Embellence customers to a large extent. Additionally, Fiskars Group owns a host of premium home interior brands (e.g., Iittala and Royal Copenhagen). Overall, our target peer group is clearly characterised by premium branding: all are fully or partly manufacturers of products within the home interior segment.

We note also that many of these premium brands have proven and well-established business models. This is reflected in their pricing power, yielding higher margins compared to Embellence, which is (despite its long history) still at the early stages of building a premium house of brands within home interior.

## Target peers, valuation multiples overview

Premium peers	TEMPUR+SEALY	marimekko	RH	FISKARS GROUP	RALPH LAUREN	weber	WILLIAMS-SONOMA, INC.
Sales channel	In-store	In-store	In-store	In-store	In-store	In-store	In-store
Sales '20 (BSEK)	30.6	1.3	24.7	11.3	36.6	N/A	57.8
Sales CAGR '20-'23e	17.3%	11.4%	15.9%	4.9%	15.2%	13.0%	8.4%
EBIT margin '23e	19.3%	18.5%	26.3%	12.4%	14.0%	14.0%	15.4%
EBIT CAGR '20-'23e	30.6%	20.9%	33.7%	11.8%	68.0%	17.5%	11.9%
Home furnishings pure play	Yes	Yes	Yes	No	No	Yes	Yes
Own production	Yes	Yes	Yes	Yes	No	Yes	Yes
House of brands	No	No	No	Yes	No	No	Yes
Main geographical presence	Global	Europe	USA	Global	Global	Global	USA

Source: ABG Sundal Collier, FactSet

In terms of EV/EBIT(A), Embellence is trading 31% below the premium peer group average in '22e, and 33% below in '23e.

## Target peers, valuation multiples overview

Target peers Company	MCAP SEKm	EV/EBIT(A) (x)			EV/EBITDA (x)			EV/Sales (x)		
		2021	2022e	2023e	2021	2022e	2023e	2021	2022e	2023e
Tempur Sealy International Inc	54,691	8.4	7.9	7.1	6.8	6.6	5.9	1.6	1.4	1.2
Marimekko Oyj	5,598	15.6	15.7	14.2	11.3	11.4	10.5	3.2	3.0	2.8
RH	72,089	8.0	6.8	6.1	7.2	6.1	5.6	2.0	1.8	1.6
Fiskars Oyj Abp	18,859	12.0	11.8	11.0	9.0	8.4	8.0	1.5	1.5	1.4
Ralph Lauren Corporation Class A	48,754	10.8	8.5	8.1	7.9	6.6	6.3	1.3	1.1	1.1
Weber, Inc. Class A	5,453	15.7	15.6	12.6	13.0	12.4	10.0	2.0	1.8	1.6
Williams-Sonoma, Inc.	103,413	7.3	7.2	7.2	6.4	6.3	6.2	1.2	1.2	1.1
<b>Peer average</b>		<b>11.1</b>	<b>10.5</b>	<b>9.5</b>	<b>8.8</b>	<b>8.2</b>	<b>7.5</b>	<b>1.8</b>	<b>1.7</b>	<b>1.5</b>
<b>Peer median</b>		<b>10.8</b>	<b>8.5</b>	<b>8.1</b>	<b>7.9</b>	<b>6.6</b>	<b>6.3</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>
<b>Embellence Group AB</b>	685	<b>9.2</b>	<b>7.3</b>	<b>6.3</b>	<b>6.8</b>	<b>6.3</b>	<b>5.5</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>
vs. peer average		-17%	-31%	-33%	-22%	-24%	-27%	-31%	-27%	-31%
vs. peer median		-15%	-15%	-22%	-14%	-4%	-14%	-19%	-17%	-21%
Implied equity value vs. avg. (SEKm)		762	981	1,011	814	1013	1050	1043	1068	1113
Implied equity value vs. Median (SEKm)		738	753	840	721	762	859	878	909	960
Implied equity value / share vs. avg. (SEK)		36	44	45	38	45	47	49	47	49
Implied equity value / share vs. Median (SEK)		34	33	37	34	34	38	41	40	43

Source: ABG Sundal Collier for Embellence, FactSet for all other companies

## Share price sensitivity to peer EV/EBIT(A) average and vs. peers in '23e

Target peer group '23e		Peer average				
EV/EBIT(A)		10.5x	11.0x	11.5x	12.0x	12.5x
vs. Peers	-31%	40	42	44	45	47
	-21%	46	48	50	52	54
	-11%	51	54	56	59	61
	-1%	57	60	62	65	68
	9%	63	66	69	72	75

Source: ABG Sundal Collier, company data

As seen below, the premium peers are valued slightly higher by the market, at around 11x-14x EV/EBIT(A), historically. Since mid-'20 a downward trend can be seen, primarily driven by the US-based brands RH, Ralph Lauren and Williams-Sonoma. Consequently, the peer group is currently trading at close to its lowest levels since the beginning of 2019. However, Embellence is trading below these levels in '22e-'23e.

## Target peers, historical EV/EBIT(A)



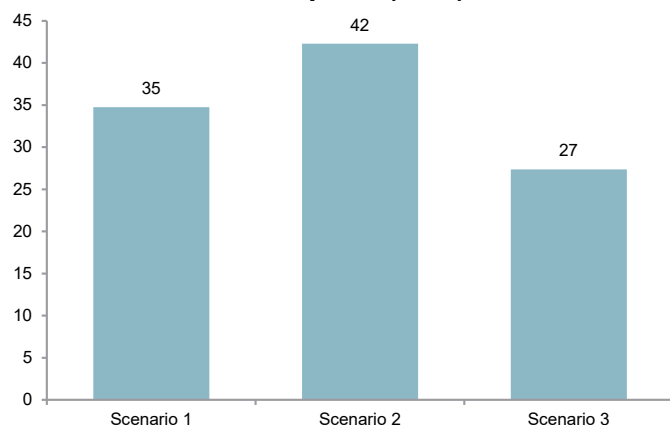
Source: ABG Sundal Collier, company data

**Discounted cash flows**

We have used three DCF scenarios to test the sensitivity of Embellence’s fair value to various growth scenarios. Doing so, we arrive at a NPV range of SEK 27-42 per share, implying EV/EBITDA multiples of 6.5x-9x, based on our '22e estimates. In our three scenarios we use ABGSC 2022-2024 estimates and apply different financial performance in terms of sales and EBITDA in the longer term. Furthermore, we assume a WACC of 10% in all scenarios and pencil in a declining EBITDA margin in our terminal period of 14-18%, which compares with the group’s EBITA margin target of at least 15%.

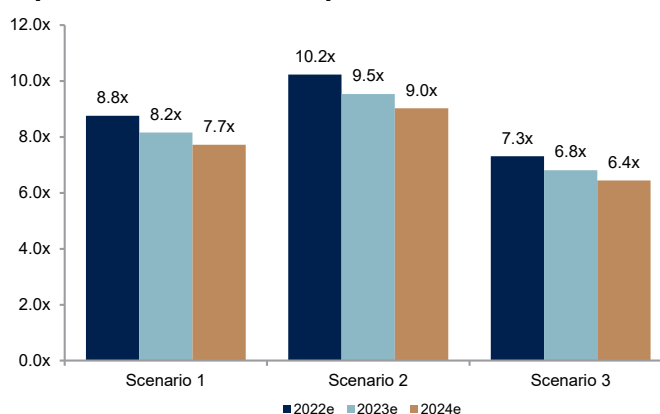
Below we illustrate our DCF scenario 1, where we assume an average sales growth of 2.5% in phase two, i.e. in 2025e-2029e. For phase three, i.e. 2030e-2040e, we assume an average sales growth of 2.2%, with a continued deceleration from 2.3% in 2030e to 2% in our terminal year. Furthermore, we estimate an EBITDA margin of 19% in 2030e, which contracts successively to 16% in our terminal period. All in all, our DCF scenario 1 yields a value of SEK 35 per share, which translates into an EV/EBITDA multiple of 7.7x.

**DCF scenarios, share price (SEK)**



Source: ABG Sundal Collier, company data

**Implied EV/EBITDA multiples from DCF scenarios**



Source: ABG Sundal Collier, company data

**DCF Scenario 1**

Sum of PV of FCF (explicit period)	774
PV of terminal value (perpetuity formula)	233
<b>Enterprise value</b>	<b>1,006</b>
Net debt incl. pension liabilities	224
Minority interests (book value)	0
<b>Fair value per share</b>	<b>35</b>

Source: ABG Sundal Collier, company data

**Terminal value assumptions**

Long term growth rate	2%
Long term EBITDA margin	16%
Depreciation (% of sales)	4%
Capex (% of sales)	3%
Working cap. (% of sales)	15%
Tax rate	22%

## DCF Scenario 1

	Phase I			Phase II		Phase III		Terminal
	2022E	2023E	2024E	2025E	2029E	2030E	2040E	2041E
Sales	773	821	849	870	957	979	1,210	1,234
EBITDA	150	161	169	157	180	186	194	198
- Depreciation & Amortisation	-35	-38	-39	-35	-38	-39	-42	-43
<b>= EBIT</b>	115	123	130	122	142	147	151	154
- Tax on EBIT	-25	-27	-29	-27	-31	-32	-42	-43
<b>= NOPLAT</b>	90	96	102	95	110	114	118	120
+ Depreciation & Amortisation	35	38	39	35	38	39	42	43
<b>= Gross cash flow</b>	125	134	140	130	149	154	160	164
- Capex	-214	-29	-30	-26	-29	-29	-36	-37
- Increase (+decrease) in WC	-18	-6	-6	-3	-3	-3	-4	-4
<b>= Free cash flow from operations</b>	-108	99	105	101	117	121	121	123
<b>PV of cash flow</b>	-81	83	80	70	56	52	20	233
<i>% of Enterprise value</i>	-8%	8%	8%	7%	6%	5%	2%	23%
<i>Accumulated % of Enterprise value</i>	-8%	0%	8%	15%	39%	45%	77%	100%

Key figures	Phase I			Phase II		Phase III		Terminal
	2022E	2023E	2024E	2025E	2029E	2030E	2040E	2041E
Sales growth	4.6%	4.0%	4.3%	2.5%	2.3%	2.3%	2.0%	2.0%
EBITDA margin	19.4%	19.6%	19.9%	18.0%	18.8%	19.0%	16.0%	16.0%
EBITDA growth	39.8%	7.3%	5.0%	-7.4%	3.4%	3.4%	-1.4%	2.0%
EBIT margin	14.9%	15.0%	15.3%	14.0%	14.8%	15.0%	12.5%	12.5%
Depreciation (% of sales)	4.5%	4.6%	4.6%	4.0%	4.0%	4.0%	3.5%	3.5%
Capex (% of sales)	27.7%	3.5%	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%
Capex (% of depreciation)	610.7%	76.4%	76.6%	75.0%	75.0%	75.0%	85.7%	85.7%
Working capital (% of sales)	15.1%	15.1%	15.1%	15.0%	14.8%	14.8%	14.8%	14.8%
Tax rate (on EBIT)	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%

Source: ABG Sundal Collier, company data

## Risks

### Market risk

Embellence Group's sales are affected by a variety of risks not specific to the company. Changes in the general economic outlook might make customers reluctant to buy the products offered. This risk is exacerbated by the fact that the company sells discretionary goods.

### Raw material risk

Embellence Group uses a variety of raw materials in its production. The most significant of these is the substrate purchases. If market conditions mean that the price of substrate increases, or of any other input material, this could have an adverse effect on earnings. Moreover, if market conditions prevent Embellence from raising prices to compensate for these increased costs, this could have an adverse effect on margins and thus earnings.

### Trend risk

Embellence is subject to a trend risk. Sales of wallpaper and other products depend on customers finding the designs and textures attractive. It is hard to predict future customer sentiment, implying that Embellence might invest in producing designs that are not desired by the customers.

### Production risk

Embellence Group produces a large portion of its products in Borås and Cervia. These manufacturing units depend on a chain of suppliers to be able to produce demanded goods. These suppliers might face challenges that make them unable to supply the production plants with raw materials and cause Embellence to lose sales and reputation as a consequence. The production plant in Cervia faces additional risks. The region has a risk of earthquakes and is affected by floods on a yearly basis. This could potentially lead to an extended period of lower or no production.

### Product development risk

The company is subject to the risk that competitors might develop new materials or designs that are more demanded by customers. To stay competitive, Embellence must keep investing in new production methods, designs and materials. These investments' payoff is uncertain.

### M&A risk

Embellence has a strategy that is in part built on acquiring premium brands to add to the portfolio. This strategy encompasses several risks, including not finding suitable companies to acquire, not realising expected benefits from the acquisition, not integrating the brands efficiently into the portfolio, keeping key competence in the acquired company, and not being able to finance acquisitions at good terms.

### Employee risk

In a market characterised by strong competition and quick technological advancements, it is important to keep key competencies in e.g. product development, manufacturing, marketing and sales. Many employees are based in Borås, Sweden, a city with strong competition for competent staff in this field.

### Exchange rate risk

Embellence Group is subject to the risk of adverse exchange rates. The company reports in SEK, with sales in more than 90 countries. Most significant are the exchange rate risks in GBP, EUR, NOK and USD.





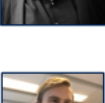

# Appendix 1: Management and BoD

## Executive management

	<b>Olle Svensk</b> CEO since 2016	Other current assignments: Borås Tapetfabrik AB (Chairman of the board), Wall&decò SRL (Chairman of the board), Boråstapeter AB (Chairman of the board) and Pappelina AB (Board member) Previous assignments (last 5 years): CEO of WA Wallvision AB (publ) Education: Studies in management, law and finance
	<b>Pär Ihrskog</b> CFO/CIO since 2019	Other current assignments: Boråstapeter AB (Board member), Pappelina AB (Chairman of the board), Borås Tapetfabriken AB (Board member) and Wall&decò SRL (Board member) Previous assignments (last 5 years): Chairman of the board of SKF (China) Co. Ltd., SKF (China) Sales Co. Ltd., SKF (Dalian) Bearings and Precision Technologies Co. Ltd., SKF (Jinan) Bearings & Precision Technology Co. Ltd., SKF (Shanghai) Automotive Technologies Co. Ltd., SKF (Shanghai) Bearings Ltd., SKF China Ltd., SKF Distribution (Shanghai) Co. Ltd. and SKF Sealing Solutions (Wuhu) Co. Ltd. Board member of SKF Industrial Service Shanghai Co. Ltd. Education: Degree of Master of Business Administration from Gothenburg School of Business, Economic and Law
	<b>Marie Karlsson</b> Managing Director at Cole & Son	With Embellence since: 2012 Past experience: Lamina and Antenna Gallery
	<b>Ulrika Sjövall</b> Business Unit Director at Perswall	With Embellence since: 2020 Past experience: Ellos
	<b>Lina Rickardsson</b> Creative Lead at Pappelina	With Embellence since: 2021 Past experience: Founder of Pappelina
	<b>Lars-Erik Henriksson</b> Managing Director at Boråstapeter	With Embellence since: 2020 Past experience: Electrolux
	<b>Christian Benini</b> Art Director at Wall&decò	With Embellence since: 2018 Past experience: Founder Wall&decò. Photogena
	<b>Christian Tomadini</b> Managing Director	With Embellence since: 2021 Past experience: LaCividina and Moroso

Source: ABG Sundal Collier, company data

## Board of directors

	<p><b>Morten Falkenberg</b> Chairman of the board since 2021</p>	<p><b>Other current assignments:</b> Vice chairman of the board of Velux Group. Board member of Aktiebolag Fagerhult, Caljan, Duni AB and Reform Kitchen Group  <b>Previous assignments (last 5 years):</b> Chairman of the board of Lovene Dörr Aktiebolag. Board member and CEO of Nobia AB and Nobia Sverige AB  <b>Education:</b> Bachelor's degree in Marketing and Commerce from Copenhagen Business School</p>
	<p><b>Christina Ståhl</b> Board member since 2020</p>	<p><b>Other current assignments:</b> Board member of Fjellsport AS, Fjellsport Group AS, Outnordic Invest AB, Outnorth AB and WA Wallvision AB (publ). CEO of Bagaren and Kocken AB and Go Shopping ApS  <b>Previous assignments (last 5 years):</b> Board member of Joy Boy AB, Joy Club AB, MQ MarQet AB, MQ Sweden AB and Nobia AB. CEO of MQ Holding AB. Board member and CEO of MQ Retail AB and Joy Shop AB  <b>Education:</b> Degree of Master of Science in Business Administration and Economics from Lund University</p>
	<p><b>Mattias Letmark</b> Board member since 2018</p>	<p><b>Other current assignments:</b> Chairman of the board of Litorinum Holding AB. Board member of AB Bergfalk &amp; Co, AB Bergfalk Holding, Gothia Seafood AB, Johan i Hallen i Göteborg AB, JOHBECO AB, Sushi Yama Group AB and WA Wallvision AB (publ). Board member and CEO of Male Invest AB. Partner at Litorina. CEO of WA Wallvision A (publ)  <b>Previous assignments (last 5 years):</b> Board member of Björnkälder Intressenter AB, FHV Intressenter AB, Fiskarhedenvillan AB, Fiskeboa i GBG AB, Fiskgrossisten i Helsingborg AB. Deputy board member of Falbygden Skyddsprodukter AB, Grolls AB and Major Major Holding AB. Board member and deputy board member of SD Group Intressenter AB and Sveba-Dahlén Group AB  <b>Education:</b> Degree of Master of science in Engineering from the Royal Institute of Technology on engineering physics and studies in economics at the Stockholm School of Economics</p>
	<p><b>Henrik Nyqvist</b> Board member since 2010</p>	<p><b>Other current assignments:</b> Chairman of the board of Borås Brygg o Kakele AB, Elitkontoret i Borås AB, Fasadsystem Stål i Borås AB and Fasadsystem Stål i Borås Holding AB. Board member of Borås Bar &amp; Bistro AB, Fastighets AB Pantängen 17, Fessus förvaltning AB, Färgcity i Borås Fastighets AB, Inkinvest AB, Kavallen Fastighets AB, NQ Förvaltning AB, Ramnås Fastigheter AB, Sibelius 1 AB, T-Konsortiet AB and WA Wallvision AB (publ). Chairman of the Board and CEO of NQ Fastigheter AB  <b>Previous assignments (last 5 years):</b> Chairman of the board of Segelsand Förvaltning AB and T-Konsortiet AB. Board member of Slutplattan POVLI 103188 AB  <b>Education:</b> Studies in business administration and law</p>
	<p><b>Paul Steene</b> Board member since 2020</p>	<p><b>Other current assignments:</b> Chairman of the board of WA Wallvision AB (publ). Board member of Capercaille AB, Chukar AB, LGT Base AB, LGT Group AB, LGT Mid AB, Litorina Capital Advisors AB, Litorina V (A) AB, Litorina V AB, Litorina V Advisor AB, Litorina V Holding AB, Litorina V Investment AB, Litorinum Holding AB, LK 3 Investors AB, Perdiz AB, RugVista AB and RugVista Group AB. Partner at Litorina  <b>Previous assignments (last 5 years):</b> Chairman of the board of ArtGlass i Malmö AB, Fractal Gaming AB, Fractal Gaming Group AB, LGT Base AB, LGT Group AB, LGT Mid AB, RugVista AB, RugVista Group AB, Scandinavian Office Group AB, Transportsektionen Bjärnum AB and Transportsektionen Sverige AB. Board member of ArtGlass i Malmö AB, Bralito Holding AB, Bralito Invest AB, Fractal Gaming AB, Fractal Gaming Group AB, RugVista AB, RugVista Group AB, Scandinavian Office Group AB and Transportsektionen Sverige AB.  <b>Education:</b> Degree of Master of Science in Engineering from Lund University with focus on mechanical engineering, as well as studies in economics at Lund University</p>
	<p><b>Johan Liljegren</b> Employee representative</p>	<p>Johan Liljegren is a board member in the capacity of employee representative for Embellence Group and has been employed as printmaker at Embellence Group since 2010. Johan Liljegren is a representative of the Swedish union of forestry, wood and graphical workers (Sw. GS (Facket för skogs-, trä- och grafisk bransch))</p>

Source: ABG Sundal Collier, company data

## Appendix 2: Brand profiles

### Artscape

Artscape is a US based designer and manufacturer of premium decorative window film. The company currently owns three patents in window films, including its bird anti-collision film technology. 3,000 retail outlets sell the company's products globally, and the company also sells D2C through its website.

### Boråstapeter

Boråstapeter has roots from the beginning of the 20<sup>th</sup> century. The company's vision is that "everyone should be able to afford creating a more beautiful home through wallpaper". It employs an in-house design team in Borås, Sweden, but has also collaborated with exclusive designers such as Alvar Aalto and Arne Jacobsen. In total, the company owns c.10,000 designs. Boråstapeter is the market leader in Nordic premium wallpaper, but also offers wallpaper in the value segment.

### Cole & Son

Founded in 1875, Cole & Son is now one of the leading tapestry brands globally. The company operates exclusively in the premium segment, and has supplied the Buckingham Palace, the Palace of Westminster and the White House with their wallpaper. Furthermore, it has been royal purveyor of wallpaper to HM Queen Elizabeth II since 1961. Cole & Son has been an early adopter of new techniques, e.g. it developed a process to imitate silk in 1910. The company currently owns c.1,800 block printing patterns, c.350 serigraphy designs and a large number of original drawings representing styles from the 18<sup>th</sup> century onwards. In 2019 the company also started printing its most-loved designs on textiles, and cushions followed in 2021. Cole & Son has a strong market position: top-three in the UK premium wallpaper market.

### Wall & Decò

Wall & Decò was founded in 2005 by Christian Benini, an experienced marketing photographer. Acting exclusively in the premium segment, Wall & Decò is a modern and innovative brand. For instance, it has developed two patent-pending functional collections, the "OUT system" and "WET system" aimed at outdoor and bathroom use, respectively. Production is strictly digital and produced upon order, which limits inventory size. The company owns c. 3,000 patterns and holds a top-three position in the Italian premium wallpaper market.

### Perswall

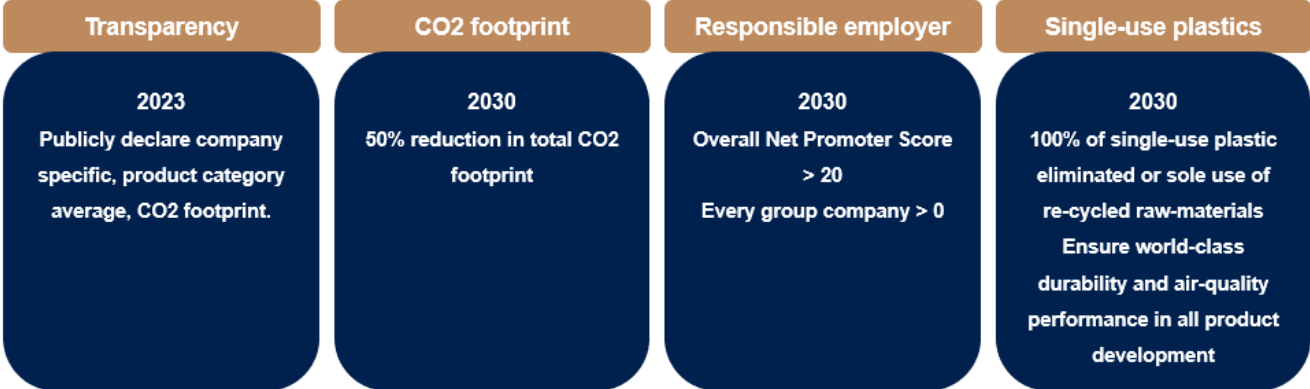
Perswall was founded in 2006 and is a digital actor in the premium segment. According to the company, it is a lifestyle brand, with a strong appeal among women aged 25-45. All its wallpaper is digitally printed upon ordering, on non-woven paper in Borås. The company owns c. 1,500 patterns.

### Pappelina

Pappelina is a Swedish seller of premium hand-woven plastic rugs, since 1999. With an outspoken focus on sustainability, Pappelina's rugs are woven using non-toxic Swedish PVC. In addition to the rugs, Pappelina also sells e.g. kitchen towels, cushions and plaids. The company has a bank of more than 1,000 patterns.

# Appendix 3: Additional ESG profile

## Embellence Group’s strategic pillars and overall ESG targets



Source: ABG Sundal Collier, company data

## Embellence Group’s implementing strategy



Source: ABG Sundal Collier, company data

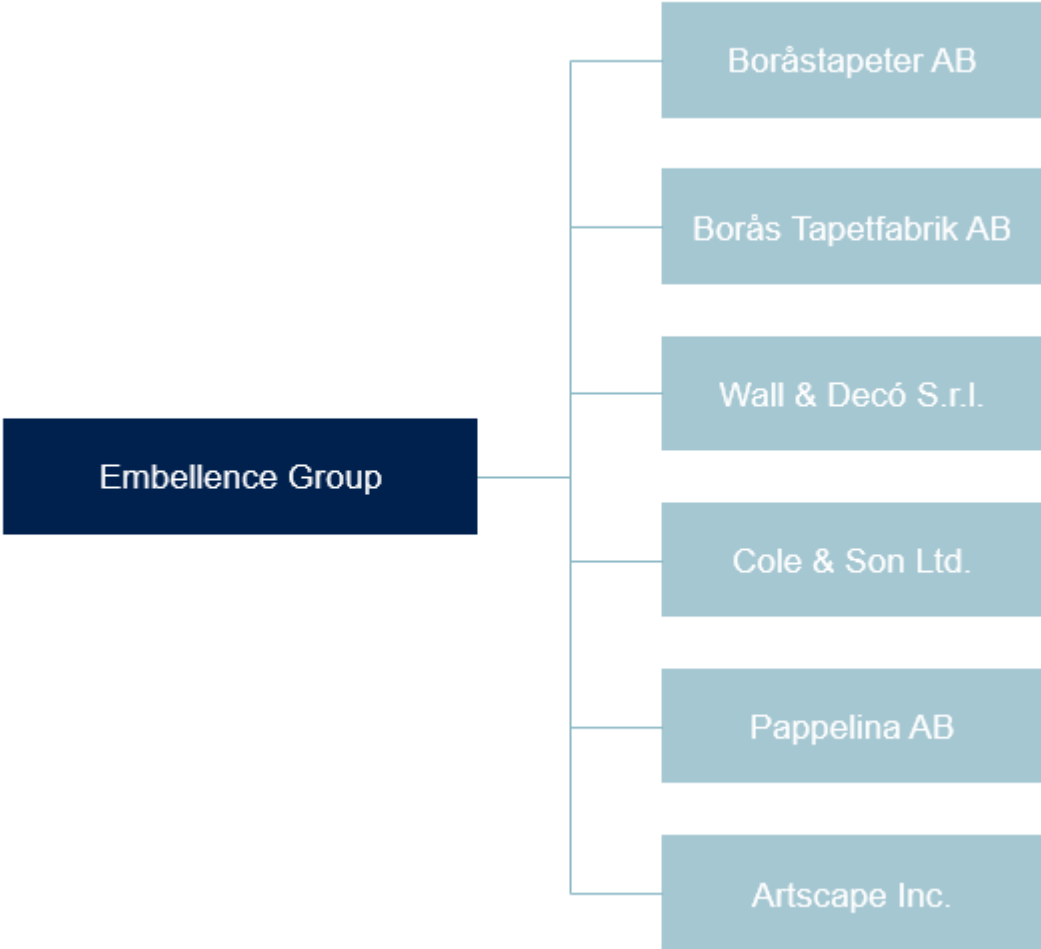
## Appendix 4: Ownership overview

### Shareholder list

Shareholder	# of shares	Ownership	% of votes
Litorina	4,875,227	22.8%	22.8%
JCE Group	2,247,000	10.5%	10.5%
Nordnet Pensionsförsäkring	2,245,149	10.5%	10.5%
T-Konsortiet AB	792,216	3.7%	3.7%
FE Småbolag Sverige	713,247	3.3%	3.3%
Försäkringsaktiebolaget Avar	640,409	3.0%	3.0%
NQ Förvaltnings AB	591,377	2.8%	2.8%
Jerker Aderberg Holding AB	572,647	2.7%	2.7%
Strand Småbolagsfond	567,000	2.7%	2.7%
Other	8,155,728	38.1%	38.1%
<b>Total</b>	<b>21,400,000</b>	<b>100.0%</b>	<b>100.0%</b>

Source: ABG Sundal Collier, Holdings.se

# Appendix 5: Company structure



Source: ABG Sundal Collier, company data

# Embellence Group

## ESG profile

### Continuous sustainability efforts across the board

Embellence Group constantly seeks to improve its sustainability efforts, with environmental product declarations, sustainability certifications and life cycle analyses of its products. For instance, all paper used in its production facility in Borås comes from FSC-certified suppliers, and all harvested trees are replanted. Furthermore, by using a water-based manufacturing process in Borås, the company is able to handle waste at its own treatment plant. Embellence has conducted several sustainability audits to measure its own progress in these areas. Furthermore, its production plant in Cervia, Italy (primarily used by Wall & Decò) has recently moved to a new facility with its own solar energy production. Additionally, the whole production line has been upgraded to eliminate solvents in the paint used. Wall & Decò has also released a vinyl-free alternative to its main range of products, to reduce its CO2-footprint.

### ESG risks and opportunities

Embellence's environmental impact is mainly related to its own production, and this is where the company focuses most of its ESG efforts. In terms of social issues, Embellence seeks to retain and gain key competencies, and thus has a continuous dialogue with employees regarding their working environment and well-being. In terms of governance issues, the main risk that could arise would be if the company were to outsource a larger part of production. An ESG opportunity for the company could be to report its environmental footprint at the group level, including the share of renewable sources.

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## Company sponsored research

### Not rated

Household Durables, Sweden  
 EMBELL.ST/EMBELL SS

<b>MCap (SEKm)</b>	<b>733</b>
<b>MCap (EURm)</b>	<b>68.0</b>
<b>Key issues*</b>	<b>ABGSC weight</b>
<b>Environment</b>	50%
Product carbon footprint	
Raw material sourcing	
Pollution and waste	
<b>Social</b>	25%
Health and safety	
Product safety and quality	
<b>Governance</b>	25%
Corporate governance	
Board	

### Previous ESG incidents

None

### Exposure to ESG Trends

Recycling, Plastic waste, Renewable materials

### Social and governance data

	2019	2020
Women in workforce %	52	50
Women in management %	12	12
Women in board %	10	25
CEO total compensation, SEKm p.a.	0.3	3.7
Employee turnover %	na	na
Employee absence %	na	na

Person responsible for sustainability:

Senior management:

### ESG quantified targets

	Today	Target	By
Total carbon footprint reduction		50%	2030
Net promoter score		>20	2023
All group companies' net promoter score		>0	2023
Reduce single-use plastics		100%	2030

\*based on the MSCI framework but not using all the parameters.

# Embellence Group

Income Statement (SEKm)	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022e	Q2 2022e	Q3 2022e	Q4 2022e
Sales	178	160	136	174	187	190	177	220
COGS	-82	-70	-59	-77	-83	-85	-79	-97
Gross profit	95	90	76	97	104	105	98	123
Other operating items	-68	-64	-53	-67	-69	-69	-64	-78
<b>EBITDA</b>	<b>28</b>	<b>26</b>	<b>23</b>	<b>31</b>	<b>35</b>	<b>37</b>	<b>34</b>	<b>45</b>
Depreciation and amortisation	-10	-9	-10	-9	-9	-11	-11	-11
<b>EBITA</b>	<b>23</b>	<b>21</b>	<b>18</b>	<b>26</b>	<b>30</b>	<b>32</b>	<b>29</b>	<b>39</b>
EO items	-5	-2	0	-5	0	0	0	0
Impairment and PPA amortisation	0	0	0	0	0	0	0	0
<b>EBIT</b>	<b>21</b>	<b>19</b>	<b>16</b>	<b>24</b>	<b>27</b>	<b>27</b>	<b>25</b>	<b>35</b>
Net financial items	-1	-2	-2	-1	-2	-3	-3	-2
<b>Pretax profit</b>	<b>20</b>	<b>17</b>	<b>14</b>	<b>23</b>	<b>25</b>	<b>25</b>	<b>21</b>	<b>33</b>
Tax	-5	-4	-2	-5	-6	-5	-5	-7
<b>Net profit</b>	<b>15</b>	<b>13</b>	<b>12</b>	<b>18</b>	<b>20</b>	<b>19</b>	<b>17</b>	<b>26</b>
Minority interest	0	0	0	0	0	0	0	0
Net profit discontinued	0	0	0	0	0	0	0	0
<b>Net profit to shareholders</b>	<b>15</b>	<b>13</b>	<b>12</b>	<b>18</b>	<b>20</b>	<b>19</b>	<b>17</b>	<b>26</b>
EPS	0.71	0.62	0.57	0.86	0.87	0.86	0.74	1.15
EPS Adj	0.96	0.70	0.57	1.07	0.87	0.86	0.74	1.15
Total extraordinary items after tax	-5	-2	0	-5	0	0	0	0
Tax rate (%)	22.7	22.2	14.7	20.0	22.0	22.0	22.0	22.0
Gross margin (%)	53.7	56.3	56.4	56.0	55.5	55.3	55.3	55.8
EBITDA margin (%)	15.6	16.2	17.1	17.5	18.5	19.3	19.3	20.3
EBITA margin (%)	12.8	13.3	13.5	14.8	15.9	16.7	16.5	18.0
EBIT margin (%)	11.8	12.1	12.0	13.6	14.7	14.4	14.0	16.0
Pretax margin (%)	11.2	10.7	10.6	13.2	13.5	13.0	12.2	15.1
Net margin (%)	8.6	8.3	9.0	10.6	10.5	10.1	9.5	11.8
<b>Growth rates Y/Y</b>	<b>Q1 2021</b>	<b>Q2 2021</b>	<b>Q3 2021</b>	<b>Q4 2021</b>	<b>Q1 2022e</b>	<b>Q2 2022e</b>	<b>Q3 2022e</b>	<b>Q4 2022e</b>
Sales growth (%)	16.4	32.9	3.6	4.8	5.2	19.0	30.4	26.2
EBITDA growth (%)	55.6	22.2	-10.8	10.1	24.8	41.8	47.0	46.1
EBIT growth (%)	81.0	28.7	-17.7	20.4	30.8	42.4	52.1	49.1
Net profit growth (%)	64.5	16.7	-13.5	26.9	28.2	44.8	37.4	40.7
EPS growth (%)	64.5	16.7	-13.5	26.9	28.2	44.8	37.4	40.7
<b>Adj earnings numbers</b>	<b>Q1 2021</b>	<b>Q2 2021</b>	<b>Q3 2021</b>	<b>Q4 2021</b>	<b>Q1 2022e</b>	<b>Q2 2022e</b>	<b>Q3 2022e</b>	<b>Q4 2022e</b>
EBITDA Adj	33	28	23	35	35	37	34	45
EBITDA Adj margin (%)	18.6	17.3	17.1	20.2	18.5	19.3	19.3	20.3
EBITA Adj	28	23	18	30	30	32	29	39
EBITA Adj margin (%)	15.8	14.3	13.5	17.5	15.9	16.7	16.5	18.0
EBIT Adj	26	21	16	28	27	27	25	35
EBIT Adj margin (%)	14.8	13.1	12.0	16.2	14.7	14.4	14.0	16.0
Pretax profit Adj	25	19	14	28	25	25	21	33
Net profit Adj	21	15	12	23	20	19	17	26
Net profit to shareholders Adj	21	15	12	23	20	19	17	26
Net Adj margin (%)	11.6	9.4	9.0	13.2	10.5	10.1	9.5	11.8

Source: ABG Sundal Collier, Company data

# Embellence Group

Income Statement (SEKm)	2015	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e
Sales	0	0	0	569	594	570	647	773	821	849
COGS	0	0	0	-258	-272	-258	-288	-344	-367	-379
Gross profit	0	0	0	311	322	312	359	429	454	470
Other operating items	0	0	0	-225	-228	-219	-252	-279	-293	-301
<b>EBITDA</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>86</b>	<b>94</b>	<b>93</b>	<b>107</b>	<b>150</b>	<b>161</b>	<b>169</b>
Depreciation and amortisation	0	0	0	-21	-38	-38	-38	-42	-45	-46
Of which leasing depreciation	0	0	0	0	-11	-11	-11	-7	-7	-7
<b>EBITA</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>63</b>	<b>63</b>	<b>60</b>	<b>100</b>	<b>130</b>	<b>139</b>	<b>146</b>
EO items	0	0	0	0	0	0	0	0	0	0
Impairment and PPA amortisation	0	0	0	0	0	0	0	0	0	0
<b>EBIT</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>60</b>	<b>60</b>	<b>55</b>	<b>92</b>	<b>115</b>	<b>123</b>	<b>130</b>
Net financial items	0	0	0	-2	-5	-4	-6	-10	-11	-11
<b>Pretax profit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>58</b>	<b>54</b>	<b>51</b>	<b>86</b>	<b>105</b>	<b>112</b>	<b>119</b>
Tax	0	0	0	-15	-11	-14	-15	-23	-25	-26
<b>Net profit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>43</b>	<b>43</b>	<b>37</b>	<b>71</b>	<b>82</b>	<b>87</b>	<b>93</b>
Minority interest	0	0	0	0	0	0	0	0	0	0
Net profit discontinued	0	0	0	-5	-0	-5	0	0	0	0
<b>Net profit to shareholders</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>38</b>	<b>43</b>	<b>32</b>	<b>71</b>	<b>82</b>	<b>87</b>	<b>93</b>
EPS	0	0	0	0	0	1.49	3.31	3.62	3.89	4.13
EPS Adj	0	0	0	0	0	1.49	3.31	3.62	3.89	4.13
Total extraordinary items after tax	0	0	0	0	0	0	0	0	0	0
Leasing payments	0	0	0	0	-13	-11	-10	-7	-7	-7
Tax rate (%)	ns	ns	ns	25.9	20.7	28.3	17.5	22.0	22.0	22.0
Gross margin (%)	nm	nm	nm	54.6	54.2	54.7	55.5	55.5	55.3	55.4
EBITDA margin (%)	nm	nm	nm	15.2	15.8	16.3	16.6	19.4	19.6	19.9
EBITA margin (%)	nm	nm	nm	11.1	10.7	10.5	15.4	16.8	17.0	17.2
EBIT margin (%)	nm	nm	nm	10.5	10.0	9.6	14.2	14.9	15.0	15.3
Pretax margin (%)	nm	nm	nm	10.1	9.1	9.0	13.3	13.5	13.7	14.0
Net margin (%)	nm	nm	nm	7.5	7.2	6.4	10.9	10.5	10.7	10.9
<b>Growth rates Y/Y</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022e</b>	<b>2023e</b>	<b>2024e</b>
Sales growth (%)	na	na	na	na	4.4	-4.1	13.5	19.5	6.1	3.4
EBITDA growth (%)	na	na	na	high	8.8	-1.2	15.7	39.8	7.3	5.0
EBIT growth (%)	na	na	na	high	0	-8.1	67.8	25.2	7.3	5.6
Net profit growth (%)	na	na	na	high	0.5	-14.9	93.2	15.1	7.3	6.2
EPS growth (%)	na	na	na	na	na	high	122.5	9.5	7.3	6.2
<b>Profitability</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022e</b>	<b>2023e</b>	<b>2024e</b>
ROE (%)	nm	nm	nm	19.8	13.5	13.8	28.0	23.6	20.5	18.9
ROE Adj (%)	nm	nm	nm	22.2	13.6	15.9	28.0	23.6	20.5	18.9
ROCE (%)	nm	nm	nm	23.6	12.8	14.9	22.2	20.1	17.7	17.3
ROCE Adj(%)	nm	nm	nm	23.6	12.8	14.9	22.2	20.1	17.7	17.3
ROIC (%)	na	na	na	16.8	10.5	11.2	19.9	16.8	15.2	16.1
ROIC Adj (%)	na	na	na	16.8	10.5	11.2	19.9	16.8	15.2	16.1
<b>Adj earnings numbers</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022e</b>	<b>2023e</b>	<b>2024e</b>
EBITDA Adj	0	0	0	86	94	93	107	150	161	169
EBITDA Adj margin (%)	nm	nm	nm	15.2	15.8	16.3	16.6	19.4	19.6	19.9
EBITDA lease Adj	0	0	0	86	80	82	97	143	154	162
EBITDA lease Adj margin (%)	nm	nm	nm	15.2	13.5	14.4	15.0	18.5	18.7	19.1
EBITA Adj	0	0	0	63	63	60	100	130	139	146
EBITA Adj margin (%)	nm	nm	nm	11.1	10.7	10.5	15.4	16.8	17.0	17.2
EBIT Adj	0	0	0	60	60	55	92	115	123	130
EBIT Adj margin (%)	nm	nm	nm	10.5	10.0	9.6	14.2	14.9	15.0	15.3
Pretax profit Adj	0	0	0	58	54	51	86	105	112	119
Net profit Adj	0	0	0	43	43	37	71	82	87	93
Net profit to shareholders Adj	0	0	0	43	43	37	71	82	87	93
Net Adj margin (%)	nm	nm	nm	7.5	7.2	6.4	10.9	10.5	10.7	10.9

Source: ABG Sundal Collier, Company data

<b>Cash Flow Statement (SEKm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022e</b>	<b>2023e</b>	<b>2024e</b>
EBITDA	0	0	0	86	94	93	107	150	161	169
Net financial items	0	0	0	-2	-5	-4	-6	-10	-11	-11
Paid tax	0	0	0	-14	-10	-7	-9	-23	-25	-26
Non-cash items	0	0	0	3	4	-3	7	0	0	0
Cash flow before change in WC	0	0	0	74	83	80	99	117	125	132
Change in WC	0	0	0	-28	-31	-12	-37	-18	-6	-6
<b>Operating cash flow</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>45</b>	<b>51</b>	<b>68</b>	<b>62</b>	<b>98</b>	<b>119</b>	<b>126</b>
CAPEX tangible fixed assets	0	0	0	-10	-8	-9	-19	-23	-25	-25
CAPEX intangible fixed assets	0	0	0	-4	-5	-8	0	-4	-4	-4
Acquisitions and disposals	0	0	0	-34	-1	-0	-34	-187	0	0
<b>Free cash flow</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-3</b>	<b>38</b>	<b>50</b>	<b>9</b>	<b>-116</b>	<b>90</b>	<b>96</b>
Dividend paid	0	0	0	0	0	0	0	-17	-24	-26
Share issues and buybacks	0	0	0	0	0	0	0	38	0	0
Lease liability amortisation	0	0	0	0	-13	-11	-10	-7	-7	-7
Other non cash items	0	0	0	-186	-25	-42	-16	-14	1	1
<b>Balance Sheet (SEKm)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022e</b>	<b>2023e</b>	<b>2024e</b>
Goodwill	0	0	0	137	144	137	0	0	0	0
Other intangible assets	0	0	0	31	31	36	209	385	373	362
Tangible fixed assets	0	0	0	86	67	65	70	80	91	100
Right-of-use asset	0	0	0	0	21	33	67	60	53	46
Total other fixed assets	0	0	0	0	0	0	1	1	1	1
Fixed assets	0	0	0	254	262	272	348	527	518	509
Inventories	0	0	0	99	107	85	87	110	117	124
Receivables	0	0	0	272	88	93	116	146	156	165
Other current assets	0	0	0	16	41	15	15	14	14	14
Cash and liquid assets	0	0	0	20	34	49	58	60	118	181
<b>Total assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>661</b>	<b>532</b>	<b>513</b>	<b>624</b>	<b>856</b>	<b>923</b>	<b>993</b>
Shareholders equity	0	0	0	386	249	212	293	396	459	526
Minority	0	0	0	0	0	0	0	0	0	0
<b>Total equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>386</b>	<b>249</b>	<b>212</b>	<b>293</b>	<b>396</b>	<b>459</b>	<b>526</b>
Long-term debt	0	0	0	9	0	0	0	104	104	104
Pension debt	0	0	0	2	2	4	5	5	5	5
Convertible debt	0	0	0	0	0	0	0	0	0	0
Leasing liability	0	0	0	0	20	33	67	60	53	45
Total other long-term liabilities	0	0	0	11	9	8	14	14	14	14
Short-term debt	0	0	0	140	130	117	116	116	116	116
Accounts payable	0	0	0	58	51	52	48	60	64	68
Other current liabilities	0	0	0	55	71	87	80	101	108	114
<b>Total liabilities and equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>661</b>	<b>532</b>	<b>513</b>	<b>624</b>	<b>856</b>	<b>923</b>	<b>993</b>
Net IB debt	0	0	0	131	118	104	129	223	158	88
Net IB debt excl. pension debt	0	0	0	128	116	101	124	219	153	83
Net IB debt excl. leasing	0	0	0	131	98	72	63	164	106	44
Capital invested	0	0	0	524	376	324	436	634	631	628
Working capital	0	0	0	274	114	53	90	108	114	121
<b>EV breakdown</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022e</b>	<b>2023e</b>	<b>2024e</b>
Market cap. diluted (m)	na	na	na	na	na	na	736	720	720	720
Net IB debt Adj	0	0	0	131	118	105	130	224	159	89
Market value of minority	0	0	0	0	0	0	0	0	0	0
Reversal of shares and participations	0	0	0	0	0	0	0	0	0	0
Reversal of conv. debt assumed equity	0	0	0	0	0	0	0	0	0	0
<b>EV</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>866</b>	<b>944</b>	<b>879</b>	<b>809</b>
<b>Capital efficiency</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022e</b>	<b>2023e</b>	<b>2024e</b>
Total assets turnover (%)	nm	nm	nm	172.3	99.6	109.0	113.9	104.5	92.3	88.6
Working capital/sales (%)	nm	nm	nm	24.0	32.6	14.7	11.1	12.8	13.6	13.8
<b>Financial risk and debt service</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022e</b>	<b>2023e</b>	<b>2024e</b>
Net debt/equity	nm	nm	nm	0.34	0.48	0.49	0.44	0.56	0.34	0.17
Net debt/market cap	na	na	na	na	na	na	0.14	0.31	0.22	0.12
Equity ratio (%)	nm	nm	nm	58.4	46.8	41.3	47.1	46.2	49.7	53.0
Net IB debt adj./equity	nm	nm	nm	0.34	0.48	0.49	0.44	0.57	0.35	0.17
Current ratio	nm	nm	nm	1.61	1.04	0.92	1.08	1.14	1.35	1.56
EBITDA/net interest	na	na	na	48.84	17.96	25.39	17.88	14.41	14.39	15.12
Net IB debt/EBITDA	nm	nm	nm	1.52	1.26	1.12	1.20	1.49	0.98	0.52
Net IB debt/EBITDA lease Adj	nm	nm	nm	1.52	1.22	0.88	0.65	1.15	0.69	0.27
Interest cover	nm	nm	nm	12.24	10.83	10.27	12.71	10.65	10.72	11.20

Source: ABG Sundal Collier, Company data

# Embellence Group

Valuation and Ratios (SEKm)	2015	2016	2017	2018	2019	2020	2021	2022e	2023e	2024e
Shares outstanding adj.	0	0	0	0	0	21	21	23	23	23
Fully diluted shares Adj	0	0	0	0	0	21	21	23	23	23
EPS	0	0	0	0	0	1.49	3.31	3.62	3.89	4.13
Dividend per share Adj	nm	nm	nm	0	0	0	0.8	1.1	1.2	1.2
EPS Adj	0	0	0	0	0	1.49	3.31	3.62	3.89	4.13
BVPS	0	0	0	0	0	9.90	13.71	17.59	20.40	23.36
BVPS Adj	0	0	0	0	0	2.05	3.95	0.51	3.84	7.30
Net IB debt / share	na	na	na	na	na	4.9	6.1	10.0	7.0	4.0
Share price	na	na	na	na	na	na	34.40	32.00	32.00	32.00
Market cap. (m)	na	na	na	na	na	na	736	720	720	720
<b>Valuation</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022e</b>	<b>2023e</b>	<b>2024e</b>
P/E	na	na	na	na	na	na	10.4	8.8	8.2	7.8
EV/sales	na	na	na	na	na	na	1.34	1.22	1.07	0.95
EV/EBITDA	na	na	na	na	na	na	8.1	6.3	5.5	4.8
EV/EBITA	na	na	na	na	na	na	8.7	7.3	6.3	5.6
EV/EBIT	na	na	na	na	na	na	9.4	8.2	7.1	6.2
Dividend yield (%)	na	na	na	na	na	na	2.3	3.4	3.6	3.9
FCF yield (%)	na	na	na	na	na	na	1.2	-16.1	12.5	13.3
Lease adj. FCF yield (%)	na	na	na	na	na	na	-0.2	-17.1	11.5	12.3
P/BVPS	na	na	na	na	na	na	2.51	1.82	1.57	1.37
P/BVPS Adj	na	na	na	na	na	na	8.70	62.52	8.33	4.38
P/E Adj	na	na	na	na	na	na	10.4	8.8	8.2	7.8
EV/EBITDA Adj	na	na	na	na	na	na	8.1	6.3	5.5	4.8
EV/EBITA Adj	na	na	na	na	na	na	8.7	7.3	6.3	5.6
EV/EBIT Adj	na	na	na	na	na	na	9.4	8.2	7.1	6.2
EV/cap. employed	na	na	na	na	na	na	1.8	1.4	1.2	1.0
<b>Investment ratios</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022e</b>	<b>2023e</b>	<b>2024e</b>
Capex/sales	nm	nm	nm	2.5	2.1	3.0	2.9	3.5	3.5	3.5
Capex/depreciation	nm	nm	nm	69.2	46.6	63.6	69.4	77.2	76.4	76.6
Capex tangibles/tangible fixed assets	nm	nm	nm	12.1	11.4	14.5	26.9	28.9	27.2	25.5
Capex intangibles/definite intangibles	nm	nm	nm	13.4	16.1	24.2	0	1.0	1.1	1.2
Depreciation on intangibles/definite intai	nm	nm	nm	12.8	12.8	16.4	3.8	4.0	4.3	4.3
Depreciation on tangibles/tangibles	nm	nm	nm	19.7	34.4	33.0	27.5	24.7	23.9	23.4

Source: ABG Sundal Collier, Company data

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