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MISTER SPEX

Equity Research Division

Mister Spex

Omnichannel Optical Brand

Target Price: € 16,35

Current Price: € 5,70

Upside Potential: 187%

Recommendation: BUY

Investment Horizon: 2-3 Years

Vienna, 10th of June 2022

Team - Overview

Equity Research Team



Lukas Likar
Team Lead

- Task Distribution
- Story Guideline



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Associate

- Financial Analysis
- Valuation



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- Business Model
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- Industry Analysis
- Competitors



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- Business Model
- ESG



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Analyst

- Industry Analysis
- Competitors



- MSc. (WU) – 4th Sem.
- BSc. (WU)
- BSc. (WU) – 6th Sem.
- BSc. (WU) – 8th Sem.
- BSc. (WU) – 4th Sem.
- BSc. (WU) – 2^d Sem.
- MSc. (WVPU)

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2	Business Description
3	Industry Overview
4	Competitors
5	Financials & Valuation
6	Risks
7	Appendix



INVESTMENT THESIS

Share Price Performance

After a successful IPO – Mister Spex has struggled to maintain momentum



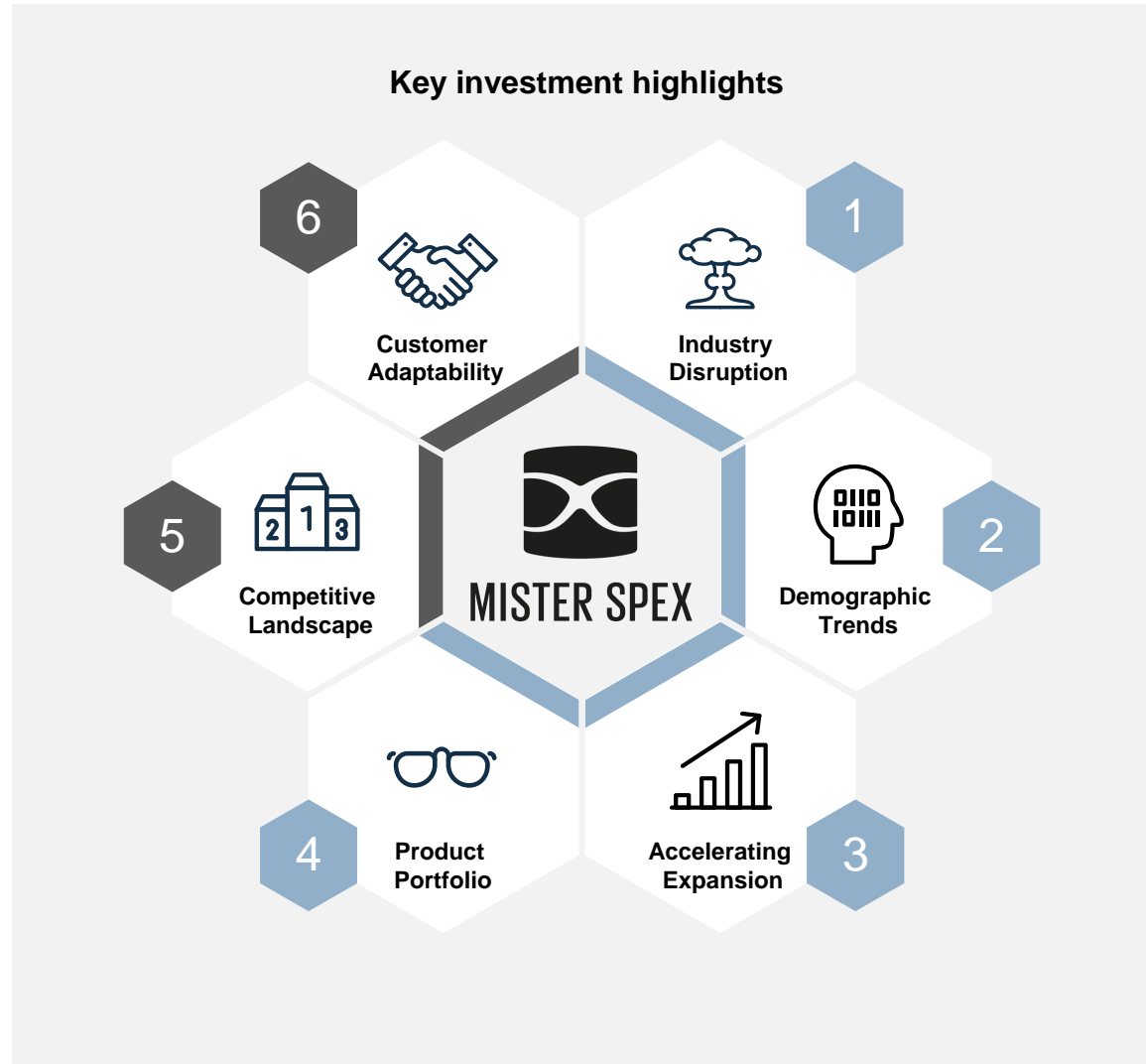
Share Price – Major Events

- [1] September 21st 2021 (1,5%) – Publication of half-year financial results
- [2] October 26th 2021 (2%) -- European equity indices closed at ~1% higher
- [3] November 2nd, 2021 (6%) – Published earning guidance below expectations
- [4] November 24th, 2021 (5%) – Publication of Q3 Financial Results
- [5] January 25th, 2022 (11%) – Fluctuating trading due to instability in EU
- [6] May 12th, 2022 (10%) – Publication of Q1 Financial Results

IPO

- **Date:** July 2nd, 2021
- **IPO Price :** €25
- **52-week Range :** €4,84 – €25,80
- **Market Cap:** €188,9 Mio

Let's gain some clarity!



- 1** Disrupting the optical industry through its omnichannel approach, representing an **early mover in the process of digitalization**.
- 2** Seizing up the **opportunity** that comes with the **increasing population suffering from myopia**, and providing **tailored solutions** for the upcoming **digitally native generation**
- 3** Accelerating **brand expansion** through **brick-and-mortar store roll out**, and **technology acquisition**
- 4** Investing in a **diversified product portfolio** suited to **acquire customers** across **various target groups** in the market
- 5** Facing an increasingly **competitive market** distinguished by **conglomerates** and **consolidation trends**
- 6** Despite unique proposition, the **industry may stagnate** in its digitalization potential, as it relies on **customer adaptability** to online ophthalmology



BUSINESS DESCRIPTION

Company Overview

A brand driving the optical industry towards digitalization

Business Description



Mister Spex is the leading **digitally-driven omnichannel** optical brand in **Europe**



Founded in 2007



Headquarters: Berlin, Germany



Employees: 1100 from 58 different countries

Management



Dr. Mirko Caspar
co-CEO & co-Founder
Strategy & Market



Maren Kroll
CHRO, since 2021
HR & CR & ESG



Dirk Graber
co-CEO & co-Founder
Strategy & Operations



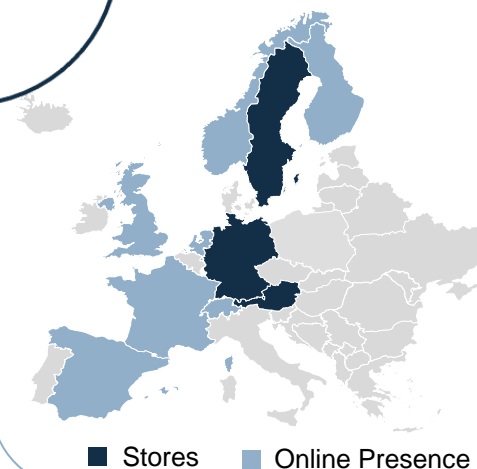
Sebastian Dehnen
CFO, since 2021
Finance & Legal



Financials

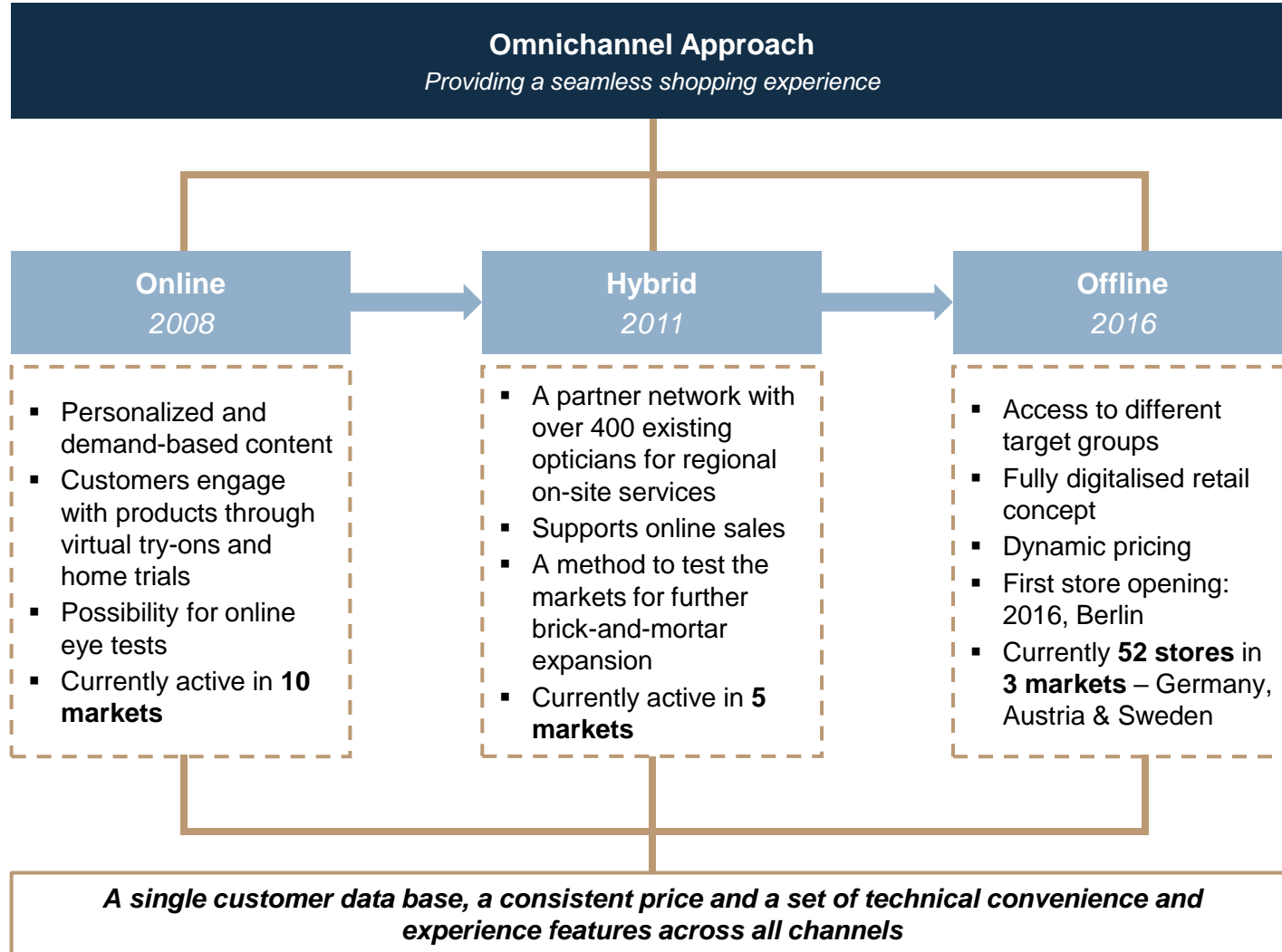
EUR	2018	2019	2020	2021
Revenue	122.778	139.282	164.201	194.248
<i>growth rate (%)</i>	+17%	+13%	+17%	+18%
<i>gross profit margin (%)</i>	46%	47%	+50%	+49%
EBITDA	-1.037	3.286	5.814	-8.234
EBIT	-5.215	-4.991	-5.123	-23.453

Geographies

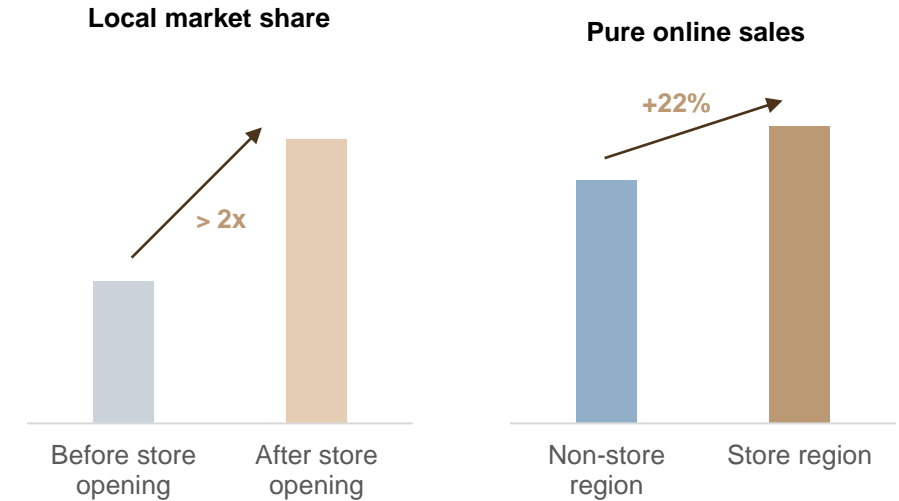


- The company operates in **10 markets**
- **52 brick-and-mortar** stores:
 - 47 in Germany
 - 3 in Austria
 - & 2 in Sweden
- In H2 2022, **first store** opening in **Switzerland**

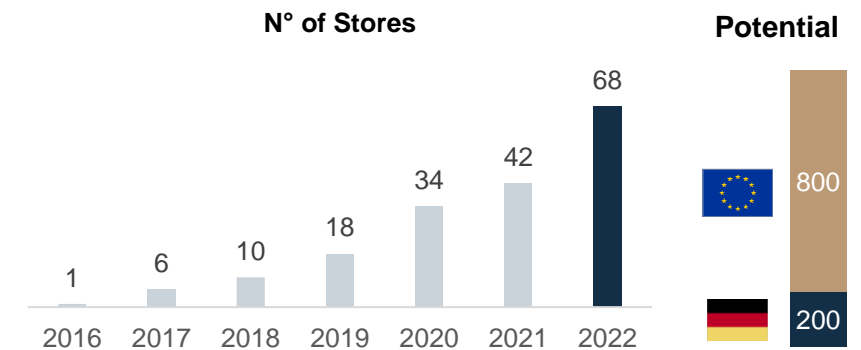
Management changed the plan – but never lost sight of the goal



Valuable Synergies



Aggressive brick-and-mortar store roll-out



Products and Revenue Breakdown

A product portfolio personalized for any price and prescription

Product Portfolio

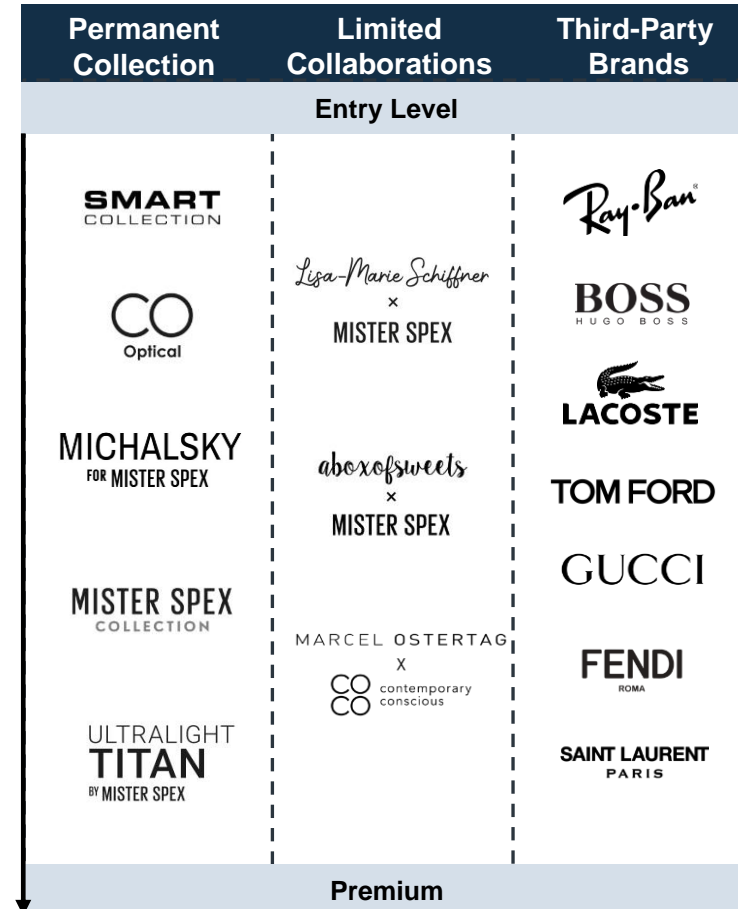
Prescription



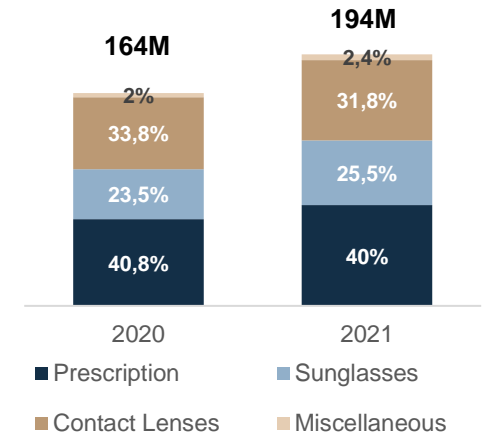
Contact Lenses



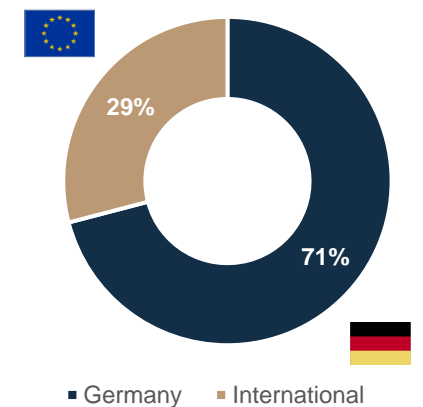
Sunglasses



Revenue by Product



Revenue by Region



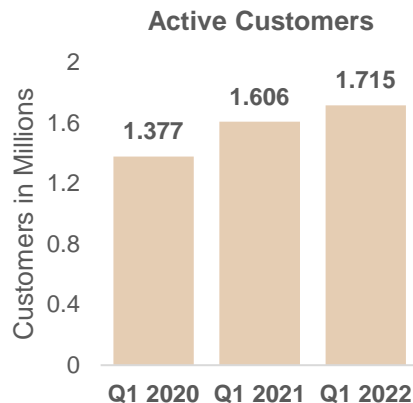
Technological development paints a clear long-term vision for the company's future

Omnichannel Presence

Expansion	Locations	Online Presence
<ul style="list-style-type: none"> ▪ Ambitious aims to expand the brand across Europe ▪ Increased number of stores 	<ul style="list-style-type: none"> ▪ Stores are strategically placed in high traffic areas: <ol style="list-style-type: none"> 1. Malls 2. Shopping Streets 	<ul style="list-style-type: none"> ▪ Maximising the use of data analytics ▪ Enhancing technology to drive sales

Customer Base

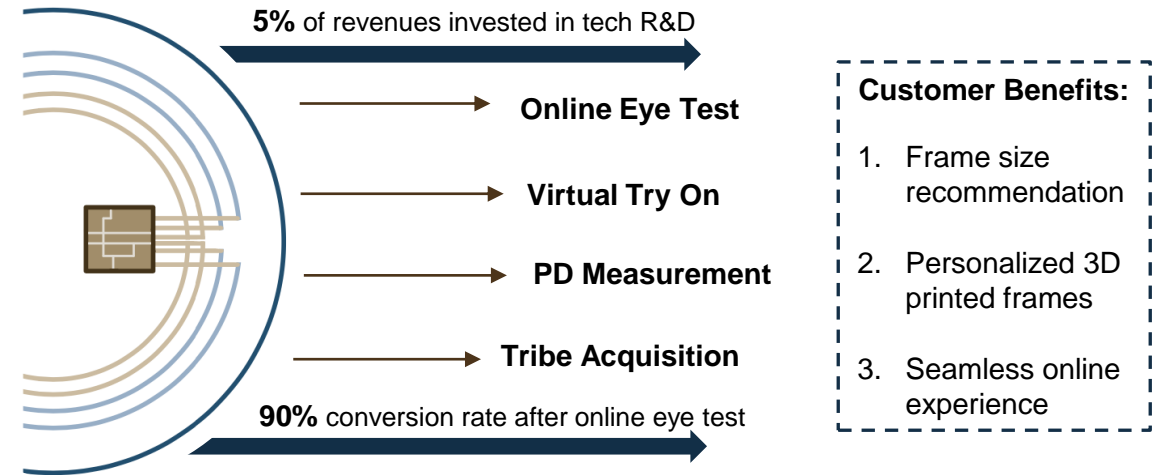
Target Groups
Urban Professional
Millennial
Young Trendy Female
Eyewear Enthusiast
Functional Replacer



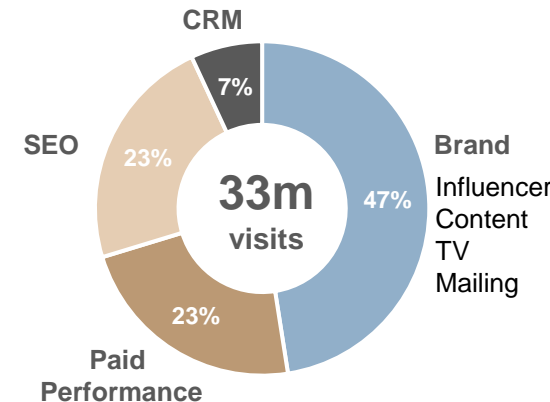
Current Indicators:

- 71% repurchase orders
- 16% CAGR in Total Customers
- Well positioned in digitally native eyewear buyers

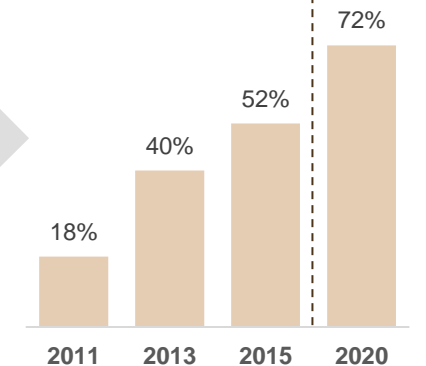
Technological Development



Marketing



Brand Awareness in Germany



A photograph of an eyeglass display. Several pairs of glasses are arranged on light-colored shelves. The glasses vary in color and style, including black, blue, brown, and red frames. The background is a plain, light-colored wall.

INDUSTRY OVERVIEW

German demand for spectacles plays a key-role in the growing European eyewear market

Industry Identification & Features

European eyewear market



Spectacles segment (frames + lenses) makes up the **biggest** part of the market:

- Europe: 71%
- Germany: 85%



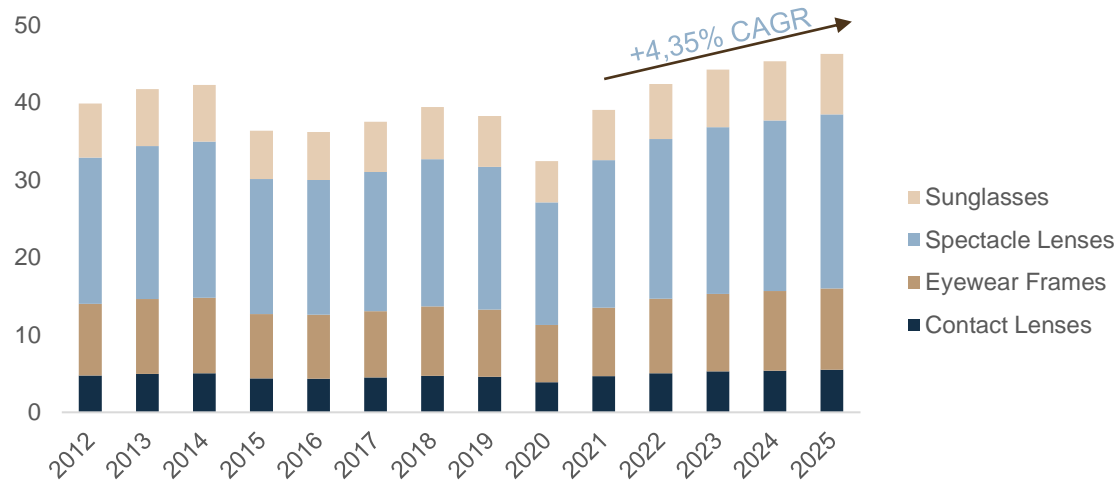
Strong **sensitivity** to (circular) **customer spending**



Diverse & fragmented competition:

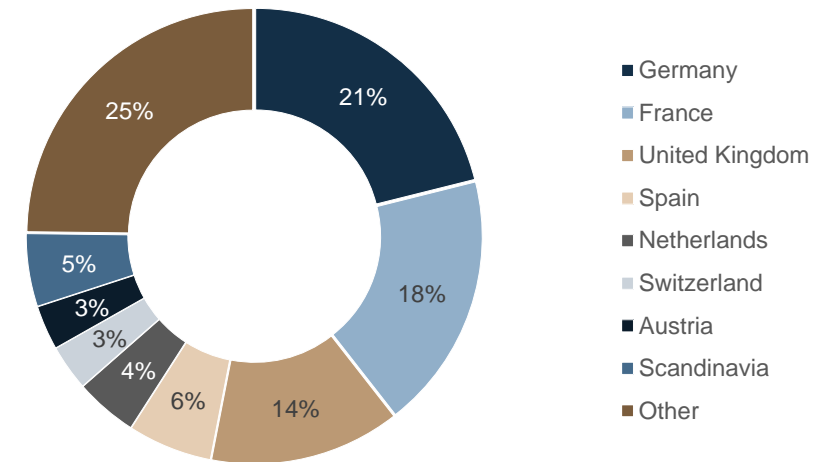
- Global conglomerates
- international enterprises
- local retailers

European Market Value by Segment in EUR bn.



Source: ZVA, Statista, Group Research

European Eyewear Market Breakdown by Country (2021)

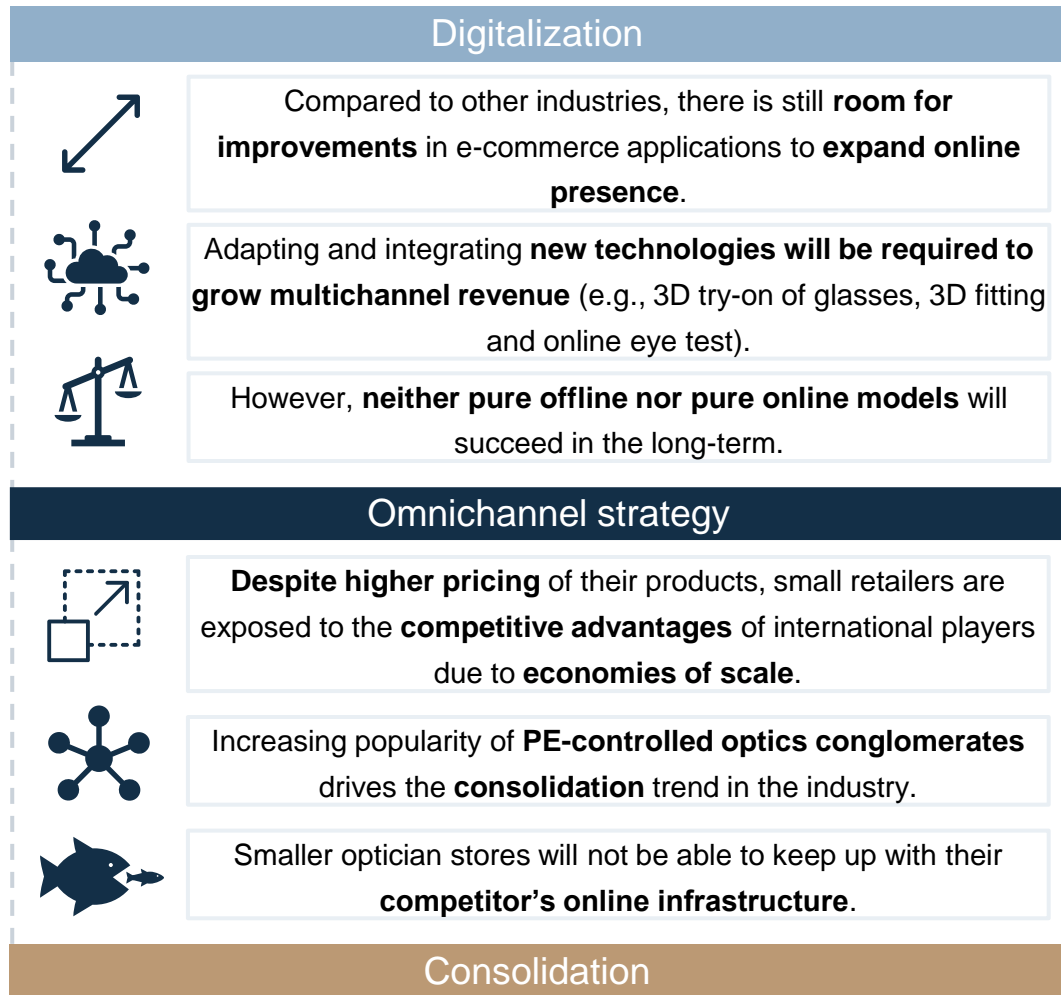


Germany: Net Sales per Number of Stores (incl. Partner Opticians; 2021)

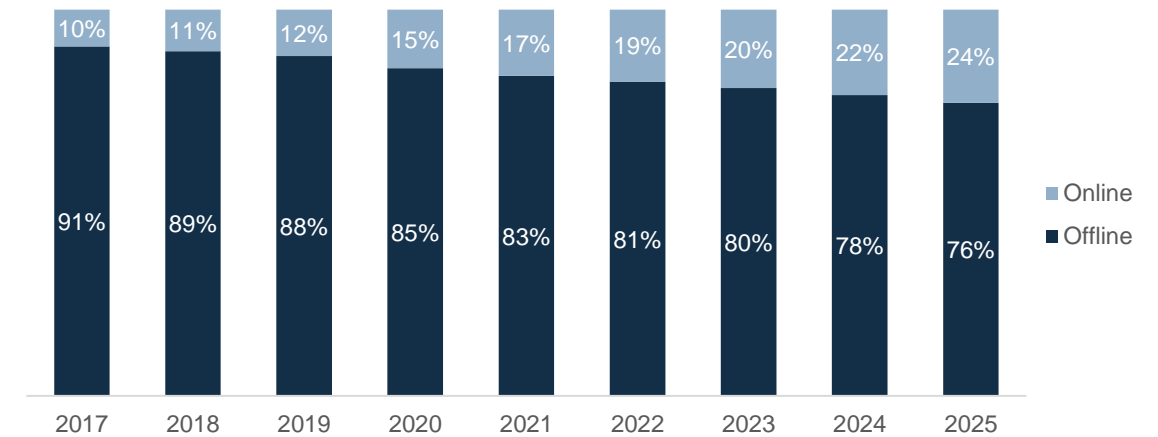


The current shifts in the industry sales model show a promising future for Mister Spex

Key Industry Trends & Drivers

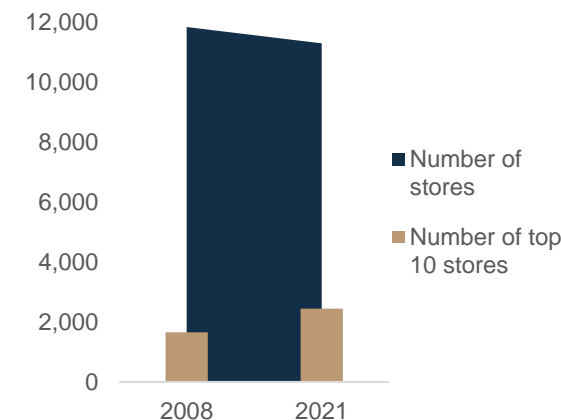


Revenue by Distribution Channel: online vs. offline

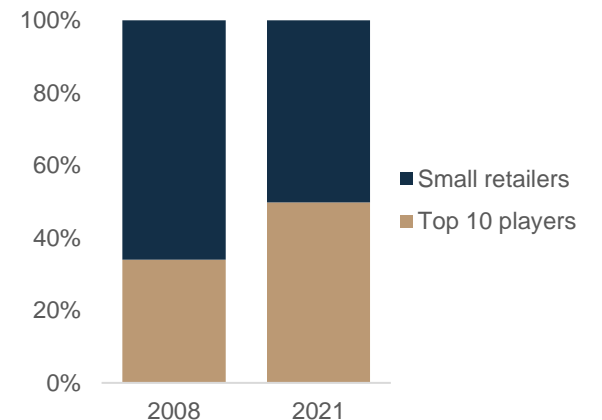


Germany: Top 10 Players vs. Small Retailers

Number of stores over the years

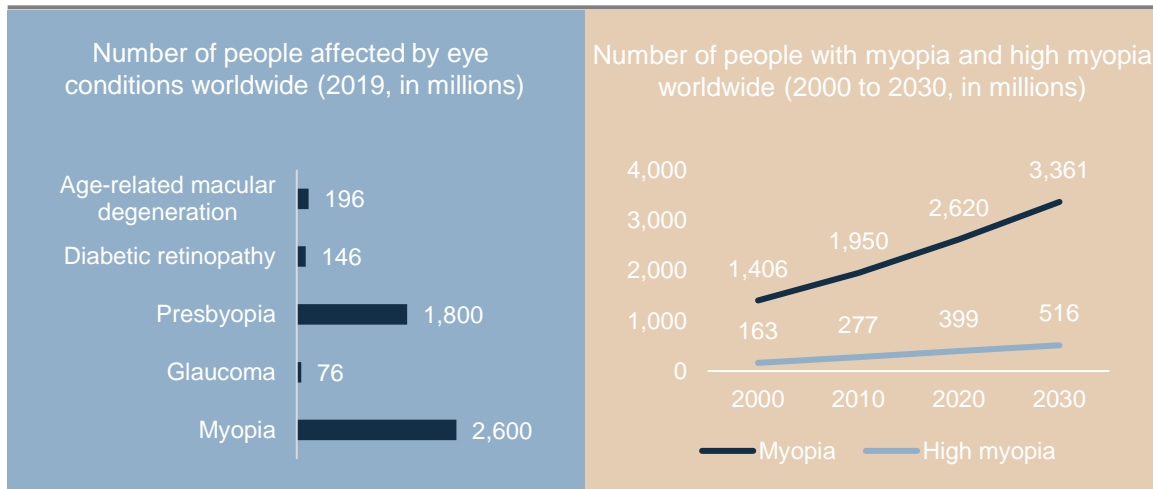


Distribution of sector revenue

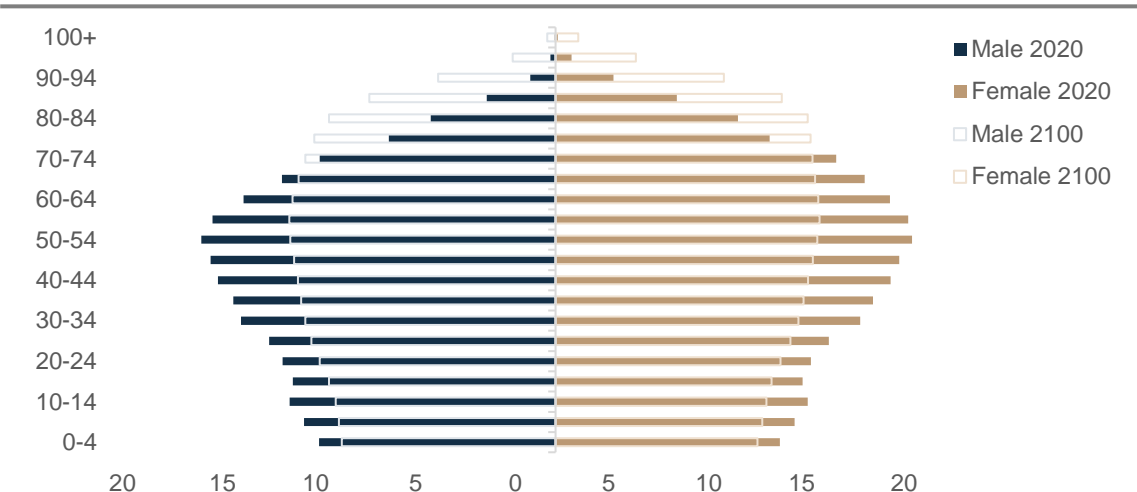


Demographic developments build a solid basis for sustainable industry growth

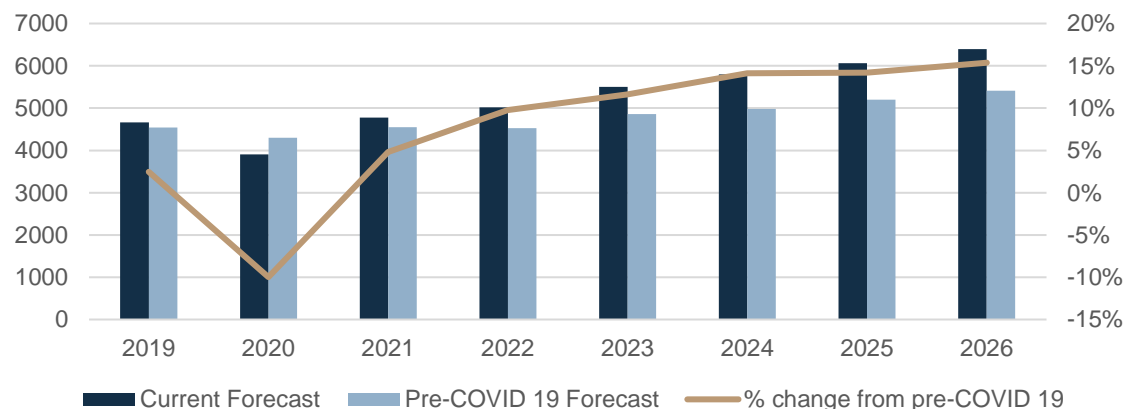
Stats & Facts about Eye Conditions



Demographic Pyramid (2020 – 2100, in millions)



COVID-19 Impact on Refractive Procedures and Global Forecast (in th.)



Additional Trends

- While **sunglasses** and **contact lenses** are easily sold **online**, **prescription eyewear** is purchased almost **exclusively** in retail stores.
- Glasses are no longer just a way of improving a person's sight, but a way to communicate an **image and set fashion and lifestyle trends**.
- Of the 500 million people living in **Europe**, more than **300 million wear glasses**.

A top-down photograph of various items on a light-colored surface. At the top left is a pair of clear-framed glasses. To its right is a white plastic water bottle with a blue cap and a white lid. Below these are several blister packs of pills, some arranged in rows and others scattered. A blue horizontal bar is positioned across the lower middle of the image, containing the word 'COMPETITORS' in white, bold, italicized capital letters.

COMPETITORS

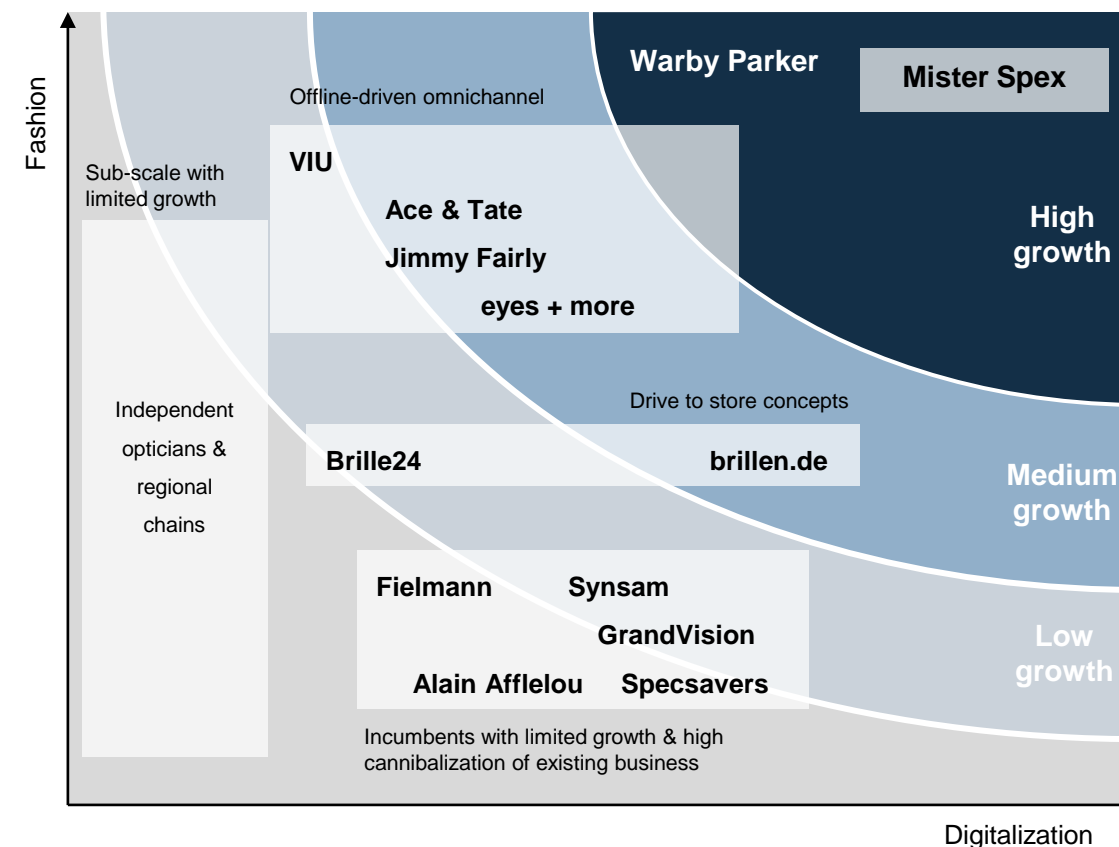
Competitors

Making the best of both worlds allows Mister Spex to distinguish itself from others

Competitive Landscape



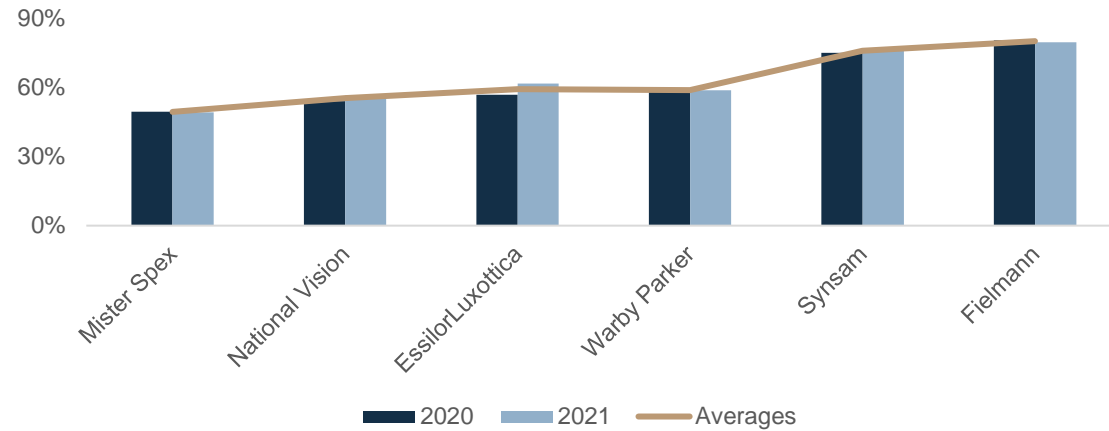
Competitive Positioning in the Eyewear Market



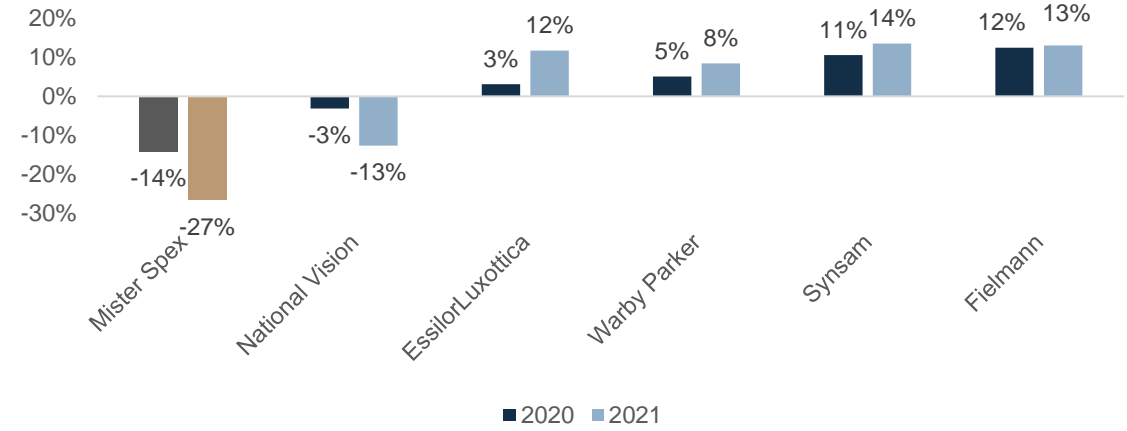
Financial Comparison

Margin expansion is necessary to stay competitive and thrive in this market environment

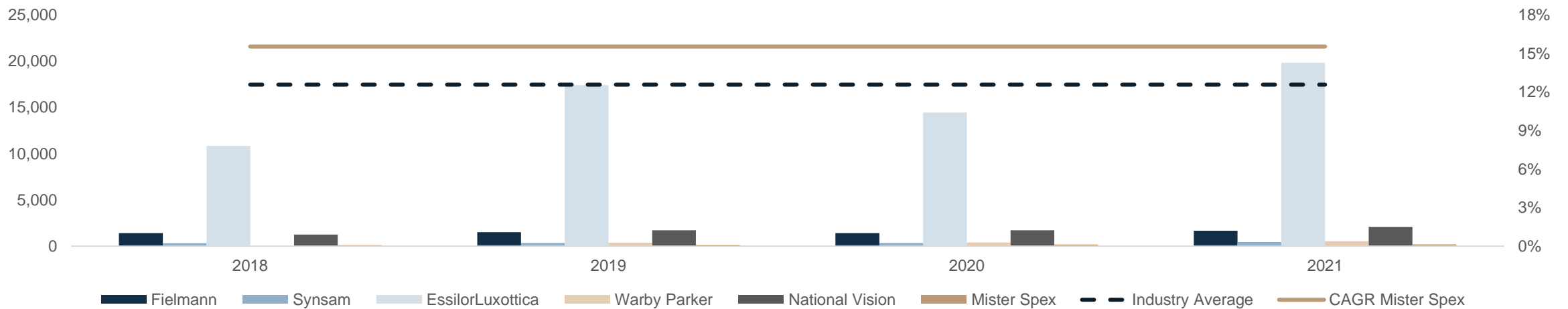
Gross Margins



EBIT Margins



Revenue Comparison, total and growth rate (in mUSD, CAGR in %)



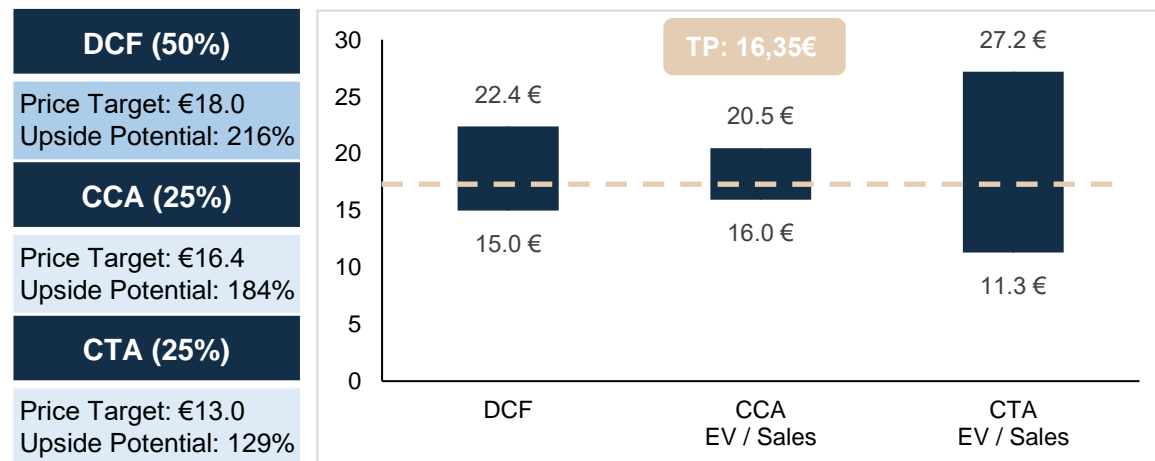
A pair of hands is holding a pair of glasses over a vision chart. The chart features a ruler at the top with markings from 0 to 150. Below the ruler are two circular charts with concentric rings of colors (red, green, blue, yellow) and numbers. The glasses are positioned over the center of these charts. The text "FINANCIALS & VALUATION" is overlaid on a blue bar at the bottom of the image.

FINANCIALS & VALUATION

Valuation Summary

187 % upside potential derived from a set of valuation methods with sound fundamentals

Valuation Approach with DCF Overweight



Revenue Assumptions: Two Main Drivers

1) Expansion of Store Network	Customer & Order Growth
Medium-term disruptive store openings to reach 200 by 2026, growing at a CAGR of 31%	Store openings fuel both off- and online order growth until 2026, resulting in a 5-year CAGR of 16.5%, along with an order value growth of 8%
2) Industry Segmented Growth	Sales Mix
Favorable outlook especially for Prescription Glasses and Contact Lenses	Focus on high growth segments resulting in solid organic long term sales growth rate of 5% in 2031 without new store buildout

Sales rise at a CAGR of 12% in the projection period, more than tripling from EURm 197 in LTM 1Q22 to 621 in 2031

Margin Assumptions lead to significant Improvements over Time

Costs of Goods Sold
Gross Profit Margin improves at a CAGR of 4.2% resulting in a 2031 conservative value of 65%, implying a headroom of 7.5% to competitor average

SG&A
Strong SG&A growth in expansion period fueled mainly by marketing and personnel expenses related to store openings, cooling down in later years

Key Margins see significant improvements
Negative EBITDA margin of 7% in 2021 peaks at positive 15% in 2031 with further growth potential due to synergies and omnichannel business model
EBIT and EBIAT increase in a similar manner to 13% and 9% respectively

Key Metrics underline sound Set of Assumptions

CAPEX & Depreciation
Non-capital intensive lease strategy leads to a slim balance sheet with net long-term assets growing at a CAGR of only 2.5%

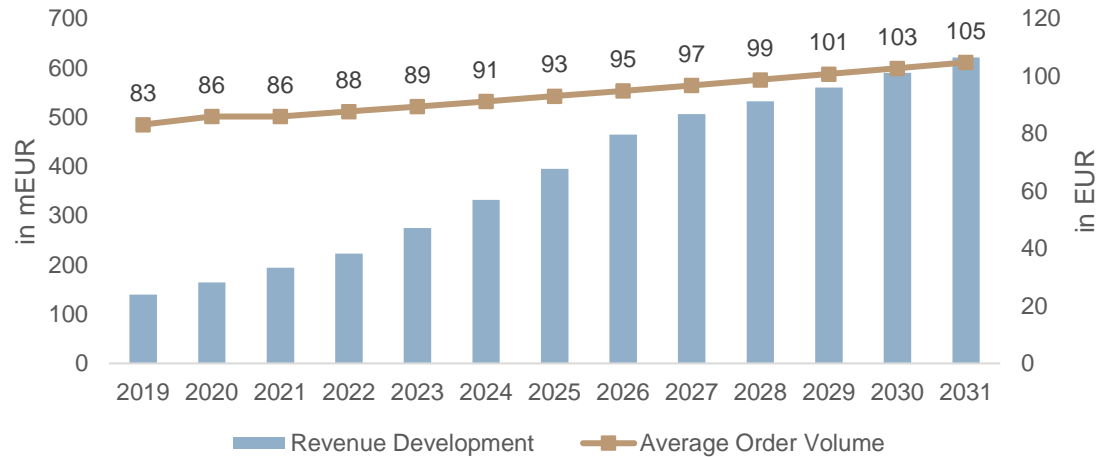
WACC
7.33%
Taking into account industry and competitor betas as well as adjustments for elevated risk profile and credit costs leads to CoE of 9.18% and CoD of 3.88%

Terminal Growth Rate
Terminal Value is calculated according to a perpetual growth rate of 2%, applied on a conservative FY31E EBIT exit multiple of 5.8x

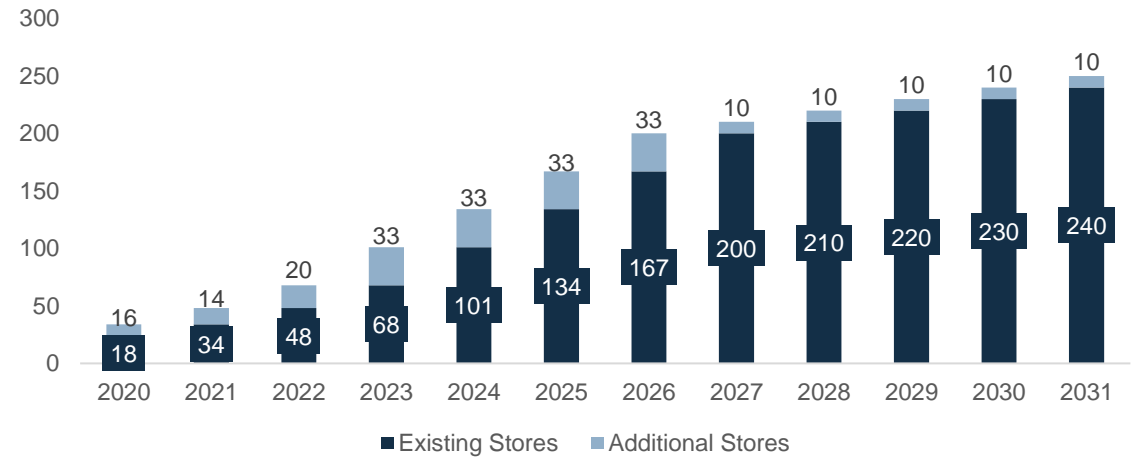
DCF Analysis

By building 200 stores till 2026, the free cash flows of Mister Spex are expected to be positive from 2027 on

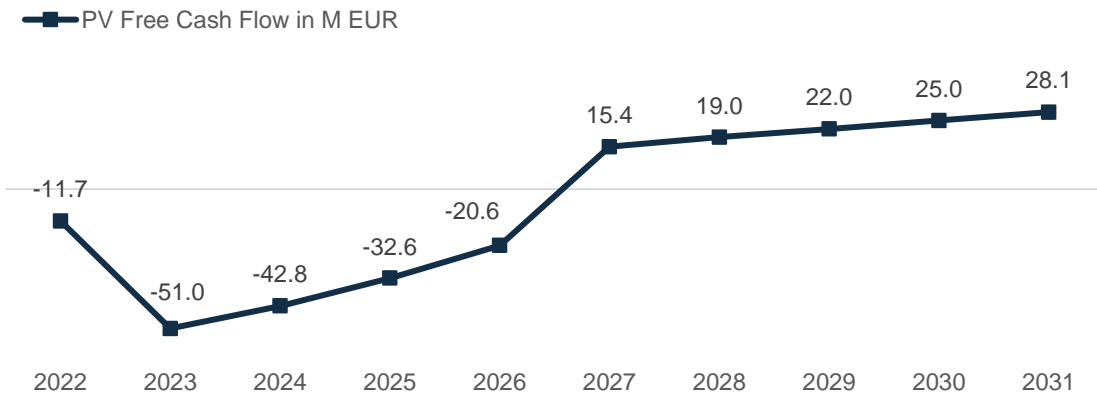
Revenue Growth and Average Order Value



Operating Assumptions – Store Openings (# of stores)



Forecasted Free Cashflow



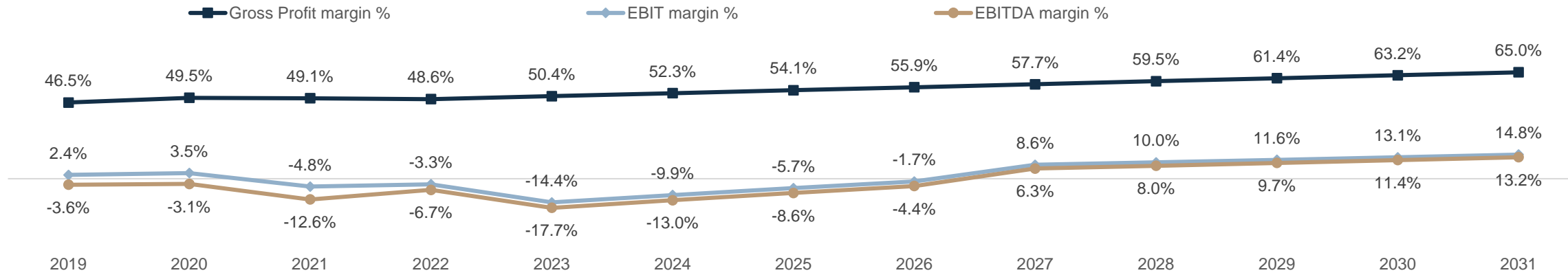
Sensitivity Analysis – WACC & Terminal Growth Rate (Shareprice in €)

WACC	Perpetuity Growth Rate				
	1,0%	1,5%	2,0%	2,5%	3,0%
6,3%	19,6	21,3	23,4	26,1	29,6
6,8%	17,4	18,8	20,4	22,4	25,0
7,3%	15,6	16,7	18,0	19,6	21,5
7,8%	14,1	15,0	16,0	17,3	18,8
8,3%	12,8	13,5	14,4	15,4	16,6

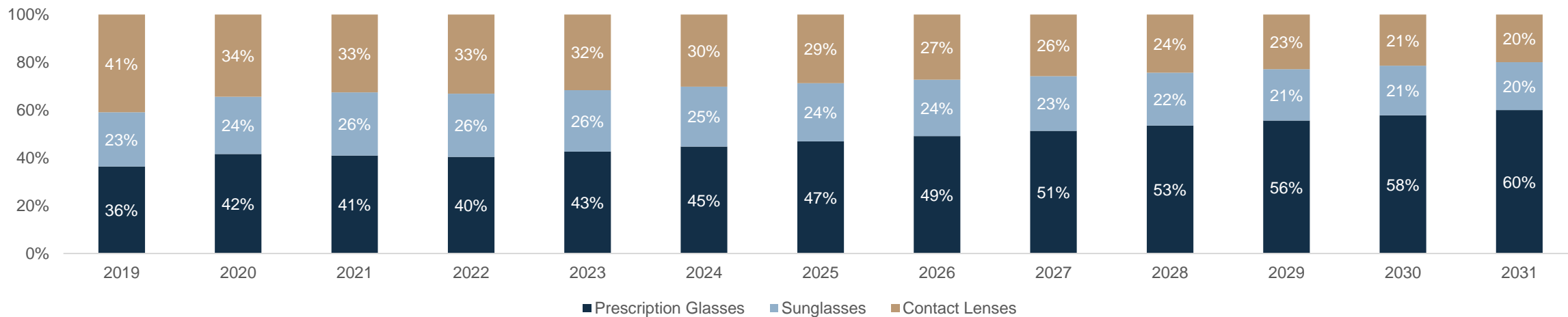
Financial Indicators

Emphasizing prescription glasses sales will lead to increasing gross profit margin

Margin Development



Revenue Split



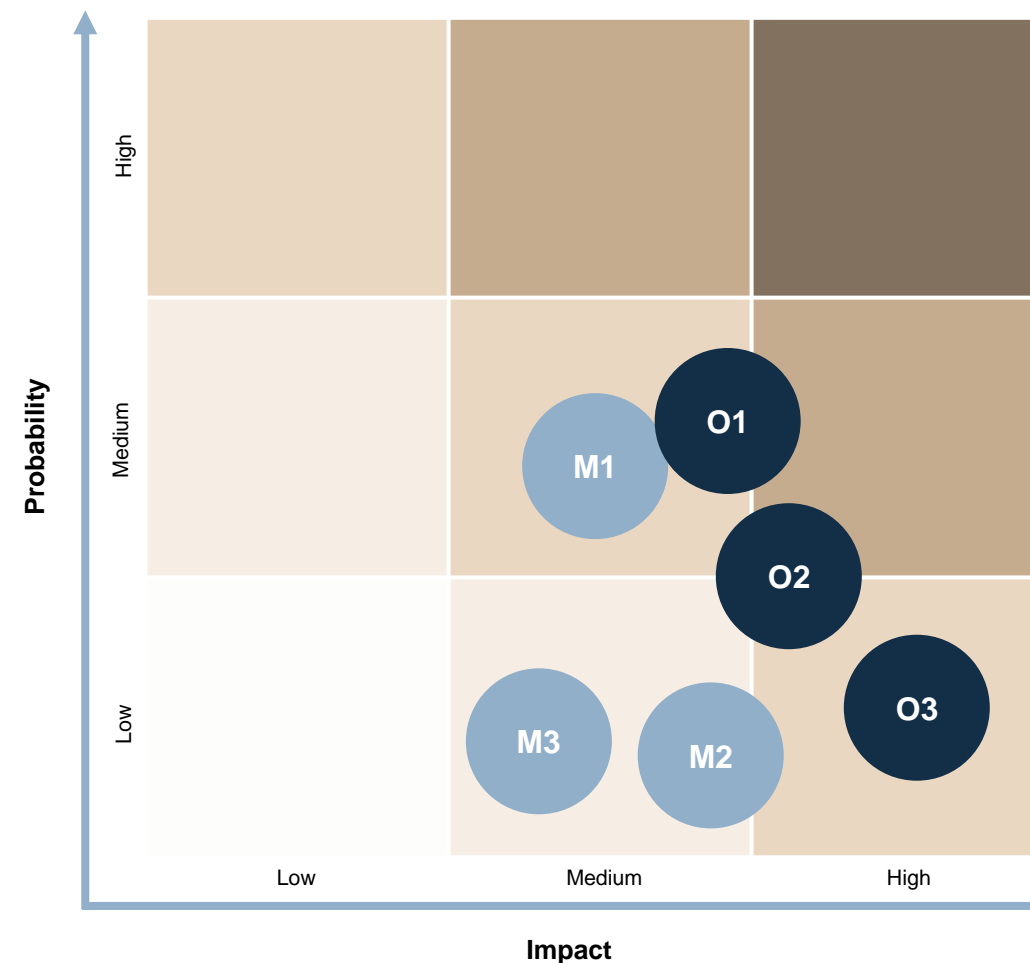


RISKS

Risks

The largest threat posed to Mister Spex is likely to come from the concentrated nature of the market

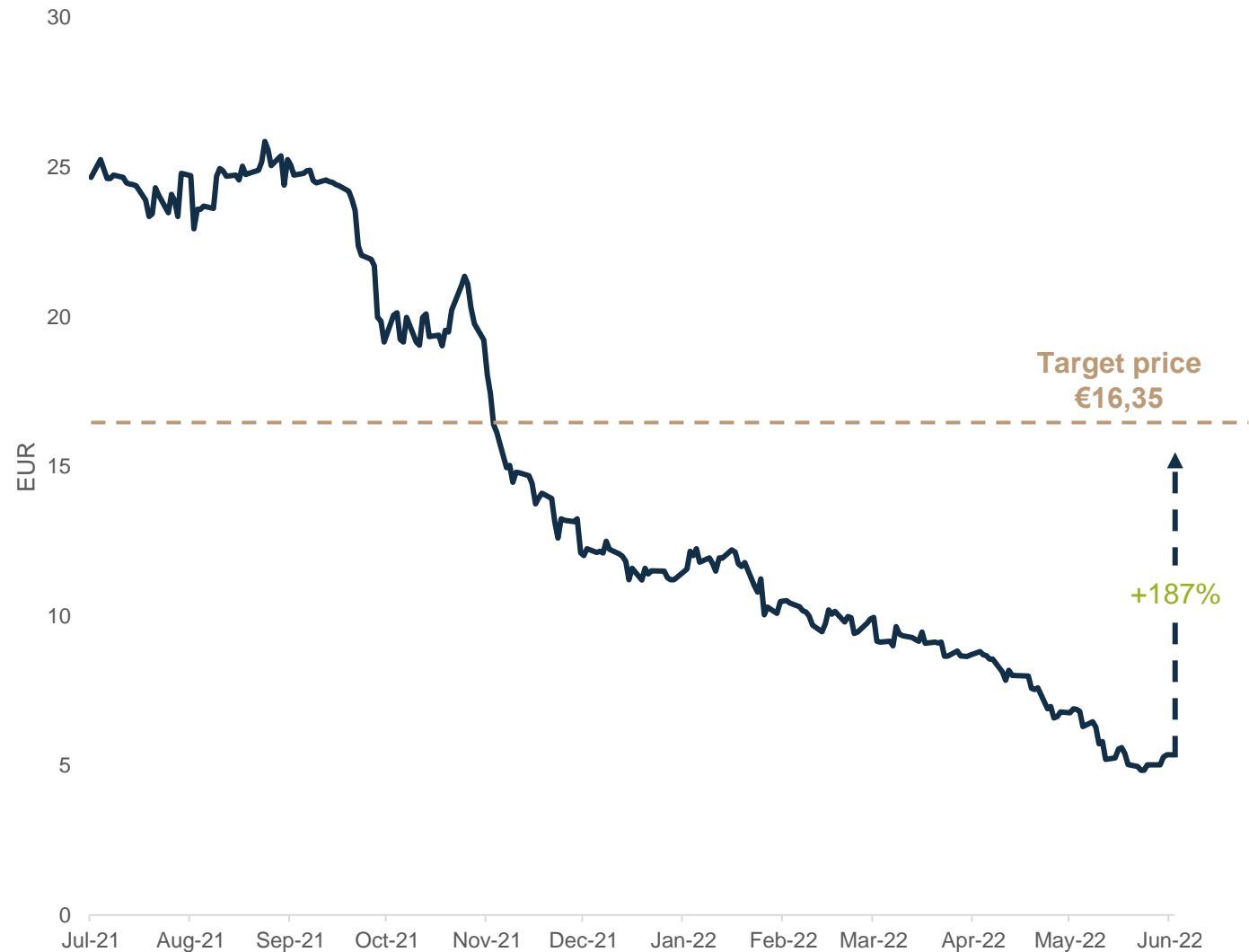
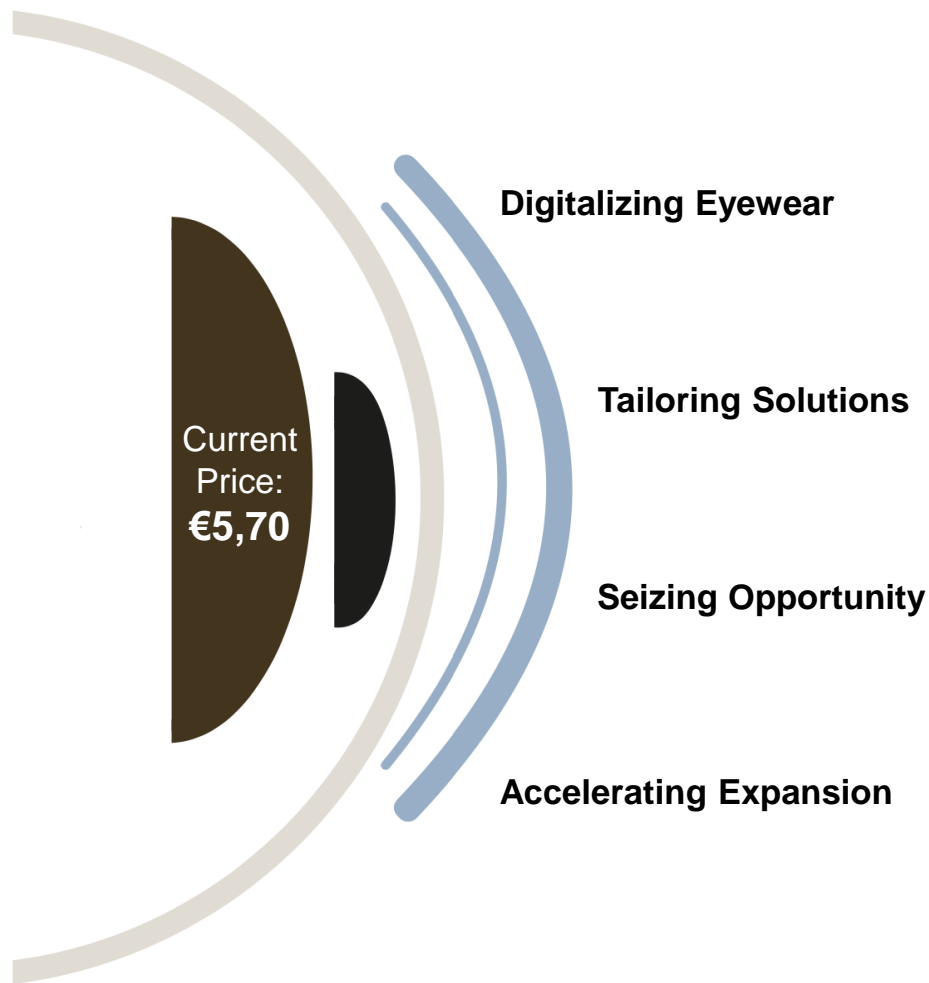
- M1** Market domination by EssilorLuxottica could increase costs for MSX
- M2** Market for prescription lenses is highly concentrated – could lead to price pressures
- M3** Customer demands and preferences may not meet Mister Spex's expectations
- O1** Store roll-out delay or inability to meet expansion goals– could impact profitability prospects
- O2** Greater working capital requirements for omni-channel approach– could burden balance sheet
- O3** With the integration of deep tech and facial recognition, data breach accidents could pose threats to consumer trust



Market (M) – Operations (O)

Conclusion

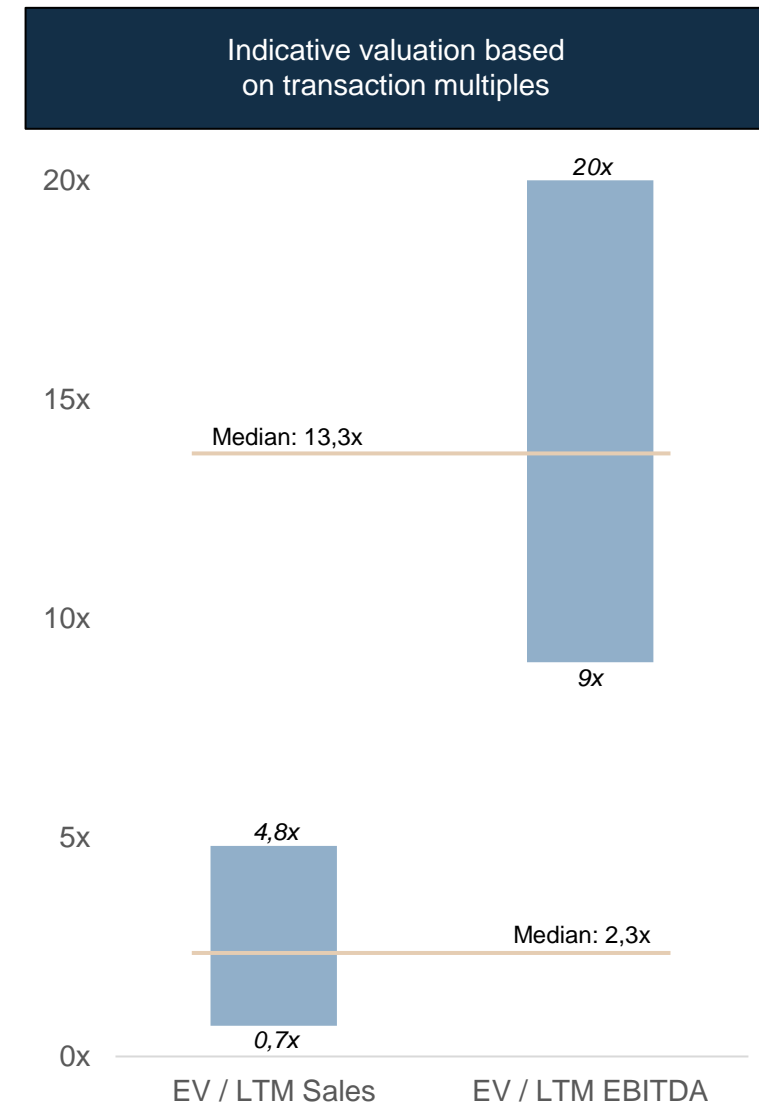
There is a growth story to be spotted if you look through the right lenses



Appendix

Appendix: Valuation – Comparable Transactions Analysis

Date	Country (Target)	Target	Acquirer	EV / LTM Sales	EV / LTM EBITDA
Mar-21		Walman	EssilorLuxottica	2,3x	14x
Mar-21		Rodenstock	Apax Partners	2,6x	13x
Mar-21		New Look Vision	FFL / CDPQ	2,5x	13x
Oct-20		Eyemart Express	Leonard Green & Partner	4,8x	14,5x
Sep-20		1800 contacts	KKR	4,7x	20x
Sep-20		Versant Health	MetLife	1,5x	10x
Jun-19		VSP Global	Visionworks	NA	15x
Mar-19		MyeyeDr	Goldman Sachs	4x	17x
Aug-17		Visionworks	Centerbridge	0,7x	9x
Aug-17		Davis Vision	Centerbridge	1x	10,5x
Apr-17		Hans Anders	3i	1x	10x
			Median	2,3x	13x
			Mean	2,3x	13,3x



Appendix: Valuation – Comparable Company Analysis

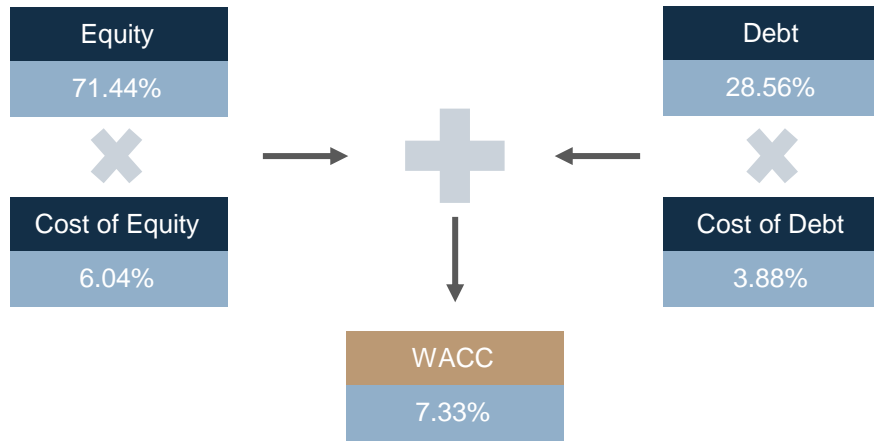
Company	Current Share Price	Equity Value	Enterprise Value	EV/			Price/
				Sales	EBITDA	EBIT	EPS
<i>(€ in millions, except per share data)</i>							
MISTER SPEX SE	4,96	170	73	0,4x	25,4x	-5,9x	-4,5x
FIELMANN AG	46,92	7.907	8.284	4,8x	20,3x	36,3x	27,6x
SYNSAM GROUP AB	6,28	941	1.197	2,5x	9,3x	16,7x	n.a.
GRANDVISION NV	28,00	7.075	8.797	2,2x	7,4x	16,0x	19,9x
ESSILORLUXOTTICA	146,60	64.443	75.872	3,8x	15,1x	29,5x	44,6x
WARBY PARKER INC-CLASS A	15,09	1.722	1.651	3,0x	n.a.	n.a.	n.a.
NATIONAL VISION HOLDINGS INC	25,50	2.420	3.023	1,7x	10,4x	22,6x	23,3x

Min				1,7x	7,4x	-5,9x	-4,5x
25 percentile				2,3x	9,3x	16,7x	22,4x
Mean				3,0x	12,5x	24,2x	28,8x
Median				2,8x	10,4x	22,6x	25,4x
75 percentile				3,6x	15,1x	29,5x	31,8x
Max				4,8x	20,3x	36,3x	44,6x

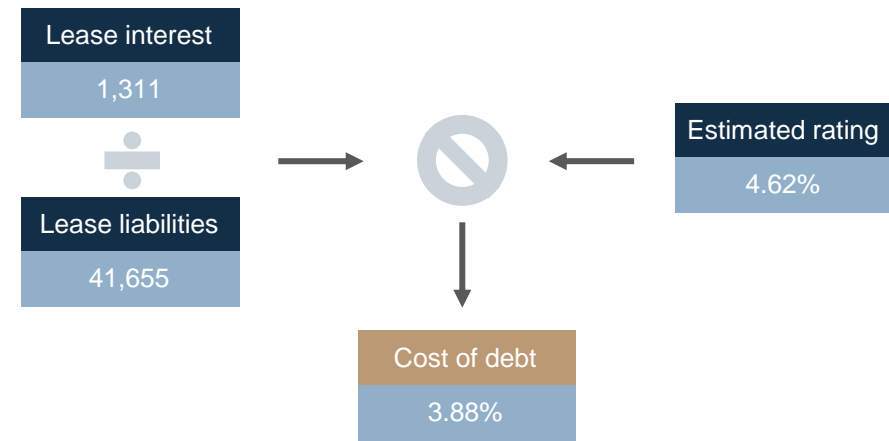
	Financial Metric	Multiple	Implied Enterprise Value	Less Net Debt	Implied Equity Value	# of Shares	Implied Price per Share
Valuation implied by EV / Sales							
25 percentile		2,3x	450		547		16,0
Mean	194	3,0x	587	-97	587	34	17,1
Median		2,8x	536		536		15,6
75 percentile		3,6x	702		702		20,5

Appendix: Valuation – WACC Calculation

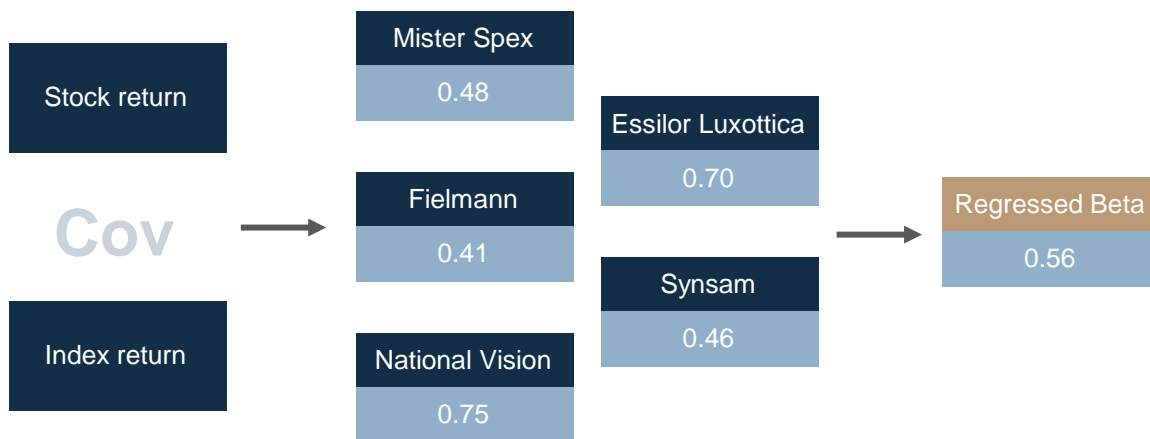
WACC Composition



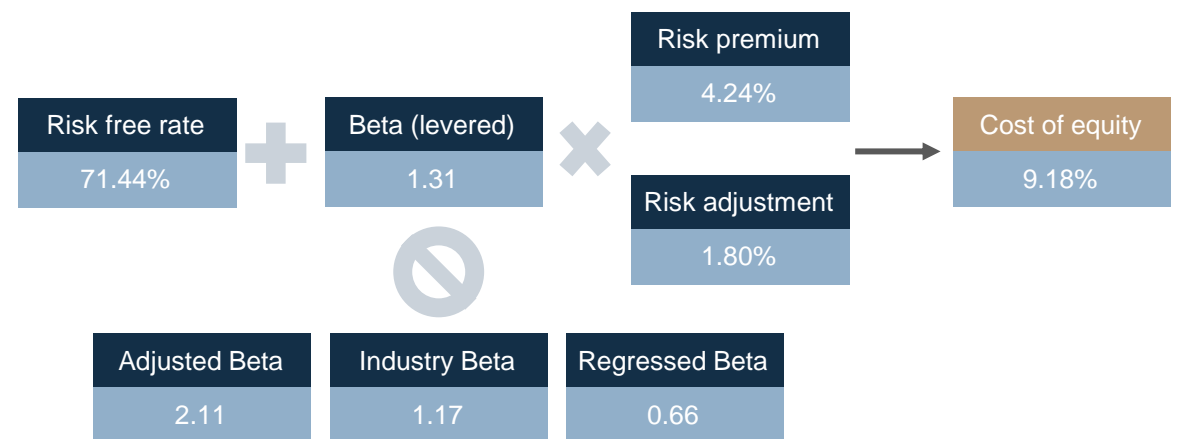
Cost of Debt



Beta Regression

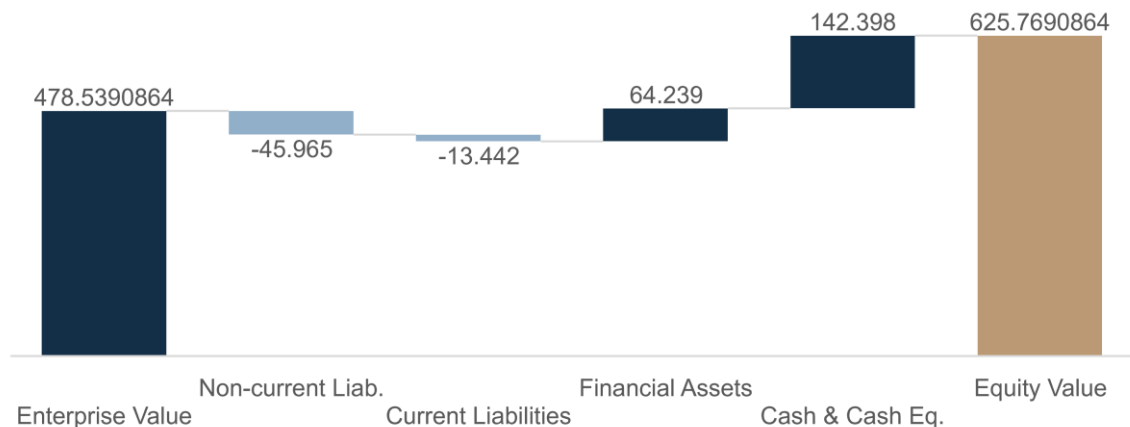


Cost of Equity

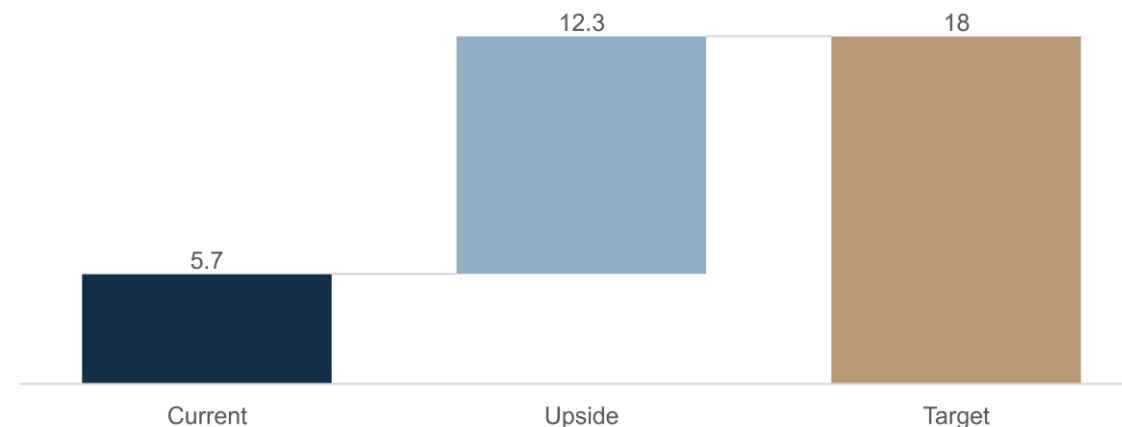


Appendix: Valuation – DCF Summary

Equity Bridge (in €m)



Market Value vs. Intrinsic Value (in €)



	Historical Period			Projection Period									
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Sales	€139,281	€164,201	€194,248	€222,440	€274,376	€331,684	€394,868	€464,478	€505,627	€531,963	€559,906	€589,566	€621,060
Cost of Goods Sold	(€74,464)	(€82,984)	(€98,792)	(€114,300)	(€135,992)	(€158,358)	(€181,336)	(€204,847)	(€213,790)	(€215,241)	(€216,354)	(€217,081)	(€217,371)
Gross Profit	€64,817	€81,217	€95,456	€108,140	€138,384	€173,326	€213,532	€259,631	€291,837	€316,722	€343,552	€372,484	€403,689
Personnel expenses	(€27,815)	(€35,747)	(€49,567)	(€61,339)	(€82,377)	(€104,233)	(€126,929)	(€150,492)	(€160,000)	(€169,829)	(€179,986)	(€190,482)	(€201,326)
Marketing	(€17,544)	(€19,453)	(€24,923)	(€28,483)	(€59,335)	(€59,928)	(€60,527)	(€61,132)	(€35,394)	(€37,237)	(€39,193)	(€41,270)	(€43,474)
Consulting	(€2,260)	(€2,820)	(€4,257)	(€4,865)	(€10,135)	(€10,236)	(€10,338)	(€10,442)	(€3,196)	(€3,228)	(€3,260)	(€3,293)	(€3,326)
Other Operating Expenses	(€18,631)	(€22,151)	(€34,746)	(€28,917)	(€36,026)	(€43,986)	(€52,888)	(€62,834)	(€69,084)	(€73,410)	(€78,038)	(€82,994)	(€88,302)
Other Operating Income	€4,718	€4,767	€8,799	€8,023	€9,995	€12,204	€14,674	€17,433	€19,167	€20,367	€21,651	€23,026	€24,499
EBITDA	€3,285	€5,813	(€9,238)	(€7,442)	(€39,493)	(€32,853)	(€22,477)	(€7,836)	€43,330	€53,386	€64,726	€77,472	€91,760
D&A	(€8,277)	(€10,937)	(€15,215)	(€7,536)	(€9,079)	(€10,402)	(€11,560)	(€12,600)	(€11,662)	(€10,969)	(€10,476)	(€10,143)	(€9,942)
EBIT	(€4,992)	(€5,124)	(€24,453)	(€14,978)	(€48,572)	(€43,254)	(€34,038)	(€20,436)	€31,668	€42,416	€54,250	€67,329	€81,819
Taxes	(€135)	(€388)	(€3,140)	-	-	-	-	-	(€9,500)	(€12,725)	(€16,275)	(€20,199)	(€24,546)
EBIAT	(€5,127)	(€5,512)	(€27,593)	(€14,978)	(€48,572)	(€43,254)	(€34,038)	(€20,436)	€22,168	€29,692	€37,975	€47,130	€57,273

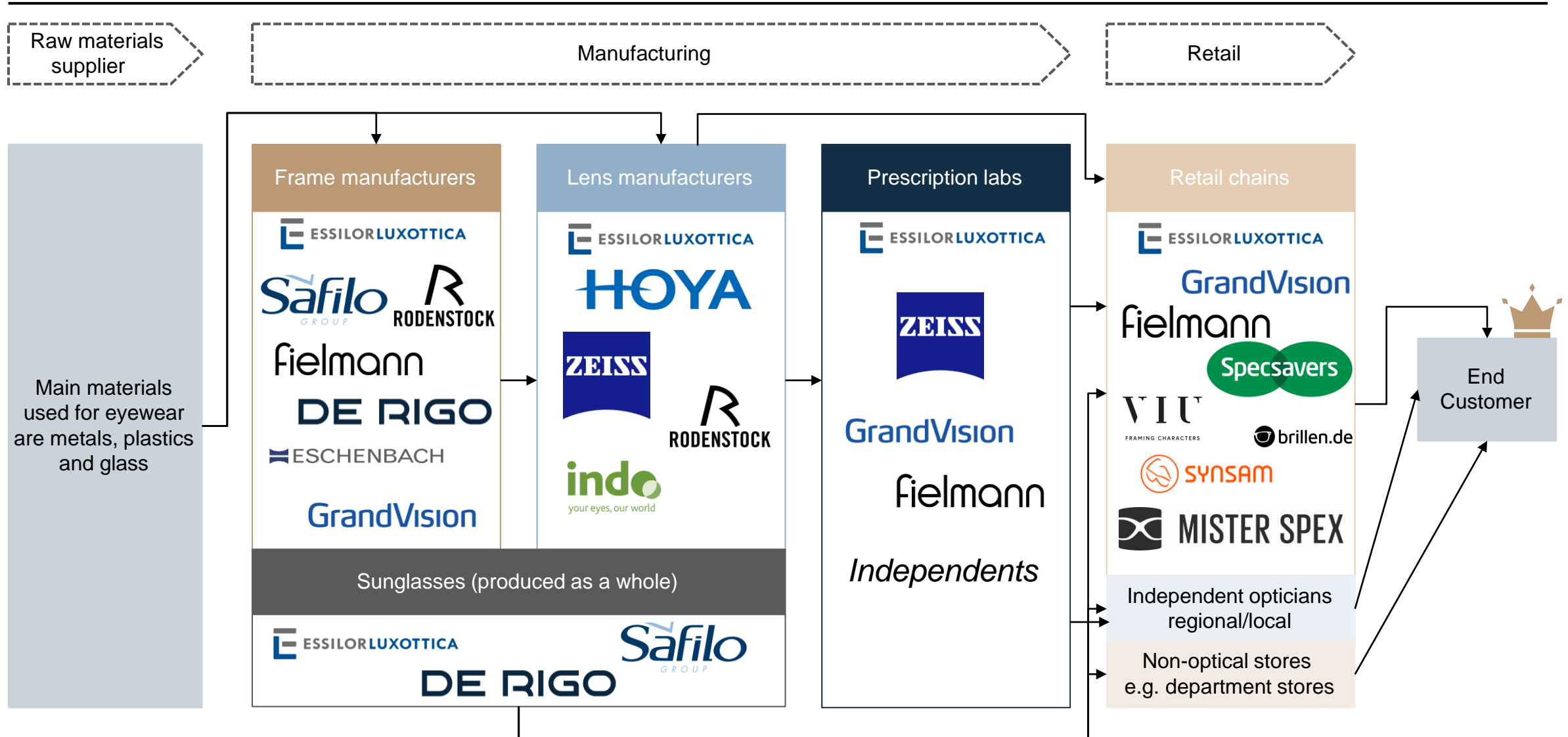
Appendix: Valuation – DCF Assumptions

Stores		Customers & Orders		Segments		Sales Mix	
Medium-Term year	2026	New Customers / New Store	12	Weight Customer Growth Kurze Frist	100,0%	LTM 2031	
Medium-Term # Stores	200	New Orders / New Store	15	Weight Customer Growth Mittelfrist	25,0%	Prescription Glasses	40% 60%
Long-Term new Stores	10	New Orders / New Store Growth	7,0%	Service Growth	5,0%	Sunglasses	26% 20%
		Avg. Order Value Growth	2,0%	Prescription Glasses Growth 2026+	6,0%	Contact Lenses	33% 20%
				Sunglasses Growth 2026+	3,0%		
				Contact Lenses Growth 2026+	4,0%		

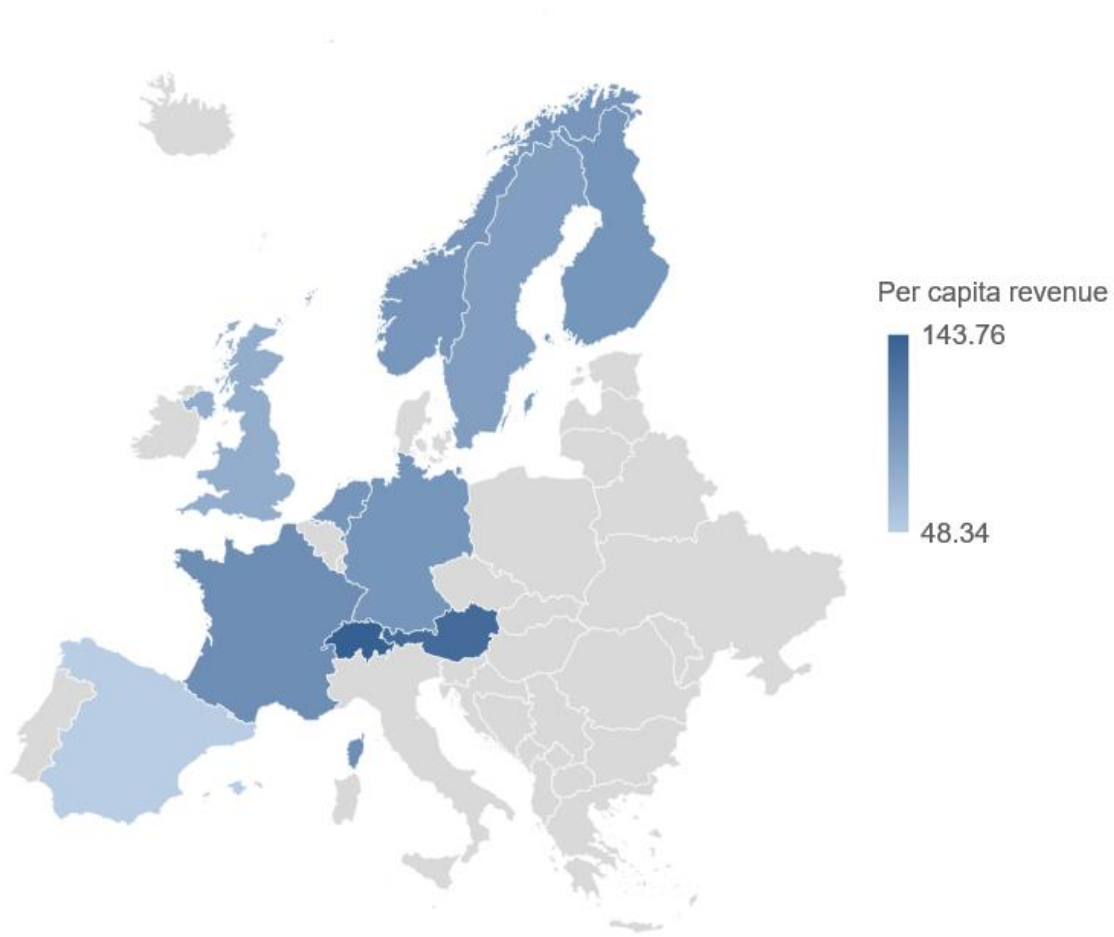
COGS		SG&A		Taxes		CAPEX & Depreciation	
LT COGS % of Revenue	35,0%	Marketing / New Store	1.780	Tax Rate	30,0%	Intangible % of revenues	1,0%
		Marketing / New Store Growth	1,0%			PPE Acq. Per new Store	342
		Marketing % of Revenue	7,0%			Adjustment for depreciation	39
		Consulting / New Store	304			Total PPE per new store	380,7
		Consulting / New Store Growth	1,0%			Total PPE per new store growth	1%
		Other OPEX % of Revenue	13,0%			Amortisation Intangible Assets # years	10
		Other OPEX Growth	1,0%			Depreciation PPE # years	5
		New Employees / New Store	14				
		Avg. Cost / Employee	-42				
		Avg. Cost / Employee growth	2,0%				
		Other Op. Income % of Revenue	3,6%				
		Other Op. Income Growth	1,0%				

	2019	2020	2021	LTM 31.03.22	(('19 - '21) Average	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Current Assets															
Days Sales Outstanding	3,7	2,9	5,4	2,7	3,7	4	4,0	4,0	4,0	4,0	4,0	4,0	4,0	4,0	4,0
Days Inventory Held	71,5	77,4	85,5	106,7	85,3	78	78,2	78,2	78,2	78,2	78,2	78,2	78,2	78,2	78,2
Other Current Assets (% of sales)	3,0%	3,1%	5,8%	7,0%	4,7%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%
Current Liabilities															
Days Payable Outstanding	52,4	44,1	59,9	51,3	52,0	52	52,2	52,2	52,2	52,2	52,2	52,2	52,2	52,2	52,2
Other Current Liabilities (% of sales)	3,8%	2,6%	2,3%	3,9%	3,1%	2,9%	2,9%	2,9%	2,9%	2,9%	2,9%	2,9%	2,9%	2,9%	2,9%

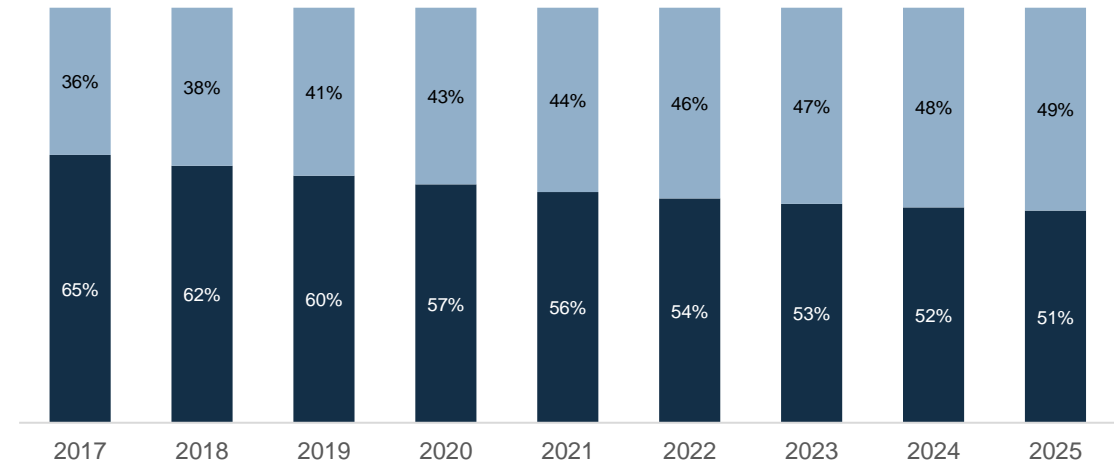
Appendix: Industry – Value Chain – Optical Market



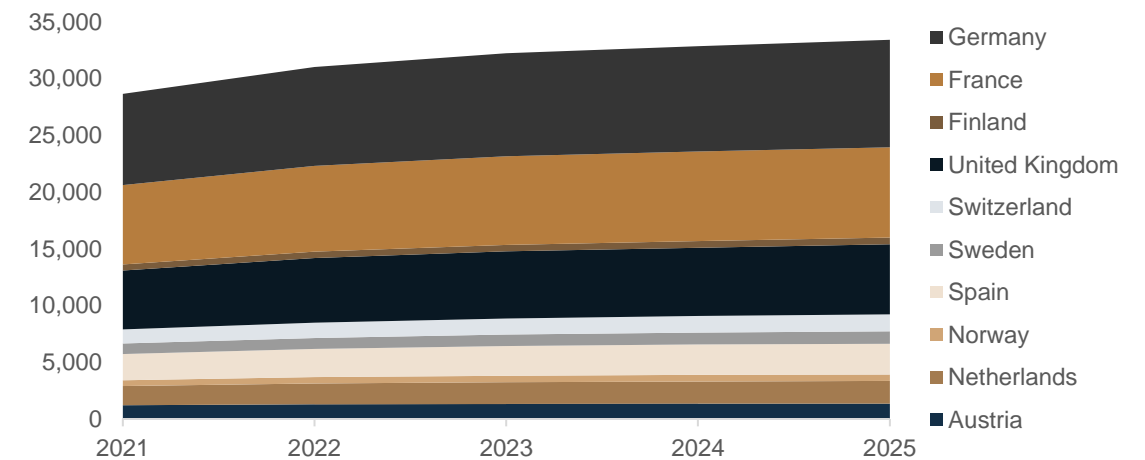
Per Capita Revenue in absolute EUR Values (2021)



Revenue Share: Mobile vs. Desktop (2021 – 2025)



National Optics Market Values in bn USD (2021 – 2025)





New Entry

- Low entry/exit barriers, including investment in technology and patents
- Market potential

Buyers

- A large number of buyers
- Fashion and environmental trends and emotional decision

Substitutes

- Low switching costs
- Availability of eyesight correction operations

Suppliers

- Low switching costs
- Low level of concentration
- Technology-based products raise dependency

Competitive Rivalry

- Fragmented market
- Several big players
- Differentiation by a brand

STRENGTHS

- Offer a wide variety of products across all price ranges
- Innovative business model which is not as heavily used by competitors
- Ability to create synergies between their online and brick-and-mortar store experience
- Competitive pricing strategies allow them to stand out from competition and create more attractive offers to consumers

OPPORTUNITIES

- The acquisition of Tribe and their facial recognition deep technology would allow Mister Spex to gain a competitive advantage
 - Increase their customer base
 - Increase product range
 - Improve customer experience
- Increasing myopia across all demographic groups raises demand for prescription glasses



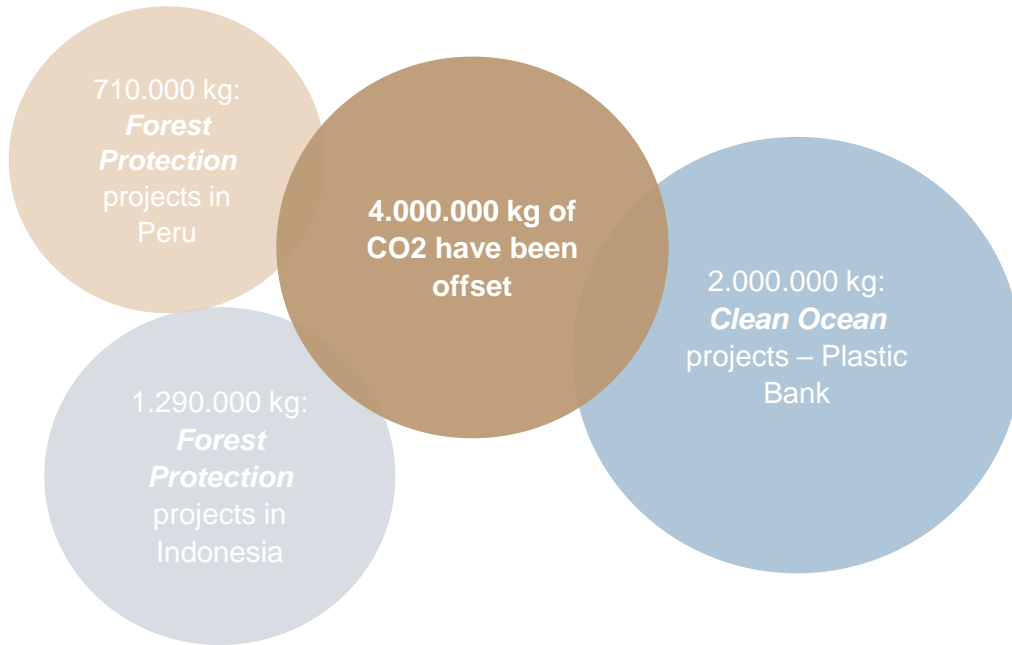
- There has been some notable decrease in prescription glasses orders → induced perhaps by "online fatigue"
- Despite optimistic outlook for the future, the company is likely to still have negative FCF in the mid-term

WEAKNESSES

THREATS

- With ~ 25% of their annual revenue coming from sunglasses, changes in the weather can (and already have) influence the number of sunglasses sales
- Despite investment into advanced technology to incorporate deep-tech and eye exam measurements into their business, the possibility exists that the results remain less reliable than those performed by specialists
- Lack of consumer ability to adapt to the online eye exams
- Abuse of high market power of industry leaders

Mister Spex became a carbon neutral Company in 2021



Packaging & shipping



Mister Spex is only using **recycled packaging** materials, cardboard boxes and Blue Ocean film (100% recyclable) for bubble wrap.



Since April 2021, they are only shipping through DHL GoGreen Solutions, **environmental protection procedure** and are thus supporting the reduction of greenhouse gases.

Sustainable Product Range

WOOD FELLAS
EYEWEAR DESIGN
MÜNCHEN

Timberland

STELLA
MCCARTNEY

EOE

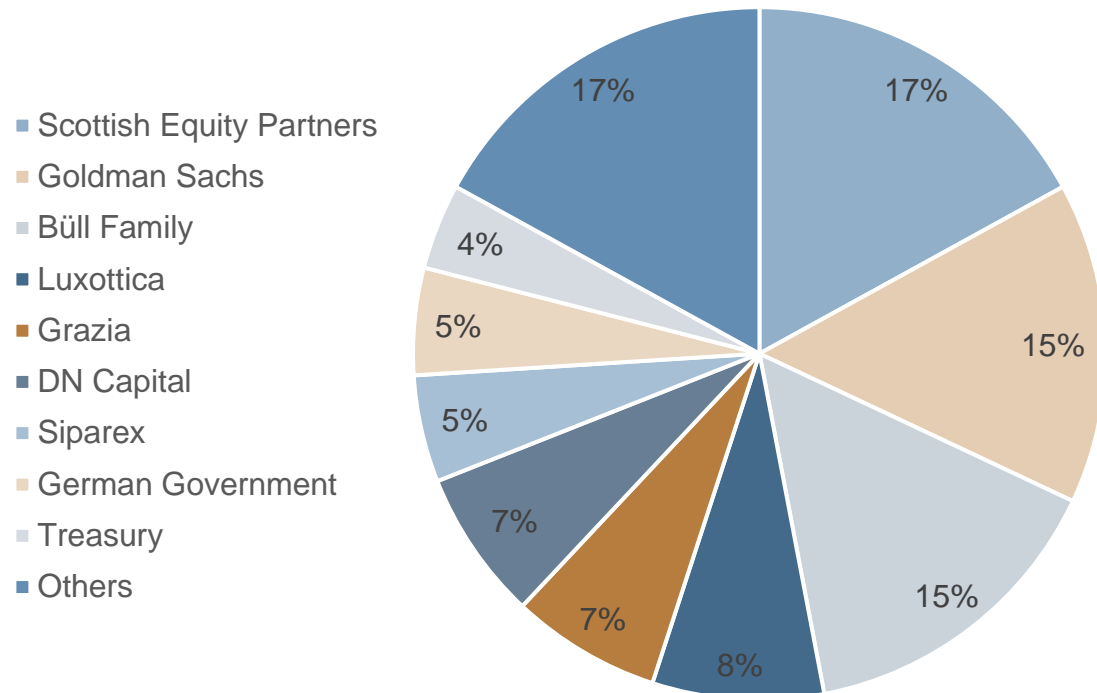
Private Sustainable Brand

CO
Optical

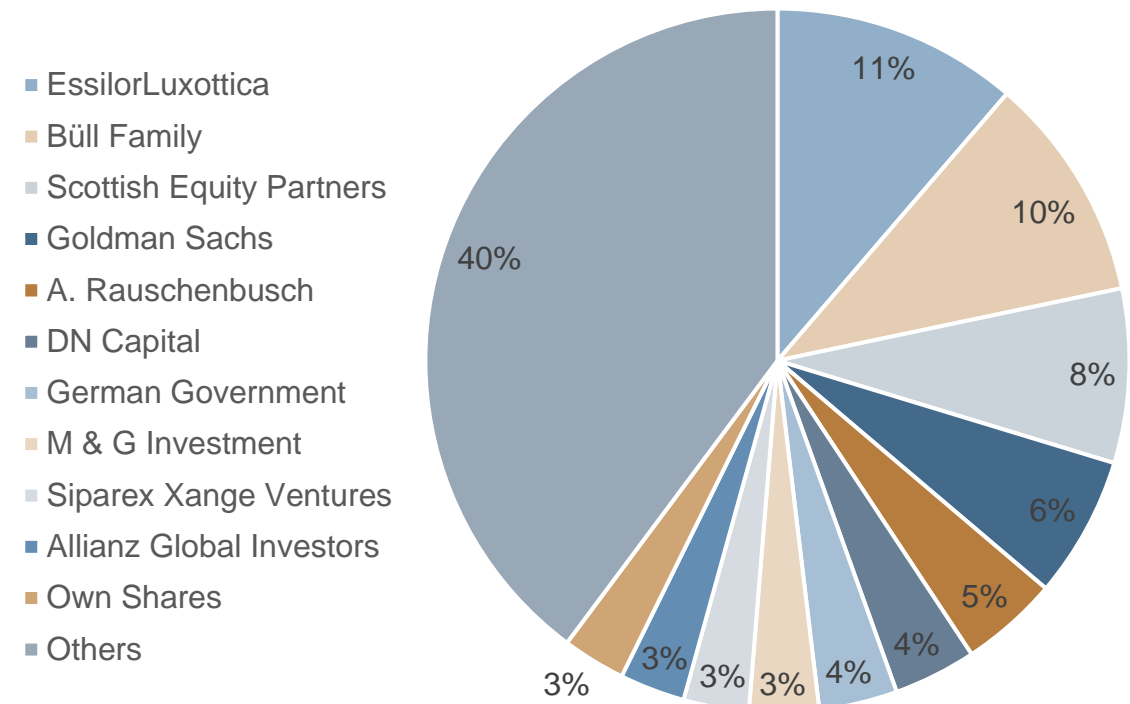
- 100% recyclable production materials: organic bio acetate, recyclable and biodegradable
- For each pair of CO CO glasses sold: Donation of 1 euro to the CleanRiver project to reduce plastic waste pollution in our oceans
- In cooperation with the climate protection organisation myclimate, they employed a completely climate-neutral means of transporting goods

Target: Only use recyclable and sustainable materials and avoid single-use plastic by 2025.

Shareholder Structure pre IPO



Shareholder structure post IPO (as of 31 December 2021)



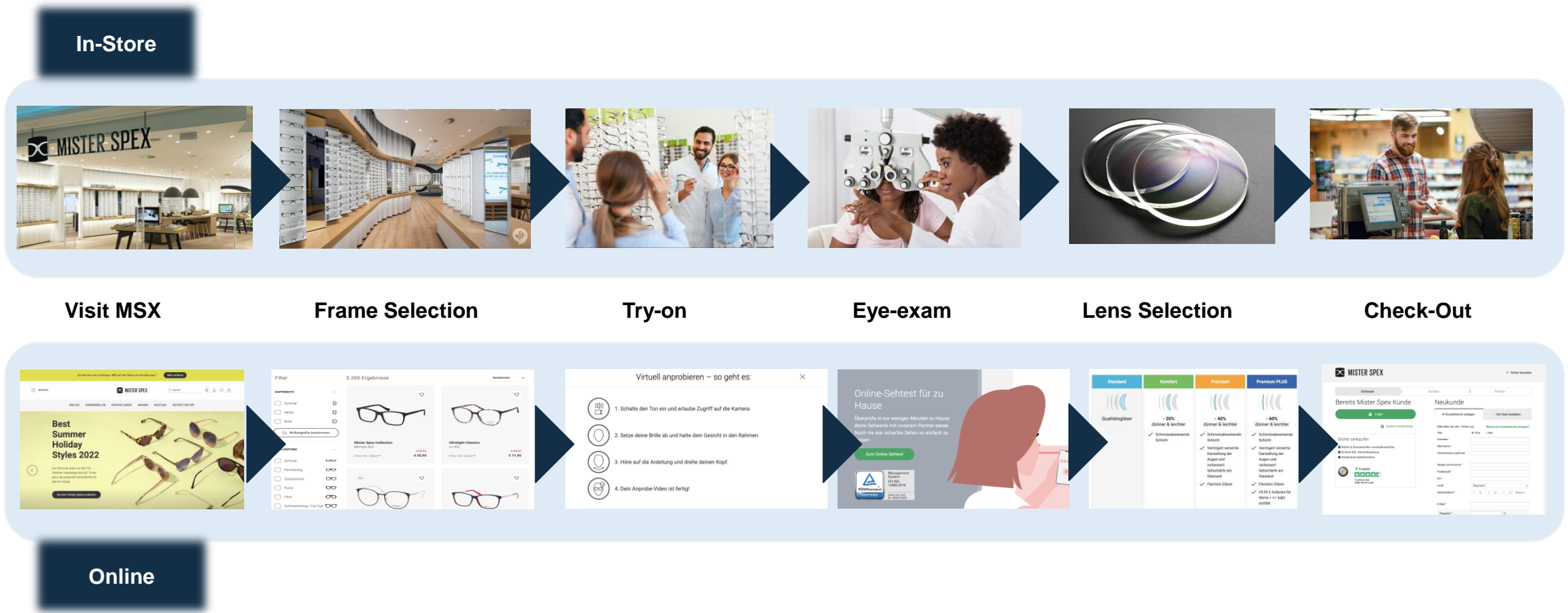
Mister Spex' biggest competitor and supplier EssilorLuxottica is currently the largest shareholder

Appendix: Business Model – Customer Segmentation

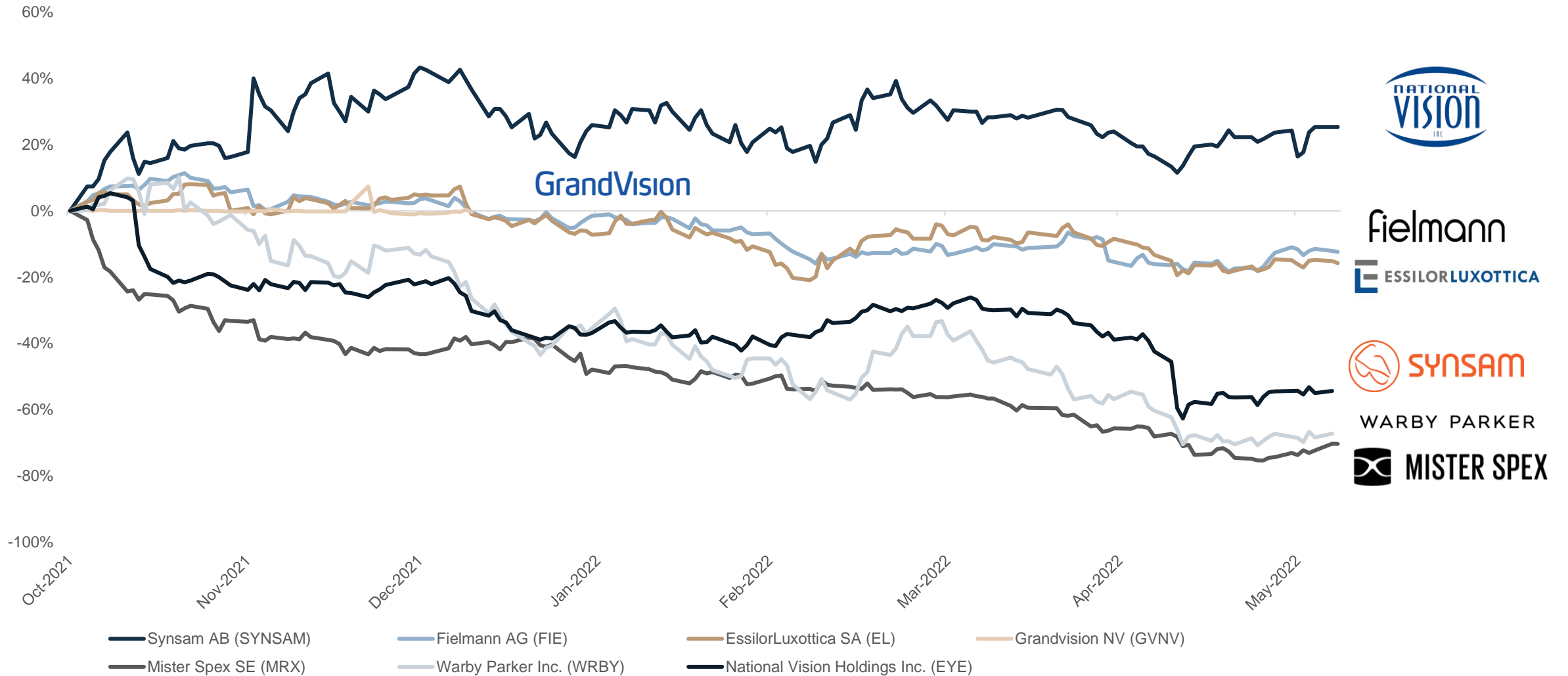
Mister Spex Positioning

	Millennials	Eyewear enthusiasts	Young Trendy Female	Urban Professional	Functional Replaces
Segment Size	9%	17%	7%	8%	11%
Age Group	25-39	45+	20-29	25-39	30-45
AOV (single vision; progressive)	€180; €360	€240; €500	€200	€180; €330	€180
Style	Self-confident and trendy	Trendy to extravagant	Trendy but insecure	Trendy and individualist	Functional, not trendy
Key Purchasing Driver	Broad Selection, value for money	Fashionable Products	Convenient customer journey	Personal Fit	Practicality and quality

Comparison between online and in-store experience



Appendix: Comparable Benchmarking



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